IAS PLUS

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IASB NEWS

Two EDs expected later this month. One on Insurance Contracts – Phase I and the other on Disposal of Non-current Assets and Presentation of Discontinued Operations. See timetable on page 2.

IFRS 1, First-time Adoption, is published. A detailed summary of the IASB's first IFRS is presented on page 4.

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IAS PLUS WEB SITE

Over 250,000 people visited our **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.

TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS	
Business Combinations – Phase I	❑ Exposure Drafts were issued December 2002 ❑ Final Standards in 1st quarter 2004 ❑ Expected effective date 2005 year ends
Business Combinations – Phase II **— Application of the Purchase Method**	❑ Two Exposure Drafts in 3rd quarter 2003 (one on the purchase method and the other on minority interest) ❑ Final Standards in 2004 ❑ Expected effective date 1 January 2006
Consolidation (Including Special Purpose Entities)	❑ Timetable not yet established
Convergence – Short-term Issues, IFRS and US GAAP. Includes: **— Joint Project with FASB** **— Employee Benefits** **— Replacement of IAS 20**	❑ Exposure Drafts in 3rd and 4th quarters 2003 (including one on Disposal of Non-current Assets and Presentation of Discontinued Operations expected later this month) ❑ Final Standards in 2004 ❑ Expected effective date 2005 year ends except IAS 14 and IAS 19 issues
Disclosure Financial Risk and Other Disclosures about Activities of Financial Institutions	❑ Exposure Draft in 2004 ❑ Final Standard in 2004 or 2005 ❑ Expected effective date after 2005 year ends
First-Time Adoption of IFRS	❑ Exposure Draft was issued July 2002 ❑ Final Standard was issued 19 June 2003
IAS 32 and IAS 39 Amendments	❑ Exposure Draft was issued June 2002 ❑ Re-exposure of 1 or 2 issues 3rd quarter 2003 ❑ Final Standards in 3rd quarter 2003 and (for re-exposed items) 1st quarter 2004 ❑ Expected effective date 2005 year ends
Improvements to International Accounting Standards	❑ Exposure Draft was issued in May 2002 ❑ Final Standards in 3rd quarter 2003 ❑ Expected effective date 2005 year ends
Insurance Contracts – Phase I	❑ Exposure Draft in 3rd quarter 2003 (most likely later this month) ❑ Final Standard in 2004 ❑ Expected effective date 2005 year ends
Insurance contracts – Phase II	❑ Exposure draft 2004 ❑ Final Standard timetable not yet established
Performance Reporting	❑ Exposure Draft in 4th quarter 2003 ❑ Final Standard in 2004 ❑ Expected effective date after 2005 year ends
Revenue Recognition, Liabilities and Equity: Concepts	❑ Exposure Draft in 1st quarter 2004 ❑ Final Standard in 2004 ❑ Expected effective date after 2005 year ends
Share-Based Payment	❑ Exposure Draft was issued in November 2002 ❑ Final Standard in 4th quarter 2003 ❑ Expected effective date 2005 year ends

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

TIMETABLE FOR IASB PROJECTS

During the second quarter of 2003, the IASB published one final standard, IFRS 1, First-time Adoption of International Financial Reporting Standards. Also, IFRIC published its first Draft Interpretation, D1, Emission Rights.

The IASB did make some changes in its project timetables, delaying several EDs or final standards and announcing timetables for several projects not previously scheduled:

PROJECTS FOR WHICH A TIMETABLE HAD NOT PREVIOUSLY BEEN ANNOUNCED

Convergence Project:

- Exposure Drafts:
— Joint Project with FASB: EDs in 3rd and 4th quarters 2003 (including one ED expected in July 2003 on asset disposals and discontinued operations)
— Employee Benefits: ED 4th quarter 2003
— Replacement of IAS 20: ED 4th quarter 2003
- Final Standards:
— Joint Project with FASB: Final Standards 2004
— Employee Benefits: Final Standards 2004 after 1st quarter
— Replacement of IAS 20: Final Standards 2004 after 1st quarter

Insurance Contracts – Phase II: ED in 2004

CHANGES OF TIMETABLE

Insurance Contracts – Phase I: ED now 3rd quarter 2003

Improvements to IFRS: Final IFRS now 3rd quarter 2003

Financial Activities: ED now 2004 later than 1st quarter

Business Combinations – Phase I: Final IFRS now 1st quarter 2004

Business Combinations – Phase II: EDs now 3rd quarter 2003 and Final IFRS now 2004 later than 1st quarter. The Board will issue separate EDs on the application of the purchase method and on minority interest. A timetable has not been set for other components of the Phase II project, including combinations of entities under common control and fresh start accounting.

Amendments to IAS 32 and IAS 39: The Board decided that the final amendments to IAS 32 and IAS 39 should be issued in two stages. The first versions of IAS 32 and 39 will be those that include all decisions that are not being re-exposed. The second and final versions will include the decisions from issues re-exposed. The Board is taking this approach to try to ensure that users in countries adopting IFRS in 2005 have as much of the final standard as possible in hand when preparing for 2005. Currently, there is one issue the Board has determined requires re-exposure (macro hedging). However, the Board noted one other issue to be discussed in July that may require re-exposure, which is a conflict between IAS 32/39 and the Exposure Draft on share-based payments.

TIMETABLE

Presented on the facing page is a summary of the timetable for the IASB's active agenda projects.

IFRS 1, FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Who is a first-time adopter?

A first-time adopter is an entity that, for the first time, makes an explicit and unreserved statement that its general purpose financial statements comply with IFRS.

If IFRS are adopted for the first time at 31 December 2005, what must an entity do?

Accounting policies. The entity should select its policies based on IFRS in force at 31 December 2005.

IFRS reporting periods. The entity should prepare at least 2005 and 2004 financial statements and restate retrospectively the opening balance sheet (beginning of the first period for which full comparative financial statements are presented) by applying the IFRS in force at 31 December 2005.

What adjustments are required to move from previous GAAP to IFRS?

1. *Derecognition of some old assets and liabilities.* The entity should eliminate previous-GAAP assets and liabilities from the opening balance sheet if they do not qualify for recognition under IFRS. Examples include intangibles not allowed as assets under IAS 38 and provisions not allowed under IAS 37.
2. *Recognition of some new assets and liabilities.* Conversely, the entity should recognise all assets and liabilities required by IFRS even if they were never recognised under previous GAAP. For example, recognise all derivatives, including embedded derivatives, under IAS 39; employee benefit obligations under IAS 19; and deferred tax assets and liabilities under IAS 12.
3. *Reclassification.* Reclassify previous-GAAP opening balance sheet items into the appropriate IFRS classification. For example, dividends declared after the balance sheet are reported in equity, not as a liability; treasury stock is an equity reduction, not an asset; and certain assets recognised under past business combinations may have to be reclassified into or out of goodwill. Also, reportable segments (IAS 14) may change and the scope of consolidation could also change.
4. *Measurement.* The general measurement principle – there are several significant exceptions noted below – is to apply IFRS in measuring all recognised assets and liabilities. Therefore, if an entity adopts IFRS for the first time in its annual financial statements for the year ended 31 December 2005, in general it would use the measurement principles in IFRS in force at 31 December 2005.
5. *Adjustments required to move from previous GAAP to IFRS at the time of first-time adoption.* Recognise these directly in retained earnings or other appropriate category of equity.

What are the exceptions to the basic measurement principle in IFRS 1?

1. *Optional exceptions.* IFRS 1 provides exceptions to the general restatement requirements in a number of areas, which can be chosen individually or as a package, including the following:
   - Business combinations that occurred before opening balance sheet date
   - Property, plant, and equipment, intangible assets, and investment property carried under the cost model: exceptions relate to previous revaluations and absence of cost records.
   - IAS 19 – Employee benefits: recognising cumulative actuarial gains and losses
   - IAS 21 – Writing off pre-IFRS 1 accumulated translation reserves
2. *Mandatory exceptions.* There are three mandatory exceptions to the general restatement and measurement principles:
   - IAS 39 – Financial instruments that were derecognised prior to 2001 cannot now be re-recognised even if they meet the IAS 39 recognition criteria.
   - IAS 39 – Hedge accounting practices that were used before the opening IFRS balance sheet may not be retrospectively changed.
   - In preparing IFRS estimates retrospectively, use only information that was available at the time of original accounting under previous GAAP, except to correct an error.

Financial information for periods before the first IFRS balance sheet

Earlier financial information may be presented based on the entity's previous GAAP rather than IFRS, appropriately labelled and explained.

Disclosures a first-time adopter must include:

1. Reconciliations of income and equity reported under previous GAAP to amounts under IFRS.
2. Explanation of material adjustments to the balance sheet, income statement, and cash flow statement (including error corrections and impairment losses) that were made in adopting IFRS for the first time.
3. Appropriate explanations if the entity has applied any of the specific recognition and measurement exemptions permitted under IFRS 1 – for instance, if it used fair values as deemed cost.

Virtually all 7,000 listed companies in Europe will be required to adopt IFRS in 2005. Standards mandatory for 2005 will, therefore, be part of the first-time IFRS adoption process.

IFRS 1 ON FIRST-TIME ADOPTION IS ISSUED

On 19 June 2003, the IASB issued IFRS 1, First-time Adoption of International Financial Reporting Standards. IFRS 1 sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. IFRS 1 applies if an entity's first IFRS financial statements are for a period beginning on or after 1 January 2004. Earlier application is encouraged.

The table on the facing page summarises the key features of IFRS 1.

The G8 countries are: Canada, France, Germany, Italy, Japan, Russia, United Kingdom, and United States

G8 FINANCE MINISTERS SUPPORT INTERNATIONAL FINANCIAL REPORTING STANDARDS

Finance ministers from the Group of Eight large developed nations met in Deauville, France, on 17 May 2003 to discuss the challenges to their own economies and, more broadly, global economic growth. The meeting resulted in a statement backing, among other things, the development of international accounting standards as a means to bolster investor confidence:

> *We favour the emergence, through open and public processes involving the private sector, of high-quality internationally recognized accounting standards that are applied, interpreted and enforced, with due regard to financial stability concerns.*

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, *usually the next day.*

IASB AGENDA PROJECT UPDATES

On the next several pages, we note some of the key decisions made by the Board in the first quarter of 2003 on its agenda projects. More detailed project information can be found on our web site and on the IASB's web site.

You can download ED 2 from the IASB's website: www.iasb.org.uk.

PROJECT UPDATE: SHARE-BASED PAYMENT

Status. Exposure Draft issued in November 2002. Comments were due 7 March 2003. Main proposals in ED 2:

- All share-based payment transactions recognised at fair value.
- Expense recognised when the goods or services received are sold or consumed.
- Same standards for all entities, listed and non-listed.
- Measure fair value at grant date:
  – For employee options based on fair value of the option, using an option pricing model that takes into account vesting conditions;
  – For shares or options given to non-employees, normally based on fair value of goods or services received.

IASB consideration of comments on ED 2. The IASB has decided to replace the "units of service" measurement approach in ED 2 with the measurement approach in FASB Statement 123. Under SFAS 123, grant date measurement includes an estimate of performance and vesting conditions with subsequent adjustment for changes in estimates.

FASB action. FASB invited comments on ED 2, as did many of the world's major national standard setters. As a result of the comments received, FASB has added accounting for stock options to its agenda.

More information. See the discussion on convergence on share-based payment on page 18 of this newsletter.

What's next? Final standard in fourth quarter of 2003, effective for 2005.

You can download the Deloitte Touche Tohmatsu comment letter on ED 3 and the related EDs on impairment and intangible assets from this link: www.iasplus.com/ links/comment.htm

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE I

Status. Exposure Drafts were issued in December 2002, one proposing a new IFRS to replace IAS 22, Business Combinations, and the other proposing amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets. The comment deadline ended 4 April 2003. Key proposals:

- Purchase method would be used for all business combinations; uniting (pooling) of interests prohibited.
- Goodwill and other intangible assets with indefinite lives would not be amortised, but they would be tested for impairment at least annually.
- Amortisation continues for finite-lived intangible assets; no presumption of a maximum life.
- Negative goodwill will be an immediate gain.
- Minority's share of acquired assets measured at fair value.
- Minority interest reported within equity in the balance sheet.

What's next? Final standards in first quarter of 2004, effective for 2005.

FASB is taking the lead on the "application of the purchase method" project. You will find their project summary at: www.fasb.org/ project/index.shtml

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE II

Status. Phase II of IASB's Business Combinations project has three components:

- Issues related to the application of the purchase method.
- Accounting for business combinations in which separate entities or operations of entities are brought together to form a joint venture, including consideration of "fresh start accounting".
- Issues that were excluded from phase I:
  – Business combinations involving entities (or operations of entities) under common control,
  – Business combinations involving two or more mutual entities (such as mutual insurance companies or mutual cooperative entities), and
  – Business combinations in which separate entities are brought together to form a reporting entity by contract only without the obtaining of an ownership interest.

Key decisions re application of the purchase method. New decisions in the 2nd quarter 2003 are shown in italics:

- If less than a 100% interest is acquired, the acquirer should recognise all of the goodwill of the acquiree, not just the acquirer's share.
- Minority interests in the net assets of a subsidiary should be presented in the consolidated balance sheet within equity separate from the parent shareholders' equity.
- *IAS 1.86 will require a reconciliation for minority interest in the statement of changes in equity, most likely as an addition of one column in the statement.*
- In the income statement, both net profit or loss attributable to minority interests and net profit or loss attributable to the controlling interest should be presented on the face of the consolidated income statement, in addition to presenting consolidated net profit or loss.
- *Losses should be allocated between controlling and minority interests based on ownership interests, without regard to any guarantees or similar arrangements.*
- If a business combination is achieved by a series of share purchases (a step acquisition), at the time control is obtained the carrying amount of the acquirer's previous investment should be increased to its fair value on that date, with gain or loss recognised.
- Subsequent increases or decreases in ownership interests in a subsidiary without loss of control should be accounted for as equity transactions (no gain or loss recognised).

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE II, continued

- If a parent loses control of a subsidiary, either by selling its investment or by the subsidiary selling shares to third parties, a gain or loss should be recognised.
- Costs directly attributable to a business combination are not part of the fair value of the exchange transaction and, therefore, should be excluded from the cost of the business combination.
- Equity instruments issued in a business combination should be measured at acquisition date (date control passes), not at agreement date.
- *Prior to June 2003, the tentative fair value measurement hierarchy was as follows:*
  – Level 1: Observable market price for an identical item at or near the measurement date.
  – Level 2: Observable market prices for similar items, appropriately adjusted.
  – Level 3: Other valuation techniques that incorporate assumptions that marketplace participants would use or, if that information is not available, the entity's assumptions.
  At its June 2003 meeting, the Board removed the second level of the hierarchy, so that when an active market does not exist, a valuation technique should be used. One input to the valuation technique may be recent market transactions for similar items.
- Fair value of liabilities assumed should reflect the credit risk of the combined entity only to the extent that marketplace participants believe the fair value has been altered by the business combination.
- Fair value of post-employment benefit obligations assumed should be based on the actuarial assumptions of the acquirer.

Convergence with US GAAP: While purchase method procedures is a joint project with FASB, there remains a potential difference with US GAAP regarding whether assets and liabilities that arise as a result of acquisition (such as new pension obligations and golden parachute obligations) should be recognised. The IASB has re-affirmed that all assets and liabilities should be recognised including those that arise at the date of acquisition. US GAAP would not recognise these.

What's next? The Board will issue two exposure drafts in this project during the 3rd quarter of 2003 – one related to business combinations and one related to minority interests (amendment of IAS 27). Both EDs will be issued together and will have a 90-day comment period. The proposed effective date will be 1 January 2006 for both standards. Earlier application will be optional. The requirements would have to be applied retrospectively, unless impracticable. However, all business combinations that occur after the earliest business combination that has been retrospectively restated must also be restated.

A timetable has not been set for other components of the Phase II project, including combinations of entities under common control and fresh start accounting.

This is a joint project with the FASB. You will find their project summary at: www.fasb.org/ project/index.shtml

PROJECT UPDATE: REVENUE, LIABILITIES, AND EQUITY

Status. This project addresses three interrelated issues:

- Distinction between liabilities and equity.
- Definition of and recognition criteria for liabilities.
- General principles for recognising revenue.

The IASB is focusing first on the revenue recognition component in a joint project with the FASB. The primary objective is to develop a comprehensive set of principles for revenue recognition that will eliminate the inconsistencies in the existing authoritative literature and accepted practices.

At its June 2003 meeting, the Board discussed the types of contractual rights and obligations that could give rise to revenue. The Board concluded that conditional rights (performance has not occurred) should not give rise to revenue. The Board also decided that pre-performance assets and liabilities should be carried at fair value at initial recognition and subsequent remeasurement. Post-performance assets and liabilities would be subject to another standard. The Board will continue consideration of this model in co-operation with the FASB.

What's next? The project is likely to lead to revisions of both the IASB Framework and IAS 18, Revenue, with an exposure draft in 2003 and final IFRS in 2004, but not effective until after 2005.

The amendments proposed to IAS 39 are significant and generally will result in greater recognition of fair values and fair value changes for financial instruments.

The IASB has tentatively agreed to make a number of changes to the proposals in its exposure draft as a result of comments received. Those changes relate to (among other issues):

- *Derecognition*
- *Reversal of impairment losses*
- *Hedging with internal contracts*
- *Macro hedging*
- *Basis adjustment*

PROJECT UPDATE: AMENDMENTS TO IAS 32 AND IAS 39, FINANCIAL INSTRUMENTS

Status. Exposure draft issued in July 2002 proposing some major amendments to IAS 32 and IAS 39 on financial instruments.

Key proposed amendments to IAS 39

- 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.
- 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, not as cash flow 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.*

* The Board has tentatively decided to modify these proposals – see the facing page.

IASB RECONSIDERATION OF PROPOSED CHANGES TO IAS 39 – TENTATIVE DECISIONS

Fair value measurement option. The Board agreed to retain the fair value measurement option for all financial instruments as proposed in the Exposure Draft; to clarify that the election of fair value is irrevocable; to clarify that demand deposits may be recognised at fair value, which is the amount payable on demand today; not to permit exclusion of the effects of an entity's own credit risk in measuring fair value; and not to require separate disclosure of the fair value effect of an entity's own credit risk.

Fair value measurement guidance. The fair value hierarchy will be as follows:

- If an active market exists, use quoted market price in that market. Bid-asked prices should be used in determining fair value (and adjusted for counterparty credit risk). Mid-market prices should not be used since they may result in immediate gains. When more than one active market exists in which an asset or liability can be disposed of immediately without cost or risk (that is without bundling or any modification), the most advantageous market price should be used. The most advantageous market price is the one that results in the highest price. Blockage factors should not be considered, as it is uncertain whether they exist and, even if they exist, whether their value could be determined reliably. However, the quoted market price may be adjusted for changes in factors that affect the price of the instrument at the balance sheet date.
- If an active market does not exist, a valuation technique should be used. One input to the valuation technique may be recent market transactions for similar items.

Reversal of an impairment loss on available-for-sale financial assets. The ED had proposed to prohibit all reversals of impairment losses on AFS financial assets. Based on comments on the ED, the Board has decided to revert to the existing IAS 39 requirement that an impairment loss on an AFS *debt* instruments should be reversed if the impairment event reverses.

Derecognition of financial assets. The Board decided not to pursue the continuing involvement model proposed in the Exposure Draft but, rather, to retain an approach largely consistent with the current IAS 39, with some modification and clarification. The revised derecognition principles would be as follows:

1. If substantially all of the benefits and risks are transferred, then derecognise the assets. A sale with a repurchase option at fair value would not disqualify derecognition.
2. If substantially all of the benefits and risks have been retained (based on assessment of the variation in the present value of net cash flows), no derecognition is allowed.
3. If the answers are no to both questions 2 and 3, then assess whether the transferor has retained control over the assets transferred. The entity would continue to recognise the transferred assets to the extent it could be forced to reacquire them.

Pass-through arrangements. If the entity has assumed responsibility to pass through all or a proportion of the cash flows from the asset (with no obligation to pay unless collected and no right to sell or pledge the asset), then derecognise all or the proportion sold.

Hedge accounting. Hedges of firm commitments are fair value hedges, not cash flow hedges, even for a foreign currency firm commitment. Hedges of forecasted transactions are cash flow hedges.

Hedging with internal contracts.

- *Interest rate risk.* Internal transactions (transactions within the same reporting entity or group) can be designated as hedging instruments or hedged items under IAS 39. However, these contracts would be eliminated in the normal consolidation procedures.
- *Foreign currency risk.* The Board agreed not to change the IAS 39 hedge accounting for foreign currency risk. This will continue a difference with US GAAP.
- *Intracompany items.* Receivables/payables between group entities can be classified as hedged items.
- *Segment reporting.* Segment results should report the gains or losses from the internal contracts, even if those contracts are eliminated in consolidation.

Macro hedging. The Board agreed to permit an entity to use fair value hedge accounting for a portfolio hedge of interest rate risk under certain defined conditions. These are still being fine-tuned. The Board decided that this issue must be re-exposed.

Basis adjustments for non-financial assets and liabilities. Reflecting hedging gains/losses in the carrying amount of hedged acquisitions of non-financial assets and liabilities ("basis adjustment") will be permitted.

Sensitivity disclosures. Sensitivity disclosures should be provided for fair values estimated using a valuation technique for each valuation assumption not supported by observable market prices.

PROJECT UPDATE: AMENDMENTS TO IAS 32 AND IAS 39, FINANCIAL INSTRUMENTS

Recent decisions re IAS 39. See the table on the previous page.

Recent decisions re IAS 32:

- *Puttable instruments.* Classified as liabilities, whether the put is conditional or not.
- *Treasury shares.* A commitment to repurchase an entity's own shares is a liability other than in agency transactions for clients.
- *Separating the liability and equity components of compound instruments.* The method of separation will not be prescribed.
- *Risk disclosures.* The proposed disclosures in ED paragraphs 77B(a), (b), (c), and (e) will be retained. The Board will consider further the sensitivity disclosure proposed in ED paragraph 77B(d).
- *Economic compulsion.* The notion will be eliminated from existing IAS 32.22 that an instrument is automatically a liability if the issuer is economically compelled to redeem it because of a contractually accelerating dividend. However, an example will be added to the final standard to clarify that a liability must be recognised based on the probability of dividend distributions.
- *Contingent settlement provisions.* The ED proposed to require liability classification, without exception, for any financial instrument that could require the issuer to pay cash or other financial assets, without regard to probability. The Board is reviewing that conclusion with respect to contingencies that do not have a realistic possibility of occurring.
- *Parent guarantees of distributions.* Additional terms (such as a guarantee of payments or redemption) agreed directly by a parent entity with the holders of its subsidiary's equity instruments should result in a liability classification of those instruments in the consolidated financial statements to the extent of the amount of the guarantee.
- *Derivatives on interests in subsidiaries, associates, and joint ventures.* Clarify that these are within the scope of IAS 32 and IAS 39.
- *Offsetting.* Management intention should be a factor in offsetting financial assets and liabilities.

What's next? The final amendments to IAS 32 and IAS 39 will be issued in two stages. The first versions of IAS 32 and 39 will include all decisions that are not being re-exposed. The second and final versions will include the decisions from issues re-exposed. The Board is taking this approach to try to ensure users in countries adopting IFRS in 2005 have as much of the final standard as possible in hand when preparing for 2005.

The Board has begun using a new name for this project: Financial Risk and Other Amendments to Financial Instruments Disclosures

IAS 30 applies to banks and other financial institutions. Initially, the goal of this project was to revise IAS 30, and its scope was disclosures about financial activities rather than financial institutions. More recently, however, the Board has concluded that the proposed disclosures are relevant to all financial instruments. Hence the scope of the project has been amended to cover all entities that have financial instruments.

PROJECT UPDATE: DISCLOSURE OF FINANCIAL RISKS

Status. The Board has agreed that entities should disclose qualitative and quantitative information about financial risks. See the comment in the sidebar (left) about the expanded scope of this project.

Recent decisions. In May 2003, the Board discussed capital risk disclosures and agreed that the standard should not require disclosure of capital requirements imposed by external parties (regulators). However, entity-specific targets and industry standard targets should be disclosed. An entity should also disclose whether any breach has occurred during the reporting period and the quantitative steps taken to correct that breach. The entity should also disclose the existence of a forbearance, if one occurs.

What's next? The Board sees a need for a final standard by 2005 to simplify and improve the capital risk disclosures from those in IAS 30 and 32. The Board hopes to issue an ED in 2004, so that entities would be able to voluntarily adopt the final standard for 2005, though the effective date is likely to be delayed until after 2005. If the final standard is not completed by 2005, IAS 30 and 32 will still apply to capital risk disclosures.

PROJECT UPDATE: PERFORMANCE REPORTING

Status. The following represents the Board's tentative thinking about the format of the income statement (as prepared by the IASB staff):

	Total	Profit Before Remeasurements	Remeasurements
Revenue	1,000	Revenue	Inventory impairments
Cost of sales	(400)	Materials, labour	PPE impairments
Other operating expenses	(250)	Selling, general, administrative	Provision remeasurement
			Pension actuarial loss
Operating Profit	**350**		
PPE revaluations	100		PPE revaluations
PPE disposals	150		Disposal gains and losses
Investment property	--		Investment property fair value change
Goodwill	(100)	Negative goodwill	Goodwill impairment
FX gain/loss on net investment	(50)		FX gain or loss on net investment
Other Business Profit	**100**		
Income from associates	50	Income from associates	
Write-down of receivables	(10)		Write-down of receivables
Equity Investments	(60)		Equity investment returns
Debt investments	20	Interest income	FV change on debt investments
Pension assets	(150)		Return on pension assets
Financial Income	**(150)**		
Business Profit	**300**		
Interest on liabilities	(80)	Interest expense	Change in provision discount rate
Pension financing	(120)	Unwinding of discount	Change in pension discount rate
Financing Expense	**(200)**		
Income Taxes	(30)		
Discontinuing Operations	(10)	Net discontinuing	Net discontinuing
Cash Flow Hedges	50		FV change in CF hedging instrument
Profit	110		

Recent decisions. This format would apply to all companies in all industries. There would be no 'recycling' of items across columns or rows from one period to another. The IASB is lately referring to this project as "Reporting Comprehensive Income".

What's next? IASB staff are currently field-testing the proposal worldwide. An exposure draft is planned for fourth quarter 2003. The Board has indicated, however, that it does not expect to make a final standard mandatory in time for 2005 financial reporting.

CONVERGENCE – SHORT-TERM ISSUES: IFRS AND US GAAP

Status. The objective of this project is to eliminate a variety of differences between International Financial Reporting Standards and US GAAP. The project, which is being done jointly by FASB and IASB, grew out of an agreement reached by the two boards in September 2002.

Two aspects of this project have gone beyond convergence of IFRS and US GAAP. They are:

- Improvements to IAS 19, Employee Benefits, including potential elimination of the "corridor approach" now part of both IFRS and US GAAP.
- Replacement of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

More information. See the discussion of various convergence activities on pages 18 and 19 of this newsletter.

What's next? Exposure drafts are expected the third and fourth quarters of 2003 (including one later this month on asset disposals and discontinuing operations), with final standards in 2004, effective for 2005 except perhaps for IAS 14 and IAS 19 issues.

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 IAS and IFRS 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 imminent.

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE I

Status. When the IASB took over from the IASC in April 2001, it inherited a comprehensive project on accounting for insurance contracts that IASC started in April 1997. The IASC had published an issues paper in November 1999.

The IASB continued the work that the IASC had begun but realised that it was not feasible to complete the comprehensive project in time for the adoption of IFRS by European listed companies in 2005. Nonetheless the IASB recognised that some guidance is needed before 2005 because accounting for insurance contracts under IFRS at the moment is diverse and quite unique relative to other industries. Also, the existing IFRS that are most relevant to accounting for insurance contracts (IAS 32, 37, 38, and 39) exclude insurance contracts from their scopes.

So in May 2002 the IASB split its insurance contracts project into two phases. Phase I will provide guidance in time for the 2005 changeover to IFRS in Europe. Phase II will be the comprehensive project.

Tentative decisions. The table on the facing page summarises the key decisions made by the IASB to date in the Phase I project.

What's next? The IASB is expected to issue an exposure draft of its proposed Phase I standards before the end of July 2003. A three-month comment period is anticipated.

The final standard is expected to be effective for periods beginning on or after 1 January 2005, except the fair value disclosure requirement for assets and liabilities arising from insurance contracts would be deferred until 31 December 2006 (and comparative 31 December 2005 disclosures of the fair values of assets and liabilities arising from insurance contracts would not be required).

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE II

Status. This longer-term project will develop a comprehensive standard on accounting for insurance contracts. Recently, the IASB's effort has been devoted to completing Phase I, so this phase has been on the back burner. However, the Board has discussed some of the issues and has indicated some tentative leanings.

The IASB's leanings in the Phase II project. The Board favours an asset and liability model that requires an entity to identify and measure directly individual assets and liabilities arising from insurance contracts, rather than creating deferrals of inflows and outflows. Under that model, assets and liabilities arising from insurance contracts would be measured at fair value (which involves discounting), except that:

- entity-specific assumptions and information may be used to determine fair value if market-based information is not available; and
- the estimated fair value of an insurance liability shall not be less, but may be more, than the entity would charge to accept new contracts with identical terms and remaining term from new policyholders.

What's next? The Board expects to issue an exposure draft in 2004. Timetable for the final IFRS is not yet announced.

INSURANCE CONTRACTS – PHASE I: SUMMARY OF TENTATIVE DECISIONS

Definition of insurance contract

An insurance contract is a contract under which an insurer accepts significant insurance risk by agreeing to compensate the policyholder or other beneficiary for the adverse effect of a specified uncertain future event.

Scope of the project

All insurance contracts, including reinsurance contracts, but not other activities of insurance entities.

Recognition and measurement of insurance liabilities

Catastrophe and equalisation provisions. These would be prohibited because they do not reflect loss events that have already occurred and, therefore, are inconsistent with IAS 37.

Loss recognition testing. An insurer would be required to carry out a loss recognition test relating to losses already incurred at each balance sheet date. If the test shows that the measurement of its insurance liabilities (net of related deferred acquisition costs and intangible assets) is insufficient, adjustment of the liabilities is recognised in net profit or loss. The entity would be required to use current estimates of future cash flows in the loss recognition test, but the standard is not expected to specify which cash flows should be included and whether and how to discount them.

Applying IAS 39

- *Embedded derivatives.* IAS 39 applies to derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract. However, an insurer would not be required to separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount. That exception would not apply if the surrender value varies based on the change in an equity or commodity price or index.
- *Unbundling deposit components of insurance contracts.* If an insurance contract contains both an insurance component and a deposit (investment) component, the deposit component must be treated as a financial liability or financial asset under IAS 39. As a result, the insurer would not recognise premium receipts for the deposit component as revenue. The measurement at fair value of a demand feature (such as a demand deposit) is no less than the amount payable on demand and that cash surrender and maturity values of many traditional insurance contracts would not generally be classified as a deposit component.
- *Derecognition.* The derecognition provisions of IAS 39 should be applied to insurance liabilities. Therefore such liabilities cannot be removed from the entity's balance sheet until discharge, cancellation, or expiry.

Applying the requirements on offsetting in IAS 1 and IAS 32

- Assets under reinsurance contracts cannot be offset against related insurance liabilities.
- Income and expense from reinsurance contracts cannot be netted against related expense or income from the underlying insurance contracts.

Accounting policies: issues relating to IAS 8 (as proposed to be revised in the Improvements Project)

One purpose of the IFRS that will result from this project is to lay some groundwork that will help insurers in their future transition to a Phase II standard and, at the same time, discourage accounting changes that may need to be reversed when Phase II is completed. Two IASB decisions reflect those objectives:

- Suspend until 2007 the hierarchy of authoritative guidance on IFRS that will be added to IAS 8. The reason for the suspension is that, given the weaknesses in existing accounting practices for insurance contacts and the inconsistency of those practices with accounting in other sectors, the Board feared that might impose unintended and potentially undesirable changes in insurance accounting before Phase II is finished.
- Prohibit changes in accounting policies for insurance contracts unless the change clearly makes the financial statements more understandable, relevant, reliable, and comparable as judged by the criteria in IAS 8.

Other decisions of the IASB

Phase I will not require discounting or specify a discount rate.

- Phase I will not prohibit or require deferral of policy acquisition costs.
- Phase I will not require all insurance subsidiaries of a single parent to use same accounting policies.

An insurer cannot change the measurement basis for its insurance liabilities simply by the purchase of reinsurance.

Disclosure

Many new disclosures would be required, including fair values of insurance assets and insurance liabilities (starting from 1 January 2006); amounts and other details of assets, liabilities, income, expense, and cash flows relating to insurance contracts; and information about insurance risk, interest risk, and credit risk.

If you want to download the April 2003 edition of this newsletter, in which we summarise many changes to the Improvements proposals that the IASB has tentatively agreed to, please go to www.iasplus.com/iasplus.htm

PROJECT UPDATE: IMPROVEMENTS TO IFRS

Status: In May 2002, the IASB published an exposure draft of proposed amendments to 15 standards and consequential amendments to a number of other standards. The Board received over 150 letters of comment on its exposure draft. Its consideration of those comments is nearly finished. We reported many decisions in the April issue of this newsletter.

Recent decisions. During the second quarter of 2003, the Board discussed only one issue: how an entity should handle an asset's depreciation at the point at which the asset's carrying amount is found to be below the amount of the asset's reassessed residual value. The Board decided that, when residual value exceeds net carrying amount for an asset (cost less depreciation) the entity should cease to depreciate the asset, on the basis that an asset should only be depreciated when there is a depreciable amount.

What's next? Final standards in third quarter of 2003, effective for 2005.

IFRIC news on our web site:

Summaries of Interpretations: www.iasplus.com/ interps/interps.htm

IFRIC projects by topic: www.iasplus.com/ ifric/ifricissues.htm

Topics not added to IFRIC's agenda: www.iasplus.com/ ifric/notadded.htm

Emission Rights project: www.iasplus.com/ ifric/emission.htm

IFRIC UPDATE

IFRIC ISSUES DRAFT INTERPRETATION ON EMISSIONS TRADING SCHEMES

The International Financial Reporting Interpretations Committee (IFRIC) has published for comment a draft Interpretation on accounting for transferable emissions (pollution) allowances. Draft Interpretation D1, Emission Rights, is IFRIC's first draft Interpretation. Comment deadline: 14 July 2003.

D1 would require companies to account for the emission allowances they receive from governments as intangible assets, recorded initially at fair value. Emissions of pollutant would then give rise to a liability for the obligation to deliver allowances to cover those emissions. Any excess of the fair value of the allowance over the amount paid to the government is to be considered a government grant and initially recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance period (as provided in IAS 20). The draft Interpretation can be downloaded without charge from IASB's website: www.iasb.org.uk.

In the Deloitte Touche Tohmatsu comment letter on the IFRIC proposal (available on our **www.iasplus.com** website), we agreed with the general conclusions in the draft Interpretation. However, as regards the accounting for government grants arising from emission trading schemes, we suggested that the Interpretation should simply require that the government grants be accounted for under IAS 20. D1 had proposed to eliminate certain options available under IAS 20 for this particular subset of government grants.

IFRIC'S JULY 2003 MEETING

The IFRIC met on 1 and 2 July and discussed the following topics:

- IAS 11 – Criteria for combining and segmenting construction contracts. This is a new IFRIC agenda topic.
- IAS 17 – Rights of use of assets. IFRIC agreed on the principles to be included in an Interpretation.
- IAS 19 – Multi-employer plan exemption. IFRIC is leaning toward treating such plans as defined benefit plans.
- IAS 19 – Money purchase plan with minimum guarantee. IFRIC is leaning toward treating such plans as defined benefit plans.
- IAS 19 – Allocation of benefits to periods of service. The IFRIC will suggest that IASB address this issue in IAS 19 improvements.
- IAS 37 – Decommissioning and environmental rehabilitation funds. An Interpretation would cover accounting by the contributor.
- IAS 37 – Changes in decommissioning, restoration, and similar liabilities. IFRIC agreed to issue a draft Interpretation on this topic.

IFRIC's responsibilities are to:

- *interpret the application of International Financial Reporting Standards and provide timely guidance on financial reporting issues not specifically addressed in IFRS, in the context of the IASB's framework, and undertake other tasks at the request of the Board;*
- *publish Draft Interpretations for public comment and consider comments made within a reasonable period before finalising an Interpretation; and*
- *report to the Board and obtain Board approval for final Interpretations.*

TERMS OF FOUR IFRIC MEMBERS ARE EXTENDED TO 2006

The Trustees of the IASC Foundation have renewed the terms of four members of IFRIC, including Ken Wild, a partner in Deloitte & Touche (United Kingdom) and our firm's IFRS Global Leader. The 12 IFRIC members serve staggered three-year terms. The IFRIC members are:

- **Junichi Akiyama**
  Professor, Tama University, Japan, term expires 30 June 2006
- **Phil Ameen**
  Vice President and Comptroller, General Electric Company, United States, term expires 30 June 2005
- **Jeannot Blanchet**
  Executive Director, Equity Research (Europe), Morgan Stanley, France, term expires 30 June 2004
- **Claudio de Conto**
  General Manager Administration and Control, Pirelli S.p.A., Italy, term expires 30 June 2005
- **Clement K. M. Kwok**
  Managing Director and Chief Executive Officer, The Hongkong and Shanghai Hotels Limited, Hong Kong, China, term expires 30 June 2005
- **Wayne Lonergan**
  Managing Director, Lonergan Edwards & Associates, Australia, term expires 30 June 2005
- **Domingo Mario Marchese**
  Partner, Marchese, Grandi, Meson & Asoc., Argentina, term expires 30 June 2005
- **Mary Tokar**
  Partner, IAS Advisory Services, KPMG International, United States, term expires 30 June 2004
- **Leo van der Tas**
  Partner, Ernst & Young, The Netherlands, term expires 30 June 2006
- **Patricia Walters**
  Senior Vice President, Association for Investment Management and Research, United States, term expires 30 June 2006
- **Ken Wild**
  Partner, Deloitte & Touche, United Kingdom, term expires 30 June 2006
- **Ian Wright**
  Partner, PricewaterhouseCoopers, United Kingdom, term expires 30 June 2004

IASC FOUNDATION APPOINTS A DIRECTOR OF EDUCATION

The IASC Foundation has appointed Elizabeth Hickey as Director of Education. She will be responsible for assisting in the preparation of explanatory and educational materials related to IFRS, for assuring the quality of educational products carrying the IASC Foundation logo, for general educational activities, and for assisting the IASCF Trustees in a possible proficiency-testing programme.

A printed version of the IVSC standards and a subscription update service can be purchased from IVSC.

IVSC PUBLISHES 2003 EDITION OF INTERNATIONAL VALUATION STANDARDS

The International Valuation Standards Committee has published the 2003 edition of International Valuation Standards, a comprehensive volume of all of its standards. For the first time the standards can be viewed or downloaded without charge from the IVSC Website: www.ivsc.org

IFRS-RELATED NEWS FROM IFAC

The IAASB website: www.ifac.org/IAASB/

NEW IAASB STATEMENT ON REPORTING BY AUDITORS ON COMPLIANCE WITH IFRS

The International Auditing and Assurance Standards Board has issued International Auditing Practice Statement 1014 to provide guidance when the auditor expresses an opinion on financial statements that are asserted by management to be prepared:

- Solely in accordance with International Financial Reporting Standards (IFRS);
- In accordance with both IFRS and a national financial reporting framework; or
- In accordance with a national financial reporting framework with disclosure of the extent of compliance with IFRS.

Regarding simultaneous compliance with both IFRS and national GAAP, IAPS 1014 states:

> *Simultaneous compliance with both IFRSs and a national financial reporting framework is unlikely unless the country has adopted IFRSs as its national financial reporting framework or has eliminated all barriers for compliance with IFRSs. It is helpful for the auditor to discuss financial statements that state they have been prepared in accordance with IFRSs and a national financial reporting framework with management and those charged with governance. The purpose of the discussion is to advise management and those charged with governance of the possibility of a qualified opinion or adverse opinion on compliance with one or both of the financial reporting frameworks, given that the ability to simultaneously comply fully with IFRSs and a national financial reporting framework is unlikely.*

IAPS 1014 supplements guidance provided in International Standard on Auditing 700, The Auditor's Report on Financial Statements. The IAASB has also released two exposure drafts regarding assurance engagements and audits of small business. All IAASB documents are available without charge on the IAASB's web pages: www.iaasb.org

Here is the link to the IFAC letter: www.ifac.org/Downloads/ IFAC-PCAOBMay12.pdf

IFAC URGES PCAOB TO RELY ON INTERNATIONAL STANDARDS ON AUDITING

In a letter to the US Public Company Accounting Oversight Board, the International Federation of Accountants has urged the PCAOB to "seek public comment on the appropriateness of using International Standards on Auditing (ISAs) as a common base for issuers in the US." IFAC pointed out the benefits of adopting an internationally consistent approach to professional auditing standards. IFAC noted that using ISAs as a common base would require auditors to both:

- perform a financial statement audit in accordance with ISAs, and
- perform additional procedures and report on additional matters in response to specific legal, regulatory, or other needs established at a national level.

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

UPCOMING MEETINGS OF IASB, SAC, AND IFRIC

International Accounting Standards Board

- 22-24 July 2003, London
- 17-19 September 2003 (plus 22-23 September: Meeting with National Standard Setter Chairs), London
- 22-24 October 2003, Toronto
- 17-19 November 2003, (plus 20-21 November: Meeting with the Standards Advisory Council), London
- 17-19 December 2003, London

Standards Advisory Council

- 20-21 November 2003, London

International Financial Reporting Interpretations Committee

- ~~30-31 July 2003, London:~~ ***This meeting has been cancelled.***
- 30 September-1 October 2003, London
- 2-3 December 2003, London

IASC Foundation Trustees

- 29 July 2003, Washington, DC
- 4 November 2003, Brussels

FASB's project update on stock-based compensation: www.fasb.org/project/stock-based_comp.shtml

CONVERGENCE ON KEY SHARE-BASED PAYMENT DECISIONS

Both the IASB and the US FASB have projects on share-based payments. In April 2003, the FASB voted that stock options "are payment for goods and services and that those costs should be recognised". FASB will consider the timing of recognition and measurement issues at future meetings. The IASB reached the same conclusion in ED 2.

While both boards have concluded that compensation cost should be recognised over the service period, the measurement technique proposed by the IASB in ED 2 (units-of-service attribution method) differed from the modified grant-date measurement approach in FASB Statement 123. The FASB considered both approaches and decided to keep the FAS 123 method. At its May 2003 meeting, the IASB decided to change from the units-of-service attribution method of ED 2 to the FAS 123 method.

Consequently an agenda paper prepared by the FASB for the June 2003 meeting of its Advisory Council summarised the two boards' decisions to date and concluded that "the IASB and the FASB are converged with respect to accounting for equity-settled employee stock-based compensation transactions.... The two Boards are converged in the sense that if the IASB's proposed guidance and the FASB's tentative decisions do not change, the final standards would be converged."

The FASB's decision summary notes the following key decisions made to date:

- **Recognition.** Goods or services received in exchange for stock-based compensation result in a cost that should be recognised in the income statement as an expense when the goods or services are consumed by the enterprise.
- **Measurement Attribute.** The measurement attribute for an exchange involving stock-based compensation is fair value.
- **Measurement Objective.** The measurement objective for equity-settled awards is to determine the fair value of the goods or services received in the exchange, which should be based on (a) the fair value of the goods or services received or (b) the grant-date fair value of the equity instruments issued (that is, modified grant date measurement), whichever is more reliably measurable.
- **Attribution.** Compensation cost should be recognised over the service period using the attribution method in FASB Statement 123, Accounting for Stock-Based Compensation, rather than by the units-of-service attribution method proposed in IASB ED 2, Share-based Payment. In May 2003 the IASB decided to move to the SFAS 123 model.

FASB's project update on its short-term international convergence project: www.fasb.org/project/short-term_intl_convergence.shtml

FASB WILL CONVERGE WITH IASB ON EPS CALCULATIONS

At its 11 June 2003 meeting, the US Financial Accounting Standards Board agreed with the IASB decision to remove the issues of joint ventures, proportionate consolidation, and hyperinflationary economies from the scope of their convergence project. The FASB also added issues relating to earnings per share to its project scope and decided the following:

- For annual and year-to-date computation of diluted EPS, the dilutive effect of options and warrants should be reflected by applying the treasury stock method for the year-to-date period independently from any interim computation. Options and warrants will have a dilutive effect under the treasury stock method only when the average market price of the common stock for the year-to-date period exceeds the exercise price of the options and warrants. The IASB has adopted a similar year-to-date approach.

- When an entity has issued a contract that may be settled either in shares or in cash at the entity's option, the entity should presume that the contract will be settled in shares if the effect is dilutive. That presumption may not be overcome, regardless of past practice or stated policy to the contrary. While the IASB Improvements ED had proposed that the presumption be rebuttable, the IASB decided at its February 2003 meeting that the presumption may not be overcome.

FASB's project update on its short-term international convergence project: www.fasb.org/project/short-term_intl_convergence.shtml

CONVERGENCE ON CLASSIFYING DEBT AS NON-CURRENT

The FASB has tentatively decided, as part of its short-term convergence project, to propose adoption of the positions taken by the IASB in its Improvements exposure draftt, namely that:

- Long-term debt due within 12 months of the balance sheet date should be classified as a current liability unless an agreement to refinance the liability on a long-term basis is completed on or before the balance sheet date.

- Long-term debt payable on demand at the balance sheet date because the entity breached a condition of its loan agreement should be classified as current unless the lender has agreed on or before the balance sheet date to provide a grace period for rectifying the breach during which the obligation is not callable and either (a) the entity rectifies the breach within the grace period or (b) at the time that the financial statements are issued, it is probable that the breach will be rectified within the grace period.

FASB's project update on its short-term international convergence project: www.fasb.org/project/short-term_intl_convergence.shtml

CONVERGENCE ON LIABILITY VS. EQUITY CLASSIFICATIONS

In May 2003, the FASB issued its Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which requires an issuer to classify certain financial instruments as liabilities. The FAS 150 classifications are essentially consistent with the classifications under IAS 32 and IAS 39 (as proposed to be amended).

Because FAS 150 has a limited scope, it does not address a number of liability-equity questions that are addressed under IAS 32 and IAS 39, such as accounting for compound instruments and for contingently redeemable instruments, but the FASB intends to address those issues in a later phase of the project. Under FAS 150, three types of instruments would be classified as liabilities by the issuer:

- Mandatorily redeemable shares.
- Instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets.
- Obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares.

IFRS-RELATED NEWS FROM THE UNITED STATES

http://www.sec.gov/news/press/2003-53.htm

SEC REAFFIRMS FASB STANDARDS FOR SEC FILINGS

The US Securities and Exchange Commission has reaffirmed its policy of recognising FASB pronouncements as being generally accepted for purposes of filings with the Commission. The SEC's action was in response to section 108 of the Sarbanes-Oxley Act of 2002, which, among other things, specifies the criteria that must be met in order for an accounting standard setter's work product to be recognised as generally accepted by the Commission. In its new policy statement, the Commission noted:

> *In order for US accounting standards to remain relevant and to continue to improve, however, the Commission expects the FASB to consider, 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, including consideration of moving towards greater reliance on principles-based accounting standards whenever it is reasonable to do so.... We expect that during its deliberations of an accounting issue the FASB will consider, among other things, international accounting standards addressing that issue.*

Commissioner Campos's speech in its entirety: http://www.sec.gov/news/speech/spch061103rcc.htm

SEC COMMISSIONER SPEAKS ON CROSS-BORDER ACCOUNTING AND AUDITING ISSUES

US SEC Commissioner Roel C. Campos spoke in Brussels on *Embracing International Business in the Post-Enron Era* before the Centre for European Policy Studies on 11 June 2003. He reviewed international accounting- and auditing-related matters such as principles-based standards, accommodations for foreign market participants in implementing the Sarbanes-Oxley Act, accommodations for foreign auditing firms by the Public Company Accounting Oversight Board, the convergence project of the IASB and the FASB, and acceptance of International Accounting Standards in the United States.

The staff Q&A can be found here: www.sec.gov/divisions/corpfin/faqs/nongaapfaq.htm

SEC STAFF GUIDANCE ON NON-GAAP FINANCIAL MEASURES

The SEC staff has responded to 33 questions on the disclosure of non-GAAP financial measures. Five of the Q&A are specifically intended for foreign private issuers, addressing issues such as income statement subtotals and earnings per share amounts that are expressly permitted or required by a foreign GAAP but that are not calculated consistently with those permitted or required by US GAAP. The Q&A are based on a rule on conditions for use of non-GAAP financial measures that the SEC adopted on 22 January 2003 pursuant to the Sarbanes-Oxley Act of 2002.

More information: www.sec.gov/news/press/2003-66.htm

SEC REQUIRES REPORTS ON INTERNAL CONTROL WITH AUDITOR ATTESTATION

The US Securities and Exchange Commission has adopted new final rules on management's report on internal control over financial reporting. The effective date for large US issuers is financial years ending on or after 15 June 2004. Foreign private issuers and small US issuers have until years ending on or after 15 April 2005.

The rules require, among other things, that annual reports include a report by management on the effectiveness of the company's system of internal controls over financial reporting and a statement that its auditor has issued an attestation report on management's assessment. The rules also require that the CEO and CFO certifications of financial statements be identified as exhibits to periodic reports such as those on Form 10-K, 10-Q, and 20-F.

PCAOB website: www.pcaobus.org/

FINAL PCAOB AUDITOR REGISTRATION RULES APPLY TO NON-US FIRMS

The US Public Company Accounting Oversight Board has adopted final auditor registration rules pursuant to the Sarbanes-Oxley Act of 2002. All public accounting firms must be registered with the PCAOB if they wish to prepare or issue audit reports on US public companies, or to play a substantial role in preparing or issuing such reports. Registration deadlines:

- US public accounting firms – 22 October 2003.
- Non-US public accounting firms – 19 April 2004.

Registration will be via an on-line form on the PCAOB's website. The form is currently being developed, with availability expected early July 2003. Applicants must pay a registration fee. Registered firms will be required to file annual reports with the PCAOB and perhaps other periodic reports.

PCAOB website: www.pcaobus.org/

PCAOB WILL SET US AUDITING STANDARDS, NOT AICPA

By unanimous vote, the new US Public Company Accounting Oversight Board (PCAOB) has decided not to delegate responsibility for setting auditing standards to the accounting profession, but rather to set the standards itself. Heretofore, for over 60 years, the American Institute of CPAs has promulgated auditing standards in the United States. The Financial Accounting Standards Board will continue to set accounting standards.

All auditors of public companies will need to follow PCAOB standards. On an interim basis, compliance with existing generally accepted auditing standards is required. The PCAOB said its standard setting process will continue to involve participation, dialogue and open observation by a large and diverse group of participants. The PCAOB's auditing standards will include matters of quality control, professional ethics, and independence of auditors from companies whose financial statements they audit.

Though the PCAOB has authority to regulate all auditors – American or foreign – of all public companies in the United States, the extent to which PCAOB auditing standards would apply to foreign auditors remains to be addressed.

The PCAOB also voted to finance its operations by fees paid by publicly traded companies in proportion to their size. Auditing firms will also pay fees to fund the PCAOB's auditor registration system.

NEWS ABOUT IFRS IN EUROPE

You can download the accounting directives here: http://europa.eu.int/comm/internal_market/accounting/officialdocs_en.htm

COUNCIL OF MINISTERS APPROVES AMENDED ACCOUNTING DIRECTIVES

In early May 2003, the European Union's Council of Ministers approved the amended EU 4th and 7th Company Law Directives), bringing them into law. The European Parliament had approved the directives in January 2003.

The revised directives complement the IAS Regulation, adopted in June 2002, that requires all listed EU companies to use IFRS from 2005 onwards. The regulation allows member states to extend IFRS to all companies. If they choose not to do so the revised directives make improvements in EU financial reporting that could therefore affect up to five million non-listed companies. Among the changes:

- All inconsistencies of the old directives and IFRS have been removed.
- Companies' ability to keep liabilities off the balance sheet by using special purpose vehicles is restricted.
- Disclosures about risks and uncertainties are required in annual reports.
- Audit reports are made more consistent across the EU.

EC WILL SEEK MODIFICATIONS OF IAS FOR USE IN EUROPE

The European Commission has published its Internal Market Strategy 2003-2006, a ten-point plan to make the Internal Market work better. Point 6 – improving conditions for business – states that the European Commission will request "appropriate modifications" to certain existing IAS before they will be endorsed for use in Europe. An EC Accounting Regulatory Committee has been established for that purpose:

> *A recently adopted Regulation requires all EU-listed companies to prepare their consolidated accounts in accordance with International Accounting Standards (IAS) from 2005. This will bring transparency and greater comparability between the consolidated financial statements of EU listed companies, hence better capital allocation and possibly a reduction in the cost of capital. IAS are established by the International Accounting Standards Board, an independent international accounting standard-setting organisation. In order to ensure appropriate political oversight, the Regulation stipulates that IAS to be applied in the EU will also have to be endorsed into Community law. Existing IAS will be endorsed during 2003, provided that, for some of them, the appropriate modifications are made.*

IAS ENDORSED FOR USE IN EUROPE – OTHER THAN 32/39

At its meeting on 16 July 2003, the Accounting Regulatory Committee (ARC) – which is charged under Europe's IAS Regulation with assessing the suitability of IFRS for use in Europe – voted unanimously to endorse all extant International Accounting Standards other than IAS 32 and IAS 39. Because the IASB is currently deliberating amendments to those two standards, the ARC wants to consider the revised standards for endorsement.

Prior to the ARC meeting, the EU Council of Finance Ministers (ECOFIN) discussed implementation measures for the IAS Regulation that was adopted by the European Union in June 2002. ECOFIN said that the discussion was at the request of the French delegation, which had circulated a paper setting out what it considers to be problematic issues with regard to IAS 32 and 39. Following the discussion, ECOFIN issued a public announcement suggesting that IAS 32 and IAS 39 might not be adopted immediately in Europe:

> *The Council asks the Commission to request the IASB to continue its dialogue with representatives of European industries in order to find a satisfactory and timely solution for the revised IAS 32 and 39 in view of their envisaged application. . . .*
>
> *The Council agrees with the Commission regarding the importance of an immediate adoption of all existing IAS, with IAS 32 and 39 as soon as possible thereafter. The adoption of future standards must respect the quality criteria set out in the IAS Regulation and be conducive to the European public good.*

In a follow-up announcement, the European Commission noted that:

> *IAS 32 and 39 are still being reviewed by the International Accounting Standards Board to ensure that they will provide a sufficiently rigorous solution for the accounting treatment of financial instruments for banks and insurance companies. IAS 32 and 39 can then be reconsidered when available.*

Euronext combines the exchanges in Amsterdam, Brussels, Lisbon, and Paris.

EURONEXT PUBLISHES NEW IFRS RULES

The Euronext market has published a new version of its Rulebook, which provides that the 151 companies listed on the Nextprime segment and the 116 companies listed on the Nexteconomy segment must comply with International Financial Reporting Standards earlier than companies (approximately 1,200 in number) quoted on the other Euronext market segments. In summary:

- From financial years beginning on or after 1 January 2004, companies on the Nextprime and Nexteconomy segments must publish quarterly reports.
- In the second quarterly report for the financial year beginning on or after 1 January 2004, the company must publish a note describing the relevant effects of switching to IFRS on a later date on the IFRS opening balance sheet and the income of the current period. This information should be updated in subsequent quarters as needed. This only applies to entities that have not already published their latest annual consolidated financial statements in accordance with IFRS.
- Auditors must perform a limited review on the second quarter report.

EFRAG's web site: www.efrag.org

EFRAG SUPPORTS ADOPTION OF IFRS 1 IN EUROPE

The European Financial Reporting Advisory Group has posted on its website a draft of its proposed letter to the European Commission recommending that "it is in the European interest" for the Commission to adopt IFRS 1. EFRAG's role is advisory.

IASB PRESENTATIONS IN EUROPE ON TRANSITION TO IFRS

Members of the IASB are undertaking a series of presentations throughout Europe to highlight issues related to the transition to IFRS for EU publicly-listed companies in 2005:

Target Audience	Location	Date	Speaker
Italy	Rome	20 June	Sir David Tweedie
New EU entrants	Warsaw / Prague	15/16 July	Hans-Georg Bruns
Netherlands	Amsterdam	24 September	Sir David Tweedie and Thomas Jones
Luxembourg	Luxembourg City	25 September	John Smith
Germany	Berlin	9 October	Sir David Tweedie and Hans-Georg Bruns
Spain	Madrid	6/7 November	Sir David Tweedie
France	Paris	To Be Scheduled	Sir David Tweedie and Thomas Jones

You will find the accounting directives and the press release on the small-company exemption here: http://europa.eu.int/comm/ internal_market/accounting/ officialdocs_en.htm

EU ENLARGES SMALL-COMPANY REPORTING EXEMPTIONS

The European Union has amended its accounting directives to allow member states to exempt more small and medium-sized enterprises from certain financial reporting and disclosure requirements usually imposed on limited liability companies. For instance, member states may allow them to publish only an abridged balance sheet and income statement and abridged notes.

You can download the full text of the 10-point plan at: http://www.iasplus.com/restruct/euro2003.htm#may2003

EC SETS OUT PRIORITIES TO IMPROVE AUDIT QUALITY

The European Commission has published a 10-point plan for improving and harmonising the quality of independent audits throughout the EU. Approximately two million European companies are required by statute to have an annual audit. To implement the plan, existing European legislation (particularly the 8th Directive) will be revised and extended. The plan is divided into short- and medium-term priorities:

Short-Term Priorities (2003-2004)

- Modernise the 8th Directive to include principles on public oversight, external quality assurance, auditor education and independence, code of ethics, auditing standards, disciplinary sanctions, and the appointment and dismissal of statutory auditors.
- Create an EU Regulatory Committee on Audit, with power to adopt detailed binding auditing regulations (the present EU Committee on Auditing, renamed the Audit Advisory Committee, composed of representatives of Member States and of the profession, will become an advisory committee).
- Strengthen public oversight of auditors at both the member State and EU levels.
- Require International Standards on Auditing (ISAs) for all EU statutory audits from 2005.

Medium-Term Priorities (2004-2006)

- Improve disciplinary sanctions.
- Make audit firms and their networks more transparent, including disclosure requirements for audit firms.
- Strengthen audit committees and internal controls.
- Reinforce auditor independence and code of ethics (including seeking US recognition of the equivalence of the EU approach).
- Remove restrictions on the establishment of EU audit firms and on cross-border provision of audit services.
- Examine the economic impact of auditor liability regimes in member States.

UK FSA CHAIRMAN CALLS FOR GLOBAL ACCOUNTING STANDARDS

In the 2003 Monetary Authority of Singapore Annual Lecture, Sir Howard Davies, chairman of the UK Financial Services Authority (FSA), identified a comprehensive set of international accounting standards, enforced through high quality independent audits, as the number one item on his agenda for change to strengthen the international financial structure:

> *Accounting standards are the foundation stone of the financial system, and of financial regulation. Without accounting numbers in which investors can have confidence, regulation cannot hope to be effective. And those accounts must be audited objectively and independently.*
>
> *Since the reformation of the International Accounting Standards Board three years ago a determined effort has been under way, led by Paul Volcker and David Tweedie, to complete the standard set and secure broad agreement to their acceptance around the world. They are now close to success, but there are some difficult obstacles still to be overcome, notably the question of the treatment of financial instruments (IAS 39). I very much hope an acceptable solution can soon be found. It would be a great pity if this opportunity were missed, and without satisfactory accounting for financial instruments IASs are unlikely to be accepted in the US.*

USE OF IFRS AROUND THE WORLD

JSE Securities Exchange South Africa website: http://www.jse.co.za/

SOUTH AFRICAN LISTED COMPANIES MUST FOLLOW IFRS

The JSE Securities Exchange South Africa (JSE) has approved substantial amendments to its listing rules that will require all companies listed on the exchange to comply with International Financial Reporting Standards (IFRS) for years commencing on or after 1 January 2005. Previously, a company whose primary listing is on the JSE could elect to comply with either South African Statements of Generally Accepted Accounting Practices (SA GAAP) or IFRS.

Under the amended JSE rules, a JSE GAAP Monitoring Panel will have the authority to sanction listed companies for non-compliance with either SA GAAP or IFRS.

Web site of the Australian Accounting Standards Board: www.aasb.com.au/

TRANSITION TO IFRS "EQUIVALENTS" IN AUSTRALIA

The Australian Accounting Standards Board has agreed to issue an interpretation to explain the hierarchy of pronouncements in Australian GAAP. The AASB is planning to adopt Australian "equivalents" of international standards that will be mandatory effective 1 January 2005. The AASB hopes to issue its revised standards by 31 March 2004. They have already exposed IAS 7, IAS 23, IAS 29, IAS 30 and IAS 41 for comment.

Also, in its media release welcoming the adoption of IFRS 1, the Australian Accounting Standards Board has cited two significant impediments to adopting IFRS 1 and other IFRS in Australia. One is the fact that IFRS are copyrighted by IASB whereas Australian accounting standards must be freely available by law. Secondly, IFRS 1 makes cross-references to IFRS and amended IAS that have not yet been adopted by the IASB. Australian law prohibits cross-referring to regulations that have not yet been enacted. Rather than using IFRS in place of national GAAP, Australia is taking the approach of adopting an Australian equivalent of each individual IAS/IFRS.

New Zealand Institute of Chartered Accountants: www.icanz.co.nz

NEW ZEALAND TO CONTINUE NZ-GAAP BASED ON IFRS

Rather than replacing national GAAP with IFRS, as is being done for listed companies in Europe, the Financial Reporting Standards Board of New Zealand (FRSB) has begun a programme of adopting IFRS by converting them into NZ Financial Reporting Standards (FRS), with minor amendments generally in the form of additional requirements and guidance.

For each international standard to be adopted in New Zealand, the FRSB will publish an exposure draft containing a summary of the main differences between the international standard and current NZ FRS together with a marked-up version of the international standard showing any modifications, additional requirements, and guidance proposed by the FRSB. It is likely that auditors' reports will refer to conformity with NZ Financial Reporting Standards.

The full survey report is available on the ICAEW's website: www.icaew.co.uk.

UK SURVEY SHOWS NEED FOR MORE PREPARATION FOR TRANSITION TO IFRS

The Institute of Chartered Accountants in England and Wales has released results of a survey of its members (in both public practice and industry) to assess the level of awareness and preparation for the introduction of IFRS in 2005. Although the majority of members surveyed were aware of the move to IFRS, the survey showed that members generally were not aware of the extent of the impact that IFRS would have in the UK:

- A third of respondents had little or no awareness of the publication of the EU Regulation mandating the adoption of IFRS in 2005.
- Less than half of respondents felt they were aware of the effect IFRS would have on their company or financial statements.
- Two-thirds of survey participants were either "not very aware" or "not aware at all" of the IASB's timetable for issuing both new and improved standards.
- Only 70% of respondents who had stated that IFRS was applicable to them felt that they would definitely be prepared in time for 2005.
- Only one in seven respondents were aware that the British government has issued a consultation paper on whether IFRS should apply to unlisted companies in the United Kingdom.

Canadian Securities Administrators: http://www.csa-acvm.ca/

PROPOSAL TO LET FOREIGN COMPANIES USE IFRS IN CANADA

The Canadian Securities Administrators (a consortium of Provincial regulators) have invited comments on a proposal (NI 52-107 and 52-107CP), Acceptable Accounting Principles, Auditing Standards and Foreign Currency, that would allow foreign issuers and foreign registrants to use either IFRS or US GAAP without reconciliation to Canadian GAAP. Foreign companies would also be allowed to use their national GAAP if it covers "substantially the same core subject matter as Canadian GAAP", but with a reconciliation to Canadian GAAP.

Canadian companies registered with the US SEC would also be permitted to use US GAAP. If an SEC issuer previously used Canadian GAAP and changes to US GAAP, it would be required to reconcile to Canadian GAAP for two years.

In all cases, audits in accordance with either US Generally Accepted Auditing Standards or International Standards on Auditing are required. Comments due 14 August 2003.

TORONTO SYMPOSIUM ON GLOBAL FINANCIAL REPORTING IS SET FOR OCTOBER

The Canadian Accounting Standards Board (ASB) will sponsor an International Summit on Financial Reporting in Toronto on 21 October 2003, the day before the start of the IASB's three-day Board meeting in that city. Speakers include the chairmen of the IASB, FASB, and the ASB.

BELGIUM PROPOSES TO ADOPT IFRS IN 2007 FOR ALL BELGIAN ENTITIES

The Belgian Commission for Accounting Standards (CBN/CNC) has recently proposed a comprehensive approach to adopting IFRS in Belgium by all Belgian entities starting in 2007:

Consolidated annual accounts

CBN/CNC is proposing that IFRS be mandatory for all consolidated annual accounts starting from 2007. This would impact more than 600 Belgian non-listed entities that now prepare consolidated annual accounts. Until the EU IFRS regulation comes into force in 2005 (which obliges listed entities to adopt IFRS in preparing their consolidated accounts), the CBN/CNC would reform its policy with respect to the use of non-Belgian GAAP. Specifically, it would make it easier for both listed and non-listed companies to get permission to use IFRS for their consolidated financial statements and would no longer allow a company to adopt US GAAP or any other GAAP in substitution for the Belgian GAAP. As a result, entities would be able to use IFRS for their consolidated annual accounts even before 2005.

Statutory annual accounts

CBN/CNC also has proposed an ambitious plan to converge the Belgian Accounting Law with IAS/IFRS as from 2007. Taking into account the scope and the importance of this harmonisation task, the CBN foresees putting all adaptations simultaneously into effect on 1 January 2007. The CBN/CNC indicated that the adaptations to the Belgian Accounting Law would be tackled pragmatically and that the Belgian context and the scope of the entities concerned would be taken into account explicitly.

ALL LISTED COMPANIES IN THE CZECH REPUBLIC MAY NOW USE IFRS

In the Czech Republic starting from 2002, all listed companies are permitted to prepare consolidated financial statements in conformity with IFRS. For certain listed companies – about a dozen that trade on the main board of the Prague Stock Exchange – IFRS financial statements are now required.

MOST AUSTRIAN LISTED COMPANIES HAVE ALREADY SWITCHED TO IFRS

For the past three years, the Vienna stock exchange has required all domestic and foreign companies listed on the A-Market and the Austrian Growth Market (AGM) to submit consolidated financial statements under either IFRS or US GAAP. Other listed companies have been permitted to use IFRS or US GAAP or the Austrian commercial code.

In their 2002 financial statements, nearly all listed Austrian companies have used IFRS. Only a few are now using US GAAP or the Austrian code. Starting in 2005, virtually all listed European companies, including Austrian companies, will be required to use IFRS.

The MASB's website is: www.masb.org.my

MALAYSIA DELAYS IMPLEMENTATION OF FINANCIAL INSTRUMENTS STANDARD BASED ON IAS 39

The Malaysian Accounting Standards Board has decided to delay, until at least third quarter 2004, the effective date of its proposed new standard on financial instruments that is based on IAS 39 because of the imminent changes to IAS 39. MASB also delayed a proposed standard on unit trusts for the same reason.

PUBLICATIONS FROM DELOITTE TOUCHE TOHMATSU

All of the DTT publications mentioned on this page can be downloaded from our web site's publications page: www.iasplus.com/ dttpubs/pubs.htm

THIRD EDITION OF IFRS IN YOUR POCKET IS PUBLISHED

Deloitte Touche Tohmatsu has published the third edition of IFRS in your Pocket. This popular 80-page guide includes:

- IASB structure and contact details.
- IASC and IASB chronology.
- Use of IFRS Around the World (including updates on Europe and the US).
- Summaries of each IASB Standard and Interpretation, annotated to indicate key proposals for change in current IASB projects.
- Background and tentative decisions on all current IASB projects.
- Other useful IASB-related information.

You can download this and other Deloitte Touche Tohmatsu IFRS-related publications on the publications page of our **www.iasplus.com** website. We are pleased to grant permission for accounting educators and students to print copies for educational purposes.

Printed copies are available to accounting educators (while supplies last). Please email: info@iasplus.com.

IFRS-US GAAP COMPARISON IN SPANISH

Principales Diferencias: IAS vs US GAAP is the Spanish translation of our comparison of International Financial Reporting Standards and US GAAP. You can download a copy at **www.iasplus.com**. We are pleased to grant permission for accounting educators and students to make copies for educational use.

All of the DTT publications mentioned on this page can be downloaded from our web site's publications page: www.iasplus.com/ dttpubs/pubs.htm

NEW DTT GUIDANCE ON ACCOUNTING FOR INCOME TAXES

Deloitte Touche Tohmatsu has published a 120-page book of guidance on applying SSAP 12, Hong Kong's new standard on Accounting for Income Taxes. Because SSAP 12 is substantially equivalent to IAS 12, we believe that this book will be of interest to all who apply IFRS.

Chapters cover calculation of tax balances; current tax; deferred tax; tax bases; temporary differences; balance sheet recognition; measurement; recognition of the movement between the opening and closing balance sheets; and presentation and disclosure. There is also a chapter on applying the standard to Hong Kong circumstances including business combinations; investments; revaluations of properties; foreign currency translation; and compound financial instruments. Appendices include example tax worksheets; a presentation and disclosure checklist; illustrative disclosures; and an international comparison.

There are two main differences between SSAP 12 and IAS 12:

- The first is that the Hong Kong standard includes significant additional implementation guidance within the body of SSAP 12 that is not in IAS 12.
- Secondly, with respect to revalued investment property (including freehold land, land use rights, and buildings) the Hong Kong standard has arrived at a "Hong Kong solution for a Hong Kong problem". Under SSAP 12, deferred tax on all revalued investment property should be measured based on the tax consequences that would follow from recovery of the carrying amount of the asset through sale. Since the Hong Kong tax law provides for no capital gains tax on sale of investment property, minimal deferred tax would be recognised. This is, in effect, an extension of the scope of SIC 21, which applies only to freehold land. The Hong Kong Society of Accountants expects to reconsider this difference after completion of the IASB's Improvements and Convergence projects.

This is not a printed document, but you can print out the comparison from: www.iasplus.com/ country/canada.htm

COMPARISON OF IFRS AND CANADIAN GAAP IS UPDATED

We have updated the Comparison of IFRS and Canadian Accounting pronouncements on our website to reflect all pronouncements issued as of 30 April 2003. The comparison is taken from Section 1501 of the Handbook of the Canadian Institute of Chartered Accountants and is presented with the CICA's permission (and our thanks).

IFRS OF GROWING IMPORTANCE FOR US COMPANIES

Deloitte & Touche (US) has published a booklet on International Financial Reporting Standards: Of Growing Importance for US Companies. The booklet discusses the factors that may influence the importance of IFRS in the United States, the need for global accounting standards, and the implications for organisations that adopt them.

THREE GERMAN LANGUAGE IFRS PUBLICATIONS

You can download from our website the German language versions of:

- Model IFRS Financial Statements (Musterkonzernabschluss).
- Disclosure and Presentation Checklist (Checkliste zu Ausweis und Angabevorschriften).
- Analysis of IFRS 1, First-time Adoption of IFRS (Erstmalige Anwendung der International Financial Reporting Standards).

IAS Healthcheck 2003 can be downloaded from our web site's publications page: www.iasplus.com/dttpubs/pubs.htm

IAS HEALTHCHECK 2003

Of the 7,000 listed companies in Europe that will be required to adopt IFRS in 2005, over 3,000 of them are in the United Kingdom. IAS Healthcheck 2003, prepared by Deloitte & Touche (United Kingdom) reviews the implications of changing to IFRS not only with respect to accounting systems and financial reporting but also to other management issues including treasury management; distributions; debt covenants and financing; mergers and acquisitions; management compensation; product development; management information; statutory accounts and taxes; human resources; IT systems; and investor relations.

The 32-page guide sets out practical ideas for addressing these and other issues.

There are links to all of these comparisons at: www.iasplus.com/country/compare.htm

NEW PAGES OF COMPARISONS OF IFRS AND NATIONAL GAAPs ADDED TO OUR IASPLUS WEB SITE

We have created a new page on our **www.iasplus.com** website with links to comparisons of IFRS and national GAAPs. So far we have comparisons of IFRS and the national GAAPs as follows:

- Australia.
- Canada.
- China.
- Eastern Europe – comparison of 14 countries.
- Hong Kong.
- Netherlands.
- South Africa.
- United States.

For more information, including subscription details and an online DART demonstration, visit our DART site: www.deloitte.com/us/dart.

DELOITTE ACCOUNTING RESEARCH TOOL IS AVAILABLE

Deloitte & Touche (US) is making available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called the Deloitte Accounting Research Tool (DART), the library includes material from the FASB, the EITF, the AICPA, the SEC, and the IASB, in addition to Deloitte & Touche's own accounting manual and other interpretative accounting guidance. Updated every business day, DART has an intuitive design and navigation system, which, together with its powerful search features, enable users to quickly locate information any time, from any computer. Additionally, DART subscribers receive periodic emails highlighting recent additions to the DART library.

ACCOUNTING STANDARDS UPDATE IN THE ASIA-PACIFIC REGION

AUSTRALIA

Contact: *Bruce Porter*
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The following exposure drafts have been recently issued by the Australian Accounting Standard Board (AASB) in line with their strategy for the adoption of IFRS as equivalent AASB Standards. The AASB intends to issue 35 new or revised AASB Standards by 31 March 2004, effective 1 January 2005. These new or revised AASB are expected to be equivalent to IFRS with some possible minor amendments:

- ED 110, Request for Comment on IAS 7 Cash Flow Statements
- ED 111, Request for Comment on IAS 23 Borrowing Costs
- ED 112, Request for Comment on IAS 29 Financial Reporting in Hyperinflationary Economies
- ED 113, Request for Comment on IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions
- ED 114, Request for Comment on IAS 41 Agriculture

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 issued the following Abstracts:

- Revised Abstract 52, Income Tax Accounting Under the Tax Consolidation System
- Abstract 53, Pre-Completion Contracts for the Sale of Residential Development Properties

CHINA

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Events after the balance sheet date. In April 2003, the Ministry of Finance (MOF) amended its standard on events after the balance sheet date to conform to IAS 10. The biggest change is to prohibit recognition of a liability, at the balance sheet date, for dividends declared after that date but before the financial statements have been approved for issue. The changes are effective 1 July 2003.

Broadened applicability of Accounting System for Business Enterprises (ASBE). All newly formed companies (other than very small ones and financial institutions) must adopt the ASBE. Previously, listed companies, joint stock limited enterprises, and foreign invested enterprises were required to follow the ASBE.

Consolidation. The MOF announced that only the following four classes of companies must prepare consolidated financial statements:

- Listed enterprises
- Export companies
- State asset management enterprises
- Others if required by a governmental agency.

In another change to the consolidation rules, a subsidiary may no longer be removed fromconsolidation based on management's intent to dispose of the subsidiary. It must be consolidated until disposal.

Segment information. The requirement to disclose segment information, initially applicable to all companies that follow the ASBE, has been narrowed to listed companies only, basically the same as IAS 14 and US GAAP.

Hook-up fees. The MOF has issued guidance on accounting for hook-up fees – nonrefundable up-front connection fees received by telephone, electric, gas, cable television, and similar public utilities. Such fees cannot be recognised as revenue up front but, rather, must be amortised over the contract or other expected period of benefit to the company.

Accounting System for Financial Institutions. The scope of application of this System, which was adopted in 2002, will be extended to unlisted brokerages starting 1 January 2004.

CHINA, continued

Outstanding Exposure Drafts – Final Standards expected 2003 or 2004:

- Presentation of financial statements
- Earnings per share
- Discontinuing operations
- Government grants and assistance
- Foreign currency translation
- Segment reporting

HONG KONG

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In the second quarter of 2003, the Hong Kong Society of Accountants (HKSA) issued the following documents:

- a revised Framework for the Preparation and Presentation of Financial Statements;
- an amendment to SSAP 34, Employee Benefits; and
- an exposure draft of a proposed Preface to Hong Kong Financial Reporting Standards and Accounting Guidelines.

The Framework has been amended to bring about convergence with the equivalent IASB Framework. The amendments made include:

- widening the scope to cover "general purpose" financial statements rather than solely "true and fair view" financial statements;
- the recognition that a wide range of users places reliance on financial statements for making economic decisions; and
- the elimination of textual differences previously existing between the Framework and its IASB equivalent.

SSAP 34, Employee Benefits, first issued in December 2001, is based on IAS 19. In drafting SSAP 34, the HKSA had included supplementary material in relation to legal requirements in Hong Kong and, specifically, had determined that "long service payments" payable under Hong Kong's Employment Ordinance should be classified as "other long-term employee benefits" under the Standard. The HKSA has now reconsidered the nature of the payments and determined that such long service payments are more appropriately classified as "post-employment benefits". The revised requirement is effective for periods beginning on or after 1 January 2003.

The proposed Preface is the first document issued that reflects the Society's previous decision that new accounting standards based on the equivalent IFRS should be named "Hong Kong Financial Reporting Standards" (HKFRS). In future, where reference is made to HKFRS, that term is to be taken to include Statements of Standard Accounting Practice (SSAPs) previously issued by the Society.

The proposed Preface would replace the current Foreword to Statements of Standard Accounting Practice, Interpretations, and Accounting Guidelines and, if adopted, would achieve closer convergence with the equivalent Preface issued by the IASB. The most significant changes proposed are:

- to recognise the HKSA Council's objective of achieving convergence of HKFRS with IFRS;
- to recognise that close coordination of the HKSA's due process with the IASB's due process is important to achieve convergence;
- to clarify that the "benchmark" and "allowed alternative" treatments permitted in a number of Hong Kong Standards are of equal standing;
- to clarify that paragraphs in bold typeface and plain typeface in HKFRS have equivalent authority; and
- to require an HKSA member who assumes responsibilities for financial statements prepared on a basis or standard of accounting other than HKFRS to observe that other basis or standard of accounting and to justify departure. This will permit the HKSA to initiate disciplinary action under the Professional Accountants Ordinance against a HKSA member for an alleged breach of non-HKSA standards.

JAPAN
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The following accounting and auditing standards and related publications were issued in Japan during the second quarter of 2003:

Issued	Issuer*	Document Description
3/25/03	JICPA	Auditing Committee Report No.76, Audit Treatments of Subsequent Events
3/25/03	JICPA	Auditing Committee Report No.77, Concerning Disclosures of Additional Information
3/25/03	JICPA	Auditing Committee Report No.78, Changes in Accounting Policies with Justifiable Reasons
3/25/03	JICPA	Auditing Standards Committee Report No.17, Audits of Semi-annual Financial Statements (Interim Report)
*ASBJ = Accounting Standards Board of Japan JICPA = Japanese Institute of Certified Public Accountants		

MALAYSIA
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New Chairman of Financial Reporting Foundation

The Minister of Finance has appointed Dato' Johan Raslan as the new chairman of the Financial Reporting Foundation (FRF) for a three-year term from 1 July 2003 until 30 June 2006. Dato' Johan, 43, a chartered accountant by profession, is a Partner and Financial Services Leader of PricewaterhouseCoopers (PwC) Malaysia. He succeeds Tan Sri Wan Azmi bin Wan Hamzah.

New Standards

The following new Malaysian Accounting Standards Board standards (their equivalent IFRS is indicated for reference) are effective for accounting periods beginning on or after 1 January 2004:

MASB 31, Accounting for Government Grants and Disclosure of Government Assistance [IAS 20 (reformatted 1994)]

MASB 31 adopts a similar approach to IAS 20 in recognising a government grant as income over the period of the grant to match against the related costs for which the grant is intended to compensate. It is consistent with IAS 20, in all material respects except for the following:

- IAS 20 allows an entity to account for grants of non-monetary assets at nominal amount, whereas MASB 31 prescribes that it is usual to account for both grant and asset at fair value.
- Both IAS 20 and MASB 31 allow grants relating to assets to be presented in the balance sheet either as deferred income or as a deduction in measuring the carrying amount of the assets. MASB 31 requires additional disclosure if the asset-deduction approach is used.
- Both IAS 20 and MASB 31 allow grants relating to income to be presented in the income statement either as gross income or as a reduction of expenses. If the expense-reduction approach is adopted, MASB 31 requires additional disclosure including the reason for using this approach.
- MASB 31 addresses revocation of government grants and explains that if a grant is revoked by government, the entity may have to recognise an obligation to transfer resources in various forms.

MALAYSIA, continued

MASB 32, Property Development Activities [no directly equivalent IAS]

Under MASB 32, property development revenue is recognised on a percentage-of-completion basis, but not before all the following criteria are met: (a) the sale of the development units is effected; (b) development and construction activities have commenced; and (c) the financial outcome of the development activities can be reliably estimated. The attributable portion of property development costs is recognised as an expense in the period in which the related revenue is recognised.

Previously recognised revenue and expenses are immediately written back as soon as a rescission or revocation of sale occurs.

Property development project costs recognised as an asset are carried at the lower of cost and net realisable value. Inventories of unsold completed development units are stated at lower of cost and net realisable value.

Land held for future property development (sometimes called a "land bank") is classified as a non-current asset and carried at cost less any impairment losses. Prior to MAS 32, MAS 7 had allowed land held for future development to be reported optionally at cost or revalued amounts. A company that had previously carried the land bank at revalued amount will use the revalued amount as its surrogate cost.

Deferral of Exposure Drafts

The implementation date of both ED 35, Financial Instruments: Recognition and Measurement, and ED 26, Financial Reporting by Unit Trusts, has been deferred from the earlier intended date of 1 July 2003 to the third quarter of 2004. The MASB concluded that the deferral is necessary because the IASB is currently revising IAS 32 and IAS 39. Those revisions may require consequential changes to ED 35 and ED 26 before they are finally adopted.

NEW ZEALAND

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Recent Financial Reporting Standards Activity

The following activity has taken place in New Zealand during the second quarter of 2003:

- No new Financial Reporting Standards (FRS) were approved.
- No new auditing standards were approved.
- ED 92, Preface to Financial Reporting Standards, was withdrawn by the FRSB.
- The IFRS Conversion Programme is going ahead. The Financial Reporting Standards Board (FRSB) has a work programme. A Working Group has been formed to assist the FSRB.
- A corporate reporting report has been completed and presented to the Minister of Finance. This is to be reviewed by a working group including the Institute of Chartered Accountants of New Zealand and the Securities Commission to advance the report's recommendations.
- The new ICANZ Code of Ethics came into effect on 1 July 2003.

SINGAPORE
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The Singapore government issued Companies (Accounting Standards) (Amendment No. 2) Regulations 2003, which:

- adopted FRS 39 (IAS 39), Financial Instruments: Recognition and Measurement; with effect for financial years beginning on or after January 1, 2005; and
- eliminated the requirement for periodically revaluing items of property, plant, and equipment carried at revalued amounts under FRS 16 (IAS 16.29) for periods prior to December 31, 1996.

With effect of the adoption of FRS 39, the differences between IFRS and Singapore GAAP other than effective dates are:

- IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and IAS 40, Investment Property, are not adopted under FRS; and
- IAS 22.99, Business Combinations, differs with regard to goodwill written off against reserves, as restatement is optional under FRS for all periods prior to adoption of the standard.

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

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

The following exposure drafts 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 and Presentation, and SAS 33 (IAS 39) Financial Instruments: Recognition and Measurement;
- ED/FRS 1, First-time Application of Financial Reporting Standards (ED/IFRS 1);
- ED/FRS 2, Share-based Payment (ED/IFRS 2);
- ED/FRS 3, Business Combinations (ED/IFRS 3); and
- ED/FRS, Proposed Amendments to SAS 34 Intangible Assets and SAS 36 Impairment of Assets (ED Proposed Amendments to IAS 36 Impairment of Assets and IAS 38 Intangible Assets).

The Council of Corporate Disclosure and Governance has issued its first draft Interpretation:

- ED INT FRS, Emission Rights (ED/INT IFRS Emission Rights).

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