IAS PLUS

Deloitte Touche Tohmatsu

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IAS PLUS WEB SITE

We're getting thousands of visitors each week. Join us at **http://www.iasplus.com**. You will find the latest IASB and SIC news, summaries of all proposed and final Standards and Interpretations, updates on ongoing projects, reports about IASB meetings, reference materials, disclosure checklist, and lots more.

IASB NEWS

Standards Advisory Council members are appointed. Forty-nine persons were appointed to IASB's Standards Advisory Council. They met with the Board in July to review IASB's proposed technical agenda. See page 2.

IASB's May and June meetings. The Board held a four-day meeting in May (including one day with representatives of the liaison national standard-setters) and a three-day June meeting (one day was used for administrative matters). Summaries of the discussions are on pages 3-5.

IASB initial technical agenda. IASB will make some agenda decisions at its meeting later this month, after considering the views of its Advisory Council. Clearly, some projects seem to be emerging as first priority based on previous IASB meetings. Our list is on page 5.

Convergence. IASB met with representatives of leading national standard-setting boards. Support for the IASB and for convergence emerged, as did an approach to achieving convergence. See page 5.

New IASB Director of Technical Activities. Kevin Stevenson of Australia will start February 2002. See page 6.

And a new Research Director. Wayne Upton, formerly of FASB staff, has started already. Also page 6.

New IASB offices, phones. All the new contact details are on page 6.

US Congress enquires about IAS. And IASC Trustee Chairman Paul Volcker responds. Excerpts on page 7.

IAS 39 guidance. Batch 5 is finalised and released. Batch 6 (24 more Q&A) is exposed. Details on page 8.

Insurance project. Steering Committee agrees on principles to be proposed in a Draft Statement of Principles toward the end of the year. See page 8.

Standing Interpretations Committee (SIC). No new Interpretations. Five Draft Interpretations. Several possible new agenda projects. See pages 9-10.

New from Deloitte Touche Tohmatsu. See page 8. Our new 64-page *IAS In Your Pocket* guide is proving very popular. You can get an electronic version or a printed copy. See page 8.

EUROPE GEARS UP FOR IAS

Further step towards establishment of EU's "endorsement mechanism". The EFRAG Technical Expert Group and the Supervisory Board are now in place. See page 12.

Directives amended for IAS 39. The 4th and 7th Directives were modified to permit European companies to follow IAS 39. See page 14.

Financial Services Action Plan. A number of actions have progressed. See page 15.

For information about the content of **IAS PLUS** *please contact:*
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The Standards Advisory Council will provide a forum through which IASB can hear the views of key constituency groups on technical and procedural issues. The Council will be a sounding board and a source of ideas for possible agenda projects.

IASB STANDARDS ADVISORY COUNCIL APPOINTED

The IASC Foundation Trustees have named 49 people to the Standards Advisory Council (SAC) (see chart below). SAC members will advise the IASB on technical standards-setting issues, including agenda selection. SAC members include Peter Wilmot, a retired partner of Deloitte & Touche, South Africa (who was appointed Deputy Chairman of SAC), and three current Deloitte partners: Stig Enevoldsen (Denmark, former IASC Board chairman), Yezdi Malegam (India), and Adir Inbar (Israel). SAC members serve for a renewable term of three years.

SAC will normally meet three times each year at meetings open to the public to:

- advise the Board on priorities in the Board's work;
- advise on technical accounting standards issues;
- inform the Board of the implications of proposed standards for users and preparers of financial statements; and
- give other advice to the Board or to the Trustees.

SAC held its first meeting with the Board on 23-24 July in London. Principal items discussed were IASB's technical agenda, the proposed preface to IFRS, and the SIC Interpretations. The next SAC meeting is set for 15-16 October 2001 in Washington.

Under IASB's constitution, the IASB Chairman also chairs the SAC. IASB Chairman Sir David Tweedie has asked Peter Wilmot to chair the SAC meeting when technical issues are discussed.

STANDARDS ADVISORY COUNCIL MEMBERS

Africa
Peter Wilmot, South Africa
(SAC Deputy Chairman)
Ndungu Gathinji, Kenya

Asia, Excluding Japan
Raja Arched, Malaysia
Marvin Cheung, Hong Kong
Feng Shuping, China
Kim Il-Sup, Korea
Yezdi Malegam, India
Reyaz Mihular, Sri Lanka

Australia / New Zealand
Ian Ball, New Zealand
Peter Day, Australia

Central and Eastern Europe
Larissa Gorbatova, Russia
Rita Illison, Estonia

European Union
David Damant, United Kingdom
Philippe Danjou, France
Stig Enevoldsen, Denmark
Douglas Flint, United Kingdom
Alberto Guissani, Italy
Sigvard Heurlin, Sweden
Benoit Jaspar, Belgium
Jean Keller, France
Carmelo de las Morenas, Spain
Jochen Pape, Germany
Maija Torkko, Finland
Willem van der Loos, Netherlands

Japan
Eiko Tsujiyama, Japan
Yoshiki Yagi, Japan

Latin America
Nelson Carvalho, Brazil
Hector Estruga, Argentina
Rafael Gomez, Mexico

Middle East
Adir Inbar, Israel
Rifaat Ahmed Abdel Karin, Bahrain

United States and Canada
Jeannot Blanchet, Canada
Michael Conway , United States
Jerry Edwards, United States
Trevor Harris, United States
Philip Livingston, United States
Patricia McConnell, United States
Paul McCrossan, Canada
Gabrielle Napolitano, United States
David L. Shedlarz, United States
Keith Sherin, United States
David Sidwell, United States
Norman Strauss, United States

International Organizations
Fayezul Choudhury, World Bank
Arne Petersen, IMF
Ian Mackintosh, IFAC
Rafael Sanchez de la Pena, IOSCO
John Carchrae, IOSCO
Arnold Schilder, BIS

Official Observers
European Commission
United States SEC
Financial Services Agency of Japan

Deloitte Touche Tohmatsu always sends one or more observers to IASB meetings. Each day, they take meeting notes that we try to post to our website, **www.iasplus.com**, *by the next morning. While, of course, the notes are not official and are subject to revision and clarification, many people around the world who are unable to observe the meetings in person have told us that they find our reports timely and useful.*

If you want to observe an IASB meeting, you should notify Kathryn McArdle at the IASB by e-mailing your completed observer registration form to kmcardle@iasb.org.uk. The form can be found on IASB's website: www.iasb.org.uk.

IASB DISCUSSION AND DECISIONS IN MAY

At its meeting in London 22-25 May 2001, IASB reached the following decisions (comments in [brackets] reflect events subsequent to this meeting):

Black-letter vs. Grey-letter. IASB decided that International Financial Reporting Standards (IFRS) should not distinguish between black (bold type) and grey letter (plain type) paragraphs. IASB will expose that decision for public comment.

Style of Standards. Other stylistic changes to standards agreed to were:

- IFRS will include a "main features" section at the beginning and a definitions section at the end of the standard.
- The word "should" as used in IAS will be replaced by "shall" in IFRS to provide clearer indication as to what is required.
- The word "enterprise" as used in IAS will be replaced by "entity". This will reflect IASB's focus will be on reporting issues for entities participating in international capital markets.

IAS 39 Guidance. The IAS 39 Implementation Guidance Committee (IGC) should finalise the fifth and sixth batches of questions and answers on IAS 39. IGC should continue to answer further questions during in the first year of the Standard's implementation.

Preface. The Board considered a draft revision to the preface to IAS and proposed a number of additional changes. A further draft was be considered at the June meeting. (see below)

First-time Application of IAS. The Board briefly discussed the issue. A paper is to be tabled at the June Board meeting [postponed until July].

SIC. The Board was informed that the Standing Interpretations Committee is reconsidering SIC D27, Transactions in the Legal Form of a Lease and Leaseback (to base it more on a general principle rather than a specific fact pattern) and Business Combinations–Measurement of Shares Issued as Purchase Consideration (similar interpretations have recently been issued in several national jurisdictions). Issuance of the latter as a Draft Interpretation has been delayed. [Issued 9 July 2001, see page 9]

Barter Transactions Involving Advertising and Web Site Development Costs. SIC was asked to consider recent guidance in other jurisdictions before finalising its draft consensus. [Issued 9 July 2001, see page 9]

Internet Reporting. The IASC project on Business Reporting on the Internet should be handed over to the International Federation of Accountants, which has a committee working on this issue.

IASB DISCUSSION AND DECISIONS IN JUNE

At its meeting in London 25-27 June 2001, IASB reached the following decisions:

Measurement. The goal is to develop a consistent approach related to selection of the appropriate measurement objective for items recognised in the financial statements. There was general agreement that the aim is to recognise assets at what they are worth, but the question is "value to whom?" The Board discussed fair value, replacement cost, net selling price, and value in use as bases for measurement, including how to define them and difficulties in applying them. No decisions were reached. The Board will try to improve consistency of some aspects of measurement as part of the improvements project. Also, staff will prepare an "inventory" of how assets and liabilities are currently measured under the existing standards.

continued...

Reporting Recognised Income and Expenses. This is the new working title of the project on performance reporting. A project steering committee appointed by the old IASC, has been working on the project for several years. The Board provided initial reactions on the following specific issues:

- Changes in Estimate. The principles in IAS 8 are sound, but the differences between a change in estimate, change in policy, and error need to be more clearly defined.
- Changes in Accounting Policy. There was general agreement by the Board members that there should be only one method of accounting for changes in accounting policy, namely restatement of prior periods, unless impractical to do so.
- Corrections of Errors. There was general agreement that the distinction between fundamental errors and errors should be removed. All errors should be treated in the same way – as changes in accounting policy.
- Extraordinary Items. The steering committee supports abolishing extraordinary items. While Board discussion seemed sympathetic with the steering committee view, the Board deferred a decision on this, pending decisions on the format of the new reporting statement.
- Unusual Items. The project steering committee supports retaining this concept. However preliminary consensus is that they should not be separately classified on the face of the income statement (though possibly separately disclosed within a particular class of income or expense). Disclosures would also be made in the notes.

Preface to International Financial Reporting Standards. It was agreed, among other things, that:

- IFRS, where applicable, would apply to incorporated and unincorporated entities, with encouragement given for the use of IFRS by non-public entities.
- IFRS would always include transitional provisions.
- SIC reorganisation still to be incorporated.
- Regarding due process leading to a final Standard, a discussion document may not always be issued, but an exposure draft and basis for conclusions will always be published.
- The Preface would be exposed for public comment, subject to discussion with the Advisory Council. Comments will be sought regarding the black-letter/grey-letter distinction, the clarity of the scope and authority of IFRS, an approach to dealing with effective dates and transition, and due process.

Business Combinations. The Board concluded that there should be two phases to this project.

Phase one would address:

- Whether there should be one or two methods of accounting for business combinations. Board member comments suggest substantial support for purchase accounting and prohibition of uniting of interests.
- Definition of business combinations.
- Definition of transactions between enterprises under common control so that these can be scoped out of accounting for business combinations.
- Business combinations involving more than two entities.
- Goodwill and intangibles: subsequent measurement, impairment testing, and amortisation.
- Negative goodwill.

Phase two would include:

- Accounting for interests in joint ventures.
- Joint venture financial statements.
- Accounting for transactions between entities under common control.

continued...

Banking Disclosure. The IASC bank disclosure steering committee believes that a revised Standard for banks and similar financial institutions is needed to:

- eliminate redundancies between the existing IAS 30 and other IAS, particularly IAS 24, 32, and 39; and
- update IAS 30 disclosures relating to risk management and exposure and regulatory capital adequacy.

IASB agreed and asked the committee (renamed an advisory group) to continue to draft an ED. The group should consider the extent to which the proposed requirements apply to entities other than banks and the possibility of dispersing the proposed requirements throughout other IAS standards.

IASB'S INITIAL AGENDA IS TAKING SHAPE

By its constitution, IASB is required to consult with the Standards Advisory Council on potential agenda topics. Accordingly, even though the Board devoted considerable discussion time to its initial technical agenda at the April, May, and June meetings, it made no decisions pending its consultation with SAC in late July.

Based on discussions at the IASB meeting in July and the agenda for the Standards Advisory Council meeting on 23-24 July 2001, IASB's technical agenda is beginning to shape up as follows:

First Priority Projects

- Improvements
- Transition and first-time application of IAS
- Preface
- Reporting financial performance
- Measurement
- Share-based payments
- Limited amendments to IAS 39
- Measurement of financial instruments at fair value
- Derecognition
- Business combinations
- Consolidation policy
- Banking activities: disclosure and presentation
- Insurance contracts

Second Level Projects

- Intangible assets
- Leases
- Impairment
- Research and development

IASB MEETS WITH NATIONAL STANDARD-SETTERS

The purpose of these meetings is to develop shared goals with respect to areas of convergence and to enable IASB – and the national standard-setters as well – to leverage their resources to their mutual benefit. The benefits of leveraging are clear when one considers that the technical staff of the US FASB alone is roughly triple that of what IASB's will be when they are fully staffed.

IASB met with the chairs or other representatives of leading national accounting standard-setting boards representing Australia/New Zealand, Canada, France, Germany, Japan, United States, and United Kingdom. Support for the IASB and for convergence emerged from the discussions. An approach to achieving convergence was considered:

- IASB and the national standard-setters would agree on convergence projects and, if possible, each would place them on their agendas.
- Various forms of project partnership were considered. For example, one national standard setter could be the leader on a project, one or more others could agree to provide project support resources, and one or more others could agree to be consultants.
- Flexibility would be needed to accommodate the varied due processes of the national standard setters.

IASB will again meet with the chairs of major national standard-setters on 10-11 September 2001.

IASB's policy is to meet for three to five days each month, other than August, generally in London but occasionally elsewhere. Meetings are open to public observation.

UPCOMING IASB MEETINGS

IASB has scheduled the following Board meetings for the remainder of 2001:

- 10-13 September 2001, London
- 15-19 October 2001, Washington (includes meeting with the Standards Advisory Council 15-16 October)
- 27-29 November 2001, London
- 18-20 December 2001, Paris

Two new IAS take effect in 2001: IAS 39, and 40. IAS 41 will become operative in 2003.

NEWLY EFFECTIVE IAS, SIC

IAS 39, *Financial Instruments: Recognition and Measurement*, and IAS 40, *Investment Property*, went into effect on 1 January 2001, as did certain limited revisions to IAS 12, 19, and 39. IAS 41, *Agriculture*, will take effect 1 January 2003, although earlier adoption is encouraged.

Also effective as of 1 January 2001 was SIC 19, *Reporting Currency – Measurement and Presentation of Financial Statements Under IAS 21 and IAS 29.*

As the senior technical staff officer, the Director of Technical Activities will participate in the debate of both the IASB and the SIC. The Director of Research will oversee the drafting of papers and standards by the IASB staff. There will be approximately 15 project managers and other technical staff.

IASB ANNOUNCES KEY STAFF APPOINTMENTS

IASB has named Kevin M. Stevenson of Australia as its Director of Technical Activities, its senior technical staff position. He is currently managing director of Stevenson McGregor and a member of the Australian Accounting Standards Board. Formerly, he was Senior Technical Partner, PricewaterhouseCoopers, Australia, and a member of IASC's Standing Interpretations Committee and the Australian Urgent Issues Group. He will begin his position in February 2002. James Saloman will remain as IASB Technical Director until the end of the year.

Wayne S. Upton, formerly Senior Project Manager at the US Financial Accounting Standards Board, will be IASB's Director of Research. The Director of Research will directly oversee IASB's technical agenda projects and will report to the Director of Technical Activities.

IASB has roughly 1,000 square metres (11,000 square feet) of space, including offices for Board members and technical and support staff, plus a Board meeting room with public observer gallery. The publications department staff remains at IASB's old location, 166 Fleet Street, London EC4A 2DY. There's a photo of the building on **www.iasplus.com.**

IASB HAS RELOCATED TO NEW LONDON OFFICES

In early June, IASB relocated to new offices. Here are the contact details:

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

- Main Phone: +44 20 7246 6410
- Main Fax: +44 20 7246 6411
- Board Members Phones: Use IASB Main Phone: +44 20 7246 6410
- Technical Director (James Saloman): +44 20 7246 6460, jsaloman@iasb.org.uk
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- Comment Letter Submission by E-mail: commentletters@iasb.org.uk
- Website: http://www.iasb.org.uk
- Board and Staff E-mail Addresses: Person's first initial + surname @ iasb.org.uk

The subject of the hearing was "Promotion of International Capital Flow Through Accounting Standards". It was conducted on 7 June 2001 by the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the Committee on Financial Services of the US House of Representatives.

PAUL VOLCKER TELLS CONGRESS ABOUT IASB

Paul Volcker, chairman of the Trustees of the IASC Foundation, testified before a Subcommittee of the US House of Representatives. Excerpts:

> The former IASC has been completely restructured. The purpose is both clear and important: to achieve a single set of high quality accounting standards that will command respect around the world, that will discipline auditing approaches, simplify listing by national markets, and encourage effective enforcement by national authorities. The IASB will have its own staff, but will work to the extent possible in partnership with its national counterparts to achieve its goals.
>
> If markets are to function properly and capital is to be allocated efficiently, investors require transparency and must have confidence that financial information accurately reflects economic performance. Investors should be able to make comparisons among companies in order to make rational investment decisions. In a rapidly globalizing world, it only makes sense that the same economic transactions are accounted for in the same manner across various jurisdictions.
>
> I want to emphasize that we are committed to achieving accounting standards that reflect the best thinking of accounting professionals, independent of particular industry, national or political views. These standards will not be the lowest common denominator, simply to seek harmonization. Rather, we want the international standards to be able to command support around the world by virtue of their highest professional quality.
>
> In some circumstances, this may well lead to convergence toward the U.S. GAAP. In other cases, I fully expect the IASB will lead to improved approaches over U.S. practice, and I hope in those cases the U.S. will then follow the international lead. The end product will hopefully be a usable and well enforced set of standards that will yield better information for investors. Similar transactions will be accounted for in the same manner across the globe.

The SEC will have to decide whether, and to what degree, IAS might be less rigorous than US GAAP.

LEVITT CAUTIONS ON IAS

Former US SEC Chairman Arthur Levitt comments on international accounting standards in an opinion piece, "The World According to GAAP", in the *Financial Times*, 1 May 2001:

> Investors, public companies, accounting firms, stock markets and regulators around the world today face one of the great challenges for the global financial system's future: how to fashion an enduring system of comparable, uniform and high-quality financial reporting that is accepted just as much in Europe as it is in the US, and in developed countries as in emerging ones. It is a challenge born less out of crisis and more out of evolutionary progress....
>
> As regulators around the world continue the process of developing a set of international accounting standards, some would like the US to embrace standards that would be of higher quality than those currently used in many countries but less rigorous than US GAAP. That would be a mistake.

Mr. Beresford served as Chairman of the US Financial Accounting Standards Board from 1987 to 1997. He is now an executive professor at the University of Georgia.

EX-FASB CHAIRMAN: STANDARDS, NOT RULES

Writing in Accountancy Age, former FASB Chairman Dennis R. Beresford expressed concern about the trend, particularly in the US, to have a "detailed accounting rule for everything, no matter how narrow or obscure the issue.... Accountants should encourage the new IASB to emphasise a principles-based approach. Further, as part of the commitment to convergence, it is time for the FASB and SEC to change their behaviour and become more like the rest of the world."

Members of the IAS 39 Implementation Guidance Committee are:

- ***John T. Smith, Deloitte & Touche, USA, Chair***
- ***Andreas Bezold, Dresdner Bank, Germany***
- ***Sigvard Heurlin, Öhrlings PricewaterhouseCoopers, Sweden***
- ***Petri Hofste, KPMG Accountants, Netherlands***
- ***James J. Leisenring, IASB***
- ***Ralph Odermatt, UBS, Switzerland***
- ***Pauline Wallace, Arthur Andersen, United Kingdom***
- ***Tatsumi Yamada, IASB***

PROGRESS ON IAS 39 GUIDANCE

When IAS 39 was approved in December 1998, the IASC Board recognised a need to monitor implementation issues and to respond to questions that arise. To do that, the Board appointed an IAS 39 Implementation Guidance Committee (IGC). IGC identifies issues, develops draft questions and answers, and invites comment both from the IASC Board (now the IASB) and from the public before final guidance. Guidance is in question-and-answer format. John T. Smith of Deloitte & Touche, USA, chairs IGC. As of 1 July 2001, the IGC had issued 201 final Q&A based on five batches of proposals exposed for comment. These are available without charge in a single, comprehensive publication from IASB's website: www.iasb.org.uk. In addition, a sixth batch with 24 additional draft Q&A were issued for comment in late June 2001, with a comment deadline of 24 August. These too can be downloaded from IASB's website.

One of the Batch 6 questions and related examples address the particularly thorny issue of applying hedge accounting when a bank or other financial institution manages its interest rate risk on an enterprise-wide basis. The guidance includes an example of a methodology that allows for the use of hedge accounting and takes advantage of existing bank risk management systems so as to avoid unnecessary changes to it and to avoid unnecessary bookkeeping and tracking.

IASB has announced its intent to publish all of the final Q&A as an appendix to IAS 39, which would clarify their authority as equal to that of illustrative examples in appendices in other IAS.

Warren McGregor, now a member of the IASB, has been chairing the Insurance Steering Committee since its inception in 1997. William Freda, a partner in Deloitte & Touche, USA, serves on that committee.

PROGRESS TOWARD AN IAS ON INSURANCE

At its meeting in June 2001, IASB's Insurance Steering Committee (ISC) reached agreement on a final Draft Statement of Principles on Insurance Contracts that it will submit to IASB by the end of October. Prior to this meeting, ISC's tentative conclusions on accounting for insurance contracts were all in the assumed context of a future IASB Standard that would require full fair value for financial instruments. Because ISC believes that the financial instruments measurement project is viewed by the IASB as a long-term project, ISC decided to propose to IASB a "non-fair value" version of the asset/liability model for accounting for insurance contracts.

A very handy reference tool for a quick look-up, especially when you can't get to the Internet.

IAS "*IN YOUR POCKET*" GUIDE PUBLISHED

Deloitte Touche Tohmatsu has published a 64-page guide, *IAS In Your Pocket*. This guide includes summaries of all IAS and SIC, background on IASB projects, and other useful IASB-related information. The guide is available in electronic form at **www.iasplus.com**. A single printed copy will be sent on request (send an email to technical@deloitte.com.hk).

The new, full-time IASB expects to take a more active role in the interpretation process than did its predecessor. For one thing, it will review all Draft Interpretations before they are issued for public comment, something the old IASC did not do.

STANDING INTERPRETATIONS COMMITTEE

On 9 July 2001, IASB's Standing Interpretations Committee issued five Draft Interpretations for comment. Copies are available at www.iasb.org.uk. Comment deadline on all is 10 September 2001:

- **SIC D28, Business Combinations – Measurement of Shares Issued as Purchase Consideration.** SIC D28 addresses when the date of exchange occurs in an acquisition in which shares are issued as the purchase consideration. If the acquisition is achieved in a single exchange transaction, the date of exchange is the date on which the acquirer obtains control over the net assets and operations of the acquiree. If the acquisition is achieved in stages by successive share purchases, the fair value of the shares is determined at the date that each exchange is recognised. D28 also addresses when it is appropriate to use a price other than a published price at the date of exchange to determine the fair value of an acquirer's shares that are quoted in an active market. D28 proposes another price should be used only if it can be demonstrated that a price fluctuation is undue, and the other price provides a more reliable measure of the share's fair value.
- **SIC D29, Disclosure–Service Concession Arrangements.** Specifies disclosures appropriate under IAS 1 about arrangements by which a private sector enterprise agrees to provide services of the type normally considered public (government) services.
- **SIC D30, Reporting Currency–Translation from Measurement Currency to Presentation Currency.** How to translate financial statements from a measurement currency to a different currency for presentation purposes (sometimes called a "convenience translation"). D30 proposes:
  – Assets and liabilities should be translated at the closing rate at the date of each balance sheet presented, except when an enterprise's measurement currency is the currency of a hyperinflationary economy, in which case assets and liabilities should be translated at the closing rate existing at the date of the most recent balance sheet presented.
  – Income and expense items should be translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates, except when the measurement currency is the currency of a hyperinflationary economy, in which case income and expense items for all periods presented should be translated at the closing rate existing at the end of the most recent period presented.
  – All resulting exchange differences are reported in equity.
- **SIC D31, Revenue–Barter Transactions Involving Advertising Services.** How revenue from a barter transaction involving advertising should be measured. The basic principle is an enterprise providing advertising should measure revenue from a barter transaction based on the fair value of the advertising services it receives from its customer unless it is impracticable to measure reliably, in which case the enterprise should use the fair value of the advertising services it provides to the customer. If the fair value of the advertising services of both enterprises is not reliably measurable, the seller should recognise revenue only to the extent of the carrying amount of assets given up.
- **SIC D32, Intangible Assets–Web Site Costs.** Application of IAS 38 to costs incurred to develop and maintain a web site for an enterprise's own use. D32 proposes that costs incurred during the planning stage of web site development are similar to research costs, which must be charged to expense under IAS 38. Costs incurred during the application and infrastructure development stage and the graphical design and content development stage are similar to development costs, which are eligible for recognition as an intangible asset under IAS 38 only if they satisfy certain tests. D32 provides guidance in applying those tests to web site costs.

STANDING INTERPRETATIONS COMMITTEE, continued

The following Draft Interpretations remain outstanding:

- **SIC D26, Property, Plant and Equipment – Results of Incidental Operations.** At its meeting in February 2001, following its review of the comments, SIC approved a final Interpretation without any substantive changes to the proposed consensus, subject to approval by the IASB. A final Interpretation was submitted to the IASB for approval. However, at its April 2001 meeting, IASB did not approve the proposed Interpretation, concluding that the issue should, instead, be addressed in the Improvements Project. Consequently, SIC is not pursuing a final Interpretation at this time, but it has not withdrawn D26.
- **SIC D27, Transactions in the Legal Form of a Lease and Leaseback.** SIC is reconsidering D27 to base it more on a general principle rather than a specific fact pattern.

IASB's Standing Interpretations Committee will meet in London on 7 August 2001 to consider a number of current and proposed agenda issues. The following projects currently are on SIC's agenda. To date, a Draft Interpretation has not been published:

- **Transactions Among Enterprises Under Common Control.** IAS 22 excludes from its scope "transactions among enterprises under common control". SIC is developing guidance to identify which transactions qualify as common-control transactions, but the guidance will not address the accounting for such transactions. In transactions among enterprises under common control, old carrying amounts generally continue. But for non-common-control transactions, measurement (carrying amount or current fair value) becomes an issue.
- **Consolidation and Equity Method - Potential Voting Rights.** Under IAS 27, a subsidiary is defined in terms of control by an investor. Under IAS 28, an equity method associate is defined in terms of significant influence. This project addresses whether potential voting rights, such as share options and convertibility, should be considered in determining whether control or significant influence exists.
- **Financial Instruments - Issuance with a Put Option Exercisable at the Instrument's Fair Value.** If the holder of a financial instrument has the right to put it back to the issuer for cash equal to the fair value of the instrument at the date when the put is exercised, should the issuer classify that instrument as a liability or equity? Mutual funds (unit trusts) are an example of such an instrument.
- **Earnings Per Share - Preference Dividends.** When calculating basic earnings per share, IAS 33 requires that preference dividends be deducted from the net profit or loss. SIC will consider, when an enterprise acquires or redeems its own preferred shares, whether any difference between the fair value of the consideration given and the carrying amount of those shares represents a preference dividend.

Potential SIC agenda items include the following:

- **Indefeasible Right of Use of Assets.** Accounting and disclosure for arrangements by which an enterprise contracts for either exclusive or joint use of infrastructure assets generally of an infrastructure or utility nature, such as telecom cabling or an oil or gas pipeline.
- **Classification of Preference Shares.** Need for possible guidance in applying IAS 32 to decide on liability vs. equity classification.
- **SIC-12 Consolidation - Special Purpose Entities (SPEs).** SIC will review some of the implementation difficulties being experienced and consider whether further clarification may be required.

It seems quite clear from comments by IASB Board members at the three public meetings held so far that there is substantial support for purchase accounting and for prohibiting the pooling of interests method. There was general consensus that true mergers do not exist, and having only one method will avoid ongoing definitional issues.

The Board has discussed the fresh start method as an alternative to uniting of interests. While deciding to investigate this approach further, the Board noted that by recording fair values and possibly goodwill for both entities, this method is not likely to have broad acceptance.

NEW US STANDARDS ON BUSINESS COMBINATIONS AND GOODWILL MAY AFFECT IAS

In the United States, FASB has voted unanimously to approve FAS 141, *Business Combinations*, and FAS 142, *Goodwill and Other Intangible Assets.*

Under FAS 141, all business combinations must be accounted for using the purchase method. The pooling-of-interests method, which is required by IAS 22 for a uniting of interests, is prohibited. FAS 141 is effective for business combinations initiated after 30 June 2001.

Under FAS 142, goodwill must not be amortised but must be tested for impairment annually at the reporting unit level based on fair value measurements. FAS 142 is effective for financial years beginning after 15 December 2001, with early adoption permitted but retroactive application not permitted.

Concurrently, the Canadian Accounting Standards Board approved standards on *Business Combinations* and *Goodwill and Other Intangibles* that are consistent with those in the US. Other standard-setters, including those in Australia and New Zealand, have also banned pooling. IASB has identified convergence on business combinations as a high priority potential agenda project.

Whether it's the IASB, IFAC, or the securities regulators acting together, somebody needs to provide guidance for business financial reporting on the Internet. Because the Internet knows no political borders, no one country can set effective standards.

IOSCO IS CONCERNED ABOUT INTERNET REPORTING

Thirty-eight IOSCO members, including the SEC, conducted a second International Internet Surf Day, without warning, in an ongoing effort by securities regulators to detect and deter securities violations occurring on the Internet, particularly those involving cross-border activity. Approximately 300 staff of IOSCO members surfed the Internet for fraudulent solicitation of investors, manipulation, the circulation of false or misleading information, and insider trading. Regulatory authorities collectively identified over 2,400 sites for follow-up review, with over 278 of the sites involving cross-border activity.

IASB recently decided not to pursue the project on Business Reporting on the Internet that the IASC had begun. IFAC may take it on. Clearly, if IOSCO found 2,400 causes for concern in just one day's surfing, there's a good chance that guidance is needed.

Johan van Helleman, chairman of the Technical Expert Group, is a former Dutch representative to the International Accounting Standards Committee. Stig Enevoldsen, a partner in Deloitte & Touche, Denmark, is a former IASC chairman. He heads up our Firm's Copenhagen IAS Centre of Excellence.

FURTHER STEP TOWARDS ESTABLISHMENT OF EUROPE'S IAS ENDORSEMENT MECHANISM

The European Financial Reporting Advisory Group – an organisation established in March 2001 by a broad group of private organisations representing the European accounting profession, preparers, and users – has announced the members of its Technical Expert Group and a Supervisory Board. The announcement of EFRAG's structure is a major step towards the establishment of Europe's endorsement mechanism. The proposed EU regulation for the mandatory use of IAS by 2005 indicated that 'An accounting technical committee will provide support and expertise to the Commission in the assessment of international accounting standards. It will also contribute to the strengthening of the co-ordination of positions within the EU in the IASC's discussions, the definition at an early stage of European positions on new international accounting issues and active European participation in the constituent bodies of the IASC in order to influence and shape the solutions eventually chosen by the IASC.' The EFRAG's Technical Expert Group is expected to play this role in the proposed two-tier structure of Europe's endorsement mechanism.

Technical Expert Group. EFRAG Technical Expert Group members are:

TECHNICAL EXPERT GROUP MEMBERS

Johan van Helleman, *Chairman* – Chairman of the Dutch standard setter, partner KPMG
Yves Bernheim – Partner Mazars & Guérard, France, member of the SIC
Andreas Bezold – Dresdner Bank, Germany
Allan Cook – UK Accounting Standards Board
Stig Enevoldsen – Partner Deloitte & Touche, Denmark, former IASC Chairman
Begoña Giner – Professor in Accounting and Finance, University of Valencia, Spain
Hans Leeuwerik – Controller of Shell Companies, Netherlands
Freddy Méan – PetroFina SA, board member of Belgian standard setter and member of the accounting committee of European Round Table
Eberhard Scheffler – Member of the German standard setter
Friedrich Spandl – Austrian financial analyst, Bank für Arbeit und Wirtschaft AG
Giuseppe Verna – Italian practitioner, former Italian representative at IASC, Vice-Chairman of the Italian accounting setting standards body

Observers: European Commission and The Forum of European Securities Commissions

The four main functions of the Technical Expert Group are as follows:

- Proactive coordination of European standard setters, accounting profession, users, and preparers so as to contribute to and influence the IASB standard setting process. The Group would normally submit comments on all IASB discussion papers and exposure drafts and SIC Draft Interpretations. It would also contribute to the development of technical and conceptual papers on emerging topics that would be brought to the attention of the IASB.
- Assistance to the Commission in its assessment of possible non-conformity of an IAS or SIC with EU Accounting Directives and recommending appropriate changes to the Directives.
- Technical assessment of the IASB standards and interpretations: Confirming or conversely rejecting a standard or interpretation for application in the EU.

- Identification of issues for which the IASB general interpretation guidance (SIC Interpretations) is not sufficient to ensure consistent application of a given standard in the EU. The Group would urge IASB to identify appropriate solutions and/or, in cooperation with European securities markets supervisors, develop implementation guidance specifically relevant to EU listed companies.

Olivier Azières was selected as the representative of the European Contact Group, where he sits as a representative of DTT for the European region. He also chairs the international committee of the French accounting standard setter (CNC) and our Paris IAS Centre of Excellence.

Supervisory Board. The EFRAG Supervisory Board will monitor the work of the Technical Expert Group and ascertain that the individual members work in the European interest. Supervisory Board members are listed in the table below.

EFRAG will operate independently of each of the European organisations involved. A search process for a Secretary-General and project managers is under way. EFRAG expects to be operational in September 2001.

SUPERVISORY BOARD MEMBERS

Göran Tidström, *Chairman*, FEE President, PricewaterhouseCoopers, Sweden
Jean den Hoed, *Deputy Chairman*, Chairman of the Accounting Harmonisation Working Group of UNICE, Netherlands

Representatives from UNICE (Union of Industrial and Employers' Confederations of Europe):

Monica Ciceri, Fiat, Italy
Costas Cotsilinis, PricewaterhouseCoopers, Greece
Siegfried Dapoz, Miba AG, Austria
Sten Fornell, Member of European Round Table, Telefonaktiebolaget, Sweden
Jean Keller, Member of European Round Table, Member of IASC SAC, Member of Board of Directors of Lafarge, France

Representatives from FEE (Fédération des Experts Comptables Européens):

Olivier Azières, Member European Contact Group, Deloitte & Touche, France
David Devlin, FEE Vice-President, PricewaterhouseCoopers, Ireland
Jose Goncalves Roberto, Member FEE Accounting Working Party, OROC, Portugal
Mary Keegan, Chair of UK Accounting Standards Board
Harald Ring, FEE Vice-President, Treuhand-und Revisions-AG Niederrhein, Germany

Representatives from ECSAs (Banks):

Paul Chisnall, Chairman Accounting Committee European Banking Federation, British Bankers' Association, UK
Herve Guider, Secretary General European Association of Cooperate Banks, Belgium
Per Harald Meland, Chairman Accounting and Auditing Committee European Saving Banks Group, Norwegian Saving Banks Guarantee Fund, Norway

Representatives from CEA (Comité Européen des Assurances):

Frederic Chandelle, Actuary, Member of the CEA Economics and Finance Committee, Belgium
Gérard de La Martinière, Chairman Economic and Financial Commission, CEA, AXA, France

Representatives from FESE (Federation of European Securities Exchanges):

Paul Arlman, Secretary General FESE, Belgium
Giorgio Behr, Chairman Swiss standard setter, Switzerland

Representatives from EFFAS (European Federation of Financial Analysts Societies):

Janina Cohen, Member of EFFAS Accounting Commission, Chairwoman of French Financial Analysts Accounting Commission, France
Javier de Frutos, Chairman Financial Accounting Commission EFFAS, Spain

Representatives from UEAPME/EFAA (European Association of Craft, Small and Medium-sized Enterprises/European Federation of Accountants and Auditors for SMEs):

Robin Jarvis, Professor of Accounting and Finance, Kingston University, UK
Jan Verhoeye, Professor Erasmus Hogeschool Brussels, De Deyne Verhoeye, Belgium

Observer:

European Commission – Karel Van Hulle

In February, the European Commission proposed a Regulation to require all EU companies listed on a regulated market, including banks and insurance companies, to prepare consolidated accounts in accordance with IAS by 2005, at the latest. EU Member States would have the option to extend this requirement to unlisted companies and to individual company accoun*ts. *Currently there are about 7,000 listed companies in Europe. Of those, only 275 now use IAS for their financial reporting.

Prior to amendment, the Directives would not have permitted the application of IAS 39 such as the requirement that financial instruments classified as "available for sale" or "held for trading" be reported at fair value.

EUROPEAN ACCOUNTING DIRECTIVES ALLOW APPLICATION OF IAS 39

On 15 May 2001, the European Parliament introduced fair value accounting principles applicable to certain financial instruments into the European 4th and 7th Company Law Directives applicable to limited liability companies as well as into the Accounting Directives applicable to banks and financial institutions, in an amendment to the proposed requirements. This revision removes the conflict in the EU Directives for the use of IAS 39, Financial Instruments: Recognition and Measurement, or FAS 133, Accounting for Derivatives and Hedging Activities. Currently, the amendments do not apply to the Directive for annual and consolidated accounts of insurance undertakings, but the Commission may bring forward similar proposals to assess this Directive in the near future. However, it is considered that the Insurance Directive would allow the use of IAS 39.

The revised Directives do not prescribe a detailed fair value accounting system, rather a framework that will enable fair value accounting to be applied to certain financial instruments. The amendment states that 'Fair value accounting should only be possible for those items where there is a well-developed international consensus that fair value accounting is appropriate…'. As such, the amendments may enable IAS 39 or FAS 133 to be adopted and provide some scope for future international developments. However, given there is not yet international consensus for full fair value accounting of all financial instruments, the Directives contain similar scope exclusions to those currently stated in IAS 39.

Member States must adopt the revised Directives, in their national laws, before 1 January 2004, to enable companies to effectively apply the amendments in their consolidated accounts established under national GAAP. Member States have the option to extend the requirements to annual accounts and to all or other classes of companies. In adopting the Directives, Member States must make a choice between allowing or requiring fair value accounting of certain financial instruments, including derivatives. In addition, they must make a choice between allowing or requiring that all fair value changes relating to available-for-sale financial assets be recognised directly in equity. If a Member State decides to require that fair value changes must be recognised directly in equity, those Member State companies would not have the possibility of exercising the option in IAS 39 for available-for-sale financial assets of recognising fair value changes either in equity or the income statement. The revised Directives also require disclosure information on financial instruments that may change some local practices significantly.

These amendments continue the Commission's call for EU harmonisation with International Accounting Standards, and are in line with the current proposal for European listed companies to apply IAS by 2005. In addition, it constitutes the first step in the application of the Commission's strategy for financial communication. In this respect, to ensure that due consideration is given to future international developments, and to experience gained in applying fair value accounting, the Commission is required to review these amendments, no later than 1 January 2007, and to submit any proposals to the European Parliament and the Council.

Fourth intermediate report on the Financial Services Action Plan was adopted on 1 June 2001 outlining the principal achievements compared to the objectives.

EUROPEAN COMMISSION FINANCIAL SERVICES ACTION PLAN

On 11 May 1999, the European Commission adopted an Action Plan containing a series of policy objectives and specific measures aimed at improving the Single Market for financial services over the next five years (the Financial Services Action Plan). The plan indicates priorities and a calendar for legislation and other measures necessary to tackle three strategic objectives ensuring:

- a Single Market for wholesale financial services;
- open and secure retail markets; and
- state-of-the-art prudential rules and supervision.

The initial deadlines set by Heads of State and Government to implement the Action Plan by 2005 and to integrate European securities markets by 2003 are now firm. On 1 June 2001, the 4th intermediate report on the Financial Services Action Plan was adopted by the Commission. Since the last progress report in November 2000, a number actions have been progressed by the Commission, including the issue of the following legislative proposals:

- the prudential supervision of financial conglomerates (April 2001);
- a streamlined prospectus aiming to establish a single passport for European issuers (see further details below) (May 2001);
- preventing market abuse (May 2001);
- creating a committee structure in the securities area (see further details below) (July 2001);
- common standards on collateral arrangements (March 2001); and
- a draft regulation to apply international accounting standards for EU listed companies (February 2001).

In addition, a number of significant developments have occurred in the Council and European Parliament:

- after 30 years, political agreement on the European Company Statute;
- the winding-up directives for banks and for insurance companies have been adopted;
- a common position has been adopted on the two UCITS proposals; and
- the take-over bids directive was in conciliation; however it was finally rejected by the European Parliament in July 2001.

Further details on the progress report and other Financial Services Action Plan activities can be found at http://europa.eu.int/comm/internal_market/en/index.htm.

The Commission's initiative responds to the Stockholm European Council Resolution in March on more effective securities markets regulation, in which the European Council (the Heads of State or Government of the 15 EU Member States) welcomed the intention of the Commission to immediately establish these committees. The Council Resolution stated that "every effort should be made by all parties concerned to implement key steps for achieving an integrated securities market by the end of 2003".

CREATION OF SECURITIES COMMITTEES

The European Commission created in July 2001 two key committees as part of its Financial Services Action Plan: a European Securities Committee (ESC) and a Committee of European Securities Regulators (CESR). The ESC will be composed of high-level representatives of the Member States. It will advise the Commission on issues relating to securities policy. At a future date, it will also act as a regulatory committee.

The CESR is set up as an independent advisory body composed of representatives of the national public securities regulatory authorities to advise the Commission on the technical details of securities legislation.

The initiative responds to the objectives of the European Council for creating a more effective securities market regulation within the EU. The Commission's goal is to achieve an integrated European securities market by the end of 2003.

PROPOSED DIRECTIVE ON A SINGLE EU PROSPECTUS

The European Commission has issued a Proposed Directive on Prospectuses in May 2001 that would prescribe the structure and minimum disclosure content of securities offering documents (prospectuses). The proposal would introduce a "single passport" to raising capital in Europe. There would be only one prospectus approved by the home country authority of the issuer, which would have to be accepted throughout the EU for public offer and/or admission to trading on regulated markets. The key features of the proposed Directive are:

- introduction of enhanced disclosure standards in line with international standards for public offer of securities and admission to trading;
- introduction of a registration document system for issuers where securities are admitted to trading on regulated markets in order to ensure a yearly update of the key information concerning the issuer;
- possibility to offer or admit securities to trading on the basis of a simple notification of the prospectus approved by the home competent authority;
- concentration of the responsibilities in the home administration competent authority; and
- introduction of extensive comitology procedures.

The Commission issues proposals to enhance the quality and comparability of financial statements by European listed companies through improved ongoing and regular reporting requirements.

TRANSPARENCY OBLIGATIONS OF PUBLICLY TRADED COMPANIES IN EUROPE

On 11 July 2001, the European Commission issued a consultation document on revisions of the EU regime concerning the transparency obligations of issuers whose securities are admitted to trading on a regulated market. The paper follows previous recommendations of the Lisbon European Council in March 2000 and the Initial Report of the Committee of Wise Men to enhance the quality and comparability of financial statements by listed companies, generally and between Member States. This early open consultation document aims to obtain early, broad and systematic consultation with all interested parties in the securities area prior to the adoption of any new proposals on the ongoing and regular information to be filed and published by issuers whose securities are admitted to trading on a regulated market.

The main proposals on with the Commission is currently seeking comment are:

- consolidation of all existing ongoing and regular disclosure requirements in a single text to simplify and clarify the law to make it easier to understand and more accessible to issuers, market participants and investors;
- extending the scope of existing requirements to cover all equity and debt securities of issuers admitted to trading on a regulated market;
- upgrading the regular reporting requirements to meet international best practice. Such proposals include requirements for quarterly reporting, in accordance with IAS. Quarterly reports should be subject to a limited review by auditors and should be published within 60 days of the end of each quarter. Annual reports would also be required to be published within 60 days of the end of the financial year;
- updating ad-hoc disclosure requirements to require the timely disclosure of information which is not of public knowledge and is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses, proposals and rights attaching to its securities, which may lead to substantial movements in the price of its securities;
- requiring information to be filed in an electronic format to home country administration and allowing a company's official web site to be used as an effective means of publishing ongoing and regular disclosures, reducing the cost of publication of information on a real-time basis;
- establishment of one competent authority for each Member State being the independent securities regulator with powers to maintain investor protection and to enforce disclosure requirements; and
- introducing flexibility to allow future technical implementation measures to be adopted.

The document was drafted to provide preliminary indications of the views of the Internal Market Directorate General regarding the possible structure and content of a new regime on disclosure requirements. It was proposed without prejudice to any future decisions by the Commission in finalising its proposals. Copies of the consultation document are available at europa.eu.int/comm/internal_market/en/finances/mobil/transparency.htm. Any responses should be submitted to the Commission by 30 September 2001.

On 11 July 2001, the European Economic and Social Committee released an opinion stating strong support for the Commission's proposals for a Regulation that would require all EU listed companies to prepare consolidated accounts in accordance with IAS by 2005.

ADOPTION OF IAS BY 2005 IN EUROPE GAINS SUPPORT

Following the February 2001 European Commission's proposal for a Regulation that would require all EU companies listed on a regulated market to prepare consolidated accounts in accordance with IAS by 2005, at the latest, the European Council decided to consult the Economic and Social Committee on the proposals.

On 11 July 2001, the Committee released its opinion on the proposals stating:

- strong support for the objectives of the proposed Regulation, that is to establish a common basis of accounting across the EU for all listed companies. The Committee believes that the adoption of IAS is the only practical option for achieving the objectives;
- strong support for the Endorsement Mechanism believing it provides a legal basis for the use of IAS and a procedure for validating their appropriateness. The Committee believes it will enable the EU to monitor and contribute to the development of future standards while in the process protecting European interests;
- a need for IAS to begin the process of developing a standard(s) more appropriate for SMEs, enabling a relatively easy transition of SMEs to listed entities, and to create a truly common basis of accounting;
- that it needs to be ensured that the implications on taxation and worker information are considered in the process;
- that IAS and SIC should be available in all European Community languages;
- that full compliance needs to be monitored, which may include auditors' reports stating compliance with IAS, with national authorities having the power to have accounts restated; and
- encouragement for IAS and US GAAP convergence.

EUROPEAN COUNTRY UPDATES ON IASPLUS.COM

The individual country updates that we have on the **www.iasplus.com** website now include a dozen European countries. We plan to update these regularly and add additional countries.

The old Preface to IAS had said that International Accounting Standards apply to "financial statements of any commercial, industrial, or business enterprise". While the new IASB constitution does not include that restricted focus, IASB has indicated that, for now, it will concentrate on business reporting. Based on the PSC's recent work, the two sets of standards will become more and more similar. The chairman of the PSC sits on IASB's Advisory Council.

IAS-BASED PUBLIC SECTOR STANDARDS

The Public Sector Committee (PSC) of the International Federation of Accountants in May approved four final International Public Sector Accounting Standards (IPSAS) that are based on IAS. They are:

- IPSAS 9, Revenue from Exchange Transactions (based on IAS 18);
- IPSAS 10, Inventories (based on IAS 2);
- IPSAS 11, Construction Contracts (based on IAS 11); and
- IPSAS 12, Financial Reporting in Hyperinflationary Economies (based on IAS 29).

A fifth standard, IPSAS 13, Leases (based on IAS 17) was approved subject to a final editorial review.

The IPSAS are intended for application in financial reporting by governments and other public sector entities. Those standards are "based (to the extent appropriate)" on International Accounting Standards. The PSC has also issued guidance on the transition from the cash to the accrual basis of accounting.

The PSC is presently reviewing responses to four IPSAS exposure drafts of that are based on IAS:

- ED 16, Events After the Reporting Date;
- ED 17, Segment Reporting;
- ED 18, Financial Instruments: Disclosure and Presentation; and
- ED 19, Investment Property

Countries around the world are considering which standards will best serve their capital markets and their business enterprises. Recommendations differ in Singapore and in Canada.

ADOPTION OF IAS PROPOSED IN SINGAPORE

The Disclosure and Accounting Standards Committee (DASC), an independent committee formed to propose changes to the financial reporting and disclosure requirements in Singapore, has published its recommendations. DASC proposes that all companies incorporated in Singapore adopt International Accounting Standards for financial statement periods beginning on or after 1 January 2003, with one exception. The exception would be that companies listed both in Singapore and on a foreign exchange would be allowed to file under the standards required by the foreign exchange, without reconciliation to IAS, if the standards used are acceptable to the Singapore exchange.

CANADA: CICA OPTS FOR US GAAP

The Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants has concluded that the goal of harmonization with US standards should continue to be the top priority for the Accounting Standards Board, which it oversees. Converging with "internationally developed common standards" should also be an objective. IAS are not specifically mentioned.

This position is at variance with that of the Certified General Accountants Association of Canada, which favours adoption of IAS as Canadian GAAP.

The SEC issued its Concept Release in February 2000.

NEXT SEC CHAIRMAN MUST ADDRESS IAS

US President Bush has nominated Harvey Pitt, partner in the New York law firm Fried, Frank, Harris, Shriver & Jacobson and former SEC General Counsel, as the next chairman of the US Securities and Exchange Commission. Senate confirmation is required. A key task facing the next SEC chairman is follow-up on the SEC's Concept Release on the use of International Accounting Standards in the SEC filings.

Two members of the FASB were appointed as members of the International Accounting Standards Board – Anthony Cope and James Leisenring.

SUPPORT FOR IASB FROM FASB AND FAF

Excerpt from US Financial Accounting Foundation annual report for 2000:

The global capital markets are growing increasingly interdependent at an accelerated pace. This is a positive development for all economies and one that will support capital-raising activities and global growth. The Foundation, the FASB and the International Accounting Standards Committee (IASC) have long recognized that in order for international capital markets to function properly, a single set of high-quality, international accounting standards must exist.

The agreement reached in May of 2000 to restructure the IASC was a historic event. I am pleased to report that the Foundation was an important participant in this process through the hard work of Foundation Trustee David Ruder and FASB member Tony Cope. David and Tony were members of the Strategy Working Party, which was charged with the responsibility of developing a restructuring plan. Over a period of about two-and-one-half years, this team of 12 completed its task in early 2000, finalizing a blueprint for a newly formed IASC.

The restructuring of the IASC – renamed the International Accounting Standards Board (IASB) – was accomplished through an independent group of Trustees chaired by former U.S. Federal Reserve Chairman Paul Volcker. In January of 2001, the Trustees announced the appointment of a 14-member IASB to be chaired by Sir David Tweedie, former Chairman of the U.K. Accounting Standards Board. That body, comprised of leading accounting professionals from several countries, will work toward development of a single set of high-quality global accounting standards. Among those appointed to the IASB were Tony Cope and Jim Leisenring of the FASB.

As part of that recent announcement, two of the Foundation's Trustees were appointed Trustees of the IASB, David Ruder and John Biggs. I am confident that David and John will provide the same level of commitment to the IASB that they have continued to demonstrate at the Foundation. We support their participation and look forward to a close relationship with the IASB.

For our part, the Foundation and the FASB welcomed the restructuring result as a key element in the establishment of a fully independent international accounting standard setter that will work toward providing the essential convergence among national IASB standard setters as we rapidly approach a global capital market system. We were pleased that the restructuring was consistent with the long-held views of the FAF and the FASB as expressed in the latter's 1999 report International Accounting Standard Setting: A Vision for the Future.

Manuel H. Johnson,
Chairman and President
Financial Accounting Foundation

AUSTRIA
Contact: *Erich Kandler*

Professional Responsibilities for External Auditors

Within the coming weeks, regulation concerning the professional responsibilities of external auditors is likely to be amended. Currently, auditor liability in relation to audit engagement negligence is limited to €0.363 million. It is expected that the penalty will increase to €1 million where required due care has not been exercised. However, in the case of public companies, the maximum penalty is expected to increase to €4 million, and in cases of gross negligence the penalty is expected to be multiplied by 5.

Also, due to proposed changes to the Austrian Banking Act, the liability of the auditors of banks is expected to be based on the amount of total assets, and to be between €2 million and €6 million.

New regulations concerning external rotations is also likely to be introduced into the Austrian Banking Act. The regulations would require a change of auditors at least every five years. External rotations have also been discussed for insurance companies and other listed companies. However, no regulations have as yet been proposed.

Euro Conversion

In June 2001, the Euro-Tax Conversion Law was resolved by the Austrian parliament. As a result, all laws containing amounts or references in Austrian Schillings (ATS) are to be changed into Euro amounts or Euro references, effective 1 January 2002.

DENMARK
Contact: *Stig Enevoldsen and Jan Peter Larsen*

On 22 May 2001, the Danish Parliament voted in favour of a new Accounting Act that will tie the Danish Accounting Act into IAS as much as possible. However, due to the fact that the Accounting Act is also required to be within the framework of the European Accounting Directives certain differences to IAS will still exist. The new Accounting Act will be effective for periods beginning on or after 1 January 2002.

Danish Accounting Standards (DKAS) are generally based on the equivalent IAS with some minor differences. As the first DKAS was issued more than ten years ago, the Danish Accounting Standards Board initiated a project to revise the existing DKAS to further harmonise them with IAS. The DKAS currently has the following exposure drafts issued for comment:

- ED-DKAS 20, Construction Contracts (IAS 11)
- ED-DKAS 21, Inventories (IAS 2)
- ED-DKAS 22, The Effects of Changes in Foreign Exchange Rates (IAS 21)
- ED-DKAS 23, Property, Plant and Equipment (IAS 16)
- ED-DKAS 24, Presentation of Financial Statements (IAS 1)
- ED-DKAS 25, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (IAS 8)
- ED-DKAS 26, Events After the Balance Sheet Date (IAS 10)
- ED-DKAS 27, Treasury Shares (SIC 16)

As part of the revision, the DKAS's are also being reformatted to follow an overall structure similar to that of IAS (requirements for recognition, measurement, and presentation), with the use of a black and grey letter paragraph styles.

GERMANY
Contact: *Reinhard Scharpenberg*

In April and May 2001, the following GASC accounting standards were approved by the Federal Minister of Justice and published in the Federal Gazette:

- GAS 5, Risk Reporting – effective for financial years beginning after 31 December 2000;
- GAS 7, Presenting Equity in Consolidated Financial Statements – effective for financial years beginning after 30 June 2001; and
- GAS 8, Accounting for Investments in Associates - effective for financial years beginning after 30th June 2001.

The following GASC exposure drafts have also been issued:

- E-GAS 10, Duty to prepare Consolidated Financial Statements and Scope of Consolidation; and
- E-GAS 11, Accounting for Stock Options and Similar Forms of Compensation.

E-GAS 11 was published in German and English – normally draft standards are published in German only – in order to actively support the work of the IASB, which intends to initiate a project on this matter. The proposed standard is based on the former GASC position paper that received comments varying from general support to strong rejection of the proposed accounting treatment for stock options.

ISRAEL
Contact: *Uri Levy*

New Accounting Standards

In May 2001, the Israeli Accounting Standards Board issued the following new accounting standards:

- Accounting Standard No. 7, Post-Balance Sheet Events, based on IAS 10. With respect to a dividend declared subsequent to the balance-sheet date but prior to the issuance of the financial statements, like IAS 10, no liability is recognised for such dividends. However, the dividend must be disclosed as a separate component of equity on the face of the financial statements and in the notes, where IAS 10 requires at least one of these disclosures to be made.

  The standard will be effective for reporting periods ending 31 December 2001, allowing the Securities Regulations to be amended to conform with the principles set forth in the new standard.

- Accounting Standard No. 8, Discontinuing Operations, based on IAS 35. The major difference is that the Israeli standard requires the separation of discontinuing operations from continuing operations in the balance sheet, the statement of operations, the statement of cash flows and the notes to the financial statements. The standard will apply to all the discontinuing operations of all companies, and will become effective for reporting periods starting 1 January 2002 (with earlier adoption recommended).

One-Year Postponement of Accounting Standard No. 12 – Discontinuing of Adjusting Financial Statements for Inflation

The high inflation rates that have prevailed in Israel since the end of the 70s, previously led the Institute of Certified Public Accountants in Israel ("ICPAI") to conclude that financial reporting in historical nominal values was not useful to users of financial statements. Therefore, between 1979 and 1985 the ICPAI issued various pronouncements requiring companies to adjust their financial statements for changes in the general purchasing power of the Israeli currency (as reflected by the rise in the Israeli consumer price index). Certain companies were also required to provide supplementary data concerning the effect of these CPI changes on their financial statements.

ISRAEL, continued

Due to the low inflation rate in Israel in recent years and with this trend expected to continue, the Israeli Accounting Standards Board issued, in February 2001, an exposure draft stating the need to revert to nominal reporting. The original effective date proposed in the exposure draft was 31 December 2001. This has recently been postponed and the new effective date is 31 December 2002.

MIDDLE EAST
Contact: *Abbas Ali Mirza*

Arabic Translation of IAS

The IASB has appointed a Review Committee to undertake the official Arabic translation of IAS. The Big Five firms along with the Accounting and Auditing Organization for Islamic Financial Institutions (AOFI) were invited to join this Committee. The first meeting of this Committee was held in Beirut, Lebanon on 22 March, 2001. Mr. Kurt Ramin, IASB Commercial Director, attended this meeting and clarified the ground rules for future meetings. Two partners of DTT, Mr. Joseph El Fadel (D&T, Beirut) and Mr. Abbas Ali Mirza (D&T, Dubai) participated in this meeting and in subsequent meetings Mr. Musa Dajani (D&T, Dubai) will represent the firm on this Committee. D&T Middle East has already produced an Arabic translation of IAS. The Committee has chosen this unofficial version as one of the versions to be used in finalising the official Arabic translation of IAS, approved by the IASB.

SOUTH AFRICA
Contact: *Graeme Berry*

Recently, the South African (SA) Accounting Practice Board (APB) approved AC 136, Accounting and Reporting by Post-Employment Benefit Plans, effective 1 June 2001, based on IAS 26.

The following Statements have also been revised in line with recent revisions to IAS, effective 1 January 2001:

- AC 102, Income Taxes (IAS 12);
- AC 116, Employee Benefits (IAS 19); and
- AC 133, Financial Instruments – Recognition and Measurement (IAS 39)

In addition, the APB has also recently approved the following Interpretations of SA Statements of GAAP:

- AC 419, Reporting Currency: Measurement and Presentation of Financial Statements under IAS 21 and IAS 29 – effective date 1 January 2001 (SIC 19); and
- AC 424, Earnings Per Share: Financial Instruments that may be Settled in Shares – effective date 18 April 2001 (SIC 24)

These Interpretations harmonise with the equivalent SIC.

The following SA Exposure are still outstanding:

- ED 135: Agriculture (IAS 41); and
- ED 140: Report of Historical Information to be Included in a Prospectus (no IAS)

SPAIN
Contact: *Olegario Carbajal*

The Process of Adapting to IAS

In May 2000, the Accounting and Auditing Institute (ICAC), a public body dependent on the Ministry of the Economy, issued a comparative, provisional document, on which it had been working since the second half of 1998, between the Spanish accounting rules and those issued by the IASC. The purpose of that document was to analyse how far the Spanish regulations (the General Accounting Plan, its adaptation to specific industries and the rulings given by the ICAC itself) were compatible with those of the IASC, with the purpose of:

- identifyingareas of discrepancy; and
- trying to introduce those IASC rules which are not currently reflected in Spanish regulations but which should be included in order to complete the full accounting model.

More recently, in March 2001, a committee of experts from the public and private sectors was set up with a view to drafting a report to analyse the extent to which Spanish regulations were in line with the European Union's recommendations, and also to define the model reflecting the IASC standards. This Committee also includes representatives from the regulatory bodies (Bank of Spain, Directorate General of Insurance, National Stock Market Commission, etc.). The Committees' report is taking into account the proposed regulations issued by the European Parliament in February 2001, for which all listed companies within the EU should present consolidated financial statements in accordance with IAS by 2005, at the latest.

Among the issues this Committee has regarded as priority, is the immediate need to address in greater depth certain matters that are not regulated in sufficient detail in the current Spanish rules or which are subject to current discussion (e.g. valuation of financial instruments, treatment of intangible assets, business combinations). Also, of priority are areas where greatest effort may be required to bring the Spanish rules in line with IAS.

Other significant differences have also been identified between the Spanish rules and IAS, including recognition of income tax based on a balance sheet approach, disclosure of segment information and earning per share, and compulsory presentation of cash-flow statements (under current Spanish regulations a statement of sources and application of funds is required). Some of these topics have already been addressed in some detail, both by the accounting profession, in general, and by private bodies (i.e. the Spanish Association of Accounting and Corporate Administration) in particular.

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