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Published for our clients and staff in the Asia-Pacific region

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IAS PLUS WEB SITE

Over 250,000 people visited our **www.iasplus.com** web site in 2002 (compared to 90,000 in 2001). Our goal is to be the most comprehensive source of news about IFRS on the Internet.

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IASB NEWS

Timetable for releasing final 2005 IFRS. After these are published, the IASB is committed to a 'stable platform' for transition to IFRS in Europe. No new standards will take effect until after 2005. Story on page 3.

IASB will release 'preliminary final' improved IFRS. To give European companies maximum preparation time. Page 4.

Three EDs published. During the third quarter, the IASB published exposure drafts on: Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk (page 4). Disposal of Non-current Assets and Presentation of Discontinued Operations (page 4). Insurance Contracts (page 5).

Agenda project updates.

IASB member Harry Schmid will retire. Page 15.

Convergence of IFRS and US GAAP. Purchased R&D (page 16). Share-based payment (page 16).

News from IFAC. Rebuilding confidence in financial reporting (page 17). IFAC members' IFRS obligations (page 17).

Upcoming meeting dates. Page 18.

IFRS-related news from the United States. PCAOB standard on internal control (page 19). Sarbanes-Oxley after one year (page 18). SEC chairman's remarks on convergence (page 19). SEC reports on internal control (page 19). SEC study of principles based accounting (page 20).

News about IFRS in Europe. Europe completes endorsement of IFRS (page 20). Disclosing impact of IFRS (page 20). CESR disclosure proposals (page 21). Enforcing IFRS (page 21). Stories from Germany (page 21), Switzerland (page 21), Ireland (page 21), Estonia (page 21), United Kingdom (page 22), and Denmark (page 23).

Rest of the world. Stories from Philippines (page 23), Australia (page 23), and South Africa (page 23).

New publications from Deloitte Touche Tohmatsu. UK edition of this newsletter (page 24). Executive Briefings on ED5 (page 24). Pension accounting survey (page 24). Tax impact of adopting IFRS in UK (page 24). Summary of IFRS 1 in Danish (page 24). Non-GAAP measures (page 24).

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TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS	
Accounting Standards for Small and Medium-Sized Entities	❑ Timetable not yet announced.
Amendments to IAS 32 and IAS 39 2005	❑ Exposure draft was issued June 2002 ❑ Exposure draft on macro hedging was issued August 2003 ❑ Final standards in 4th quarter 2003 (without macro hedging) and 1st quarter 2004 (with macro hedging) ❑ Expected effective date December 2005 year ends
Business Combinations – Phase I 2005	❑ Exposure drafts were issued December 2002 ❑ Final standards in 1st quarter 2004 ❑ Expected effective date December 2005 year ends
Business Combinations – Phase II **— Application of the Purchase Method**	❑ Exposure draft in 4th quarter 2003 ❑ Final standards in 2004 ❑ Expected effective date after 2005 year ends
Consolidation (Including Special Purpose Entities)	❑ Exposure draft in 2004
Convergence – Short-term Issues, IFRS and US GAAP. Includes: **— Joint Project with FASB** **— Asset Disposals and Discontinued Operations** **— Employee Benefits** **— Replacement of IAS 20** 2005	❑ Exposure draft on Disposal of Non-current Assets and Presentation of Discontinued Operations was issued August 2003 ❑ Replacement of IAS 20 Exposure Draft expected 2004 ❑ Other exposure drafts 4th quarter 2003 ❑ Final standards in 2004 except Employee Benefits for which timing is not determined ❑ Expected effective date December 2005 year ends except Employee Benefits and IAS 14
Disclosure Financial Risk and Other Disclosures about Activities of Financial Institutions	❑ Exposure draft in 2004 ❑ Final standard in 2004 or 2005 ❑ Expected effective date after 2005 year ends
Extractive Industries	❑ Exposure draft in 4th quarter 2003 ❑ Final standard in 2004 ❑ Expected effective date after 2005 year ends
First-Time Adoption of IFRS 2005	❑ Exposure draft was issued July 2002 ❑ Final standard was issued 19 June 2003
Improvements to International Accounting Standards 2005	❑ Exposure draft was issued in May 2002 ❑ Final standards in 4th quarter 2003 ❑ Expected effective date December 2005 year ends
Insurance Contracts – Phase I 2005	❑ Exposure draft was issued August 2003 ❑ Final standard in 1st quarter 2004 ❑ Expected effective date December 2005 year ends (except certain fair value disclosures 2006 year ends)
Insurance Contracts – Phase II	❑ Exposure draft 2004 ❑ Final standard timetable not yet established ❑ Expected effective date after 2005 year ends
Performance Reporting	❑ Exposure draft – timing is under review ❑ Final standard – timing is under review ❑ Expected effective date after 2005 year ends
Revenue Recognition, Liabilities, and Equity: Concepts	❑ Exposure draft in 1st quarter 2004 ❑ Final standard in 2004 ❑ Expected effective date after 2005 year ends
Share-Based Payment 2005	❑ Exposure draft was issued in November 2002 ❑ Final standard in 1st quarter 2004 ❑ Expected effective date December 2005 year ends

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

TIMETABLE FOR IASB PROJECTS

During the third quarter of 2003, the IASB published three exposure drafts:

- Disposal of Non-current Assets and Presentation of Discontinued Operations (part of the project for convergence of IFRS and US GAAP).
- Insurance Contracts.
- Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk.

Also the IFRIC issued a draft interpretation on Changes in Decommissioning, Restoration and Similar Liabilities.

The Board also announced its plan for releasing final standards in the fourth quarter of 2003 and the first quarter of 2004. The plan is set out below.

In addition, the Board made some changes in its project timetables, delaying several exposure drafts or final standards. Presented on the facing page is a summary of the timetable for the IASB's active agenda projects.

IASB PLAN FOR RELEASING FINAL STANDARDS FOR 2005

The IASB is committed to providing a 'stable platform' for the transition to IFRS in Europe in 2005. 'Stable platform' means issuing, by 31 March 2004, all of the new and revised Standards that will be required for companies adopting IFRS in 2005, with no further changes until after 2005. At its meeting on 22 September 2003 with representatives of the accounting standard setting bodies in 40 countries, the IASB announced the following plans for releasing various standards currently under development:

Fourth Quarter 2003:

- Improvements – 10 revised IAS by 31 October and 2 more revised IAS by 30 November
- Amendments to IAS 32 and IAS 39 – by 30 November (without the proposed portfolio hedging amendments)
- Extractive Industries exposure draft – by 31 October

First Quarter 2004 (all likely in March 2004):

- Share-Based Payment
- Business Combinations Phase I – 3 standards
- Insurance Contracts Phase I
- Portfolio Hedging Amendments to IAS 39
- Asset Disposals and Discontinued Operations

The Board also announced that each of its final standards and interpretations will be made available on its website without charge.

For subscription information, go to the IASB website at: www.iasb.org.uk then click on Book Shop, then click on Subscription Services.

IASB WILL RELEASE 'PRELIMINARY FINAL' DRAFTS OF IMPROVEMENTS STANDARDS

To give companies changing to IFRS the maximum preparation time, the IASB is making available to subscribers the 'preliminary final' drafts of the revised IAS resulting from the Improvements Project as soon as the ballots have been received from the 14 IASB members. 'Preliminary final' means that there may be some final changes made in the process of preparing the printed versions. If any such changes are made, a revised version will be placed on the IASB's website. The standards, along with the bases for conclusions and implementation guidance, will be available for purchase in printed form.

The standards that will be available on-line in 'preliminary final' form are IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 32, 33, 39, and 40. The preliminary final versions of IAS 10, Events after the Balance Sheet Date, and IAS 33, Earnings per Share, are now available at IASB's website.

Deloitte published a special global edition of the IASPlus newsletter with details about the macro hedging exposure draft. You can download it from: www.iasplus.com/ iasplus/iasplus.htm.

You can download the exposure draft from the IASB website

IASB PUBLISHES MACRO HEDGING EXPOSURE DRAFT

The IASB has issued an exposure draft on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk, proposing a 'macro hedging' amendment to IAS 39. The ED would permit an entity to use fair value hedge accounting for a net portfolio hedge of interest rate risk (known as a 'macro hedge') if specified conditions are met.

This amendment was not among the revisions to IAS 39 that the Board had proposed in July 2002. The Board has determined that this change is of a magnitude that warrants the solicitation of public comment. Comment deadline is 14 November 2003.

The Board will issue an amended IAS 39 without the macro hedging proposal by the end of 2003. A second version of IAS 39 revised, reflecting the final macro hedging decision, is planned for March 2004.

You can download the exposure draft from the IASB website.

IASB ISSUES ED 4 ON ASSET DISPOSALS AND DISCONTINUING OPERATIONS

The IASB has issued Exposure Draft ED 4, Disposal of Non-Current Assets and Reporting of Discontinued Operations. Comment deadline is 24 October 2003. We have prepared a Special Global Edition of our IASPlus Newsletter summarising the proposals in the exposure draft. ED 4 is part of the Short-Term Convergence Project being undertaken jointly by the IASB and the FASB. It can be downloaded from **www.iasplus.com**.

The proposals in ED 4 would achieve substantial convergence of IFRS with the requirements of US SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, with respect to:

- classifying, measuring, and presenting assets held for sale, and
- classifying and presenting discontinued operations.

ED 4 does not address impairment of long-lived assets that are not being disposed of, which is covered by IAS 36, Impairment of Assets. The impairment recognition and measurement standards in SFAS 144 are significantly different from those in IAS 36, but those differences are not being addressed in the short-term convergence project.

Deloitte published a special global edition of the IASPlus newsletter with details about ED 5. You can download it from: www.iasplus.com/ iasplus/iasplus.htm.

You can download ED 5 from the IASB's website: www.iasb.org.uk.

IASB ISSUES ED 5 ON INSURANCE CONTRACTS

The IASB has issued Exposure Draft ED 5, Insurance Contracts. Comment deadline is 31 October 2003. ED 5 sets out the Board's proposals in Phase I of a two-part project. ED 5 provides guidance on applying existing IFRS to accounting insurance contracts and requires additional disclosures. The Board intends this Standard to be effective in time for the changeover to IFRS in Europe in 2005.

Phase II is a comprehensive project that is taking a complete fresh look at insurance accounting. We have prepared a special global edition of our IASPlus newsletter summarising the proposals in the exposure draft. It can be downloaded from **www.iasplus.com**.

Here are some of the key proposals:

- In recognising and measuring insurance liabilities, catastrophe and equalisation provisions would be prohibited.
- An insurer must carry out a loss recognition test relating to losses already incurred at each balance sheet date and, if necessary, adjust its insurance liabilities through net profit or loss.
- In applying IAS 39, an insurer would not be required to separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount. But that exception would not apply if the surrender value varies based on the change in an equity or commodity price or index.
- If an insurance contract contains both an insurance component and a deposit (investment) component, the deposit component must be treated as a financial liability or financial asset under IAS 39. As a result, the insurer would not recognise premium receipts for the deposit component as revenue.
- The fair value of a demand feature (such as a demand deposit) can be no less than the amount payable on demand. Cash surrender and maturity values of many traditional insurance contracts would not generally be classified as a deposit component.
- Insurance liabilities cannot be offset against related reinsurance assets.
- Income and expense from reinsurance contracts cannot be netted against related expense or income from the underlying insurance contracts.
- ED 5 would not require discounting or specify a discount rate.
- ED 5 would not prohibit or require deferral of policy acquisition costs.
- ED 5 would not require all insurance subsidiaries of a single parent to use same accounting policies.
- An insurer cannot change the measurement basis for its insurance liabilities simply by the purchase of reinsurance.
- Many new disclosures are proposed, including fair values of insurance assets and insurance liabilities (starting for financial statements for years ended 31 December 2006).

You can download the full text of our letter of comment at: www.iasplus.com/ links/comment.htm

DELOITTE COMMENTS ON IFRIC D1, EMISSION RIGHTS

The Deloitte letter of comment on IFRIC Draft Interpretation D1, Emission Rights, expressed agreement with the general conclusions in the draft Interpretation, particularly that emission rights are intangible assets and not financial assets; receipt of the emission right is a government grant; and emission rights received can not be offset against the liability caused by emitting pollutants.

However, as regards the accounting for government grants arising from emission trading schemes, we expressed some concerns:

- We have concerns as to the effects this interpretation may have on the accounting for government grants not within the scope of this Interpretation. Specifically, the prohibition of the allowed alternatives in IAS 20 because "…this would not be a faithful representation of the resources that the entity controls…" could be interpreted as a removal of this option from IAS 20. That is, when would an understatement of the assets received as a result of the allowed alternative be a faithful representation? This does highlight an issue with respect to IAS 20, but the issue is not particular to emission rights and should be considered at a wider level. If it is concluded that the options in IAS 20 undermine the quality of financial information reported, IAS 20 should be amended.
- The conclusion by the IFRIC (as directed by the IASB) to prohibit options in a Standard creates confusion as to the role of the IFRIC. We understand the mandate of the IFRIC allows it to set new standards and interpret existing standards. However, this decision apparently allows (and encourages) the IFRIC to take on its own improvements project – a result we do not support.
- We also understand the IASB has two projects (IAS 20 and IAS 38) that could, when finalised, potentially amend the requirements of this Interpretation. As a general matter, we question whether the IFRIC should interpret a Standard the IASB intends to replace or withdraw in the near term.

The World Standard Setters Conferences are open to public observation.

IASB HOSTS A WORLD STANDARD SETTERS' CONFERENCE

The IASB hosted a meeting of representatives of over 40 world accounting standard setting bodies in September 2003 in London. The agenda included:

- **Financial reporting by small and medium-sized entities (SMEs).** This was a technical discussion of the IASB project and the proposed approach to SME reporting. There was a short plenary session introducing the topic, followed by breakout sessions. The World Standard Setters expressed overwhelming support for the IASB to develop standards for SMEs.
- **Convergence, harmonisation, and first-time adoption of IFRSs.** Participants discussed specific issues likely to be encountered in moving to IFRSs, including business combinations, hedge accounting, and tangible and intangible assets.
- **Reporting comprehensive income.** This was a technical discussion of the proposed reporting format developed by the IASB (see project summary elsewhere in this newsletter).

A similar conference has been scheduled for 27 September 2004 in London.

An observer from Deloitte Touche Tohmatsu attends every IASB meeting, and we publish the Board's tentative decisions on our web site, www.iasplus.com, usually the next day.

IASB AGENDA PROJECT UPDATES

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

This project is a limited scope project addressing only costs incurred in exploration and evaluation activities. The IASB's predecessor (IASC) published a comprehensive discussion paper broadly addressing accounting in the extractive industries.

PROJECT UPDATE: EXTRACTIVE INDUSTRIES

Status. At its meeting in April 2003, the Board decided to issue interim guidance on how IFRS should be applied to exploration and evaluation costs incurred in the oil and gas and mining industries (extractive industries).

Key decisions to date. In September, the IASB approved in principle the proposals that will be included in an exposure draft. The ED would clarify that:

- IFRS apply to entities in the extractive industries. Thus, exploration and evaluation costs would be added to the scopes of both IAS 16 and IAS 38 (those Standards currently exclude such costs).
- Costs incurred in exploration and evaluation could continue to be accounted for using existing accounting policies.
- If an entity's accounting policies treat exploration and evaluation costs as assets, it will not be required to apply the concept of cash generating units as defined in IAS 36, Impairment of Assets, for the purpose of testing for impairment tests. The ED will propose a different cash generating unit for the extractive industries.
- All capitalised exploration and evaluation costs will be subject to an annual impairment test.

What's next? Exposure draft in fourth quarter of 2003, final standard in 2004, effective for 2005.

You can download our comment letter at: www.iasplus.com links/comment.htm.

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

PROJECT UPDATE: SHARE-BASED PAYMENT

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

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

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

What's next? Final standard in first quarter of 2004, effective for 2005. The US FASB plans to approve, in the first quarter of 2004, an exposure draft that is broadly consistent with the IASB standard.

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

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE I

Status. Exposure drafts were issued in December 2002, one proposing a new IFRS to replace IAS 22, Business Combinations, and the other proposing amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets. Key proposals:

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

Consideration of comments on the EDs. To date, the Board has not decided to change any of the foregoing key proposals, though it is re-examining issues relating to separating and measuring acquired identifiable intangible assets from acquired goodwill.

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

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE II

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

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

Decisions in third quarter 2003. Previously, the Board had concluded that if less than a 100% interest is acquired, the acquirer should recognise all of the goodwill of the acquiree, not just the acquirer's share. This is called the 'full goodwill method'. During the third quarter the Board discussed how to allocate the full goodwill and any subsequent impairments of that goodwill between the majority and minority investors.

What's next? The Board will issue an exposure draft on application of the purchase method before the end of 2003, with a final standard in 2004. The proposed effective date is expected to be 1 January 2006, with earlier application optional. The requirements would have to be applied retrospectively, unless impracticable. However, all business combinations that occur after the earliest business combination that has been retrospectively restated must also be restated.

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

The revisions to IAS 27 and SIC 12 are not expected to be effective for 2005 reporting.

CONSOLIDATION, INCLUDING SPECIAL PURPOSE ENTITIES

Status. The Board is developing an exposure draft that would replace both IAS 27 and SIC 12.

Key decisions to date. Control would continue to be the basis for consolidation. The Board has tentatively developed the following criteria for assessing control:

- the ability to set strategic direction and to direct financing and operating policy and strategy;
- the ability to access benefits; and
- the ability to use such power so as to increase, maintain or protect the amount of those benefits.

What's next? Exposure draft some time in 2004. The Board has not indicated a target date for the final standard.

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

PROJECT UPDATE: REVENUE, LIABILITIES, AND EQUITY

Status. This project addresses three interrelated issues:

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

The IASB is focusing first on the revenue recognition component in a joint project with the FASB. The revenue recognition principles developed in this project would eliminate the inconsistencies in the existing authoritative literature and accepted practices.

The Board is exploring an approach that focuses on changes in assets and liabilities rather than a notion of completion of an earnings process. The Board has tentatively agreed that two criteria must be met to recognise revenue:

- The **elements criterion** requires that a change in assets or liabilities has occurred, specifically:
  –An increase in assets has occurred that increases equity, without a commensurate investment by owners; and
  –A decrease in liabilities has occurred that increases equity, without a commensurate investment by owners (such as the forgiveness by owners of a debt owed to them by the entity).

- The **measurement criterion** requires that the change in assets or liabilities can be appropriately measured, specifically:
  –The assets or liabilities are measured by means of a relevant attribute; and
  –The increase in assets or decrease in liabilities is measurable with sufficient reliability.

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

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

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

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

There's a summary of these changes at: www.iasplus.com/agenda/ias39rev.htm.

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

Status. Exposure draft was issued in July 2002 proposing some major amendments to IAS 32 and IAS 39 on financial instruments. In August 2003, the Board issued a separate exposure draft on macro hedging issues (see story page 4).

Board deliberations during third quarter 2003. The Board made the following decisions:

- **Purchased loans.** The Board agreed IAS 39 should permit purchased loans to be classified as originated loans if they met the criteria for originated loans. However, if they are purchased for trading, then they must be included in financial assets held for trading.
- **Transaction costs.** Transaction costs can include both external and internal costs, as long as they are direct costs of acquiring financial assets (rather than allocated costs). Also, transaction costs should not be included in the initial measurement of financial assets held for trading.
- **Loan commitments.** The Board agreed that loan commitments at rates other than market rates of interest should be treated as financial guarantees. Therefore, they are accounted for under IAS 39 at initial recognition and under IAS 37 subsequently. Loan commitments at market are excluded from IAS 39.
- **Financial guarantees.** The Board agreed that these should initially be measured at fair value. Subsequent measurement should be the higher of the initial measurement and the best estimate as defined in IAS 37. The Board noted that IAS 37 only applies here for measurement purposes and not for recognition.
- **Hedging interest rate risk on held-to-maturity financial assets.** The Board agreed to prohibit the interest rate risk on held-to-maturity financial assets to be a hedged item for hedge accounting purposes.
- **Changes in credit risk in the fair value measurement of financial liabilities.** The Board reaffirmed that changes in fair value should be recognised in the income statement and agreed to add disclosure requirements on the credit risk. The staff will present examples to the Board for discussion at the September meeting.
- **Initial measurement of financial instruments.** The Board agreed to retain the provisions in the exposure draft and not to clarify further the principles of initial measurement of financial instruments.
- **Prospective effectiveness test.** The Board agreed to modify paragraph 146 of IAS 39 by introducing the words "highly effective" in place of "almost fully offset". The 80%-125% hedge effectiveness guideline – which currently applies in assessing retrospectively whether a hedge has been highly effective – would be retained. As a result, the range of 80%-125% could become the guideline for prospective hedging designation as well as for retrospective effectiveness testing, which would converge with the US practice.
- **Designation of a derivative.** The Board agreed that a derivative should not be designated as a hedging instrument for only a portion of the time period during which the derivative remains outstanding.
- **Effective interest rate calculations.** The Board agreed that the effective interest rate should be determined based on the expected period to prepayment, where this can be determined reliably, for financial instruments held at amortised cost with a call, put, prepayment, or term extension option. Where the prepayment cannot be reliably determined there is a default to the full contractual period. Credit losses incurred would be taken into account in determining the effective interest rate in these circumstances.

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

- **Hedge accounting -- Internal transaction.** The Board reaffirmed its position that internal transactions related to hedge accounting should be eliminated for consolidation purposes (as required in IAS 27). US GAAP allows an exception in specific cases.
- **IAS 39: Loan servicing rights.** The Board agreed that loan servicing rights could be designated as hedged items provided that the hedge conditions were met.
- **IAS 39: Originated loans.** The Board agreed to amend the definition of originated loans and receivables and to restrict the loans and receivables category to exclude those where the holder may not recover substantially all of its initial investment other than because of credit deterioration.
- **Transition to Revised IAS 32 and IAS 39.** The Board agreed to extend the proposed amendment to IFRS 1 to permit an entity that adopts IFRS for the first time before 1 January 2006 to present comparative information in the first year of adoption of IFRS that does not comply with IAS 39 and with the revised IAS 32.

What's next? The final amendments to IAS 32 and IAS 39 will be issued in two stages. The first versions of IAS 32 and 39, which will be issued before the end of 2003, will include all decisions other than macro hedging. The second and final versions, which are expected by the end of March 2004, will reflect the final macro hedging decisions. The revised Standards will be effective for 2005.

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

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

PROJECT UPDATE: DISCLOSURE OF FINANCIAL RISKS

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

Recent decisions. At its July 2003 meeting, the Board adopted the following disclosure principle for this standard:

> An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of the risks arising from financial instruments that it was exposed to during the reporting period and at the reporting date.

The Board agreed that, to implement that principle, the standard should require both qualitative and quantitative disclosures about each financial risk. The risks for which disclosure would be required would include credit risk (including credit quality of assets, collateral, and credit enhancements), liquidity risk, and market risk. Also a capital disclosure requirement would be added to IAS 1.

What's next? The Board plans to issue an exposure draft in 2004, so that entities would be able to voluntarily adopt the final standard for 2005, though the effective date is expected to be after 2005. Until the final standard is effective, IAS 30 and 32 will still apply to capital risk disclosures.

The IASB is currently rethinking the timetable for proceeding on this project.

PROJECT UPDATE: REPORTING COMPREHENSIVE INCOME (PERFORMANCE REPORTING)

Status. The Board is developing a standard for presenting performance – a new format for the traditional income statement that will reflect all items of income and expense recognised in the current period. Items would no longer be reported directly in equity; nor would recycling of items from equity into profit or loss be allowed.

Key decisions to date. This is a presentation project that will not change any recognition or measurement standards. The Board will propose a three column statement of comprehensive income as follows:

	Total	Profit Other Than Remeasurements	Remeasurements
Operating Profit	xxx	xxx	xxx
Other Business Profit	xxx	xxx	xxx
Financial Income	xxx	xxx	xxx
Business Profit	xxx	xxx	xxx
Financing Expense	xxx	xxx	xxx
Income Taxes	xxx	xxx	xxx
Discontinuing Operations	xxx	xxx	xxx
Cash Flow Hedges	xxx	xxx	xxx

During the third quarter of 2003, the Board considered how comparative financial data would be presented in the statement of comprehensive income and concluded that only the total column would be presented for the comparative prior period (as shown below). However, comparative figures are required for all three columns in the notes.

Total Year N-1	Total Year N	Profit Other Than Remeasurements Year N	Remeasurements Year N
xxx	xxx	xxx	xxx

What's next? IASB staff conducted some field-tests of the proposals. The Board is assessing the results. It has recently announced that the timing of the exposure draft is under review. In any event, the Board has indicated that it does not expect to make a final standard mandatory in time for 2005 financial reporting.

The IASB and the FASB will meet jointly in October 2003 in Toronto, Ontario, Canada, and again in October 2004 in Norwalk, Connecticut, USA.

PROJECT UPDATE: CONVERGENCE – SHORT-TERM ISSUES: IFRS AND US GAAP

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

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

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

Recent deliberations. During the third quarter of 2003, Board deliberations addressed convergence issues relating to the following Standards:

IAS 12. The Board agreed (vote 12-2) that an entity should provide deferred taxes for future income taxes payable on the undistributed earnings of subsidiaries. The Board agreed to view a subsidiary as an investment and not as consolidated assets and liabilities that should be treated at a group level. Moreover, it was specified that the deferred tax is neither linked to the control notion nor to the distribution of dividends. Therefore a liability exists and should be recognised based on the difference between the carrying value of the subsidiary and the expected recoverable amount of the investment, this include retained earnings.

IAS 19. The Board agreed to add the following additional disclosure requirements related to defined benefit plans:

- Five-year history of the surplus/deficit and (asset and liability amounts should be presented separately).
- Five-year history of experience adjustments.

IAS 37. The Board decided to amend the definition of a contingent liability in IAS 37 'a contingent liability is a conditional obligation that arises from events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the entity'.

What's next? Exposure drafts are expected in the fourth quarter of 2003 (except for employee benefits), with final standards in 2004, effective for 2005 except for segment reporting and employee benefit issues.

We can expect at least a dozen final revised IAS resulting from the Improvements Project before the end of 2003, all effective for 2005.

PROJECT UPDATE: IMPROVEMENTS TO IFRS

Status: In May 2002, the IASB published an exposure draft of proposed amendments to 15 standards and consequential amendments to a number of other standards. The Board received over 150 letters of comment on its exposure draft. Its consideration of those comments is essentially finished.

What's next? Final standards are planned for the fourth quarter of 2003, effective for 2005. The Board has announced that it will make available on its website, but only to subscribers, the 'preliminary final' texts of Standards being revised under the Improvements Project. Two such preliminary final Standards (IAS 10, Events after the Balance Sheet Date, and IAS 33, Earnings per Share) have been posted.

The IASB has not yet decided the name by which its standards for SMEs would be referred in the auditor's report or in the basis for presentation note.

PROJECT UPDATE: STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES

Status. The basic intention of the IASB's project to develop standards for small and medium-sized entities (SMEs) is to reduce the burden of disclosure and to preserve the recognition and measurement principles of the IFRSs unless, with Board approval, a case can be made on cost-benefit grounds for some simplifications of IFRS standards applicable to SMEs. As of July, this project has moved to the Board's active agenda.

Key decisions to date. The IASB's SME GAAP should:

- be built on the same concepts as IFRS;
- allow easy transition to full IFRS for those SMEs that prosper; and
- focus on meeting the needs of users of SME financial reports.

An advisory panel has been formed to assist the Board in identifying the issues and evaluating the alternatives.

The Board made the following decisions at its September 2003 meeting:

- The Board should describe the characteristics of SMEs for which it intends the standards, but not prescribe quantitative 'size tests'. National jurisdictions should determine which, if any, entities should be permitted or required to follow IASB SME standards.
- Development of IASB SME standards should start by extracting the fundamental concepts from the IASB Framework and the principles and guidance from IFRSs and related Interpretations.
- Any modifications to those concepts or principles must be based on the identified needs of users of SME financial statements.
- It is likely that disclosure and presentation modifications will be justified based on user needs. However, there would be a rebuttable presumption that no modifications would be made to the recognition and measurement principles in IFRSs. Such modifications can only be justified based on user needs and cost/benefit analysis.
- If IASB SME standards do not address a particular accounting question, full IFRSs would be a mandatory fallback.
- IASB SME standards should be published in a separate printed volume. In the electronic version of the Standards, IASB SME standards should be integrated with full IFRS.

What's next? The Board has not yet adopted a timetable for the SME project. The IASB website indicates that an informal staff target is an exposure draft in 2004.

The Board has not discussed Phase II at a Board meeting since January 2003, instead concentrating its effort on the Phase I project.

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE II

Status. This longer-term project will develop a comprehensive standard on accounting for insurance contracts. Recently, the IASB has concentrated on completing the exposure draft on Phase I of this project (story on page 5).

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

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

What's next? The Board expects to issue an exposure draft in 2004. Timetable for the final IFRS is not yet announced. It would be effective after 2005.

IFRIC news on our web site:

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

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

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

Decommissioning Liabilities project: *www.iasplus.com/ ifric/decomfunds.htm*

IFRIC UPDATE

IFRIC ISSUES DRAFT INTERPRETATION ON CHANGES IN DECOMMISSIONING, RESTORATION, AND SIMILAR LIABILITIES

In September 2003, the International Financial Reporting Interpretations Committee has issued Draft Interpretation D2, Changes in Decommissioning, Restoration and Similar Liabilities.

Under IAS 37, a provision must be recognised when an asset is acquired if the acquirer is obligated to incur costs for decommissioning, restoration, and similar future activities. The costs are included as part of the cost of the asset. The proposed Interpretation deals with accounting for subsequent changes in the estimated cash flows relating to the provision. The proposed Interpretation concludes, among other things, that decommissioning, restoration, and similar liabilities should be remeasured at each balance sheet date using a current market-assessed discount rate. Comments are due by 3 November 2003.

IFRIC'S SEPTEMBER/OCTOBER 2003 MEETING

The IFRIC met on 30 September and 1 October and discussed the following topics:

- IAS 11: Combining and Segmenting Construction Contracts
- IAS 17: Whether an Arrangement Contains a Lease (Rights of Use of Assets)
- IAS 19: Multiemployer Plan Exemption
- IAS 19: Plans with a Minimum Guarantee
- IAS 29: Initial Application and Deferred Taxes
- IAS 37: Decommissioning and Environmental Rehabilitation Funds
- IAS 41: Fair Value Measurement Issues in Agriculture

FIVE DRAFT INTERPRETATIONS LIKELY BEFORE YEAR END

At the meeting of world accounting standard setters in London on 22 September 2003, the Chairman of the IFRIC indicated that IFRIC is likely to issue five draft interpretations in the fourth quarter of 2003. They will deal with:

- Rights of Use of Assets
- IAS 37, Decommissioning Funds
- IAS 19, Pension Plans with Minimum Return Guarantees
- IAS 19, Multi-Employer Pension Plans
- IAS 11, Construction Contracts

Two Draft Interpretations (D1 on Emission Rights and D2 on Decommissioning) are currently outstanding.

You will find the Trustees' search notice on the IASB website:

www.iasb.org.uk.

IASB BOARD MEMBER HARRY SCHMID WILL RETIRE IN MARCH 2004

IASB Member Harry K. Schmid will retire from the Board in March 2004, the IASC Foundation has announced. Before joining the IASB, Mr. Schmid served as a Senior Vice President of Nestlé, responsible for corporate reporting, and was involved in preparing Nestlé's financial statements for 40 years.

The Trustees of the Foundation have begun a search for another individual with a background in the preparation of financial accounts as Mr. Schmid's successor.

IVSC standards can be viewed or downloaded without charge from the IVSC Website: www.ivsc.org

GUIDELINES FOR VALUING PROPERTY UNDER IFRS

The International Valuation Standards Committee (IVSC) has published a Consultation Paper proposing guidance on the valuation of owner-occupied property under IAS 16, Property, Plant and Equipment. The IVSC's goal is consistent measurement of property that is carried at revalued amount under IAS 16. John Edge, Chairman of the IVSC said:

> *Although IAS 16 allows property to be carried at fair value in the accounts, it has no guidance on how to arrive at that fair value. Yet the national accounting and valuation standards in those countries that currently permit revaluation of assets have some significant differences. For example, 'depreciated replacement cost' is defined differently in different countries. Or, in some countries owner-occupied property is valued as if vacant; in others, it is valued on the basis of a capitalised notional lease. This can lead to differing valuation conclusions although all will be reported as 'fair value'.*

We are grateful to S&P for allowing us to post the report on the IASPlus website: www.iasplus.com/ agenda/insurei.htm

IMPACT OF ED 5 ON THE INSURANCE INDUSTRY

Standard & Poor's, the securities analysis and ratings agency, has published a report**,** *International Accounting Standards: Threat or Opportunity?*, analysing the potential impact of the IASB's Exposure Draft 5, Insurance Contracts (see story on page 6) on the insurance industry. S&P concludes that while initially insurers and reinsurers will find the introduction of IFRS to be traumatic, "ultimately, the capital markets, consumers, and the more sophisticated financial statement users will reward insurers for their improved transparency rather than penalizing them for volatility."

Benefits of adopting ED 5 that were cited by S&P, in addition to enhanced consistency and transparency, include better understanding of the risks to which insurers are exposed, and their potential rewards; more informed company managements and boards; better alignment of product pricing and financial reporting; and regulatory benefits, possibly even reduced regulatory filings and requirements.

CONVERGENCE OF IFRS AND US GAAP

IASB AND FASB CONVERGING ON PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT...

In its project on purchase method procedures, the US FASB has tentatively decided to eliminate the existing US GAAP requirement to charge to expense certain in-process research and development assets acquired in a business combination. The IASB's proposed amendments to IAS 38 clarify that, in a business combination, an acquirer must recognise separately from goodwill "any of the acquiree's in-process research and development projects that meet the definition of an intangible asset".

...BUT NOT ON TAX EFFECTS OF SHARE-BASED PAYMENT

In separate meetings in July 2003, the IASB and the FASB reached different conclusions on accounting for the income tax effects of share-based compensation transactions with employees. The IASB reaffirmed the proposal in ED 2 that all tax effects of such transactions should be recognised in profit or loss. The FASB, however, concluded that if a deduction reported on a tax return for share-based compensation exceeds the cumulative compensation expense recognised for accounting purposes, the tax benefit of the excess is a direct credit to equity, which is the existing requirement of SFAS 123, Accounting for Stock-Based Compensation.

IFRS-RELATED NEWS FROM IFAC

IFAC's website: www.ifac.org

IFAC STUDY IN REBUILDING CONFIDENCE IN FINANCIAL REPORTING

A task force commissioned by the International Federation of Accountants to address, from an international perspective, the loss of credibility in financial reporting and to suggest approaches to resolving the problem has issued its report. The report makes a number of comments with respect to accounting standards, including these:

> *It is inevitable when standards are established at the national level, even where those standards are purporting to implement an international standard, that differences will arise among countries. These issues would be of less consequence if countries adopted international standards, rather than adapted their standards to comply with them. With the exception of the E.U., this does not appear to be the approach being adopted by most of the developed countries.*

- ❑ *We support IFRSs becoming the worldwide standards for accounting. We believe that, as soon as possible, international standards should replace national standards.*
- ❑ *We support the general approach of IASB in setting principles-based standards, rather than establishing lengthy lists of detailed rules. A rules-based approach encourages a legalistic approach and the finding of loopholes, rather than attention being given to the objectives and principles of the standard. The principles-based approach requires the use of more judgment by management and by the auditor.*
- ❑ *We recommend that the convergence process for international accounting standards be given a greater sense of urgency; this will require extensive cooperation between IASB and national standard setters.*

IFAC INVITES COMMENT ON MEMBERS' IFRS OBLIGATIONS

The International Federation of Accountants is seeking comments on seven proposed Statements of Membership Obligations (SMOs), including one that sets out the obligations of IFAC's member bodies with respect to International Financial Reporting Standards. The IFRS SMO is as follows:

> *Member bodies of IFAC should support the work of the IASB by bringing to the notice of their members every IFRS and by using their best endeavors:(i) To persuade governments and standard setting bodies that published private sector financial statements should comply with IFRSs;(ii) To persuade authorities controlling securities markets and the industrial and business community that published private sector financial statements should comply with IFRSs and disclose the fact of such compliance;(iii) To foster acceptance of IFRSs internationally; and(iv) To monitor compliance with IFRS by reviewing financial statements purporting to comply with IFRS to the extent that such engagements are included in the scope of the quality assurance review program established by Statement of Membership Obligation 1 – Quality Assurance.*

The SMOs will be the foundation of IFAC's new compliance programme. Each of IFAC's 155 member bodies will be required to report on the extent to which they are complying with each of the SMOs. In areas where they are not complying, member bodies will be asked to develop actions plan outlining how and when they plan to meet their compliance responsibilities. The effective dates for the SMOs will vary, with those relating to professional standards having a proposed effective date of March 31, 2004.

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

UPCOMING MEETINGS

IASB and SAC MEETINGS 2003	
Toronto, Canada	20 and 22-24 October 2003. Meeting will include joint sessions with the US Financial Accounting Standards Board and the Accounting Standards Board of Canada.
London, UK	17-19 November 2003 20-21 November – Meeting with Standards Advisory Council.
London, UK	17-19 December 2003
IASB and SAC MEETINGS 2004	
London, UK	21-23 January 2004
London, UK	18-20 February 2004 23-24 February 2004 – Meeting with Standards Advisory Council
London, UK	17-19 March 2004
London, UK	21-23 April 2004 26-27 April 2004 – Meeting with chairs of Partner National Standard Setters
London, UK	19-21 May 2004
Oslo, Norway	21-23 June 2004 24-25 June 2004 – Meeting with Standards Advisory Council
London, UK	21-23 July 2004
London, UK	22-24 September 2004 27 September 2004 – Meeting with World Standard Setters 28 September 2004 – Meeting with chairs of Partner National Standard Setters
Norwalk, Connecticut, USA	20-22 October 2004
London, UK	15-17 November 2004 18-19 November 2004 – Meeting with Standards Advisory Council
London, UK	15-17 December 2004

IFRIC MEETING 2003	
London, UK	2-3 December 2003
IFRIC MEETINGS 2004	
London, UK	3-4 February 2004
London, UK	23-24 March 2004
London, UK	4-5 May 2004
London, UK	3-4 June 2004
London, UK	29-30 July 2004
London, UK	7-8 October 2004
London, UK	2-3 December 2004

IASC FOUNDATION TRUSTEES MEETING 2003	
Brussels, Belgium	4 November 2003

IFRS-RELATED NEWS FROM THE UNITED STATES

PCAOB website:
www.pcaobus.org

US PCAOB PROPOSES STANDARD ON INTERNAL CONTROL

The US Public Company Accounting Oversight Board has proposed its first auditing standard, titled "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements". The proposal would apply to non-US SEC registrants, but with delayed implementation.

The proposal essentially requires an integrated audit with two audit opinions: one on the effectiveness of internal control over financial reporting and one on the financial statements. Auditors of US companies with public equity float exceeding $75 million will be required to audit and report on the company's internal controls over financial reporting for fiscal years ending on or after 15 June 2004. Auditors of smaller companies, foreign private issuers, and companies with only registered debt securities have until fiscal years ending on or after 15 April 2005 to comply.

REPORT ON SARBANES-OXLEY ACT AFTER ONE YEAR

The US House of Representatives Committee on Financial Services has released a report, Rebuilding Investor Confidence, Protecting US Capital Markets, reviewing the impact of the Sarbanes-Oxley Act of 2002 one year after its enactment. A section of the report reviews how the Act has begun to create "a level playing field for international companies and auditing firms", including a review of steps taken by the European Commission.

The report also includes a summary of the findings of a study by Huron Consulting Group of restatements of financial statements filed with the Securities and Exchange Commission.

Full text of Chairman Donaldson's remarks:
www.sec.gov/news/speech/spch092503whd.htm

SEC CHAIRMAN'S REMARKS ON CONVERGENCE

In a speech before the Foreign Policy Association in New York, SEC Chairman William H. Donaldson made the following comments about the convergence of IFRS and US GAAP:

> *We are also working hard to accelerate progress on a number of other important international issues. One such issue is the convergence of international accounting standards and the Generally Accepted Accounting Principles used in the United States. While sounding arcane, this issue has major implications for cross-border business. If the difficult issues involved in convergence can be resolved — no easy task for sure — investors and issuers alike will benefit, by increasing comparability and reducing the cost of capital.*

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

SEC REQUIRES REPORTS ON INTERNAL CONTROL WITH AUDITOR ATTESTATION

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

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

More information:
http://www.sec.gov/news/press/2003-86.htm

SEC PUBLISHES STUDY ON PRINCIPLES-BASED ACCOUNTING

The US Securities and Exchange Commission has released a staff study on the adoption of a principles-based accounting system for US financial reporting. The study was conducted pursuant to the provisions of Section 108(d) of the Sarbanes-Oxley Act of 2002 and has been submitted to committees in both Houses of the US Congress. The study recommends that accounting standards should be developed using a principles-based approach and that such standards should have the following characteristics:

- Be based on an improved and consistently applied conceptual framework.
- Clearly state the accounting objective of the standard.
- Provide sufficient detail and structure so that the standard can be operationalised and applied on a consistent basis.
- Minimize the use of exceptions from the standard.
- Avoid use of percentage tests ("bright-lines") that allow financial engineers to achieve technical compliance with the standard while evading the intent of the standard.

The SEC study noted that:

> *An additional benefit is the facilitation of greater convergence between US GAAP and international standards. Standard setters can come to an agreement on a principle more rapidly than they can on a highly detailed rule. The benefits of convergence include greater comparability and improved capital formation globally.*

NEWS ABOUT IFRS IN EUROPE

More information:
http://europa.eu.int/

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

EUROPEAN COMPLETES ENDORSEMENT OF IFRS (EX 32/39)

The European Commission has formally adopted a regulation endorsing IFRS and related interpretations, as recommended by the Commission's Accounting Regulatory Committee in July. The endorsement confirms that IFRS must be followed under the terms of the general IAS Regulation adopted by the European Parliament and the Council in 2002.

The Commission's endorsement covers all existing IASB standards and interpretations except for IAS 32 and IAS 39 and related SICs 5, 16, and 17. IAS 32 and 39, which deal with financial instruments, are not included because they are currently being revised by the IASB. The EC has said that the endorsed IFRS will shortly be published in the official EU languages in the Official Journal of the EU. In total, there are at present 34 existing IASs (including IAS 32 and IAS 39) and 31 existing interpretations (including SICs 5, 16, and 17), which cover about 1,500 pages.

More information:
www.europefesco.org/v2/default.asp

DISCLOSING THE IMPACT OF ADOPTING IFRS IN EUROPE

The Committee of European Securities Regulators has invited comments on a draft recommendation on how companies should communicate the impact of the transition to IFRS in 2005. Comments are requested by 20 November 2003. The draft recommendation includes CESR's proposed responses to the following questions:

- What information should companies publish before 1st January 2005, the most common effective date of transition to IFRS, to explain to investors the potential impact of the new standards?
- Which accounting rules should be adopted by issuers for preparing quarterly (where applicable) and half-year interim financial data that will be released in 2005?
- How can comparability be achieved between interim or annual financial information for 2005 and earlier equivalent periods, to ensure investors can effectively interpret the financial statements?

More information:
www.europefesco.org/
v2/default.asp

CESR SEEKS COMMENTS ON SEVERAL DISCLOSURE ISSUES

The Committee of European Securities Regulators has invited comment on several issues for implementing the single prospectus directive. Comments are due by 30 October 2003. The issues are set out in a consultation paper and include the historical financial information that should be included in prospectuses of business enterprises and the extent to which it should be restated to conform to IFRS.

More information:
www.europefesco.org/
v2/default.asp

ENFORCING IFRS IN EUROPE

The Committee of European Securities Regulators has invited comments on its draft Standard No. 2, Financial Information – Co-ordination of Enforcement Activities. The draft proposes greater co-ordination among supervisors of financial information in Europe. It also proposes a set of standards on enforcement activities to accomplish this, including co-ordination on a pan-European level. CESR will hold an open hearing on the proposal on 12 November 2003. Written comments are due 7 January 2004.

GERMANY: NON-LISTED COMPANIES CAN USE IFRS

Non-listed companies in Germany will be permitted to use IFRS, rather than German GAAP, to prepare their consolidated financial statements starting in 2005. For both listed and non-listed companies, statutory (individual company) financial statements would continue to follow German GAAP, though IFRS accounts may be presented in addition. Listed German companies are required to switch to IFRS in their consolidated statements starting in 2005 under the European Accounting Regulation.

More information:
www.drsc.de

GERMANY: ASB ALIGNS WORK PROGRAMME TO IFRS

The German Accounting Standards Board has revised its work programme to make cooperation with IASB and other major national standard setters its primary objective. "Projects to further German financial reporting will take a lesser role."

More information:
www.swx.com

ONLY IFRS OR US GAAP ON SWISS STOCK EXCHANGE

Starting with annual reports for 2005 and interim reports for 2006, all Swiss companies whose equity shares are listed on the main board of the Swiss Exchange will be required to prepare their financial statements using either IFRS or US GAAP. Swiss GAAP will not be permitted.

Foreign listed companies may continue to use a national GAAP that the Exchange deems to be equivalent to IFRS or US GAAP. The main board lists the shares of approximately 200 Swiss and 130 non-Swiss companies.

Irish Institute website:
www.icai.ie/

IRISH INSTITUTE URGES IFRS FOR ALL DOMESTIC COMPANIES

The Institute of Chartered Accountants in Ireland has recommended to the Irish government that IFRS be required for "all companies in the Republic with a three-year transitional period to be applied to facilitate the changeover".

ESTONIA REQUIRES IFRS IN SEPARATE-COMPANY ACCOUNTS

In addition to requiring listed companies to use IFRS in their consolidated financial statements starting in 2005, as mandated by the European accounting regulation, Estonia will require all listed companies apply IFRS in their separate company accounts from 1 January 2005.

More information: www.fsa.gov.uk.

UNITED KINGDOM: SECURITIES REGULATOR WARNS ON IFRS

In a letter to all companies listed on the London Stock Exchange, the Director of Listing of the Financial Services Authority of the United Kingdom issued a stern warning to be prepared to make the change to IFRS. He wrote:

> *For a company with a reporting date of 31 December 2005, the date of its transition to IFRS will be 1 January 2004. This means such a company will be required to prepare comparative IFRS accounts for 2004...I am very concerned to learn that many issuers are poorly prepared for these changes...I appreciate that the timetable is made more difficult, given the fact that not all the relevant standards have been agreed and some have not yet been published. Nevertheless a consequence of not being in a position to adopt IFRS will be that issuers are unable to meet the reporting requirements and deadlines of the listing rules. Failure by issuers to submit preliminary or interim results within the required timescale is likely to result in the suspension of the issuer's securities.*

More information: www.dti.gov.uk.

ALL UNITED KINGDOM COMPANIES WILL BE PERMITTED TO USE IFRS

The United Kingdom Department of Trade and Industry has announced its intention to permit, starting January 2005, all British companies to use International Financial Reporting Standards as an alternative to UK accounting standards. European law already requires listed companies to use IFRS from 2005 in preparing their consolidated accounts. In the UK, that requirement is expected to be extended so that, starting January 2005:

- publicly traded companies in the UK will also be permitted to use IFRS in their individual accounts; and
- other companies and limited liability partnerships in the UK will be permitted to use IFRS in both their individual and consolidated accounts.

The UK government's announcement that non-listed UK companies are expected to be allowed to decide between International Financial Reporting Standards and UK GAAP was welcomed by Deloitte & Touche – but with a caution that UK GA AP changes over the next few years should be left to a minimum so that the benefits for companies afforded by this decision are not endangered.

More information: www.icaew.co.uk/

UNITED KINGDOM: IFRS WILL AFFECT SMALL COMPANIES

Many smaller companies may be assuming wrongly that International Financial Reporting Standards will not affect them, the Institute of Chartered Accountants in England & Wales has warned. Although IFRS will be optional, rather than mandatory, for unlisted UK companies, the UK's Accounting Standards Board intends to converge UK GAAP with IFRS. These revised UK standards will apply to all UK companies, whether large or small

More information: www.icaew.co.uk/

UNITED KINGDOM: CONVERGENCE HANDBOOK UPDATED

The Institute of Chartered Accountants in England & Wales has issued the fourth update of its Convergence Handbook, originally published in November 2000. The Handbook compared IFRS and UK GAAP. This new update, which replaces all previous updates, reflects the effects of standards and exposure drafts issued by the IASC, the IASB, and the UK Accounting Standards Board up to the end of August 2003.

DENMARK: PROPOSAL TO EXTEND THE SCOPE OF IFRS

Denmark is a member of the European Union, and its listed companies will be required to adopt IFRS in their consolidated financial statements starting in 2005. The Danish Parliament has invited public comment on proposed legislation that would:

- Require the use of IFRS in individual company financial statements if an entity uses IFRS in its consolidated statements.
- Permit non-listed companies to choose to follow IFRS, instead of Danish GAAP, in both their consolidated and individual company statements.

The draft legislation does not include a proposed starting date for use of IFRS in place of Danish GAAP but leaves this for the Minister of Economic and Business Affairs to determine (through an executive order) at a later stage. Danish listed companies are already permitted to use IFRS provided that they also comply with the provisions of the Danish Financial Statements Act.

USE OF IFRS ELSEWHERE IN THE WORLD

PHILIPPINES PROPOSES TO ADOPT IFRS STARTING 2005

The Senate of the Philippines is considering a bill, known as the Philippine Accountancy Act of 2003, that would require that "the Board [Professional Regulatory Board of Accountancy] and the [Professional Regulation] Commission adopt the International Accounting Standards (IAS) and the International Standards on Auditing (ISA) issued or adopted by the International Federation of Accountants (IFAC) as the Philippine accounting and auditing standards with full implementation effective January, 2005.

"For this purpose, an accounting standard council and auditing standard practices council shall be organized by the Board with the approval of the Commission to determine implementing guidelines and interpretations on the applications of the IAS and ISA subject to the approval of the Board and the Commission."

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

AUSTRALIA SHOULD NOT MODIFY IFRS FOR DOMESTIC USE

The Australian Accounting Standards Board has recently begun a programme to adopt International Financial Reporting Standards as Australian GAAP. But the AASB has indicated that it might make some modifications to IFRS for use in Australia. The AASB invited comments on that approach.

In a story titled "Keep Global Rules Intact, Say Big Four", the Melbourne Age newspaper reports that responses to the AASB from Deloitte Touche Tohmatsu, PricewaterhouseCoopers, KPMG and Ernst & Young and from senior finance executives of listed companies have said that "the AASB should adopt the international literature without local modifications". Also, the AASB has announced that it will not adopt the Australian 'equivalents' of IFRS in phases, as previously announced, but instead will adopt all of them in a single batch, most likely in April 2004.

South African Institute of Chartered Accountants: www.saica.co.za.

SOUTH AFRICAN INSTITUTE GIVES MEMBERS IFRS ON LINE

The South African Institute of Chartered Accountants (SAICA) has given its members access to the International Financial Reporting Standards, Interpretations of International Financial Reporting Standards, and other IASB pronouncements on the SAICA website at www.saica.co.za. All listed companies in South Africa must follow IFRS for years commencing on or after 1 January 2005.

PUBLICATIONS FROM DELOITTE

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

NEW UNITED KINGDOM EDITION OF IASPLUS NEWSLETTER

The London IFRS Centre of Excellence of Deloitte & Touche (UK) has begun publishing a United Kingdom edition of our quarterly IASPlus newsletter. As with our other editions of IASPlus, you can download the UK edition on our **www.iasplus.com** website.

EXECUTIVE BRIEFINGS ON ED 5, INSURANCE CONTRACTS

Deloitte Touche Tohmatsu has published three Executive Briefings on IASB Exposure Draft ED 5, Insurance Contracts:

- Global Perspective (in English)
- United Kingdom Perspective (in English)
- Denmark Perspective (in Danish)

All are available at **www.iasplus.com**.

SURVEY OF ASSUMPTIONS USED FOR EMPLOYEE BENEFIT CALCULATIONS

Deloitte & Touche (USA) has published its annual Survey of Economic Assumptions Used for SFAS No. 87 and SFAS No. 106 Purposes. Those two FASB Standards require the use of discount rates and other assumptions in measuring an entity's obligations under pension plans (SFAS 87) and other post-employment benefit plans (SFAS 106). IAS 19, Employee Benefits, contains similar requirements. This survey reports on the disclosures made by 287 companies about their SFAS 87 and SFAS 106 assumptions.

TAX IMPACT OF ADOPTING IFRS: UNITED KINGDOM ALERT

Deloitte & Touche (United Kingdom) has published the first in a series of Alerts describing tax implications of adopting International Financial Reporting Standards. The Alert notes: The Inland Revenue position is that they do not believe IAS requires wholesale tax changes but there are circumstances where it is, or would be, 'good policy' to depart from following the accounts for tax purposes. Future Alerts will focus on transfer pricing and financial instruments, among other issues.

NEWSLETTER EXPLAINING IFRS 1 IN DANISH

Deloitte & Touche (Denmark) has published a newsletter about IFRS 1, First-time Adoption of IFRS. The newsletter summarises the requirements and options in the standard, discusses a number of unresolved issues, and includes our recommendations to listed companies in the Danish market place.

DELOITTE & TOUCHE PUBLICATION ON NON-GAAP FINANCIAL MEASURES

In January 2003, the SEC adopted new rules that address public companies' disclosure of financial information calculated and presented on the basis of methodologies other than GAAP. A new disclosure regulation, Regulation G, requires companies to provide certain disclosure whenever they publicly disclose or release non-GAAP financial measures. In June 2003 the SEC staff released Frequently Asked Questions (FAQ) relating to the new rules. Deloitte & Touche has published a brochure that summarises and clarifies significant provisions of the rules based on the FAQ and discussions with the SEC staff. Several sections focus on foreign private issuers.

AUSTRALIA

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The Australian Accounting Standards Board (AASB) has recently announced a change to the process for issuing IFRS converged Australian Standards. Due to the inter-relationships that exist within IFRS and the legal environment in Australia, all Standards must be issued concurrently to ensure that they are not invalidated. Therefore a full set of final IFRS converged AASB Standards will be issued at the same time, that is after the IASB has finalised all IFRS applicable from 1 January 2005, in April/May 2004. Until then, the AASB will progressively approve the contents of proposed new/revised converged AASB Standards which will be included on the AASB website as 'Proposed Standards'. Until such Standards are formally enacted, early adoption will not be possible – the AASB are still deciding whether piecemeal early adoption of some, but not all, the IFRS converged AASB Standards will be permitted.

In line with the AASB's strategy of adoption of IFRS as equivalent AASB Standards, several Exposure Drafts have recently been issued:

- ED 115, Request for Comments on IAS 19 Employee Benefits
- ED 116, Request for Comments on IAS 2 and IPSAS 12 Inventories
- ED 117, Request for Comments on IASB ED 4 Disposal of Non-Current Assets and Presentation of Discontinued Operations
- ED 118, Request for Comments on IAS 11 Construction Contracts
- ED 119, Request for Comments on IAS 14 Segment Reporting
- ED 120, Request for Comments on IAS 16 and IPSAS 17 Property, Plant and Equipment
- ED 121, Request for Comments on IAS 31 Financial Reporting of Interests in Joint Ventures
- ED 122, Requests for Comments on IASB ED 5 Insurance Contracts
- ED 123, Request for Comment on IASB ED of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk

Whilst it is intended that the new/revised AASB Standards will converge with IFRS, converged AASB Standards will differ from the corresponding IFRS for the following reasons:

- Wordings will be amended to accommodate the Australian legislative environment, for example, reference to the Corporations Act 2001 in the application paragraph.
- Additional text will be included in the standards for not-for-profit entities.
- In some cases the AASB may permit only one of a number of options available in the corresponding IFRS.
- The AASB may require additional disclosures, particularly where these disclosures are already required under existing AASB standards.

The Urgent Issues Group (UIG), a sub-committee of the AASB, issues Abstracts that give interpretations of existing AASB Accounting Standards. Since the last IAS Plus newsletter, the UIG has issued Abstract 54, Defined Benefit Superannuation Disclosures by Employers.

JAPAN

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

Issued	Issuer*	Document Description
7/22/03	JICPA	Auditing Committee Report No.79, Guideline for practices for change of auditors
8/1/03	ASBJ	ASB Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets (Exposure Draft)
8/1/03	BAC	BAC Statement of Opinion, Accounting for Business Combinations (Exposure Draft)

*ASBJ = Accounting Standards Board of Japan
BAC = Business Accounting Council
JICPA = Japanese Institute of Certified Public Accountants

Exposure Draft of ASB Guidance No. 6, Guidance for Accounting Standard for Impairment of Fixed Assets

Accounting Standards Board of Japan (ASBJ) announced an exposure draft of ASB Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets, on 1 August 2003. Business Accounting Council (BAC) had originally published a Statement of Opinion, Accounting for Impairment of Fixed Assets, in August 2002. ED 6 prescribes in more detail the accounting treatment for impairment of fixed assets. ED 6 is expected to have a big impact on Japanese companies due to the significant decline in the fair value of land in recent years. The expected effective date of ED 6 is for fiscal years beginning on or after 1 April 2005, and early adoption is permitted for years ending on or after March 31, 2004.

Exposure Draft of BAC Statement of Opinion, Accounting for Business Combinations

The Business Accounting Council (BAC) announced an exposure draft of a Statement of Opinion, Accounting for Business Combinations, on 1 August 2003. This exposure draft requires entities to adopt the pooling of interests method of accounting if certain specific criteria are met, and thereby the business combination is regarded as a uniting of interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is regarded as an acquisition, and the purchase method of accounting would be required. Also this exposure draft would establish standards for combinations of entities under common control and for jo int ventures. Goodwill, including negative goodwill, is to be systematically amortised over 20 years or less and is also subject to an impairment test. The expected effective date is for the fiscal years beginning on or after 1 April 2006.

NEW ZEALAND

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Recent Financial Reporting Standards Activity

The following exposure drafts were issued during the quarter by the Financial Reporting Standards Board (FRSB) in line with their strategy to adopt IFRS as equivalent FRSB standards. The exposure drafts include the international standards with additional guidance for public benefit entities incorporated in shaded boxes. The FRSB has also restricted choices and required additional disclosures to ensure that the quality of current reporting in New Zealand is not diminished (for example the direct method is required for Cash Flow Statement presentation under ED NZ IAS-7 whereas either the direct or indirect method is allowed under IAS-7):

- ED NZ IAS-1, Presentation of Financial Statements
- ED NZ IAS-2, Inventories
- ED NZ IAS-7, Cash Flow Statements
- ED NZ IAS-8, Accounting Policies, Changes in Accounting Estimates and Errors
- ED NZ IAS-10, Events After the Balance Sheet Date
- ED NZ IAS-23, Borrowing Costs
- ED NZ IAS-33, Earnings Per Share
- ED NZ IAS-37, Provisions, Contingent Liabilities and Contingent Assets
- IASB ED-4, Disposal of Non-current Assets and Presentation of Discontinued Operations
- ED NZ IASB-5, Insurance Contracts
- ED NZ SIC-29, Disclosure Service Concession Arrangements
- ED Proposed Amendments to IAS 39: Financial Instruments: Recognition and Measurement — Fair value hedge accounting for a portfolio hedge of interest rate risk
- ED IFRIC Draft Interpretation D2, Changes in Decommissioning, Restoration and Similar Liabilities

PHILIPPINES

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The table below shows the status of adoption of IFRS in the Philippines as of 1 October 2003:

	IAS No.	Philippines SFAS No.
Effective prior to 2001:		
Construction Contracts	11	26
Revenues	28	18
Borrowing Costs	23	25
Earnings Per Share	33	29
Effective 2001:		
Framework		
Presentation of Financial Statements	1	1
Inventories	2	4
Cash Flow Statements	7	22
Net Profit, Fundamental Errors and Accounting Changes	8	13
Segment Reporting	14	31
Interim Financial Statements	34	30
Effective 2002:		
Property, Plant and Equipment	16	16
Related Party Disclosure	24	24
Consolidated Financial Statements	27	27
Investments in Associates	28	28
Financial Interests in Joint Ventures	31	31
Discontinuing Operations	35	35
Impairment of Assets	36	36

	IAS No.	Philippines SFAS No.
Effective 2003:		
Events After Balance Sheet	10	10
Business Combinations	22	22
Provisions, Contingent Liabilities and Contingent Assets	37	37
Intangible Assets	38	38
Accounting for Government Grants and Disclosure of Government Assistance	20	20
Effective 2004:		
Leases	17	17
Effective 2005:		
Effects of Changes in Foreign Exchange Rates	21	21

Outstanding exposure drafts in Philippines as of 1 October 2003:

	IAS No.	ED No.	Possible Effectivity
Income Taxes	12	52	2004
Accounting & Reporting by Retirement Benefit Plans	26	53	2004
Financial Instruments: Disclosure and Presentation	32	54	2005
Financial Instruments: Recognition and Measurement	39	55	2005
Investment Property	40	56	2005
Employee Benefits	19	57	2005
Financial Reporting in Hyperinflationary Economies	29	58	2005

IAS for which Philippines exposure drafts have not yet been issued:

	IAS No.
Information Reflecting on Effects of Changing Prices	15
Disclosures in the Financial Statements of Banks and Similar Financial Institutions	30
Agriculture	41

Currently, there are two Philippines accounting standards that are not based on IAS:

- No. 8A, Deferred Foreign Exchange Differences: Will be superseded by IAS 21 once in effect in 2005.
- 19A, Accounting for Investment in Debt and Marketable Securities of Banks. Will be superseded by IAS 39, most likely in 2005.

SINGAPORE
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The following exposure drafts of proposed standards were issued:

- ED/FRS, Disposal of Non-Current Assets and Presentation of Discontinued Operations (ED/IFRS 4).
- ED/FRS, Insurance Contracts (ED/IFRS 5).
- ED Proposed Amendments to FRS 39 (IAS 39), Financial Instruments: Recognition and Measurement – Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk.

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

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

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

- ED/SAS 47, Proposed Improvements to Statements of Accounting Standards.
- ED/SAS 48, Proposed Amendments to SAS 32 (IAS 32) Financial Instruments: Disclosure and Presentation, and SAS 33 (IAS 39) Financial Instruments: Recognition and Measurement.
- ED/FRS, First-time Application of Financial Reporting Standards (ED/IFRS 1).
- ED/FRS, Share-based Payment (ED/IFRS 2).
- ED/FRS, Business Combinations (ED/IFRS 3).
- ED/FRS, Proposed Amendments to SAS 34 Intangible Assets and SAS 36 Impairment of Assets (ED Proposed Amendments to IAS 36 Impairment of Assets and IAS 38 Intangible Assets).

The following exposure draft of proposed interpretation issued in 2003 is still outstanding:

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

THAILAND

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

Under the Accountancy Act B.E. 254, Thai Accounting Standards (TAS) must be approved by the Ministry of Commerce in Thailand (MOC) and placed into law before companies are required to adopt such standards.

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

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

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

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

TAS No. 34, Trouble Debt Restructuring, and TAS No. 49, Construction Contracts, were revised and issued at the end of 2002. TAS No. 49 is based on IAS No. 11, Construction Contracts. TAS No. 46, Financial Reporting of Interests in Joint Ventures, was also revised in 2003. These revised TAS have been legally adopted under the Thai Accountancy Act.

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

The ICAAT has also drafted guidelines relating to securities borrowing and lending activities, and short sales of securities. The draft guidelines were based on TAS 36, and the US Statement of Financial Accounting Standards (SFAS) 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, and SFAS 114, Accounting by Creditors for Impairment of a Loan.

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