

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

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IAS PLUS WEB SITE

We had over 90,000 visitors during 2001 and 100,000 in the first half of 2002. Please join us at www.iasplus.com. You will find the latest IASB and IFRIC news, summaries of proposed and final pronouncements, IASB project updates, notes from IASB meetings, reference materials, disclosure checklists, IAS links, and lots more.

October 2002

Published Quarterly, Issue No. 9

IASB NEWS

Exposure Draft on First-Time Application. Comments on ED 1, First-Time Application of International Financial Reporting Standards, are due 31 October 2002. For an overview of the ED, please see page 3.

Performance reporting project will move directly to an exposure draft. The IASB will not publish a discussion paper. Page 4.

Deloitte Touche Tohmatsu policy on IFRS terminology. Financial statements should indicate that the basis of preparation is IFRS rather than IAS. Page 4.

John T. Smith, Deloitte & Touche partner, is appointed to IASB. John will hold one of the two part-time seats effective 1 October 2002. Page 5.

IASC Foundation news. New Trustee from Japan. Nominations are sought for three additional trustee seats. Page 5.

Agenda project updates.

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- ☐ Performance Reporting: page 11.
- ☐ Insurance Contracts-Phase II: page 11.

IASB-related news from the United States. SEC requires certifications by non-US CEOs and CFOs (page 12). Both SEC and FASB will study a 'principles-based' accounting system (page 14). US accounting reform legislation requires FASB to address convergence (page 14). US SEC chairman comments on accounting by foreign registrants (page 15). *Accounting Roundup*, the US accounting newsletter, is now on our web site (page 15).

Users of financial statements speak out on IASB issues.

- ☐ Analysts want FASB to follow IASB's lead on stock options (page 16).
- ☐ Analysts also see an urgent need to amend the deferral provisions of IAS 19 (page 16).
- ☐ 90% of institutional investors want unified global standards (page 16).

News about IFRS in Europe. European parliament considers a uniform prospectus for Europe (page 17). UK government is considering extending the applicability of IAS (page 17). IAS essential for consolidation of European capital markets (page 17). French bankers express concerns about IAS/IFRS (page 18). New proposal on takeover bids (page 18).

IAS/IFRS adoptions. Tajikistan (page 18). Russia (page 18).

New publications from Deloitte Touche Tohmatsu. IAS 39 guidance book (page 19). Danish introduction to IAS (page 19). Comparisons of IFRS with US GAAP and Chinese GAAP (page 19). Accounting for revenue (page 19). Consolidation of SPEs (page 19).

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TIMETABLE FOR IASB PROJECTS

During the third quarter of 2002, the IASB published the following pronouncements and proposals:

- ❑ Exposure Draft, First-time Application of International Financial Reporting Standards

The table below reflects the timetable for IASB's agenda projects based on IASB announcements and discussion at Board meetings.

TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS	
Business Combinations – Phase I	<ul style="list-style-type: none"> ❑ Exposure Draft in December 2002 ❑ Final Standard in 2nd half 2003
Business Combinations – Phase II: Application of the Purchase Method	<ul style="list-style-type: none"> ❑ Exposure Draft in 1st quarter 2003 ❑ Final Standard in 2004
Consolidation (including Special Purpose Entities)	❑ Timetable not yet established
Convergence Topics	❑ Timetable not yet established
Disclosure and Presentation of Activities of Financial Institutions	<ul style="list-style-type: none"> ❑ Exposure Draft in 2nd quarter 2003 ❑ Final Standard in 2004
First-Time Application of IFRS	<ul style="list-style-type: none"> ❑ Exposure Draft was issued July 2002 ❑ Comment deadline 31 October 2002 ❑ Final Standard in 2nd quarter 2003
IAS 32 and IAS 39 Amendments	<ul style="list-style-type: none"> ❑ Exposure Draft was issued June 2002 ❑ Comment deadline 14 October 2002 ❑ Final Standard in 1st quarter 2003
Improvements to International Accounting Standards	<ul style="list-style-type: none"> ❑ Exposure Draft was issued in May 2002 ❑ Comment deadline 16 September 2002 ❑ Final Standard in 1st quarter 2003
Insurance Contracts – Phase I	<ul style="list-style-type: none"> ❑ Exposure Draft in 1st quarter 2003 ❑ Final Standard in 2004
Insurance contracts – Phase II	❑ Timetable not yet established
Liabilities and Revenue Recognition (Concepts)	❑ Timetable not yet established
Performance Reporting	<ul style="list-style-type: none"> ❑ This is a partnership project with the UK Accounting Standards Board. ❑ Exposure Draft in 1st quarter 2003. ❑ Final Standard in 2nd half 2003.
Share-Based Payment	<ul style="list-style-type: none"> ❑ Exposure Draft in November 2002 ❑ Final Standard in 2nd half 2003

IASB PUBLISHES ED 1 ON FIRST-TIME APPLICATION OF IFRS

This Standard, if adopted, would replace SIC 8, First-Time Application of IASs as the Primary Basis of Accounting. Many have found SIC 8 burdensome because it requires complete retrospective application as if the entity's financial statements had always been prepared using the standards effective at the time of first-time application.

On 31 July 2002, the IASB issued exposure draft ED 1, First-Time Application of International Financial Reporting Standards. Comments are requested by 31 October 2002.

The purpose of the Standard is to ensure that all entities adopting IFRSs for the first time present comparative information in their financial statements that is as close as possible to the information provided by existing IFRS preparers, but within cost/benefit constraints. The proposals would allow an entity to restate information by applying either:

- ❑ the SIC 8 approach (that is, retrospective restatement using the Standards applicable at the date of transactions and their subsequent revisions and transitional provisions if applicable), except that the exception to restatement because "the amount cannot be reasonably determined" will not be available; or
- ❑ all the other proposed requirements of the Standard on the First-Time Application of IFRS if the SIC 8 approach is not used. Under this approach, an entity is required to use every IFRS current at the end of the reporting period in which it first adopts IFRS. At least one year of comparative information prepared using those same IFRSs is required.

First-time adopters of IFRSs must disclose how the transition to IFRS affected the entity's financial position, performance, and cash flows.

The table below summarises the provisions of ED 1 if an enterprise chooses to apply the specific transitional provisions in the proposed Standard and decides to adopt IFRSs in 2005 for its 31 December year-end.

PREPARING FIRST IFRS FINANCIAL STATEMENTS AS PROPOSED IN ED 1, FIRST-TIME APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. Select accounting policies based on IFRS in force at 31 December 2005.
2. Prepare 2005 and 2004 information and restate the opening balance sheet (beginning of the first period presented) using those Standards retrospectively:
 - a. Reclassify local GAAP opening balance sheet items into the appropriate IFRS classification.
 - b. Eliminate local GAAP assets and liabilities from the opening balance sheet, if they do not qualify for recognition under IFRS.
 - c. Recognise and measure under IFRS all required assets and liabilities
 - d. In preparing IFRS estimates retrospectively, use inputs and assumptions used to determine local GAAP estimates in previous periods if those inputs and assumptions are consistent with IFRS.
3. Exceptions to the general restatement principle:
 - a. Business combinations that occurred before opening balance sheet date:
 - i. Keep local GAAP accounting, that is, do not restate:
 - previous mergers or goodwill written-off from reserves
 - the carrying amounts of assets and liabilities recognised at the date of acquisition/merger
 - how goodwill was initially determined
 - ii. Must make IAS 36 impairment test of any remaining goodwill in the opening balance sheet (including potential reclassifications of local GAAP intangibles reclassified to goodwill).
 - iii. Eliminate any negative goodwill
 - b. Property, plant and equipment and investment property carried under the cost model:
 - i. If restatement requires undue cost and effort, measure the item at its fair value at the opening balance sheet date (fair value becomes the "deemed cost" under IFRS).
 - ii. Do not restate certain previous revaluations (local GAAP carrying amount becomes the "deemed cost" under IFRS).
 - c. Do not restate fair value adjustments that occurred during privatisations or initial public offerings.
 - d. Employee benefits – actuarial gains and losses: reset any corridor recognised under local GAAP to zero at the opening balance sheet date.
 - e. Accumulated translation reserves: do not restate local GAAP translation amounts that may have not been distinguished in accumulated reserves.
 - f. Hedging: conditions to qualify for hedge accounting apply as from the opening balance sheet date.

The IASB's fundamental conclusion in this project is that an entity should present a single statement showing all recognised income and expense items.

New standards issued by the IASB will be known as International Financial Reporting Standards (IFRS) rather than International Accounting Standards (IAS).

The home page of the Financial Stability Forum is www.fsforum.org/. The Finance Ministers and Central Bank Governors of the G7 countries convened the Financial Stability Forum in 1999 to promote international financial stability through information exchange and international co-operation in financial supervision and surveillance.

You can find more information about the IAASB at www.ifac.org/IAASB/.

PERFORMANCE REPORTING PROJECT WILL MOVE DIRECTLY TO AN EXPOSURE DRAFT

At its meeting in July 2002, the Board decided that the Performance Reporting Project should move directly to an exposure draft, rather than first issuing a discussion paper. Publication of the ED is planned for first quarter 2003.

DELOITTE TOUCHE TOHMATSU POLICY ON IFRS TERMINOLOGY

The new Preface to International Financial Reporting Standards (IFRSs), issued in April 2002, states that "when the term IFRSs is used..., it includes standards and interpretations approved by the IASB, and International Accounting Standards (IASd) and SIC interpretations issued under previous Constitutions." Consistent with the Preface, Deloitte Touche Tohmatsu is recommending that its clients' financial statements indicate, in the "basis of preparation" note, that the financial statements are prepared on the basis of IFRS, rather than IAS. In that case, the Firm's audit report will also refer to IFRS. Because no final IFRS has actually yet been issued by IASB, DTT will not yet insist that its clients refer to IFRS. If a client chooses to continue to refer to IAS, the Firm's audit report will be consistent with the client's terminology. However, as soon as the first new IFRS is issued and effective, both the client's financial statements and the Firm's audit report must adopt the IFRS terminology.

FINANCIAL STABILITY FORUM URGES STRONGER GLOBAL ACCOUNTING

At its meeting in Toronto, the Financial Stability Forum (FSF) identified five areas of weakness in the international financial system: corporate governance, international accounting standards, auditing standards and practices, disclosure, and policies and procedures of credit rating agencies. Regarding international accounting standards, the FSF concluded:

"Accounting treatment of consolidated entities, revenue recognition and equity-based remuneration has been a key issue in the current undermining of confidence. The FSF calls upon national and international standard setters to accelerate their efforts at developing more comparable, accurate and transparent ways of accounting for these in financial statements; to improve international accounting standards; and to bring about greater international convergence on principles-based standards."

INTERNATIONAL AUDITING STANDARDS WILL BE AVAILABLE WITHOUT CHARGE

The International Auditing and Assurance Standards Board has agreed that all of its final pronouncements (International Standards on Auditing and International Auditing Practice Statements) will be available without charge electronically through its web site effective 1 January 2003.

Before joining the National Office of Deloitte & Touche in Wilton, Connecticut, John was the partner in charge of the firm's Financial Instruments Research Group in New York. That group consisted of financial instruments specialists whose focus was on the valuation and operation of, and accounting for, financial products. Under his direction, the group provided consultation and technical support to practice office personnel and clients nationally, primarily on financial instruments including securitisations, hedging and risk management strategies and policies, off balance sheet instruments, derivative products, and valuation techniques.

IASC Foundation Trustees' responsibilities include ensuring financing for the organisation; appointm ents to the IASB, the Standards Advisory Council, and the International Financial Reporting Interpretations Committee; and general oversight of the organisation.

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.

DELOITTE & TOUCHE PARTNER JOHN T. SMITH IS APPOINTED TO THE IASB

The IASC Foundation Trustees have appointed John T. Smith, Partner, Deloitte & Touche (USA), as a part-time member of the International Accounting Standards Board beginning on 1 October 2002. John fills the vacancy left by Robert H. Herz, who resigned in June 2002 to become chairman of the US Financial Accounting Standards Board.

John Smith currently serves as director of accounting policies for Deloitte & Touche, where he provides accounting consultation to the Firm's national office and client service personnel, and oversees the development of guidance on accounting matters. In that role, he has established himself as a leading expert on standard-setting issues in general, and accounting issues related to financial instruments in particular. He is responsible for preparing our firm's responses to accounting standard-setting initiatives in the United States and as a member of the Deloitte Touche Tohmatsu international accounting committee he participates in responding to IASB standard-setting initiatives.

As a part-time member of the IASB, John will remain a partner of Deloitte & Touche. He has participated in the activities of the IASB and its predecessor, the International Accounting Standards Committee. He is currently a member of the International Financial Reporting Interpretations Committee, from which he will resign, and has served as chairman of the IAS 39 (Financial Instruments) Implementation Guidance Committee. He will serve a five-year term expiring on 30 June 2007.

IASC FOUNDATION NEWS

NEW IASC FOUNDATION TRUSTEE FROM JAPAN

Toru Hashimoto of Japan has been appointed as an at-large Trustee of the IASC Foundation (IASB's oversight body), replacing Toshikatsu Fukuma, who had resigned in June 2002. Mr. Hashimoto is former chairman of Fuji Bank and a director of several Japanese and international business organisations.

IASC FOUNDATION INVITES NOMINATIONS FOR THREE TRUSTEE SEATS

The IASC Foundation is seeking to appoint as IASCF Trustees, for three-year terms, three individuals with a background as a senior corporate executive, one each from the Asia-Pacific region, Europe, and North America.

IASB AGENDA PROJECT UPDATES

Summaries of decisions reached on each IASB project are maintained on our web site www.iasplus.com. These are updated after each IASB meeting and are not repeated in this newsletter.

On the next several pages, we note key decisions made by the Board in the second quarter on those agenda projects for which no document was published during the quarter.

Convergence is a two-way street. The US Financial Accounting Standards Board has recently added to its agenda a project to identify and eliminate a number of current differences between US GAAP and IFRS. See our news story on page 14.

PROJECT UPDATE: CONVERGENCE TOPICS

At its September meeting, the Board formally placed this project on its agenda. This project focuses on topics where one or more partner standard setters and the IASB have standards that are broadly similar but differ in a limited number of areas. Here is a standard-by-standard summary of the probable scope of the project.

IAS 2, Inventories

No major convergence issues to be addressed.

IAS 8, Accounting Policies

Convergence issues are being addressed in the Improvements Project.

IAS 10, Events after the Balance Sheet Date

No major convergence issues to be addressed.

IAS 12, Income Tax

The main difference between the liaison countries with regard to deferred tax accounting is a temporary difference approach vs. a timing difference approach. The Board considers convergence between these two approaches to be a major project. Consequently, the project will address only convergence issues arising from applying the temporary approach. The specific issues have not yet been identified..

IAS 14, Segment Reporting

The Board is unsure whether segment reporting standards under IAS and US GAAP lead to comparable results and whether one approach is preferable to the other. The Board decided that empirical data regarding the preference of the analyst community should be obtained before the topic is pursued further by the staff.

IAS 16, Property Plant and Equipment

The main difference is the option to revalue. The IASB's revaluation advisory group is currently examining this issue and is expected to report in October. The components approach to depreciation was also discussed as a potential area for convergence.

IAS 19, Post-Employment Benefits

In September 2002, the Board considered the scope of a project on convergence of pension accounting standards and concluded:

Include in scope of IAS 19 convergence project:

- ☐ How the total change in value of plan assets should be reported in a statement of comprehensive income
- ☐ Whether the 'asset ceiling' of IAS 19 should be retained.
- ☐ Disclosure of an allocation of plan assets across broad categories, such as equities, fixed income securities, property, etc.
- ☐ Whether the immediate recognition of actuarial gains and losses arising on the defined benefit obligation should be retained as an option (as currently in IAS 19), made mandatory, or prohibited. Those who favour immediate recognition feel that the IAS 19 corridor approach amounts to 'income smoothing'. Those who support a corridor or spreading approach feel that such approach is appropriate given (i) the allocation of benefits earned to periods of service and (ii) the recognition of unvested past service cost over the vesting period.
- ☐ Whether certain guidance from FASB Statements 106 and 112 (which deal with non-pension benefits) should be incorporated into a revised IAS 19.

PROJECT UPDATE: CONVERGENCE TOPICS, continued

Exclude from scope of IAS 19 convergence project:

- ☐ Whether the defined benefit obligation should reflect current salaries rather than expected final salaries
- ☐ Whether a defined benefit plan should, in some circumstances, be fully consolidated into the entity's financial statements.

IAS 20, Accounting for Government Grants and Disclosure of Government Assistance

This matter will be considered as part of the convergence project.

IAS 21, The Effects of Changes in Foreign Exchange Rates

The main differences noted were the existence of recycling in the IAS and differences in the treatment of hyperinflationary economies.

IAS 23, Borrowing Costs

The Board will address convergence on borrowing costs after the Canadian Accounting Standards Board finishes its project on initial measurement.

IAS 28, Accounting for Investments in Associates

The IASB staff will study differences between IAS 28 (and IAS 31) and national standards. The analysis will be discussed with the national standard setters in October 2002.

IAS 31, Financial Reporting of Interests in Joint Ventures

IASB is considering removing the option for proportional consolidation. This will be discussed with the national standard setters in October.

IAS 33, Earnings Per Share

As part of the Improvements Project, IAS 33 will converge with US GAAP in most significant areas. Remaining differences should be addressed in the Performance Reporting Project.

IAS 35, Discontinuing Operations

Differences in the definition and timing of discontinuing operations are under study. Issues relating to impairment will not be included.

IAS 36, Impairment of Assets

The IASB staff analysis in this area will be forwarded to the Canadian project on impairment.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

The Board noted that the definition of and measurement principles for liabilities must be resolved before a satisfactory conclusion can be reached regarding provisions.

IAS 38, Intangible Assets

This is currently being addressed as part of the Business Combinations project.

Phase II of the IASB's project on business combinations covers:

- ☐ *Application of the purchase method.*
- ☐ *New basis accounting.*
- ☐ *Combination of entities under common control.*
- ☐ *Combinations by contract.*

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE II

The Board made the following decisions during the third quarter of 2002. An exposure draft is scheduled for November 2002:

- ☐ **Measurement date for equity securities issued in a business combination.** At the September 2002 joint meeting with FASB, an informal combined vote of members of the two Boards showed a slight preference for acquisition date rather than agreement date. At its own meeting, the IASB voted to support acquisition date (the date that control passes) in the interest of convergence with FASB.

The parts of Phase 2 dealing with application of the purchase method and new basis accounting are being handled as joint projects with the US Financial Accounting Standards Board.

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE II, continued

- ❑ **Measurement of employee benefit obligations in connection with an acquisition.** IASB agreed to prepare a memorandum to FASB setting out the IASB's reasoning for not remeasuring such obligations.
- ❑ **Assets held for disposal.** While IASB has not yet discussed measurement of assets acquired in a business combination that are intended for disposal, IASB staff noted that the measurement approach in IAS 36 differs from the approach in FASB Statement 144 principally in that anticipated disposal costs would be deducted under SFAS 144 but not necessarily under IAS 36. The Board concluded that convergence on this issue should be considered as part of the Convergence Project rather than as part of the Business Combinations (Phase II) Project.
- ❑ **Constructive obligations.** These are addressed in IAS 37 but not specifically in FASB Standards (though it is addressed in the FASB Concepts Standards). Members of the IASB Board generally agreed that recognition in an IASB Standard on Business Combinations should be consistent with IAS 37. They suggested that IASB encourage FASB to consider guidance that would be consistent with IAS 37.
- ❑ **Income taxes - net operating loss carryforward.** Recognition of a NOL carryforward at the time of a business combination is different under IASB and FASB Standards. This difference can only be addressed as part of a project on accounting for income taxes.
- ❑ **Items whose fair value might be affected by a business combination.** The Board discussed whether the fair value of a liability assumed in a business combination should reflect the acquirer's credit rating or the acquiree's credit rating. The Board concluded that, in general, the fair values of all assets and liabilities of the acquiree can be affected by the market's knowledge of a pending business combination. Therefore, in some circumstances depending on observed market adjustments of fair values, the acquirer's credit rating will be reflected in the fair value of an acquired liability.
- ❑ **Inventory.** Items of inventory should be measured using a market-based assumption model that incorporates an observable disposition price and market-based calculations of the estimated costs to complete the inventory, including an estimated profit margin and costs to sell.

A number of US-listed companies have already begun to expense the cost of stock options. These include:

- ❑ *Boeing Co.*
- ❑ *ConocoPhillips*
- ❑ *M&T Bank*
- ❑ *Level 3 Communications*
- ❑ *Principal Financial Group*
- ❑ *Prudential Financial*
- ❑ *Webster Financial*
- ❑ *Winn-Dixie Stores*
- ❑ *World Fuel Services*
- ❑ *WPP Group*

PROJECT UPDATE: SHARE-BASED PAYMENT

The IASB's timetable calls for issuance of an Exposure Draft in the fourth quarter of 2002, most likely November. The ED will have a 120-day comment period. Key decisions that will be reflected in the Exposure Draft:

- ❑ **Share-based payment to employees.** The fair value of share options and other share-based payment granted as part of employee remuneration should be recognised as an expense. Fair value of share-based payment to employees should be measured at grant date.
- ❑ **Share-based payment to non-employees.** The fair value of share-based payment given to non-employees is the fair value of the goods and services received measured at the date when the goods are received or the services are provided.
- ❑ **No exemptions.** The standard should not provide any exemptions from measuring fair value of employee share options.
- ❑ **Disclosure is not a substitute for recognition.** The IASB Standard will not allow a disclosure alternative similar to that in FASB Statement No. 123.

In addition to the US-listed companies already expensing stock options (previous page), a number of other companies have said they intend to begin expensing. These include:

- ☐ Allstate Corp.
- ☐ Amazon.com
- ☐ Ambac Financial Group
- ☐ American Express
- ☐ American International
- ☐ Bank of America
- ☐ Bank of New York
- ☐ BANK ONE Corp.
- ☐ H&R Block
- ☐ Boeing Co.
- ☐ Centex Corp.
- ☐ Chubb Corp.
- ☐ Citigroup Inc.
- ☐ Coca-Cola Co.
- ☐ Computer Associates
- ☐ Costco Wholesale
- ☐ Dole Food Co.
- ☐ Dow Chemical
- ☐ Emerson Electric
- ☐ Federal Home Loan
- ☐ Federal National Mortgage
- ☐ FleetBoston Financial
- ☐ Ford Motor
- ☐ General Electric
- ☐ General Motors
- ☐ Goldman Sachs Group
- ☐ Home Depot
- ☐ Household International
- ☐ Iomega Corp.
- ☐ J.P. Morgan Chase & Co.
- ☐ Lincoln National Corp.
- ☐ Lowe's Companies
- ☐ MacDermid, Inc.
- ☐ Marathon Oil
- ☐ May Department Stores
- ☐ MBIA Inc.
- ☐ Mellon Financial
- ☐ Merrill Lynch
- ☐ MetLife Inc.
- ☐ Morgan Stanley
- ☐ Neuberger Berman
- ☐ PACCAR Inc.
- ☐ Procter & Gamble
- ☐ Saks Inc.
- ☐ Scotts Co.
- ☐ State Street Corp.
- ☐ Steelcase Inc.'
- ☐ Sunoco Inc.
- ☐ SunTrust Banks

Continued on the next page...

PROJECT UPDATE: SHARE-BASED PAYMENT, continued

- ☐ **Definition of grant date.** In some circumstances, shareholder approval is required before an entity can enter into an employee share option plan. This raises the question of whether grant date should be the date that the plan is agreed with employees, subject only to shareholder approval, or the later date of that approval. The Board was asked to consider a proposal that grant date should be the date of substantive agreement with employees; however, after some discussion, the Board concluded that the word 'substantive' should be deleted, so that grant date would be the date that final authority was given to a plan.
- ☐ **Employee share plans with cash alternatives.** The key accounting issues for share plans that offer cash alternatives are whether and when a liability or equity interest arises, measurement of those liabilities and equity interest, and accounting for their settlement. There was general agreement that an equity interest arises when delivery of shares becomes more likely than a cash payment. At that time, the plan may result in a compound financial instrument that would have to be split into its equity and debt components. Although IAS 32 says that the equity component of a compound instrument is measured residually, in this case the equity component cannot be measured by subtracting the value of the debt instrument from the plan's entire value since that entire value is unknown. The liability component would have to be remeasured to fair value with changes in fair value going into the income statement. Disclosure should be required of the extent that such plans were subsequently settled in cash.
- ☐ **Scope.** The Standard on share-based payment will apply to all issuances of shares to acquire nonfinancial assets. Clarification of this will be added to some existing IAS.
- ☐ **Measurement objective.** The measurement objective for share-based payment for employee services is to measure the value of the services received. To implement that objective, grant date measurement means that shares and share options will be valued at grant date (with expected lapses reflected), the number of units of employee service expected to be received over the service period will be estimated at grant date, and a cost per unit of services will be determined at grant date. Subsequently, expense will be recognised based on actual quantity of service received multiplied by the originally estimated per unit cost.
- ☐ **Tax benefits to the employer.** An entity should recognise all tax benefits it receives from issuance and exercise of shares and share options in net profit or loss, not directly in equity.
- ☐ **Cancellation.** If a share plan or option plan is cancelled during the vesting period (a) any additional resulting cost is charged to expense and (b) any cost previously measured at grant date should be recognised as expense over the remaining vesting period in a manner similar to a repricing.
- ☐ **Subsidiary options.** If a subsidiary grants options exercisable in shares of its parent, in the subsidiary's own financial statements the subsidiary should recognise compensation cost and a capital contribution from its parent.
- ☐ **Reload features.** A reload feature should generally be taken into account in determining the fair value of an option at grant date. However, do not do so if it is impracticable to measure the value of the reload feature.

Still more companies that will expense stock options:

- ☐ *Tupperware Corp*
- ☐ *United Parcel*
- ☐ *Valley National Bancorp*
- ☐ *Vornado Realty Trust*
- ☐ *Wachovia Corp.*
- ☐ *Wal-Mart Stores*
- ☐ *Washington Post*

The replacement for IAS 30 will focus on activities (deposit-taking, lending, and securities business) regardless of the type of entity that undertakes those activities.

PROJECT UPDATE: SHARE-BASED PAYMENT, continued

- ☐ **Transition.** The Standard, including tax effects, should apply retrospectively, but only to options granted after the date of issue of an exposure draft of the standard. Liabilities in cash-settled schemes would require a full retrospective application. The same implementation requirements would be applicable for first-time adopters of IFRS. If a liability for a vested share appreciation right had been recognised at intrinsic value prior to the effective date of the new IASB Standard on share-based payment, it should not be revalued at the initial adoption of the new Standard.

PROJECT UPDATE: ACTIVITIES OF FINANCIAL INSTITUTIONS

At its meeting in July, the Board discussed a proposed exposure draft developed by staff based on the discussions of the Board (November 2001 meeting) and its advisory committee (January and March 2002 meetings). The discussions were characterised as 'preliminary'.

The proposed scope of the standard is 'activity-based' – capturing all entities with deposit-taking, lending, and securities activities. Therefore, treasury functions in non-financial entities would be within its scope.

The Board supported an underlying principle of the risk-related disclosure that the disclosures should provide the user with a view 'through the eyes of management', albeit with specified minimum disclosures.

Significant points raised in this preliminary discussion included these:

- ☐ The Board was concerned about the volume of requirements and resulting disclosure in the draft exposure draft. The detail seems somewhat inconsistent with a 'principle-based' approach to standards.
- ☐ The draft Standard seems to overlap with other disclosure requirements, particularly those in IAS 32 (as proposed to be revised).
- ☐ The Board was concerned that the proposed disclosure of 'operational risk' is too broad or too general. The Board will ask the project advisory committee to consider how much of the proposed disclosure should be included in the 'Management's Discussion and Analysis' rather than in the financial statements. Another possibility is to issue implementation guidance rather than a Standard.
- ☐ More clarity in defining 'securities activities' is required.
- ☐ The Board was not convinced of the usefulness of the proposed balance sheet and income statement classifications and asked for greater clarity on how these would interact with IAS 1 and the performance reporting project.
- ☐ The Board expressed a tentative preference that the disclosures in the draft exposure draft be implemented as application guidance for IAS 32. IAS 32 would need to be reviewed to eliminate inconsistencies with the material coming from this project and to address overlaps and discontinuities. This might require a relatively pervasive review of that standard.
- ☐ The Board rejected the proposed exemption for wholly owned subsidiaries. With such an exemption, disclosures would only be given at group level.

The Board's timetable calls for issuing an Exposure Draft in second quarter of 2003, with a final IFRS some time in 2004.

The Board is leaning toward a single performance statement for all recognised income and expense items, with no 'recycling'. Also, no more extraordinary items, and all changes in accounting policy reflected by retrospective restatement (not cumulative effect in earnings).

The IASB decided to split the insurance contracts project into two phases, so that European (and other) insurance companies that will be adopting IFRS for the first time as of 2005 will have some guidance on how to apply existing IASs and IFRSs to insurance contracts. Phase II is a comprehensive project on accounting for insurance contracts addressing all issues de novo.

An Exposure Draft on Phase I is planned for the first quarter of 2003, with a final IFRS in 2004. The IASB has set no timetable for Phase II.

PROJECT UPDATE: PERFORMANCE REPORTING

IASB's Performance Reporting Principle 1 states that a statement of comprehensive income should enable the user to distinguish the return on total capital employed from the return on equity. It follows from that principle that all components of comprehensive income should be classified as either operating or financing, such that total operating income plus total financing income is equal to comprehensive income. IASB members reaffirmed their support for that principle.

In June 2002, the IASB had decided that there should be a separate financing category in the statement of comprehensive income. The Board noted that although financing costs are a deduction, like any other expense, in calculating income attributable to equity holders, they are unlike other expenses in that they represent a return to providers of finance. While comprehensive income is the appropriate measure of return to providers of equity finance, operating income (before deducting financing costs) is the appropriate measure of return to providers of both equity and debt finance.

After discussion, the Board concluded that the financing category should include all interest expense and amortisation of discount without netting for any interest income. Further, returns on financial assets (including interest income and fair value changes of financial assets and liabilities) should be reported separately, as part of the operating section of the statement of comprehensive income. The Board acknowledged that such reporting is a classification by nature even though other expenses would be presented classified by function.

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE II

In May 2002, the IASB agreed to split the insurance contracts project into two phases, so that some components of the project can be put in place by 2005 without delaying the rest of the project. The first phase will address the application of existing IFRSs to companies that issue insurance contracts. In September, the Board discussed whether each of the following issues should be identified as matters to be addressed in the first phase:

1. Agree on a definition of insurance contracts. The existing definitions in IAS 32 and IAS 39 are not consistent with those in IAS 37 and IAS 38, and also are not consistent with certain aspects of the definition used in US GAAP.
2. Presentation and disclosure, including consideration of how insurers might give the disclosures about measurement assumptions proposed by the Improvements Project to be added to IAS 1.
3. Guidance for applying IAS 39 to those contracts issued by insurers (as well as other financial institutions) that do not qualify for the insurance contracts scope exclusion of IAS 39 – particularly with respect to embedded derivatives such as renewal options and participation features.
4. Guidance on identifying and measuring derivatives that are embedded in insurance contracts, including which derivatives are 'closely related' to their host insurance contract.
5. Elimination of a limited number of existing practices that are incompatible with the IASB Framework, for example, the elimination of catastrophe and equalisation provisions that do not represent liabilities as defined in the Framework.
6. A review of the implications to insurance entities of the hierarchy of pronouncements that an entity is required to consider in the absence of an IFRS. The IASB has proposed to add that hierarchy as part of its improvements to IAS 8.

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE II, continued

7. Derecognition – guidance on applying the proposed ‘no continuing involvement’ approach to insurance contracts.
8. Guidance on accounting by policyholders.

The Board does not intend to exempt insurers from existing IFRSs beyond the scope exemptions that already exist in IASs 18, 32, 37, 38, and 39:

Individual Board members suggested that certain of the foregoing matters (particularly items 3 and 7) may be too broad – and, therefore, too time consuming – to be included in the first phase of the insurance contracts project. However, after discussion, the Board did not object to further staff research on all of them as potentially within the first phase.

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

UPCOMING MEETINGS OF IASB, SAC, IASCF, IFRIC

International Accounting Standards Board (IASB)

- ❑ 23-25 and 28-29 October 2002, London, UK (28-29 October with National Standard Setters)
- ❑ 12-16 November 2002, Hong Kong SAR, China (15-16 November with the Standards Advisory Council).
- ❑ 18-20 December 2002, London, UK

Standards Advisory Council (SAC)

- ❑ 15-16 November 2002, Hong Kong SAR, China

Trustees of the IASC Foundation (IASCF)

- ❑ 19 November 2002, Hong Kong SAR, China

International Financial Reporting Interpretations Committee (IFRIC)

- ❑ 25-26 November 2002, London, UK

NEWS FROM THE UNITED STATES

SEC REQUIRES CERTIFICATIONS BY NON-US CEOs and CFOs

The US Securities and Exchange Commission is requiring the CEOs and CFOs of all registered companies to personally certify that their companies’ annual and quarterly financial statements do not contain any untrue statement of a material fact, do not omit a material fact, and fairly present in all material respects the financial condition and results of operations of the issuer. The new rules, which are effective 28 August 2002, apply to the principal executive and financial officers of any issuer that files quarterly and annual reports with the Commission under either Section 13(a) or 15(d) of the Exchange Act, including foreign private issuers and small business issuers.

The SEC’s final rules on CEO/CFO certifications may be found here: www.sec.gov/rules/final/33-8124.htm.

The new US Public Company Accounting Reform and Investor Protection Act of 2002 (the Sarbanes-Oxley Act of 2002), approved by the US Congress on 25 July 2002 and signed into law by President Bush on 30 July 2002, clearly states that a foreign public accounting firm that prepares an audit report with respect to any SEC registrant is subject to the Act and to the rules of the new Public Company Accounting Oversight Board. The table on the next page outlines the main provisions of the Act.

*All US legislation (enacted and under consideration by the Congress) can be found on the Internet at:
<http://thomas.loc.gov/>*

You can get the full text of the approved US Public Company Accounting Reform and Investor Protection Act of 2002 by searching on that site for the phrase “Sarbanes-Oxley Act of 2002”.

OVERVIEW OF THE MAIN PROVISIONS OF THE US PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT OF 2002

- ❑ **Oversight board.** The Act establishes the Public Company Accounting Oversight Board, to be organised as a non-profit corporation, with SEC administration and oversight. The PCAOB's mission is to oversee the audits of public companies and related matters.
- ❑ **Auditor registration.** All auditors of public companies must register with the PCAOB, identify public audit clients, identify all accountants associated with those clients, list fees earned for audit and non-audit services, explain their audit quality control procedures, and identify all criminal, civil, administrative, and disciplinary proceedings against the firm or any of its associated persons in connection with an audit.
- ❑ **Inspection of CPA firms.** The PCAOB must inspect all CPA firms that audit public companies to assess compliance with the law, SEC regulations, rules established by the PCAOB, and professional standards. Firms that audit more than 100 public companies will be inspected annually. Firms that audit 100 or fewer public companies must be inspected at least once every three years. If violations are found, the PCAOB must take disciplinary action.
- ❑ **Audit committees.** All audit committee members must be independent (non-executive) directors. Audit firms will be appointed by, and will report directly to, the audit committee. Audit committees must establish procedures to deal with complaints about accounting, auditing, and internal controls.
- ❑ **Audit, quality control, ethics, and independence standards.** The PCAOB must adopt audit, quality control, ethics, and independence standards. In doing so, the PCAOB may look to standards established by recognised professional organisations such as the AICPA.
- ❑ **Quality control.** The PCAOB's quality control standards must require that registered firms properly supervise all work, monitor compliance with ethics and independence rules, and establish internal systems for consultation, professional development, and client acceptance and retention.
- ❑ **Restrictions on services to audit clients.** The Act restricts consulting work auditors can do for their audit clients. Restricted services include (with certain exceptions) bookkeeping, financial systems design, appraisal and valuation, actuarial, internal audit, management functions, human resources, broker-dealer, investment banking, and legal. PCAOB may enumerate additional prohibited services. The registrant's audit committee must pre-approve engaging the auditor for other non-audit services, including tax work.
- ❑ **Partner rotation.** The Act requires 5-year rotation of the audit partner and second reviewing partner.
- ❑ **Mandatory audit firm rotation.** The Comptroller General must study and report on this within one year.
- ❑ **Loans to company executives.** The Act prohibits most personal loans to company executives.
- ❑ **Financial analyst conflicts of interest.** Financial analysts cannot be involved in marketing securities (detailed rules to be developed by the SEC).
- ❑ **Rules of conduct for lawyers.** The SEC must develop rules of professional responsibility for attorneys who represent securities issuers.
- ❑ **Conflicts of interest.** An audit firm may not audit a public company whose officers worked for the audit firm within the previous year.
- ❑ **Certification of financial statements.** The Act requires certification of financial statements by the company's chief executive officer and chief financial officer.
- ❑ **Disclosures.** The Act requires certain disclosures in financial reports, including information about off-balance sheet transactions, and orders the SEC to develop rules regarding pro forma disclosures.
- ❑ **Restatements.** The Act specifically prohibits improper influence on audits and requires forfeiture of executive bonuses and equity gains if financial statements must be restated.
- ❑ **Principles-based standards.** The SEC is required to study the "adoption by the United States financial reporting system of a principles-based accounting system" and, within one year, submit a report to specified committees of the US Senate and House of Representatives.
- ❑ **Corporate and criminal fraud.** The Act provides for criminal penalties for corporate fraud and document shredding.
- ❑ **Whistleblower protection.** The Act provides legal protection to any employee who assists a federal agency, a member or committee of the Congress, or a supervisory employee.
- ❑ **Funding.** The Act provides a fee-based funding mechanism. Accounting firms must pay registration fees and annual fees to cover the costs of certain functions, and remaining costs will be borne, pro rata based on each issuer's market capitalisation, by all publicly held companies.
- ❑ **Accounting standards.** The law permits the SEC to recognise standards established by a private-sector accounting standard-setter provided that the standard-setter is deemed acceptable by the SEC and considers international convergence in developing standards.

BOTH SEC AND FASB WILL STUDY A 'PRINCIPLES BASED' ACCOUNTING SYSTEM

The accounting reform legislation in the United States requires the SEC to conduct a study on the “adoption by the United States financial reporting system of a principles-based accounting system”, including:

- ☐ the extent to which principles-based accounting and financial reporting exists in the United States;
- ☐ the length of time required for change from a rules-based to a principles-based financial reporting system;
- ☐ the feasibility of and proposed methods by which a principles-based system may be implemented; and
- ☐ a thorough economic analysis of the implementation of a principles-based system.

The SEC must complete the study in one year and must submit its report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

In a related action, in late September 2002 the US Financial Accounting Standards Board agreed to invite comment on a proposal for a principles-based approach to US accounting standard setting. The proposal addresses concerns about the increase in the level of detail and complexity in accounting standards.

As FASB sees it, principles-based standards would focus on establishing general principles derived from the conceptual framework, reflecting the recognition, measurement, and reporting requirements for the transactions covered by the standards. The standards would provide few, if any, exceptions to the general principles and would limit additional guidance for applying the general principles to typical transactions, encouraging professional judgment in applying the general principles to other transactions specific to an entity or industry.

The FASB will publish the proposal with a 75-day comment period. The FASB also plans to hold a public roundtable discussion with respondents to the proposal on 16 December 2002.

US ACCOUNTING REFORM LEGISLATION REQUIRES FASB TO ADDRESS CONVERGENCE

The new US Public Company Accounting Reform and Investor Protection Act of 2002 permits the SEC to look to a private-sector accounting standard-setter, such as FASB, provided that the standard-setter “considers, in adopting accounting principles, ... the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors.”

On 2 October 2002, the Financial Accounting Standards Board added to its agenda a short-term international convergence project that will be conducted jointly with the International Accounting Standards Board. The FASB also voted to authorise its staff to expand its research project on international convergence. With respect to the short-term project, the FASB established a goal of 31 December 2003 for issuance of a final Statement that would “eliminate or reduce many, if not all, of the differences to be addressed in that project.”

Details:
www.sec.gov/news/speech/spch588.htm

US SEC CHAIRMAN COMMENTS ON ACCOUNTING BY FOREIGN REGISTRANTS

In remarks delivered at the Financial Times' Conference on Regulation and Integration of the International Capital Markets (London, 8 October 2002), US SEC Chairman Harvey L. Pitt commented on accounting and other standards to be followed by foreign companies that trade in the US capital markets. [Chairman Pitt's reference to "Sarbanes-Oxley" means the Public Company Accounting Reform and Investor Protection Act of 2002, which became law in the United States on 30 July 2002. Senator Sarbanes and Congressman Oxley were the principal sponsors of the legislation.]

In implementing Sarbanes-Oxley, we will be fully faithful to its letter and spirit, and we will also be fully mindful of the impact of regulation on both U.S. and global markets. In doing so we will continue a tradition that we have been following for many decades. Our philosophy is simple – U.S. persons invest around the globe, and therefore the interests of U.S. investors and U.S. markets are best served if foreign companies trade in our markets and meet our disclosure and accounting standards. I am well aware that there are those, especially outside the United States, who believe that recent events call our disclosure and accounting rules into question. However, I am confident, first, that our standards best serve the needs of our investors, and, second, that following the improvements that we have made and are in the process of making, including those mandated by the Sarbanes-Oxley Act, our standards are and will be the equal of any, and the standard for many....

We intend to implement fully the Sarbanes-Oxley Act for all companies, foreign and domestic. That is our mandate. And, as we write our rules to implement the Act, foreign companies can expect that many of the new rules will apply to them. But we are prepared to consider how we can fulfill the mandate of the Act through our rulemaking and interpretive authority in ways that accommodate the home country requirements and regulatory approaches of the home jurisdiction of our foreign registrants and potential registrants.

<http://www.iasplus.com/country/usa.htm>

US ACCOUNTING NEWSLETTER NOW ON OUR WEB SITE

Accounting Roundup is a newsletter published by Deloitte & Touche (United States) summarising selected recent accounting and financial reporting developments in the United States of America, including FASB, GASB, EITF, the SEC, and US issues relating to IAS. *Accounting Roundup* is published periodically as developments warrant (generally at least monthly). All issues of *Accounting Roundup* are posted on the US page on www.iasplus.com.

You will find the study at:
www.makinson-cowell.co.uk

US INSTITUTIONAL INVESTORS OPPOSE SWITCH TO IAS

A survey by Makinson Cowell of 22 large US institutional investors that collectively manage over \$2.5 trillion in assets has found that most do not see the need for major revisions to US generally accepted accounting principles or replacement in whole by IAS. They say that US GAAP, UK GAAP, and IAS are all robust systems and that no set of accounting standards could prevent accounting fraud or other criminal behaviour by determined managers. Most of the investors also believe that whatever regulations apply to US companies should apply equally to non-US companies. The institutions note that many European companies still provide "far too little transparency of their financial results". The respondents say that the biggest weaknesses in many European companies' financial reporting are the lack of detailed reporting by business segment and the undisclosed use of extensive provisions.

USERS OF FINANCIAL STATEMENTS SPEAK OUT ON IASB ISSUES

You can find the Association for Investment Management and Research at: www.aimr.org/

ANALYSTS WANT FASB TO FOLLOW THE IASB's LEAD ON STOCK OPTIONS

The Association for Investment Management and Research (AIMR) wants FASB to follow IASB's plan to require companies to recognise the fair value of stock options given to employees as compensation expense. "The International Accounting Standards Board is demonstrating leadership in putting the best interests of investors ahead of the preferences of corporate managements", AIMR said. The AIMR is a professional association of 58,000 securities analysts, fund managers and other investment professionals in 112 countries.

ANALYSTS ALSO SEE AN URGENT NEED TO AMEND DEFERRAL PROVISIONS OF IAS 19

The Global Financial Reporting Advocacy Committee of the Association for Investment Management and Research has asked the IASB to act "with a sense of urgency" to amend IAS 19, Employee Benefits, to (1) eliminate the deferral and amortisation of past events and (2) disaggregate the activity relating to defined benefit pension plans. Disaggregation would entail separate disclosure of categories of periodic costs (current service costs; interest cost; the expected return on assets; actuarial gains and losses) and non-periodic costs (past service costs; gains and losses on settlements and curtailments).

OVER 90% OF INSTITUTIONAL INVESTORS WANT UNIFIED GLOBAL STANDARDS

A survey by McKinsey & Company of over 200 institutional investors in 31 countries found that over 90% of them want a single unified set of global accounting standards. However they are split over which standards, with investors from Western Europe, Eastern Europe, Africa, and Asia favouring IAS and those from North America and Latin America favouring US GAAP.

The study also found that 'accounting disclosure' is the single most significant factor affecting their investment decisions. Another interesting finding: investors strongly favour expensing stock options, with over 90% supporting such a change in all parts of the world except North America, where it is 67% in favour.



HONG KONG WILL NOT ADOPT IAS 40 FOR NOW

The Hong Kong Society of Accountants has decided not to replace Hong Kong's existing investment property accounting standard with IAS 40. Over the past several years, under a policy adopted by the HKSA Council, the HKSA has replaced many Hong Kong standards with the related IAS standard essentially verbatim. However, a number of property companies in Hong Kong have expressed significant concerns about IAS 40. The main issue of concern is reporting changes in the fair value of an investment property as part of profit or loss. Both the HKSA Council and its Financial Accounting Standards Committee concluded that the HKSA should await completion of IASB's Performance Reporting project before taking the matter up again.

On our website

www.iasplus.com, we maintain a comprehensive summary of IAS-related events taking place in Europe. Presented below are the key events of the past three months.



NEWS ABOUT IFRS IN EUROPE

EUROPEAN PARLIAMENT CONSIDERS A UNIFORM PROSPECTUS FOR EUROPE

The European Commission has presented to Parliament an amended proposal for a uniform prospectus to be used for securities offerings throughout Europe – a ‘single passport’ to all of the European capital markets. Once the proposal becomes law (a Directive), then a prospectus approved by securities authorities in one member state must be accepted in all other states. The proposal sets out the minimum content for a prospectus and how it should be presented, based on Disclosure Standards adopted in 1998 by the International Organization of Securities Commissions (IOSCO). Required disclosures would include key information on risk factors, related-party transactions, corporate governance, and management’s discussion and analysis, none of which is currently required by the existing EU Directive on prospectuses. The specific financial statements, periods covered by them, and other information of a financial nature to be included in prospectuses will be established by EC regulation within 180 days of adoption of the proposed Directive. The EC’s goal is final approval of the Directive by the end of 2002.

UK GOVERNMENT IS CONSIDERING EXTENDING THE APPLICABILITY OF IAS

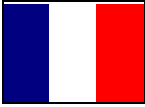
The United Kingdom Department of Trade and Industry has issued a consultation paper asking whether the EU requirement that listed companies follow IAS in their consolidated financial statements starting in 2005 should be extended to non-listed companies and/or to individual company (non-consolidated) financial statements. Such extension might be on a voluntary basis or a compulsory basis. The consultation also asks whether UK companies that only have publicly traded debt (not equity) should be given until 2007 to adopt IAS (the EU regulation allows member States to grant such a two-year extension).

IAS ESSENTIAL FOR CONSOLIDATION OF EUROPEAN CAPITAL MARKETS

In an address in Paris on 11 July 2002, European Internal Markets Commissioner Frits Bolkestein said that the quantity and magnitude of accounting and corporate governance scandals that have come to light in the past year make it essential to speed up the consolidation of European capital markets – and one of the keys is International Accounting Standards.

“We need to take measures to raise investor confidence in the numbers, through improvements in accounting standards. The Union has already taken the highly important step in its accounting strategy that almost all listed EU companies will be required to use International Accounting Standards by 2005. Australia has recently joined us. I invite other countries to follow.”

“We must above all ensure that International Accounting Standards are implemented and enforced effectively and evenly across jurisdictions. I also want to see IAS and US GAAP converge by 2005 so that there may be full reconciliation between them.”



The French Banking Federation's web site is: www.fbf.fr

EFRAG's own web site is: www.efrag.org

FRENCH BANKERS EXPRESS CONCERNS ABOUT IAS/IFRS

The French Banking Federation has issued a public statement expressing serious concerns about the suitability of IAS/IFRS for banks and other enterprises in Europe.

"Banks support the move towards the use of a common set of international accounting standards by quoted companies, in order to allow meaningful comparisons across borders and to promote confidence in financial reporting and in financial markets. They are concerned however that, in their current state, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) approved by the IAS Board present serious deficiencies that run counter to these goals which have led the European Union to impose the use of these standards by large quoted companies from 2005. They believe it is essential to correct these deficiencies before IAS/IFRS are made compulsory."

NEW EFRAG PAGE ON WWW.IASPLUS.COM

We have added a page to our web site for news from the European Financial Reporting Advisory Group (EFRAG). www.iasplus.com/efrag/efrag.htm.

EUROPEAN COMMISSION PRESENTS NEW DIRECTIVE FOR RULES FOR TAKEOVER BIDS

In early October, the European Commission presented a new proposal for a Directive on takeover bids. The proposal aims to offer European companies greater legal certainty when engaging in cross-border takeover bids and to protect minority shareholders when control of a company changes hands. As the legislation in more than one member-state is involved in these types of transactions, action on a European level is required.

Although the European Parliament rejected a previous proposal in July 2001, the Commission is convinced of the need for a Directive and has come up in a very short time with a new proposal. The new proposal has the same objectives as the former one, however it has been supplemented to meet the concerns raised by the Parliament. The concept that the board of the offeree company must obtain the shareholders' authorisation before launching defensive measures has been retained.

The revised proposal introduces a common definition of the 'equitable price' in a mandatory bid, as well as the concepts of 'squeeze-out' rights and 'sell-out' rights. A requirement has been added for greater transparency concerning companies' capital structure and control.

NATIONAL ADOPTIONS OF IAS

TAJIKISTAN WILL ADOPT IAS STARTING IN 2003

On 9 July 2002, the Prime Minister for the Republic of Tajikistan signed a Memorandum of Understanding with USAID that stipulates the Tajik Government will fully adopt IAS, both in form and content, as the official standards for all enterprises in Tajikistan starting in January 2003.

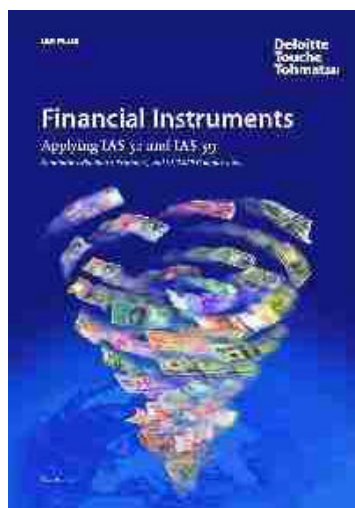


RUSSIA WILL ADOPT IAS STARTING IN 2004

All companies and banks in Russia will be required to prepare their financial statements in accordance with International Accounting Standards starting 1 January 2004, Prime Minister Mikhail Kasyanov has announced. The Prime Minister has ordered the Finance Ministry to develop implementation guidelines for the accounting changes by 1 January 2003.



NEW FROM DELOITTE TOUCHE TOHMATSU



DTT IAS 39 GUIDANCE BOOK IS NOW AVAILABLE FOR DOWNLOADING

Deloitte Touche Tohmatsu is pleased to make available, without charge, our book of comprehensive implementation guidance for IAS 39, Financial Instruments: Recognition and Measurement. The book is nearly 250 pages in length and contains:

- ☐ 164 Questions and Answers,
- ☐ 151 Examples (many with journal entries),
- ☐ 52 US GAAP Comparisons,
- ☐ Comprehensive summaries of IAS 39 and its companion disclosure standard, IAS 32.

These are linked back to the IAS 32 and IAS 39 paragraphs.

When it was originally issued late last year, we restricted distribution of the book to staff and clients. In response to many requests, we are now making it available without charge to all.



NEW PUBLICATION IN DANISH: INTRODUCTION TO IAS

Deloitte & Touche in Denmark has developed a new Introduction to International Accounting Standards in Danish. The publication summarises each IAS and Interpretation, emphasising those accounting areas expected to influence a typical service, trading, or production company listed on the Copenhagen Stock Exchange. The booklet is also relevant to banks and insurance companies in certain areas, especially regarding IAS 39. It can be downloaded from www.iasplus.com/pubs.htm.

Both of these comparison booklets may be downloaded without charge from our www.iasplus.com web site. On the home page, click on the DTT IFRS Publications link.

COMPARISONS OF IFRS WITH US AND CHINESE GAAPs

Deloitte Touche Tohmatsu has published two comparisons of IFRS and national GAAP:

GAAP Differences in your Pocket: IAS and US GAAP, is a 20-page booklet that identifies and explains 81 differences between International Financial Reporting Standards and US GAAP. Twenty of these differences are being addressed in current IASB agenda projects.

GAAP Differences in your Pocket: IAS and GAAP in the People's Republic of China, is a 32-page booklet that identifies and explains 108 differences between International Financial Reporting Standards and Chinese GAAP. The booklet also includes a comprehensive foreword that provides background on the development of Chinese GAAP and the progress that has been made toward convergence with international standards.

TWO NEW DELOITTE & TOUCHE PUBLICATIONS

The July-August 2002 issue of the Deloitte & Touche newsletter *For the Record* addresses **Accounting for Revenue in Today's Business Environment**. It discusses FASB, SEC, and AICPA accounting requirements for revenue recognition, particularly those that apply to arrangements involving multiple elements or up-front or contingent fees.

The 18 July 2002 issue the Deloitte & Touche newsletter *Heads Up* summarises and analyses FASB's Exposure Draft of a Proposed Interpretation, **Consolidation of Certain Special-Purpose Entities**.

Both can be downloaded from the IAS Resources page on our web site: www.iasplus.com/ref.htm.

ACCOUNTING STANDARDS UPDATE IN THE ASIA-PACIFIC REGION

AUSTRALIA

Contact: *Bruce Porter*

In July 2002, the Financial Reporting Council formalised its support for adoption by Australia of International Accounting Standards by 1 January 2005. It is envisaged that the Corporations Act 2001 will be amended to require that the accounting standards applicable to reporting entities under the Act will be the standards issued by the International Accounting Standards Board (IASB).

Whilst the Australian Accounting Standards Board (AASB) did not issue any final accounting standards or other pronouncements since the last IAS Plus newsletter, it did issue the following Exposure Draft and Invitation to Comment:

- ☐ Exposure Draft ED 107, Request for Comment on IASB ED 1 First-time Application of International Financial Reporting Standards.
- ☐ Invitation to Comment on Proposed Improvements to International Accounting Standards IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement.

The Exposure Draft and Invitation to Comment are based on exposure drafts issued by the International Accounting Standards Board (IASB). This approach is in-line with Australia's adopting International Accounting Standards in 2005.

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 issued:

- ☐ Abstract 47, Professional Indemnity Claims Liabilities in Medical Defence Organisations.
- ☐ Abstract 48, Status of Tax Consolidation Legislation.
- ☐ Abstract 49, Revenue – Barter Transactions involving Advertising Services.
- ☐ Abstract 50, Evaluating the Substance of Transactions involving the Legal Form of a Lease.

CHINA

Contact: *Patrick Tsang*

The Ministry of Finance (MOF) expects to publish the following final Chinese Accounting Standards before the end of 2002:

- ☐ Presentation of Financial Statements.
- ☐ Earnings Per Share.
- ☐ Segment Reporting.
- ☐ Accounting for Government Grants.
- ☐ Foreign Currency Translation.
- ☐ Discontinuing Operations.

The MOF has also announced that it is considering extending the new Accounting System for Business Enterprises to all state-owned enterprises over the next three years. The System already applies to all listed companies, joint stock limited enterprises, and foreign investment enterprises.

As noted elsewhere in this newsletter, Deloitte Touche Tohmatsu has published a 32-page booklet that identifies and explains 108 differences between International Financial Reporting Standards and Chinese GAAP. The booklet, titled *GAAP Differences in Your Pocket: IAS and GAAP in the People's Republic of China*, also includes a comprehensive foreword that provides background on the development of Chinese GAAP and the progress that has been made toward convergence with international standards.

HONG KONG

Contact: *Stephen Taylor*

During the third quarter of 2002, the HKSA has:

- ☐ adopted SSAP 12, Income Taxes, effective for periods beginning on or after 1 January 2003. SSAP 12 is identical to IAS 12 except for (a) certain guidance in IAS 12 that relates to provisions in other IAS for which there is no Hong Kong equivalent and (b) the addition of some guidance taken from Australian Standard AASB 1020, Income Taxes;
- ☐ adopted the IASB's recent "asset ceiling" amendment to its employee benefits standard;
- ☐ issued seven final Interpretations that are the equivalents of SIC 21 (income taxes – revalued assets), SIC 25 (changes in tax status), SIC 27 (substance of leases), SIC 28 (business combinations – date of exchange), SIC 29 (service concession agreements), SIC 30 (advertising barter transactions), and SIC 33 (potential voting rights);
- ☐ issued an Exposure Draft of proposed revisions to its Framework for the Preparation and Presentation of Financial Statements to conform the Hong Kong Framework with that of the IASB; and
- ☐ published a Consultation Paper on a Proposed Framework for Differential Reporting. Differential reporting means the exemption of small entities from parts of certain Hong Kong accounting standards.

MALAYSIA

Contact: *Hiew Kim Tiam*

The following new MASB standard (the equivalent IAS is indicated for reference) is effective for periods beginning on or after January 1, 2003:

- ☐ MASB 30, Accounting and Reporting by Retirement Benefit Plans [IAS 26 (Reformatted 1994)].

The following new exposure draft was issued for comment:

- ☐ ED 36, Accounting for Government Aid.

PHILIPPINES

Contact: *Melissa S. Delgado*

The following standards have been recently approved by the Board of Accountancy and became final Statements in the Philippines:

	Title	Related IAS	Effective Date
ED 44	Impairment of Assets	IAS 36	January 1, 2002
ED 45	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	July 1, 2002
ED 46	Events After the Balance Sheet Date (revised)	IAS 10	July 1, 2002

The Accounting Standards Council has recently approved the distribution for comment of the following proposed accounting standards:

	Title	Related IAS	Proposed Effective Date
ED 52	Income Taxes	IAS 12	January 1, 2004
ED 53	Accounting and Reporting by Retirement Benefit Plans	IAS 26	January 1, 2004

The following exposure drafts remain outstanding:

- ☐ ED 37 (revised), The Effects of Changes in Foreign Exchange Rates
- ☐ ED 47, Business Combinations (revised)
- ☐ ED 48, Intangible Assets (revised)
- ☐ ED 49, Leases
- ☐ ED 50, Accounting for Government Grants and Disclosure of Government Assistance
- ☐ ED 51, Deferred Foreign Exchange Differences

SINGAPORE

Contact: *Dinyar Framjee*

The following standard was amended:

- ❑ SAS 17, Employee Benefits (IAS 19), to reflect ED/SAS 46, Proposed Amendments to SAS 17, Employee Benefits: The Asset Ceiling (effective for periods beginning on or after October 1, 2002).

The following exposure drafts of proposed standards were issued:

- ❑ ED/FRS 1, First-time Application of Financial Reporting Standards (ED/IFRS 1). This exposure draft aims to ensure that all entities adopting FRSs for the first time present comparative information in their financial statements that is as close as possible to the information provided by existing users but within cost/benefit constraints.
- ❑ ED/SAS 47, Proposed Improvements to Statements of Accounting Standards (Improvements to International Accounting Standards Exposure Draft). This exposure draft aims to raise the quality and consistency of financial reporting by drawing on best practice from around the world, and removing options in the statements.
- ❑ ED/SAS 48, Proposed Amendments to SAS 32 Financial Instruments: Disclosure Presentation and SAS 33 Financial Instruments: Recognition and Measurement (Amendments to IAS 32 and IAS 39 Exposure Draft). The exposure draft proposes to improve SAS 32 (IAS 32) and SAS 33 (IAS 39).

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

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

The following standard has been withdrawn:

- ❑ SAS 4, Depreciation (IAS 4) (withdrawn with effect from August 17, 2002).

The following interpretation has been adopted:

- ❑ INT 25, Intangible Assets-Website Costs (SIC D32) (effective October 1, 2002).

The following exposure drafts of proposed Interpretations issued in 2001 are still outstanding:

- ❑ ED/INT 21, Reporting Currency -Measurement and Presentation of Financial Statements under SAS 20 (IAS 21) and SAS 38 (IAS 29) (SIC 19);
- ❑ ED/INT 22, Classification of Financial Instruments – Contingent Settlement Provisions (SIC 5); and
- ❑ ED/INT 28, Reporting Currency – Translation from Measurement Currency to Presentation Currency (SIC 30).

TAIWAN

Contact: *William Lin*

The Accounting Research and Development Foundation (ARDF) has issued one new standard on June 30, 2002 – SFAS 32, Accounting for Revenue Recognition. This SFAS is closely modeled on IAS 18, Revenue, prescribing the accounting treatment for revenue arising from certain types of transactions and events. SFAS 32 is effective for accounting periods beginning on and after 31 December 2002, with early application permitted.

SFAS 19, Development Stage Accounting, has been revised to eliminate differences with the equivalent IAS. The revision is effective for periods beginning on and after 31 December 2002, with early application permitted.

The ARDF has also issued an exposure draft of proposed revision of SFAS 1, Summary of Generally Accepted Accounting Principles. The revision is based on the IASC Framework and is intended to guide ARDF in developing accounting standards and to guide in resolving accounting issues that are not addressed directly in a Statement of Financial Accounting Standard.

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

Under the Accountancy Act B.E. 2543, 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 Flow Statements
- ☐ TAS 36, Impairment of Assets
- ☐ TAS 44, Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- ☐ TAS 45, Accounting for Investments in Associates
- ☐ TAS 47, Related Party Disclosures
- ☐ TAS 48, Financial Instruments: Disclosure and Presentation

Non-public companies at their option may elect voluntarily to 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 for five types of legal entities.

The Board of Supervision of Audit Practices has reviewed a proposed amendment to TAS No. 34, which is an accounting standard issued by the ICAAT but not yet placed into law under the Accountancy Act, and has requested that the ICAAT, the Securities and Exchange Commission (SEC), and the Bank of Thailand (BOT) work together to issue clarifications regarding:

- ☐ TAS No. 34, Trouble Debt Restructuring, and
- ☐ the SEC's proposals to (a) use fair value of collateral as the recoverable value of debt restructured, (b) the usage of the cost of funds as the discount rate used to present value future cash flows, and as an additional alternative allow reporting entities to use the original contract rate as a discount rate.

Although, the TAS No. 34 was effective as of January 1, 2002, it will be legally effective under the Accountancy Act after September 1, 2002.

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 are based on TAS 36, and the FASB Statements of Financial Accounting Standards (SFAS) No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, and No. 114, Accounting by Creditors of Impairment of a Loan.

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