

# IAS Plus.

Published for our clients and staff in the UK

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## IAS Plus website

Over 1.6 million people have visited our [www.iasplus.com](http://www.iasplus.com) web site. Our goal is to be the most comprehensive source of news about international financial reporting on the Internet. Please check in regularly.

2005 – Happy New Year and welcome to the first-time application of IFRS!

The year starts with much of the uncertainty over the standards for application resolved, but as we highlight below, there are still some outstanding issues on endorsement, and some tweaking of the 2005 platform.

With the interpretation of IAS and IFRSs still evolving, the message must be to tread carefully.

## Endorsement of IFRS

In the last quarter of 2004, the EC adopted a Regulation endorsing IAS 39, with the exception of certain provisions on the use of the full fair value option for liabilities and on hedge accounting (further details inside this edition). Use of IAS 39, apart from the “carved out” sections will be legally binding for all European listed companies required to apply IFRS from 2005.

In December 2004, the EC’s Accounting Regulatory Committee (ARC) voted to recommend the adoption of IFRS 2 Share-based Payment for use in Europe. The European Parliament has one month to consider this issue before the Commission can formally adopt the IFRS. The endorsement of the IAS 19 amendment (see below) and the IFRIC interpretations remain.

## IASB News

The IASB has ‘fine tuned’ its stable platform of standards that European listed companies and others can use from 2005, with the release of its amendment to IAS 19, which introduces an option, similar to the accounting treatment required by the UK’s FRS 17, to recognise actuarial gains and losses in full in the period in which they occur, in a Statement of Recognised Income and Expense (SORIE).

The IASB has also issued an amendment to IAS 39 (“Transition and Initial Recognition of Financial Assets and Financial Liabilities”) and IFRS 6 Exploration for and Evaluation of Mineral Resources (effective 1 January 2006).

The IFRIC has issued IFRIC Interpretations 2-5 (full details inside).

## Implementation in the UK

A new Statutory Instrument, ‘the Companies Act 1985 Regulation 2004’ (SI 2004/ 2947), effective for financial periods beginning on or after 1 January 2005, introduces the option for UK companies to use IFRS in their statutory and/or group accounts, and makes other IAS related amendments.

In addition, following the carve-outs in the EU adopted version of IAS 39, the ASB has issued guidance regarding the potential issues arising from the application of IAS 39.

Deloitte has published **i-GAAP 2005 Financial Instruments: IAS 32 and 39 Explained**, an authoritative guide to applying these two standards, and **Preparing for IFRS – A Director's Guide: Countdown to transition**, which many clients have found helpful.

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## IASB News

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- IFRS e-Learning: (page 12).
- IAS 32 and IAS 39 Explained: (page 12).
- Preparing for IFRS – A Director's Guide: Countdown to transition to IFRSs (page 13).

## News about IFRSs in Europe

### European Commission endorses IAS 39 with two parts modified

The European Commission has adopted a Regulation endorsing 'IAS 39 Financial Instruments: Recognition and Measurement', with the exception of certain provisions on the use of the full fair value option for liabilities and on hedge accounting. Use of IAS 39, apart from the "carved out" sections will be legally binding for all companies incorporated in and listed on an exchange of a member state of the EU from 1 January 2005.

The carve outs relate to:

- prohibiting the use of the IAS 39 fair value option as it applies to liabilities; and
- allowing use of fair value hedge accounting for interest rate hedges of core deposits on a portfolio basis.

With respect to hedging of core deposits, EU member states can elect to require the unmodified version of IAS 39. Further, if a Member State permits the modified version, companies can elect to apply the unmodified IAS 39. The fair value option as it applies to liabilities is regarded as inconsistent with the 4th Accounting Directive and therefore the modification is required for all companies.

Commissioner Frits Bolkestein said: "IAS 39 has been very controversial. I am glad that we have found a solution. The two 'carve outs' are purely temporary because the Commission expects the IASB to remedy the outstanding problems quickly. The Commission is not a standard setter and cannot resolve them on its own." Furthermore, the Commission has stated that it expects the International Accounting Standards Board (IASB) to bring forward the necessary amendments to the current full fair value option by December 2004 and to the provisions on hedge accounting by September 2005.

## News from UK on IFRS

### UK ASB Guidance on EU adopted IAS 39

Following the 'carve-outs' in the EU adopted version of IAS 39, the ASB issued a statement on the implications for UK financial reporting of the modified version of IAS 39 Financial Instruments: Recognition and Measurement for hedge accounting:

"The ASB strongly supports the view that all UK companies should comply as far as possible with the full hedging provisions of the standard and not the amended version.... If power to mandate full compliance lay with the Board, it would do so immediately. However, the Board understands that, as a consequence of the IAS Regulation, the Board may not currently have this power. The Board intends to explore all possible means of mandating compliance with the hedging requirements as soon as possible.

The ASB has now issued guidance regarding the potential issues arising from the application of IAS 39. It clarifies a number of points, including:

- A financial liability is required to be measured at fair value through profit and loss if it meets the definition of held for trading, for example, it is a derivative.
- For items where the present accounting treatment under the Companies Act permits an entity to measure items at fair value through profit and loss, such as companies preparing their financial statements in accordance with schedule 9 or 9A of the Act, this treatment will also be permitted under IFRS (i.e. as it is already permitted by other EU directives); for example valuation of unit-linked contracts in insurance companies.

The guidance also explores application of the fair presentation override in IAS 1, and states that "the expectation is that the 'fair presentation override' will be used extremely rarely..."

You can find the ASB's guidance here:  
[www.asb.org.uk](http://www.asb.org.uk)

## Timetable for IASB's active agenda projects

<b>Accounting Standards for Small and Medium-Sized Entities</b>		<ul style="list-style-type: none"> <li>• Discussion Paper was issued in June 2004</li> <li>• Exposure draft in 2005</li> <li>• Final Standard(s): Timetable not yet established</li> </ul>
<b>Amendments to IAS 32 and IAS 39</b>	<b>2005</b>	<ul style="list-style-type: none"> <li>• Final standards issued December 2003</li> <li>• Revised IAS 39 reflecting macro hedging issued March 2004</li> <li>• Exposure drafts were issued on fair value option (April 2004) and other limited amendments (July 2004)</li> <li>• Final revisions 4th quarter 2004 and 1st quarter</li> <li>• Effective date December 2005 year ends (limited amendment on forecast transactions would be effective 2006)</li> </ul>
<b>Business Combinations – Phase I</b>	<b>2005</b>	<ul style="list-style-type: none"> <li>• IFRS 3, IAS 36, and IAS 38 were issued in March 2004</li> <li>• Exposure draft of scope amendments issued April 2004; final revised IFRS 3 expected 1st quarter 2005</li> <li>• Effective dates December 2005 year ends</li> </ul>
<b>Business Combinations – Phase II – Application of the Purchase Method</b>		<ul style="list-style-type: none"> <li>• Exposure draft in 1st quarter 2005</li> <li>• Final standards in 2005</li> <li>• Expected effective date 1 Jan 2006</li> </ul>
<b>Consolidation (Including SPEs)</b>		<ul style="list-style-type: none"> <li>• Timetable to be determined</li> </ul>
<b>Convergence – Short-term Issues, IFRS and US GAAP</b>	<b>2005</b>	<p><b>Asset Disposals/Discontinued Operations</b></p> <ul style="list-style-type: none"> <li>• IFRS 5 was issued in March 2004. Effective date December 2005 year ends</li> </ul> <p><b>IAS 12 Income Taxes</b></p> <ul style="list-style-type: none"> <li>• Exposure draft expected 1st quarter 2005</li> <li>• Final standard in 2005</li> <li>• Expected effective date: Year ends after 2005</li> </ul> <p><b>IAS 19 Employee Benefits</b></p> <ul style="list-style-type: none"> <li>• Exposure draft of limited amendment was issued April 2004</li> <li>• Final limited amendment issued December 2004</li> <li>• Effective date: Year ends after 2005, with earlier application encouraged</li> </ul> <p><b>IAS 20 Government Grants</b></p> <ul style="list-style-type: none"> <li>• Exposure draft on replacement of IAS 20 expected 1st quarter 2005</li> <li>• Final standard 2005, Expected effective date: Year ends after 2005</li> </ul> <p><b>IAS 37 Provisions</b></p> <ul style="list-style-type: none"> <li>• Exposure draft on provisions expected 1st quarter 2005</li> <li>• Final standard expected in 2005. Expected effective date after 2005 year ends</li> </ul>
<b>Disclosure Financial Risk and Other Disclosures about Activities of Financial Institutions</b>		<ul style="list-style-type: none"> <li>• Exposure draft ED 7 was issued July 2004</li> <li>• Final standard in 2005</li> <li>• Expected effective date after 2005 year ends, but permitted for December 2005 year ends</li> </ul>
<b>Extractive Industries</b>		<ul style="list-style-type: none"> <li>• Final standard issued December 2004</li> <li>• Effective date is on or after 1 January 2006, with early adoption encouraged</li> </ul>
<b>Insurance Contracts – Phase I</b>	<b>2005</b>	<ul style="list-style-type: none"> <li>• IFRS 4 was issued in March 2004</li> <li>• Effective date December 2005 year ends</li> </ul>
<b>Insurance Contracts – Phase II</b>		<ul style="list-style-type: none"> <li>• Next step is a discussion paper</li> <li>• Timetable to be determined</li> </ul>
<b>Performance Reporting (Reporting Comprehensive Income)</b>		<ul style="list-style-type: none"> <li>• Joint ASB-FASB-IASB advisory group being formed</li> <li>• Discussion paper in 2005</li> <li>• Timetable to be determined</li> </ul>
<b>Revenue Recognition, Liabilities, and Equity: Concepts</b>		<ul style="list-style-type: none"> <li>• Discussion paper in 2005</li> </ul>
<b>Equity: Concepts</b>		<ul style="list-style-type: none"> <li>• Timetable to be determined</li> </ul>

IASB subscribers may download IFRS 6 from the IASB's website: [www.iasb.org](http://www.iasb.org)

### IASB issues IFRS 6 'Exploration for and Evaluation of Mineral Resources'

The IASB has issued IFRS 6 'Exploration for and Evaluation of Mineral Resources'. The IFRS provides guidance on accounting for exploration and evaluation expenditures, including the recognition and measurement of exploration and evaluation assets, especially in respect of testing such assets for impairment. It also seeks to increase transparency by requiring appropriate disclosures.

Introducing IFRS 6, Sir David Tweedie, IASB Chairman, said "Developing a widely respected accounting standard that addresses the many complex practical and conceptual problems in the accounting for extractive activities is a concern for the IASB. However, the Board could not consider and reach an informed conclusion on all issues and viewpoints and complete its work by the 2005 deadline for the introduction of IFRSs in many jurisdictions. At the urging of some of our partner national standard-setters and other interested parties, the IASB has developed IFRS 6 to provide some initial guidance on accounting for some extractive activities without imposing significant costs on those industries in advance of completing the larger project"

IFRS 6 is effective for annual periods beginning on or after 1 January 2006. However, earlier application is encouraged, and if an entity adopts IFRS 6 before 1 January 2006, transitional relief is available for some comparative disclosures.

IASB subscribers may download the amendment to IAS 19 from the IASB's website: [www.iasb.org](http://www.iasb.org)

### \* Headline News\* IASB issues amendment to IAS 19

The IASB has finalised and issued its amendment to IAS 19 to allow an additional option to recognise actuarial gains and losses in full in the period in which they occur, outside profit or loss, in a Statement of Recognised Income and Expense (SORIE).

The amendment effectively introduces into IAS 19 an option similar to the accounting treatment required by the UK's FRS 17. It is effective for annual periods ending on or after 16 December 2004, hence is available for UK first-time adopters.

The IAS 19 amendment also provides guidance on allocating the cost of a group defined benefit plan to the entities in the group; this guidance is effective for annual periods beginning on or after 1 January 2006, except where entities apply the option above to recognise actuarial gains and losses in full in the period in which they occur, outside profit or loss, in the SORIE, in which case they are required to apply this group defined benefit plan guidance as of the same date.

### IFRIC publishes final interpretations

The International Financial Reporting Interpretations Committee (IFRIC) has issued 4 final interpretations.

IASB subscribers may download the IFRIC interpretations from the IASB's website: [www.iasb.org](http://www.iasb.org)

### IFRIC Interpretation 2 'Members' Shares in Co-operative Entities and Similar Instruments'

IFRIC 2 provides guidance on whether members' shares in co-operative entities should be classified as financial liabilities or equity, in accordance with IAS 32 'Financial Instruments: Presentation and Disclosure.' The issue arises where members have the right to request redemption of their shares for cash or another financial asset i.e. where member's shares are 'puttable.' Puttable instruments are classified as financial liabilities under IAS 32. This could mean that some co-operatives would have no equity.

IFRIC 2 states that members' shares that would be classified as equity if the members did not have a right to request redemption, are equity if either:

- the entity has an unconditional right to refuse redemption of the members' share; or
- redemption (whether full or partial) is unconditionally prohibited by local law, regulation, or the entity's governing charter.

For example, where the entity's governing charter prohibits it from redeeming members' shares if redemption would reduce the paid in capital below 75% of the maximum paid in capital, then 75% of the balance of paid in capital at the balance sheet date would be classified as equity and 25% as financial liabilities.

### IFRIC 3 'Emission Rights'

IFRIC 3 deals with how to account for a 'cap and trade' emission rights scheme. In order to try to limit damage to the environment, several governments have put into place such schemes whereby companies are allowed a certain level of emissions that pollute (e.g. Greenhouse gases) in a given 'compliance' period (often annual). These emission allowances may or may not be paid for by companies. However, participants in the scheme are free to buy and sell allowances and therefore there may be an active market for them. At the end of a period, participants must deliver to the government allowances equal to their actual emissions. The IFRIC is effective for annual periods beginning on or after 1 March 2005.

IFRIC 3 specifies that:

- The allowances are an intangible asset, and should be recognised in accordance with IAS 38 'Intangible Assets.'
- Where the allowance is issued at less than fair value by the government (e.g. granted for free), the difference should be accounted for in accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', as a government grant.
- As a company emits, it should accrue a provision for the market value of the allowances it will be required to deliver at the end of the period.

### IFRIC 4 'Determining whether an Arrangement Contains a Lease'

IFRIC 4 considers how to determine whether an arrangement is, or contains, a lease as defined by IAS 17. It considers rights to use assets which do not have the legal form of a lease; for example, outsourcing arrangements, rights to capacity on phone lines and take or pay agreements. It is effective for annual periods beginning on or after 1 January 2006.

It states that determination of the (potential) lease should be based on the substance of the arrangement, and requires assessment of whether – (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets; and (b) the arrangement conveys the right to use the asset. The words of the IFRIC are very close to the equivalent EITF consensus in the U.S..

### IFRIC Interpretation 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'

IFRIC 5 deals with accounting for funds set up by companies to meet the costs of activities such as environmental restoration and decommissioning (for example, for a nuclear plant). The funds may be set up by a single company for a particular liability, or by several companies, or for several different liabilities, and the companies invest money into the fund, and have a right to reimbursement when they incur their environmental liability.

Firstly, the interpretation considers whether the fund should be accounted for as a subsidiary, associate or joint venture as necessary, and concludes that the accounting treatment shall be determined with reference to the degree of control the company has over the fund, by reference to IAS 27, IAS 28, IAS 31 or SIC 12.

Secondly, it considers the accounting treatment for the reimbursement receivable from the fund when the company actually pays the liability. With reference to IAS 37, the right to reimbursement should be measured at the lower of (a) the amount of the decommissioning obligation recognised and (b) the contributor's share of the fair value of the net assets of the fund adjusted for actual or expected factors that affect the entity's ability to access these assets.

The actual liabilities should be measured separately in accordance with IAS 37, regardless of the way the fund works; the reimbursement should not offset the liability. If the company has any residual right over the assets of the fund, for example on winding up, these may be equity instruments falling within the scope of IAS 39.

You will find summaries of all of the IASB's agenda projects at:

[www.iasplus.com/agenda/agenda.htm](http://www.iasplus.com/agenda/agenda.htm)

## New Approaches to Three Major Projects

IASB Chairman Sir David Tweedie has indicated that the IASB has revised its approach to three major agenda projects:

- Insurance Contracts;
- Financial Instruments; and
- Performance Reporting (Reporting Comprehensive Income).

New advisory groups on insurance and financial instruments have already been appointed. A joint advisory group for the IASB, the UK ASB, and the US FASB is being formed for the performance reporting project.

The Board's next steps on each of the projects will be to issue discussion papers. "In due course exposure drafts will follow, but that may well be several years into the future," Sir David said. "I want to emphasise that we have not reached any decisions on these three projects. The advisory groups will therefore start with a clean slate. The IASB has made no commitment to a full fair value approach on insurance and financial instruments.... The field tests on the IASB's original proposals on performance reporting showed that we needed to develop alternative approaches."

You will find a list of members of the Insurance Working Group here:

[www.iasplus.com/pastnews/2004sep.htm](http://www.iasplus.com/pastnews/2004sep.htm)

## New Insurance Working Group

The IASB has announced the membership of its new working group on financial reporting by insurers. Although the IASB's predecessor produced an Issues Paper and a Draft Statement of Principles, and the IASB itself has discussed the project at many Board meetings, other priorities forced the IASB to suspend work following the January 2003 meeting. Therefore, the IASB will regard the past work as a useful resource, but will not feel bound by it. "The only restrictions on a fresh look are the IASB's Framework and the general principles established in the IASB's existing standards", the Board's announcement said.

You will find a list of members of the Financial Instruments Working Group here:

[www.iasplus.com/pastnews/2004sep.htm](http://www.iasplus.com/pastnews/2004sep.htm)

## New Financial Instruments Working Group

The IASB has also announced the membership of its new working group on financial instruments. The group will help the IASB take a fresh look at IAS 39 Financial Instruments: Recognition and Measurement by examining and questioning the fundamentals of the standard within the context of the IASB's Framework. "The review will therefore focus on improving, simplifying, and ultimately replacing IAS 39 and will examine broader questions of the application and extent of fair value accounting – a topic on which the IASB has not reached any conclusion. Although any major revision of IAS 39 may take several years to complete, the IASB is willing to revise the standard in the short term if any immediate solutions emerge from the working group's discussions", the Board's announcement said.

You will find a list of members of the Performance Reporting Working Group here:

[www.iasplus.com/pastnews/2004nov.htm](http://www.iasplus.com/pastnews/2004nov.htm)

## New Working Group on Performance Reporting

The IASB and FASB have jointly appointed a new working group on performance reporting to assist the boards in their joint project to establish standards for presenting, in the financial statements, information that is useful in assessing the financial performance of a business enterprise. As noted in the board's press release, "Until recently, the IASB and FASB have conducted separate projects on this topic... In April 2004 the boards agreed that, in the interests of convergence, a project on this topic should be conducted jointly. They will regard the past work of each organisation as a useful resource, but will not feel bound by it".

## Research Project on Interests in Joint Ventures

The IASB is conducting a research project that is the first phase of a longer-term effort to improve IAS 31 Interests in Joint Ventures. The Australian Accounting Standards Board is leading a team of standard setters from Hong Kong, Malaysia, and New Zealand in conducting a survey, whose purpose is to identify and analyse the characteristics of joint venture investments. Survey responses were due by 30 September 2004.



Information about upcoming IASB meetings, and decision summaries of all past IASB meetings, can be found here: [www.iasplus.com/agenda/agenda.htm](http://www.iasplus.com/agenda/agenda.htm)

You can download the full text of our letters of comment (going back to 1995) at: [www.iasplus.com/dttletr/comment.htm](http://www.iasplus.com/dttletr/comment.htm)

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You will find links to summaries of all IFRIC Draft Interpretations here: [www.iasplus.com/interps/interps.htm](http://www.iasplus.com/interps/interps.htm)

## IASB announces new meeting week schedule

The IASB has announced that beginning in September 2004 it will generally hold its meetings in four half-day sessions during Board meeting weeks – Tuesday, Wednesday, and Thursday afternoons and Friday mornings, plus a non-decision-making educational session on Wednesday mornings.

A public educational session with the Board will be held on Wednesday mornings 08:00 –12:00. This session will be used to provide background and education on difficult issues, to help the staff identify potential points of confusion or ideas for solutions. These sessions will consider issues to be discussed in subsequent months' meetings. No decisions will be made.

## Deloitte Comment Letters

### Proposed IAS 39 Amendments, ED7 and IFRIC's D7 and D9

Deloitte has submitted six letters of comment in response to the IASB's exposure drafts of proposed amendments to IAS 39, ED7, and IFRIC's draft interpretations D7 and D9. Here are brief summaries of our overall views:

- **Cash Flow Hedge Accounting of Forecast Intragroup Transactions.** We welcome the clarification that, in the consolidated financial statements, a group can designate, as a hedged item in a foreign currency cash flow hedge, a highly probable external transaction denominated in the functional currency of the subsidiary entering into the transaction, provided it gives rise to an exposure that will have an effect on consolidated profit or loss. We also believe that as part of the proposed amendment the standard should state clearly that a commitment between two group entities without another commitment with an outside party does not meet the definition of a firm commitment and, therefore, such an internal hedge does not qualify for hedge accounting.
- **Financial Guarantee Contracts and Credit Insurance.** We support the proposed approach in the exposure draft that the legal form of a financial guarantee contract should not affect its accounting treatment. Therefore, we strongly support the proposal to bring financial guarantee contracts within the scope of IAS 39 and to remove them from the scope of IFRS 4 Insurance Contracts.
- **ED 7 Financial Instruments: Disclosures.** We support the issuance of a new Standard that contains all disclosure requirements in relation to financial instruments of any entity. We believe the issuance of such a standard will enhance comparability of financial reports, and ensure consistent disclosures in relation to financial instruments, particularly by entities whose primary operations are not in financial services sectors.
- **IFRIC D7 Amendment to the Scope of Interpretation SIC 12 Consolidation – Special Purpose Entities.** We support the removal of 'equity compensation plans' from the scope exemption in SIC 12 and encourage the IFRIC to continue its project on providing guidance to determine whether these plans should or should not be consolidated. However, we question whether the additional change – unrelated to equity compensation plans – that eliminates defined contribution plans accounted for under IAS 19 from the exemption is appropriate at this time.
- **IFRIC D8 Members' Shares in Cooperative Entities.** We believe the draft Interpretation is an appropriate and practical interpretation of IAS 32 **Financial Instruments: Disclosure and Presentation** and support its issuance. We note the draft Interpretation addresses two significant matters of principle-adopting a portfolio approach (BC14-BC16) and reclassification (BC17). While we are cautious about the ramification such an interpretation may have when applied by analogy, we note that these issues are currently being addressed in the IASB's project on the distinction between debt and equity. Pending further consideration by the IASB, we believe the IFRIC's approach is appropriate under current IFRS.



- **IFRIC D9 Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions.** We note that the IFRIC's conclusions in paragraphs 4(a) and 5 of the draft interpretation are consistent with the tentative decisions of the US Financial Accounting Standards Board (FASB). Given the similarities between International Financial Reporting Standards and US GAAP in the accounting for employee benefits, we encourage the IFRIC to coordinate with the FASB (and other national standard-setters) in the development of guidance on the accounting for employee benefit plans that have a promised return (sometimes referred to as 'cash balance plans'). We generally agree that an employee benefit plan with a promised return on contributions or notional contributions is a defined benefit plan under IAS 19 Employee Benefits and that in applying IAS 19 to such benefits the specified changes in the plan liability should be treated as actuarial gains and losses.

You can download the full text of our letters of comment at:  
[www.iasplus.com/dttletr/comment.htm](http://www.iasplus.com/dttletr/comment.htm)

Our summary of the IASB's preliminary views on SMEs is here:  
[www.iasplus.com/agenda/sme.htm](http://www.iasplus.com/agenda/sme.htm)

Information about the constitution review is here:  
[www.iasplus.com/restruct/constreview.htm](http://www.iasplus.com/restruct/constreview.htm)

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

### Deloitte Comments on IASB SME Preliminary Views

The Deloitte letter of comment on the IASB's Discussion Paper **Preliminary Views on Accounting Standards for Small and Medium-sized Entities** (SMEs) recommends creation of a separate committee to develop international accounting standards for SMEs. Its standards would be subject to approval by the IASB. Deloitte's overall view:

We believe that this consultation is timely as it will allow the IASB to consider the comments and to amend, as appropriate, its preliminary views before proceeding to an exposure draft stage. We have serious reservations about certain aspects of this project, which we detail in the appendix to this letter. In our view, if the IASB were to continue the project based on its preliminary views, then the resulting standards for small and medium-sized entities (SMEs) would be of limited practical use, would not address the needs of SMEs, and would not reduce significantly the number of separate accounting regimes for SMEs around the world. We believe that this SME project is very important politically for the IASB's standing around the world. The Board's consultations with national standard-setters and its own Standards Advisory Council have demonstrated the need for this project and the priority attached to it.

We acknowledge the current time and work pressures on the Board. We suggest that the IASB or the International Accounting Standards Committee Foundation considers establishing a committee focused on SME accounting. Responsibility for developing the Standards for SMEs would be deputed to this committee, with final approval by the IASB, in the same way as responsibility for developing Interpretations rests with IFRIC subject to final Board approval. This project needs adequate attention to ensure the correct foundations are in place.

### IASC Foundation News

#### Proposals to Change IASC Foundation Constitution

Based on recommendations made by their Constitution Committee, the Trustees of the IASC Foundation agreed on certain proposed changes to the Foundation's constitution at a meeting in London on 25 October 2004. The recommendations have been published for public comment, and the consultation document can be viewed on the Foundation's website [www.iascfoundation.org](http://www.iascfoundation.org). Comments are requested by 23 February 2005.

### News from IFAC

#### Audit Issues Arising from First-Time Adoption of IFRSs

To help auditors address reporting issues arising from the first-time adoption of International Financial Reporting Standards, the staff of the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) along with staff of professional accountancy bodies, national standard setters, and audit firms, have prepared a series of key questions and answers. IFAC has published the Q&As in a document entitled **First Time Adoption of IFRSs – Guidance for Auditors on Reporting Issues**.

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

## Upcoming Meetings

### IASB and SAC meetings 2005

London, UK	17-21 January 2005
London, UK	14-18 February 2005 (and 10-11 February 2005 with the Standards Advisory Council)
London, UK	14-18 March 2005
London, UK	18-22 April 2005
London, UK	16-20 May 2005
London, UK	20-24 June 2005 (and 27-28 June 2005 with the Standards Advisory Council)
London, UK	18-22 July 2005
London, UK	19-23 September 2005
Norwalk, CT, USA	17-21 October 2005
London, UK	14-18 November 2005 (and 10-11 November 2005 with the Standards Advisory Council)
London, UK	12-16 December 2005

### IFRIC meetings 2005

London, UK	3-4 February 2005
London, UK	31 March – 1 April 2005
London, UK	2-3 June 2005
London, UK	28-29 July 2005
London, UK	1-2 September 2005
London, UK	3-4 November 2005
London, UK	1-2 December 2005
London, UK	3-4 February 2005

## Other News

### News about IFRS in the UK and UK GAAP

You can find the ASB's statement here:  
[www.asb.org.uk](http://www.asb.org.uk)

#### **The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulation.**

Statutory Instrument 2004/2947, 'The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulation 2004' (SI) came into force on 12 November 2004 and is effective for financial periods beginning on or after 1 January 2005. Companies cannot adopt these amendments prior to that date.

The SI makes changes to the Companies Act 1985 ("the Act") which:

- introduce the option for UK companies to use IFRS, where its use is not mandated by the IAS Regulation; and
- remove inconsistencies between the Companies Act and IFRS to enable convergence between UK GAAP and IFRS.

Directors must ensure that individual financial statements of the parent and each subsidiary are "all prepared using the same financial reporting framework, except to the extent that in their opinion there are good reasons for not doing so". However, there are some exemptions to the consistency principle; it does not apply to non-UK subsidiaries in the group, subsidiaries that are charities and parent companies which do not prepare group accounts.

Copies of the Standards can be obtained from:  
[www.asb.org.uk](http://www.asb.org.uk)

#### **ABS's IFRS Convergence Project: 5 new FRSs issued**

The ASB has issued 5 new standards as part of its convergence strategy with IFRS:

- FRS 22 Earnings per share (IAS 33).
- FRS 23 The effects of changes in foreign exchange rates (IAS 21).
- FRS 24 Financial reporting in Hyperinflationary economies (IAS 29).
- FRS 25 Financial Instruments, disclosure and presentation (IAS 32).
- FRS 26 Financial Instruments: Recognition and measurement (IAS 39).

The impact is staggered from 2005 to 2007, with listed companies and those opting to use fair value accounting for financial instruments all affected in 2005. FRS 25 applies to all companies from 2005.

A significant point worth noting is that FRS 25&26 adopt the "full" versions of IAS 32 & 39, unlike the EU endorsed carved out versions, otherwise these standards are almost identical to their international equivalents.

Other detailed amendments have been made to UK company law (see item above), some to enable the use of UK accounting standards that are aligned with IFRS. For example, giving regard to the substance of the transaction, requiring certain preference shares to be shown as a liability. In addition a new section D 'Fair Value Accounting' has been added to the 1985 Act to permit fair value accounting for financial instruments, investment property and biological assets.

Certain disclosure requirements in the Act will continue to apply to UK companies using IFRS, such as average number of employees in the year, director's emoluments, and breakdown of audit/non-audit fees.

The full text of Mr. Nicolaisen's remarks may be found here:  
[www.sec.gov/news/speech.shtml](http://www.sec.gov/news/speech.shtml)

#### **SEC Chief Accountant Comments on IFRS Reconciliation**

In his remarks at the IASB meeting with world standard setters on 28 September 2004, US SEC Chief Accountant Donald T. Nicolaisen commented on IASB-FASB convergence activities and the possibility of eliminating the SEC's requirement that foreign registrants using IFRSs also submit a reconciliation of earnings and equity to US GAAP. An excerpt:

My personal view is that if things continue as they have been going – if the IASB operates as a strong independent standard-setter and continues to develop and issue high quality standards, if the commitment to quality application of IFRS remains, and if good progress is made in accounting convergence and the development of an effective global financial reporting infrastructure – then I believe that the SEC will be able to eliminate our reconciliation requirements. I assure you that I am eager to embrace IFRS because I believe our investors in the US will benefit.

In a presentation at the annual meeting of the American Accounting Association in August 2004, Mr. Nicolaisen commented on FASB and IASB cooperation: "The FASB and IASB support moving toward a single conceptual framework that would be used by both Boards. The work of these two Boards, and other national standards setters involved in the IASB process, is an important part of building and maintaining an effective global financial reporting infrastructure. I support global convergence. It's in the best interest of investors."

We have a complete report of the  
25 October 2004 Trustees' meeting at:  
[www.iasplus.com/pastnews/2004oct.htm](http://www.iasplus.com/pastnews/2004oct.htm)

### IASB Chairman Comments on Convergence

In his report to the meeting of the Trustees of the IASC Foundation on 25 October 2004, IASB Chairman Sir David Tweedie said that the Board is targeting the year 2007 as the milestone at which there will no longer be a reconciliation required between IFRS financial statements to US GAAP. The Board's strategy, he said, has been to tackle the major areas of difference between the two accounting regimes, including joint projects on business combinations and income taxes, as well as smaller convergence projects. Sir David stressed the point that despite the scepticism about the 2007 target, the IASB, FASB, and SEC have been working together to try and meet that goal. He said that the SEC has been "pushing hard" to ensure that there is convergence within this timeframe.

### Publications from Deloitte

You can always access IFRS e-learning  
without charge by clicking on the light  
bulb icon on the IASPlus home page:  
[www.iasplus.com](http://www.iasplus.com)

#### Added IFRS e-Learning Modules Available Without Charge

In October 2004, the 100,000th IFRS e-learning module was downloaded from IASPlus since Deloitte's e-learning was launched at the end of January 2004. Many of those modules have multiple users because organisations are permitted to install the Deloitte IFRS e-learning modules on their own servers for the internal use of their employees or students. In addition, tens of thousands of modules have been completed online and offline by Deloitte staff.

During the second half of 2004, some new e-learning modules were added:

- IAS 12 Income Taxes.
- IAS 19 Employee Benefits.
- IAS 23 Borrowing Costs.
- IAS 24 Related Party Disclosures.
- IAS 29 Financial Reporting in Hyperinflationary Economies.
- IAS 32 Financial Instruments: Presentation and Disclosure\*.
- IAS 36 Impairment of assets.
- IAS 38 Intangible Assets.
- IAS 39 Financial Instruments: Recognition and Measurement\*.
- IFRS 1 First-time Adoption of International Financial Reporting Standards.
- IFRS 2 Share based payments.
- IFRS 3 Business Combinations.

\*These are the first of three Deloitte e-learning modules on the two financial instruments standards.

We expect to release the remaining modules (namely IAS 32/39 Parts 2 and 3 and IFRS 5) in the first quarter of 2005.

iGAAP 2005 Financial Instruments:  
IAS 32 and 39 Explained may be ordered  
from CCH at: +44 0870 777 2906

#### IAS 32 and IAS 39 Explained

Deloitte has published **iGAAP 2005 Financial Instruments: IAS 32 and 39 Explained**, an authoritative guide to applying those two standards. The publication is relevant to current IFRS reporters that are adopting both of the revised standards, as well for first time adopters of IFRSs. The publication includes:

- Classification of financial assets and liabilities, derivatives and embedded derivatives, measurement, derecognition, extensive guidance on hedge accounting, as well as specific guidance on how to apply both of these complex standards if you are a first time reporter using IFRS.
- Detailed application guidance, illustrative examples, and interpretations of the standards.

This is a useful summary of a number of transition issues, and can be downloaded from [www.iasplus.com](http://www.iasplus.com)

**Preparing for IFRS – A Director's Guide: Countdown to transition to IFRSs**

Deloitte has developed a 16 page Director's Guide to the transition to IFRS as an insert in the December edition of the independent UK publication of 'PLC Director magazine'. The guide includes suggestions for managing the final countdown to transition to, explaining the IFRS change to investors, and strategies for smooth handling of the changeover. Many of our clients may have already received the guide via the magazine's circulation.







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