

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

## Regular Features

### THE LATEST IASB NEWS

#### IASB PROJECT TIMETABLE UPDATES ON ALL IASB PROJECTS

#### SUMMARIES OF RECENT EXPOSURE DRAFTS AND DRAFT INTERPRETATIONS

#### SUMMARIES OF NEW PRONOUNCEMENTS

#### HIGHLIGHTS OF DELOITTE TOUCHE TOHMATSU COMMENTS TO IASB AND IFRIC

#### MEETING DATES: IASB, SAC, IASCF, and IFRIC

#### NEW IAS PUBLICATIONS FROM DELOITTE TOUCHE TOHMATSU

#### IAS NEWS FROM THE US

#### NEWS ABOUT IAS IN EUROPE

#### NATIONAL ADOPTIONS OF IAS

#### ACCOUNTING UPDATES IN THE ASIA-PACIFIC REGION

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### IASB NEWS

**Where are IAS used today?** We have compiled a country-by-country table to summarise the use of International Accounting Standards as the primary GAAP by domestic listed companies. See page 2.

**IASB's first exposure draft on an accounting issue.** IASB is proposing to amend IAS 19, Employee Benefits, for what it regards as a "counter-intuitive" result produced by that Standard's "corridor approach". Not only did we submit comments on the technical issues, we expressed serious concern about the brevity of the comment period (30 days). See page 4.

**New Interpretation on web site costs.** IASB has issued an interpretation, SIC 32, Intangible Assets—Web Site Costs, that went into effect 25 March 2002. See page 5.

**Interpretations Committee is reorganised.** The IASC Foundation Trustees approve important changes to IASB's Constitution relating to the Standing Interpretations Committee, including a name change: International Financial Reporting Interpretations Committee (IFRIC). See page 6.

**Potential IFRIC agenda issues.** All of the outstanding SIC issues were completed. IFRIC is developing its own agenda. See page 6.

**Certification of IAS/IFRS experts.** The IASC Foundation Trustees are considering certification programmes. See page 6.

**Revised IASB project timetables.** Exposure Drafts on First-Time Application, Improvements, and IAS 32 and 39 Amendments were put off until second quarter 2002, with final Standards delayed until 2003. See page 7.

**Progress on IASB agenda projects.** We have 13 pages of details, including a summary of our firm's comments on the proposed Preface to IFRS. See pages 8-22.

**News from the United States.** David Tweedie and Paul Volcker testify before US Congress. Former SEC Chairmen support IAS. SEC Chairman Pitt urges "principles based" standards. New SEC disclosure rules. US Public Oversight Board is dissolved. AICPA members defeat global credential. EU Commissioner urges IAS in the United States. See pages 24-26.

**News about IAS in Europe.** Parliament adopts IAS resolution. Pan-European disclosure legislation is being developed. Consistency of EU Directives and IAS. International auditing standards in Europe? See pages 27-28.

**New from Deloitte Touche Tohmatsu.** Practical Guide to IAS. Revised version of IAS in Your Pocket. Model IAS financial statements in Chinese (and English). See page 29.

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### IAS PLUS WEB SITE

We had over 90,000 visitors during 2001. Join us at [www.iasplus.com](http://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.

## WHERE ARE INTERNATIONAL ACCOUNTING STANDARDS USED TODAY?

We have compiled the following table to summarise our understanding of the use of IAS as the primary GAAP by domestic listed companies in their consolidated financial statements provided to investors. Please send us any additions or corrections you may have to this list. We plan to keep it updated on [www.iasplus.com](http://www.iasplus.com).

Use of IAS as the Primary GAAP by Listed Domestic Companies in their Consolidated Financial Statements for Investors	Not Permitted	Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Argentina	X			
Armenia				X
Australia	X			
Austria		X		2005
Bahrain			Banks	
Bangladesh				X
Barbados				X
Belgium		X		2005
Benin	X			
Bermuda		X		
Bolivia		X		
Botswana		X		
Brazil	X			
Brunei Darussalam				X
Bulgaria		X		
Burkina Faso	X			
Cambodia	X			
Canada	X			
Cayman Islands		X		
Chile	X			
China			B-Shares	
Colombia	X			
Costa Rica				X
Cote D'Ivoire (Ivory Coast)	X			
Croatia (Hrvatska)				X
Cyprus				X
Czech Republic	X			
Denmark		X		2005
Dominican Republic				X
Ecuador				X
Egypt				X
El Salvador		X		
Estonia	X			
Fiji	X			
Finland		X		2005
France	X			2005
Georgia				X
Germany		X		2005
Ghana	X			
Greece	X			2003
Guatemala	X			
Haiti				X
Honduras				X
Hong Kong		X		
Hungary		X	X	
Iceland	X			2005
India	X			
Indonesia	X			
Ireland	X			2005
Israel	X			
Italy				2005
Jamaica				X
Japan	X			
Kenya				X

Use of IAS as the Primary GAAP by Listed Domestic Companies in their Consolidated Financial Statements for Investors	Not Permitted	Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Korea (South)	X			
Kuwait				X
Kyrgyzstan	X			
Laos		X		
Latvia		X		
Lesotho		X		
Lithuania		X		
Luxembourg		X		2005
Macedonia				X
Malaysia	X			
Mali	X			
Malta				X
Mexico	X			
Moldova	X			
Myanmar		X		
Namibia		X		
Nepal				X
Netherlands		X		2005
New Zealand	X			
Niger	X			
Oman				X
Pakistan	X			
Panama				X
Peru				X
Philippines	X			
Poland	X			
Portugal	X			2005
Romania	X			
Russian Federation		X		
Saudi Arabia	X			
Singapore	X			
Slovak Republic	X			
Slovenia	X			
Spain	X			2005
Sri Lanka	X			
Swaziland		X		
Sweden	X			2005
Switzerland		X		
Syria	X			
Taiwan	X			
Tanzania	X			
Thailand	X			
Togo	X			
Trinidad and Tobago				X
Tunisia	X			
Turkey		X		
Uganda		X		
Ukraine			Banks	
United Arab Emirates			Banks	
United Kingdom	X			2005
United States	X			
Uzbekistan	X			
Venezuela	X			
Vietnam	X			
Yugoslavia				X
Zambia		X		
Zimbabwe		X		

*Under IAS 19, actuarial gains and losses may be recognised gradually (amortised) if the cumulative unrecognised amount exceeds 10% of the employer's gross benefit obligation or 10% of the fair value of the plan assets. The excess outside this 10% 'corridor' is amortised over the expected average remaining working lives of the employees participating in the plan. This 'corridor approach' was hotly debated by IASB during the development of IAS 19.*

## **IASB PROPOSES "ASSET CEILING" AMENDMENT TO IAS 19**

On 25 February 2002, IASB published an exposure draft of a proposed amendment to IAS 19, Employee Benefits, to prevent what the Board regarded as a "counter-intuitive" result produced by the interaction of two aspects of IAS 19 – the option to defer gains and losses in the pension fund and the limit on the amount that can be recognised as an asset (the 'asset ceiling').

Because of the wording of the asset ceiling, a gain is sometimes recognised when a plan is in surplus solely as a result of deferring and amortising an actuarial loss or added past service cost in the current period. Conversely, deferral of actuarial gains sometimes causes a loss to be recognised. The IASB concluded that reporting gains and losses in these circumstances is not appropriate, and the proposed amendment would prevent their recognition. Comments were due 25 March 2002.

The Deloitte Touche Tohmatsu letter of comment acknowledged that the current requirements in IAS 19.58 may result in the recognition of a gain or loss in the income statement that is the result of deferring the recognition of an actuarial gain or loss under IAS 19.92. However, it is our view that the larger issue is the need for an asset ceiling and, ultimately, the acceptability of a "corridor" approach in accounting for actuarial gains and losses. Therefore, instead of addressing this selected issue related to a specific anomaly, we believe it would be preferable for the IASB to address this, and other issues with the application of IAS 19, as part of a larger project on employee benefits.

In addition, we pointed out that the International Financial Reporting Interpretation Committee is expected to add to its agenda a project on how to determine the present value of economic benefits available in the form of refunds or reduction in future contributions to the plan under IAS 19.58(b)(ii). This suggests that there are additional issues associated with the asset ceiling. We support this initiative and the need to develop further guidance on how to determine this amount.

*On page 8 of this newsletter, we set out our firm's major comments on IASB's proposed Preface to IFRS. We favour minimum exposure periods of at least 90 days for IASB Discussion Documents and Exposure Drafts and at least 60 days for Draft Interpretations.*

□

## **WE EXPRESS CONCERN ABOUT A 30-DAY COMMENT PERIOD ON AN EXPOSURE DRAFT**

In a letter to IASB Chairman Sir David Tweedie and the IASB Foundation Trustees, Deloitte Touche Tohmatsu has expressed 'serious concern' about the shortness of the comment period on IASB's first exposure draft (ED) on an accounting issue, Amendment to IAS 19, Employee Benefits: The Asset Ceiling. We wrote:

*"In an international environment, translation and solicitation of input at the national level by national accountancy bodies are required in developing replies to EDs. On top of that, the issue raised in the ED is a complex one, and one that has existed since IAS 19 took effect over three years ago. In this particular case, the proposal in the ED has broad implications for some of the fundamental concepts of IAS 19 - implications that respondents to the ED must consider carefully. We certainly do not see this as an issue that in any way justifies a 30-day comment period.*

*"We believe that, as a matter of policy, IASB Exposure Drafts should have at least a 90-day comment period other than in an exceptional situation. Further, we believe that IASB should develop and articulate, as part of the Preface, criteria to identify such an exceptional situation."*

The full text of our letter is available on [www.iasplus.com](http://www.iasplus.com).

*SIC 32 requires capitalisation of certain web site development costs provided that the enterprise can demonstrate how the web site will generate future benefits, for instance by enabling orders to be placed. However, all expenditure to develop a web site intended solely or primarily to promote the enterprise's products and services is advertising cost that must be charged to expense under IAS 38.*

## IASB ISSUES SIC 32 ON WEB SITE COSTS

At its March 2002 meeting, IASB approved issuance of SIC 32, Intangible Assets–Web Site Costs. The new Interpretation was released on 25 March and took effect on that date.

SIC 32 concludes that a web site developed by an enterprise using internal expenditure, whether for internal or external access, is an internally generated intangible asset that is subject to the requirements of IAS 38, Intangible Assets.

In general, web site development costs should be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in IAS 38.19 for recognition and initial measurement, the enterprise can demonstrate how its web site will generate probable future economic benefits, as required by IAS 38.45(d). SIC 32 notes that costs to develop a web site solely or primarily for promoting and advertising the enterprise's own products and services should be recognised as an expense when incurred.

SIC 32 identifies the following stages of web site development:

- ☐ Planning
- ☐ Application and infrastructure development
- ☐ Graphical design
- ☐ Content development
- ☐ Operating

SIC 32 addresses the appropriate accounting treatment for internal expenditure on each of those stages:

- ☐ **Planning.** The Planning stage is similar in nature to the research phase in IAS 38.42-44. Expenditure incurred in this stage should be recognised as an expense when it is incurred.
- ☐ **Application and Infrastructure Development, Graphical Design, and Content Development.** These stages, to the extent that content is developed for purposes other than to advertise and promote an enterprise's own products and services, are similar in nature to the development phase in IAS 38.45-.52. Expenditure incurred in these stages should be included in the cost of a web site recognised as an intangible asset when the expenditure can be directly attributed, or allocated on a reasonable and consistent basis, to preparing the web site for its intended use. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an enterprise's own products and services) specifically for a web site, or expenditure to enable use of the content (such as a fee for acquiring a licence to reproduce) on the web site, should be included in the cost of development when this condition is met. However, in accordance with IAS 38.59, expenditure on an intangible item that was initially recognised as an expense in previous financial statements should not be recognised as part of the cost of an intangible asset at a later.
- ☐ **Operating.** The Operating stage begins once development of a web site is complete. Expenditure incurred in this stage should be recognised as an expense when it is incurred unless it meets the criteria in IAS 38.60.

A web site that is recognised as an intangible asset under SIC 32 should be measured after initial recognition by applying the requirements of IAS 38.63-.78. The best estimate of a web site's useful life is expected to be short.

*IFRIC's 12 voting members are appointed for three-year renewable terms. The Chair has the right to speak on technical issues at IFRIC meetings, but not to vote. One or two IASB members attend IFRIC meetings as non-voting observers with the right to speak. IFRIC members serve as individuals and not as representatives of any organisations with which they are affiliated.*

*With the publication of SIC 32 (see the previous page), the former Standing Interpretations Committee completed all of the projects on its agenda. IFRIC must now decide which issues it should tackle.*

*In Europe alone, nearly 7,000 listed companies will be switching from their national GAAP to International Accounting Standards in the next several years. The demand for training in IAS is considerable, and the IASCF Foundation Trustees are seeking ways to meet that demand.*

*In the past, many IASCF Standards had included application examples within the body of the Standard, sometimes enclosed in boxes (for example, see IAS 12, 19, 36, 37, and 38. IASB plans to "streamline" its Standards by putting such examples in appendixes while maintaining their authoritativeness.*

## CHANGES FOR IASB INTERPRETATIONS PROCESS

At their meeting in March, following solicitation of public comment, the Trustees of the IASCF Foundation made the following changes to IASB's Constitution with respect to the Standing Interpretations Committee:

- ❑ The committee's name is changed to the International Financial Reporting Interpretations Committee (IFRIC).
- ❑ The committee's mandate is broadened so it can address issues not specifically covered in an existing IFRS.
- ❑ The position of a non-voting chair of IFRIC is created, that position to be filled by one of the members of the IASB, the Director of Technical Activities, or a member of the IASB's senior technical staff. Subsequently, IASB appointed Kevin Stevenson, Director of Technical Activities, as chair of IFRIC.

## POTENTIAL IFRIC AGENDA ISSUES

At its April meeting, the International Financial Reporting Interpretations Committee (IFRIC) will consider the following potential agenda topics:

- ❑ Discretionary Distributions
- ❑ Economic Compulsion
- ❑ Effective Date and Transition Provisions
- ❑ IAS 19 *Employee Benefits*—The Asset Ceiling
- ❑ IAS 19 *Employee Benefits*—Post-Employment Benefits Liability Measurement
- ❑ Linkage of Transactions
- ❑ Transactions with Owners

## IASCF IS PLANNING CERTIFICATION PROGRAMMES IN IFRS AND IAS

The anticipated adoption of IAS throughout Europe and elsewhere has created a demand for high quality learning materials and training programmes. The IASCF Foundation (IASCF) Trustees have invited those who are experienced in providing learning materials and training programmes to submit proposals for materials and programmes to train and examine individuals on their skills in financial reporting under IASs and IFRSs. These programmes would carry the certificate "IASCF-approved training". Two levels of certification are envisioned: Application Level (Certification in IASs and IFRSs) and Advanced Level (Diploma in IASs and IFRSs).

## FORMAT OF IFRS

During the discussion of several projects at the IASB's March meeting, the Board indicated that guidance in IFRS will be of two types:

- ❑ IFRS will include one or more "application supplements" in appendices that will form part of the Standard.
- ❑ IFRS will include illustrative examples "at the back of the Standard" that are not appendixes to the Standard and do not form part of the Standard.



*In addition to these nine agenda projects, IASB has 16 “second priority” projects in which it is working with individual national standard setters on a partnership basis. For a list, see our web site: [www.iasplus.com](http://www.iasplus.com).*

## REVISED TIMETABLE FOR IASB PROJECTS

IASB has postponed its planned issuance of final standards on First-Time Application of IFRS, Improvements to Existing IAS, and Amendments to IAS 32 and IAS 39 from fourth quarter 2002 to some time in 2003.

Exposure Drafts on those projects, which had been expected in March, are now scheduled for some time in the second quarter of 2002.

The table below is a revised timetable for IASB’s agenda projects, based on IASB announcements and discussion at Board meetings.

TIMETABLE FOR IASB’S AGENDA PROJECTS	
<b>Preface to IFRS</b>	Exposure Draft was issued 8 November 2001 Comments were due 15 February 2002 Board discussion of comments began in April 2002
<b>Improvements Projects</b>	Exposure Draft in 2 <sup>nd</sup> quarter 2002 Final Standard in 2003
<b>First-Time Application of IFRS</b>	Exposure Draft in 2 <sup>nd</sup> quarter 2002 Final Standard in 2003
<b>Business Combinations</b>	Exposure Draft in 2 <sup>nd</sup> quarter 2002 Final Standard in 2003
<b>Share-Based Payment</b>	Exposure Draft in 4 <sup>th</sup> quarter 2002 Final Standard in 2003
<b>Activities of Financial Institutions</b>	Exposure Draft in 3 <sup>rd</sup> quarter 2002 Final Standard in 2003.
<b>IAS 32 and 39 Amendments</b>	Exposure Draft in 2 <sup>nd</sup> quarter 2002 Final Standard 2003
<b>Performance Reporting</b>	This is a partnership project with the UK Accounting Standards Board. The nature of the initial document to be issued will be decided in 2 <sup>nd</sup> quarter 2002. Other timing is undecided.
<b>Insurance Contracts</b>	Exposure Draft in 4 <sup>th</sup> quarter 2002 Final Standard in 2003

*An observer from Deloitte Touche Tohmatsu attends every IA SB meeting, and we publish the Board’s tentative decisions on our web site, [www.iasplus.com](http://www.iasplus.com), usually the next day.*

## IASB AGENDA PROJECT UPDATES

In the January 2002 edition of this newsletter, we summarised the tentative decisions made by the Board, through 31 December 2001, on its eight technical agenda projects. You can view or download a copy of that newsletter at [www.iasplus.com](http://www.iasplus.com).

On the next several pages, we present an **update** of additional decisions made by the Board during January through March 2002 on the following projects:

- ☐ Preface to IFRS (page 8)
- ☐ Improvements to IAS (page 9)
- ☐ First-Time Application of IFRS (page 13)
- ☐ Business Combinations (page 15)
- ☐ Share-Based Payment (page 17)
- ☐ Activities of financial Institutions (page 17)
- ☐ Amendments to IAS 32 and IAS 39 (page 17)
- ☐ Performance Reporting (page 18)
- ☐ Insurance Contracts (page 20)

*The new Preface to IFRS will replace the existing Preface to IAS, which was last revised in 1982 and which reflects the structure and procedures of the former IASC.*

## PROJECT UPDATE: PREFACE TO IFRS

In November 2001, IASB invited comments on a new Preface to International Financial Reporting Standards (IFRS). Comments were due by 15 February 2002. In the January edition of this newsletter, we summarised the key provisions of the proposed Preface. (You can get a copy at [www.iasplus.com](http://www.iasplus.com).)

The table below sets out the main points we made in the Deloitte Touche Tohmatsu letter of comment to IASB on the proposed Preface.

### OUR MAJOR COMMENTS ON THE PROPOSED PREFACE TO IFRS

- ❑ The Preface should address in broad principle the IASB's approach to considering the special reporting needs of small and medium-sized profit-oriented entities.
- ❑ We favour retaining the use of bold italic type for principles and plain type for the elaborative and guidance material. We think this makes the standard more user-friendly and adds clarity. Standards without this distinction can be difficult to follow.
- ❑ We support the Board's intention to provide "robust and useful guidance to illustrate the basic principles". We are concerned that, in an international environment, there can be a tendency in some jurisdictions to regard guidance as "optional". To ensure credibility of IAS/IFRS financial reports, IASB should do all it can to discourage that view.
- ❑ We believe that the preface should clarify the procedures for IASB Board involvement in issuance of draft Interpretations.
- ❑ We support including within the mandate of the IASB information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.
- ❑ The proposed Preface notes that IFRS set out presentation requirements. We believe that IASB should expressly acknowledge here that presentation is not limited to printed financial statements and printed reports but also includes accounting information presented in electronic media (such as Internet web sites). Otherwise, the term "presentation" will be interpreted too narrowly.
- ❑ We support stating in the Preface that minimum exposure periods will be at least 90 days for IASB Discussion Documents and Exposure Drafts and 60 days for Draft Interpretations. In an international environment, translation and solicitation of input at the national level by national accountancy bodies are required.
- ❑ The Preface should specify how potential IASB and IFRIC agenda projects are identified and how they are formally added to IASB's and IFRIC's agendas, including whether public input will be solicited.
- ❑ All comment documents issued by the IASB should be made available on the Internet without charge.
- ❑ The Preface should set out IASB's policy as to when re-exposure is required.
- ❑ The Preface should state a "plain English" objective for all IASB documents.
- ❑ All papers that will be discussed by the IASB Board and IFRIC at public meetings should be made available to observers at those meetings. Otherwise, discussion is very hard to follow.
- ❑ The lead time for the effective date of a new Standard should not be shorter than one year.



## PROJECT UPDATE: IMPROVEMENTS TO IAS

Here is a summary of tentative decisions made during first quarter 2002.

### IAS 1, Presentation of Financial Statements

*Under the existing IAS 1, the “true and fair override” of an IASB Standard or Interpretation is invoked only in very rare circumstances. The proposed amendment would further restrict those circumstances.*

- ❑ IAS 1.13 will be amended to retain a true and fair override provision, to clarify that it applies to Interpretations as well as to Standards, and to clarify what to do if the national legal or regulatory framework does not permit departure from the Standard or Interpretation, as follows: In the extremely rare circumstances in which management concludes that compliance with a requirement in an International Financial Reporting Standard or an Interpretation of a Standard would be so misleading that it would conflict with the objective of financial statements set out in the Framework:

–if the relevant regulatory framework requires or otherwise does not prohibit a departure from the requirement, the entity makes that departure and discloses information about the departure; or  
–if the relevant regulatory framework prohibits departure from the requirement, the entity, to the maximum extent possible, reduces the perceived misleading aspects of compliance by disclosing information about the nature and amounts of the items involved.

- ❑ Disclosures will be added for key assumptions and any management judgements made with regards to measurement issues.

### IAS 16, Property, Plant and Equipment

*Currently, gain or loss is not recognised on exchanges of similar assets.*

*IAS 16.12 currently suggests that a component approach to asset recognition and depreciation is sometimes appropriate, but it does not provide guidance as to the appropriate circumstances.*

*Currently, incidental revenue during construction is often treated as a reduction of an asset’s cost for practical reasons.*

- ❑ Exchanges of similar items of property, plant, and equipment will be recorded at fair value, and gain or loss will be recognised, unless neither the fair value of the asset given up nor the fair value of the asset acquired can be measured reliably. Currently, no gain or loss is recognised under IAS 16.22. This principle will also be extended to previously recognised intangible assets by amending IAS 38. Exchanges of similar goods and services would continue to be accounted for at carrying amounts.
- ❑ IAS 16 will require a components approach for depreciation. Each material component of a composite asset with different useful lives or different patterns of depreciation is accounted for separately for the purpose of depreciation and accounting for subsequent expenditure (including replacement and renewal). See IAS 16.12.
- ❑ Regarding cost capitalisation, references to start-up costs, pre-operating costs, pre-production costs, and similar items will be removed from IAS 16.17, and more general principles will be provided.
- ❑ SIC 6 on costs of modifying software is to be withdrawn.
- ❑ Incidental revenue (and related expenses) during the construction or development of property, plant, or equipment will be reported as items of income and expense, not as a reduction of the capitalised costs.
- ❑ An entity should review an asset’s estimated useful life at each balance sheet date, rather than ‘periodically’ as currently required by IAS 16.49.
- ❑ Items of property, plant, and equipment held for sale will continue to be depreciated and tested for impairment. IAS 36.9(f) will be amended to include ceasing to use the asset as a trigger for impairment review.

### IAS 17, Leases

- ❑ Initial direct costs incurred by lessors should be capitalised and amortised over the lease term. The alternative in IAS 17.33 to expense initial direct costs up front will be eliminated. The costs to be capitalised will be direct and incremental costs and may include both internal and external costs.

*Many property developers and valuers have urged IASB to allow long-term leases of land to be treated as finance leases so that the leased land component of investment property can be measured at fair value. IAS 17.11 currently requires all leases of land to be treated as operating leases (no asset recognised).*

*Removing the option to capitalise borrowing costs would have resulted in divergence, rather than convergence, with the accounting standards in many countries.*

*Parent company (unconsolidated) financial statements do not provide information about all of the resources and activities under the control of the management of the parent company. Even if a subsidiary is “virtually” wholly owned, its debt-holders and minority shareholders are generally better served with consolidated statements.*

## PROJECT UPDATE: IMPROVEMENTS TO IAS, continued

- ❑ The definition of investment property in IAS 40 will be amended so that property rights held under an operating lease can qualify as investment property if the other conditions for investment property are met and the lessee's policy is to account for investment property using the fair value model. IAS 17 will be amended so that, in this case, the lessee would account for the lease as if it were a finance lease.

### IAS 21, Changes in Foreign Exchange Rates

- ❑ IAS 21 would be amended to take account of the situation recently experienced in Argentina, where a currency is suspended and this straddles a year end. At present the standard is silent on this issue. The revision states that where there is non-exchangeability of a currency at the year-end, the rate that should be used is the exchange rate at the date when exchangeability is first re-established.
- ❑ Translation of comparative prior period amounts will be as follows:
  - (a) if the functional currency is not hyperinflationary, translate comparative assets and liabilities at the closing rate and translate comparative income and expense items at historical exchange rates at the time the income was earned and expenses incurred.
  - (b) if the functional currency is hyperinflationary and the presentation currency is also hyperinflationary, translate all balance sheet and income statement items at the current closing rate.
  - (c) if the functional currency is hyperinflationary and the presentation currency is not hyperinflationary, prior period comparative amounts remain as previously reported, that is, they are not updated for subsequent changes in price levels or exchange rates.

### IAS 23, Borrowing Costs

- ❑ Based on discussions with the liaison standard-setters, the Board agreed to remove from the Improvements Project the issue of whether eliminate the choice in IAS 23 of capitalising borrowing costs that meet certain conditions. At previous meetings, the Board had tentatively decided to remove this option from IAS 23.

### IAS 24, Related Party Disclosures

- ❑ The Board had previously agreed that financial statements of parent companies and wholly owned subsidiaries could omit IAS 24 disclosures only if those financial statements are published in a single document together with the consolidated financial statements for the group to which the entity belongs. At its March meeting, the Board reverted back to the existing IAS 24.4, which allows the exemption if the parent company or wholly-owned subsidiary financial statements are made available at the same time as the consolidated statements.
- ❑ The Board agreed to require separate disclosure of related party transactions and outstanding balances for key management personnel.

### IAS 27, Consolidated Financial Statements

- ❑ The IAS 27.8 exemption from consolidation for wholly owned subsidiaries would be tightened by requiring the following conditions:
  - (a) the wholly-owned subsidiary's equity and debt securities are not publicly traded;
  - (b) it is not in the process of issuing equity or debt securities in public securities markets;
  - (c) the immediate parent or ultimate parent publishes consolidated financial statements that comply with IFRS; and
  - (d) if the subsidiary is not wholly owned, the parent obtains the approval of the owners of the minority interest.

## PROJECT UPDATE: IMPROVEMENTS TO IAS, continued

### IAS 27, Consolidated Financial Statements (continued)

*Presentation of minority interest in equity is consistent with their equity interest in certain of the net assets that are included in the consolidated net assets.*

*Similar exemptions are provided in IAS 28 and IAS 31, and similar “tightening” of these exemptions would be done in those Standards as well.*

- ❑ If the exemption is applied, an entity should disclose:
  - (a) the reason for not publishing consolidated financial statements; and
  - (b) the name of the parent that publishes consolidated financial statements that comply with IFRS.
- ❑ Minority interests should be presented in equity, separately from parent shareholders' equity. However, current requirements for accounting recognition and measurement of minority interest should not be changed in the improvements project. The consequences of equity classification (for example, step acquisitions and dilution gains and losses) are to be discussed in phase II of the business combinations project.
- ❑ SIC 33, Potential Voting Rights, will be incorporated into IAS 27. However SIC 12, Consolidation - Special Purpose Entities, will not be. The Board will reconsider consolidation of special purpose entities in a future project.
- ❑ The exemptions from consolidation would be tightened:
  - Temporary investment : IAS 27.13(a) excludes a subsidiary from consolidation when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. The Board agreed that this exception should be retained and have clarified that such subsidiaries, when excluded from consolidation, should be measured at fair value with changes in fair value included in the profit and loss of the period of change in accordance with IAS 39. Also, if there is no likelihood of sale within 12 months, then the subsidiary should be consolidated.
  - Restrictions on transfer of funds : IAS 27.13(b) excludes a subsidiary from consolidation 'when it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent'. A similar exception is included in IAS 28.8(b) and IAS 31.35(b). The exemption will be removed, and IAS 27 (and IAS 28 and IAS 31) will be revised to indicate that severe long-term restrictions on the ability to transfer funds might preclude control (significant influence). In addition, it was agreed that disclosure of any restrictions is necessary, but that IAS 1 probably already requires this.

### IAS 28, Equity Method of Accounting

- ❑ An investor's share of losses of an associate should be recognised only to the extent of the interest in the associate.
- ❑ IAS 28 will be amended to clarify that an interest in an associate is the carrying amount of the investment in equity shares plus other interests such as loans and long-term advances. This affects the base to be reduced when an associate incurs losses. SIC 20, Equity Accounting Method—Recognition of Losses, will be rescinded.
- ❑ SIC 3, Elimination of Unrealised Profits and Losses on Transactions with Associates, and SIC 33, Potential Voting Rights and Allocation of Ownership Interests, will be incorporated into IAS 28.
- ❑ All references to consolidated financial statements would be removed from IAS 28, to make it clear that when accounting for associates the equity method should be used, except for in the individual financial statements of the investor where the proposed amendments to IAS 27 will apply (that is, cost or IAS 39).
- ❑ If an investor does not prepare consolidated financial statements because it does not have any subsidiaries, it must use the equity method to account for investments in associates. IAS 28.14(a) and (c) would therefore be deleted.

## PROJECT UPDATE: IMPROVEMENTS TO IAS, continued

*Although some IAS allow more accounting choices in parent company financial statements than in consolidated statements, that does not justify departure from any IAS (for instance, for the purpose of reporting distributable income under the law) if the parent statements are identified as conforming to IAS.*

*Currently, IAS 31 “does not indicate a preference for any particular treatment” in the separate (non-consolidated) financial statements of a venturer.*

### IAS 27 and IAS 28, Parent Company Statements

- ❑ The same standards should apply to parent company financial statements and consolidated financial statements.
- ❑ Parent company statements that are described as conforming to IAS must comply fully with IAS.
- ❑ The separate financial statements of a parent should disclose:
  - reasons why separate statements are prepared;
  - the existence of consolidated or equity method financial statements; and
  - description of the method used to account for investments in subsidiaries, associates, and jointly controlled entities
- ❑ In the investor’s separate financial statements, investments in subsidiaries, associates, and joint ventures should be either measured at cost or accounted for as a financial asset under IAS 39. The alternative to use the equity method would, therefore, be removed. The same method must be used for each of those categories of investments. It will be clarified that IAS 39 can be used even though investments in subsidiaries, associates, and joint ventures are otherwise excluded from the scope of IAS 39.
- ❑ Investments in subsidiaries excluded from consolidation and accounted for under IAS 39 in the consolidated financial statements should also be accounted for under IAS 39 in the parent’s separate financial statements. There is no reason for a change in treatment between the individual and consolidated statements.

### IAS 31, Investments in Jointly Controlled Entities

- ❑ All references to consolidated financial statements would be removed from IAS 31, to make it clear that paragraphs 25-37 apply to the financial statements of a venturer whether those statements are consolidated or company-only.
- ❑ If an investor does not prepare consolidated financial statements because it does not have any subsidiaries, it must use the equity method to account for investments in jointly controlled entities. IAS 31.38 would be amended.

### IAS 28 and IAS 31, Venture Capital Investments

- ❑ Venture capital investments held by venture capital organisations, mutual funds, unit trusts, and similar entities, for which there is significant influence or joint control, should not be accounted for using the equity method under IAS 28 or using proportionate consolidation under IAS 31. Instead, they should be measured at fair value under IAS 39 as a financial asset held for trading. Therefore, there should be a scope exclusion in IAS 28 and IAS 31 for such venture capital investments that are measured at fair value in accordance with established industry practice. (Of course, they would be consolidated if they were controlled.)
- ❑ The Board intends to develop a definition of venture capital investment.

### IAS 40, Investment Property

- ❑ Reconsideration of IAS 40’s choice of accounting for investment properties under either a fair value model or a cost model will not be part of the Improvements Project. The Improvements Exposure Draft will note that the Board intends to address this issue in conjunction with the Performance Reporting project.
- ❑ The definition of investment property will be amended so that property rights held under an operating lease can qualify as investment property if the other conditions for investment property are met and the lessee’s policy is to account for investment property using the fair value model. IAS 17 would be amended so that, in this case, the lessee would account for the lease as if it were a finance lease.

## PROJECT UPDATE: FIRST-TIME APPLICATION

*The general approach under the Board's tentative decisions in this project is that IFRS applicable at the date of adoption should be applied retrospectively (with a few exceptions) when a company switches from national GAAP to IAS.*

*All comparative information presented should be restated under IFRS. Companies will need to prepare for the conversion to IFRS sufficiently in advance, in order to collect the information to prepare an opening balance sheet under IFRS at the "date of transition" to IFRS (the beginning of the earliest year presented).*

The Board tentatively agreed on the following key general principles in its November 2001 meeting:

- ❑ the First-Time Application Standard will apply to the first annual financial statements in which an entity adopts IFRS as its primary basis of accounting and explicitly states its compliance with all IFRS;
- ❑ all information presented in a first set of IFRS financial statements should be prepared using IFRS in effect at the balance sheet date of the latest financial year presented;
- ❑ limited exceptions to the restatement of assets and liabilities in the opening balance sheet are considered:
  - for business combinations that occurred before the date of transition to IFRS;
  - where restatement under IFRS requires undue cost and effort. If this is the case, an enterprise should measure the asset or the liability at fair value at the date of transition and this amount will become the "deemed cost" of the asset or liability for subsequent measurement purposes; and
  - for employee benefits: at the date of transition, an enterprise should measure its defined benefit employee obligations as the difference between the present value of the defined benefit obligation and the fair value of any plan assets (all actuarial gains or losses and past service cost should be recognised at the date of transition).

The following key tentative decisions were made in the first quarter of 2002:

- ❑ If restatement under IFRS requires undue cost or effort, the ability to measure an asset or liability at the date of transition at fair value should be limited to items of property, plant, and equipment and investment properties accounted for under the cost model (under the alternative in IAS 40, Investment Property).
- ❑ Further relief from the restatement of cost under IFRS should be granted where an event of a special nature in the life of an enterprise (such as a privatisation or an IPO) fundamentally affected a policy of cost-based measurements under local GAAP.
- ❑ No special relief should be granted for internally generated intangible assets that exist at the date of transition to IFRS and that have not been recognised. However, an entity will restate in the opening balance sheet only those internally generated intangible assets that exist at the date of transition to IFRS for which it can be demonstrated that appropriate systems existed in the past to determine whether the recognition requirements of IAS 38, Intangible Assets, were met at a previous point in time.
- ❑ Consistent with the tentative decisions under the project on Business Combinations, an entity should not recognise any negative goodwill as a separate item in its opening balance sheet. Any negative goodwill separately recognised under local GAAP shall be eliminated against retained earnings.

## PROJECT UPDATE: FIRST-TIME APPLICATION, continued

- ❑ The Board considered how an entity that is applying IFRS for the first time would apply the provisions in IAS 39. The Board tentatively decided:
  - Consistent with the proposals for the revisions to IAS 39 and unlike the current version of IAS 39, no relief should be granted for the restatement of financial instruments that have been derecognised under local GAAP, where the derecognition criteria under IFRS were not met.
  - To include the hedging transition provisions of IAS 39 but to rewrite them so that they encompass the related questions and answers developed by the IAS 39 Implementation Guidance Committee. The hedging transition provisions would apply at the date of transition to IFRS.
  - Not to establish special transitional provisions for embedded derivatives. Therefore, at the date of transition to IFRS, embedded derivatives must be split out or, alternatively, the hybrid instrument in which they are embedded must be accounted for at fair value in its entirety.
  - At the date of transition to IFRS, the cumulative adjustment to fair value for financial assets classified as available-for-sale and remeasured to fair value should be reported in retained earnings definitively, and not in a separate component of equity. When the financial asset is subsequently sold, only those gains or losses that arose after the date of transition to IFRS will be ‘recycled’ and reported in net profit or loss.
- ❑ An entity must present a reconciliation (and explanation of reconciling items) of the following amounts presented under local GAAP and restated under IFRS:
  - net profit or loss of the last financial year where it was presented under local GAAP; and
  - beginning and closing equity of the last financial year where they were presented under local GAAP.

If an entity presents an interim financial report under IAS 34 for part of the annual period covered by its first IFRS financial statements, each such interim financial report should include the reconciliations indicated above, as well as reconciliations of the amounts presented for net profit or loss during the last comparative interim period presented under local GAAP.



*The uniting (pooling) of interests method of accounting for business combination would be abolished. Mandatory amortisation of goodwill would be replaced by non-amortisation plus an impairment test. National accounting standards in Australia, Austria, Canada, Czech Republic, Hungary, New Zealand, and United States (among others) have already banned the uniting (pooling) method.*

## PROJECT UPDATE: BUSINESS COMBINATIONS

- ❑ In March, the Board reaffirmed its key tentative conclusions reached at prior meetings that:
  - All business combination transactions within the scope of the Standard should be accounted for by the purchase method.
  - Goodwill should not be amortised but, rather, should be subject to an impairment test.
- ❑ Three Board members indicated that they were considering dissenting to the exposure draft and a fourth indicated he probably would not dissent to the exposure draft but might dissent to the final Standard unless comments on the ED persuaded him otherwise.

### Scope

- ❑ The Board has agreed that business combinations involving entities under common control (that is, business combinations in which all of the entities participating are ultimately controlled by the same party both before and after the business combination) should be excluded from the scope of the revised Standard. Accounting for such transactions will be addressed in phase II of the business combinations project.
- ❑ Rather than exempting combinations of mutual entities and combinations of entities by contract, the new IFRS would have a delayed effective date for those business combinations pending completion of Phase II of the business combinations project; meanwhile existing IAS 22 would continue to apply.

### Minority Interests

- ❑ The Board agreed that IAS 27 should be amended as part of the improvements project to require minority interests to be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. It was also clarified that this amendment does not prejudice issues regarding minority interest transactions; nor should it lead to entities changing their current practices for recognising and measuring minority interests.
- ❑ Acquisitions of some or all of the minority interests in a subsidiary by the parent, by the subsidiary itself, or by another entity within the group will not be included in the scope of the revised business combinations Standard. The accounting for such transactions will be addressed as part of the joint IASB/FASB project on issues related to application of the purchase method (Phase II of IASB's business combinations project).

### Disclosure

Some of the disclosures that will be required as a result of the project include:

- ❑ For each significant business combination, disclose the carrying amounts of each entity's assets and liabilities immediately before the business combination and amounts recognised as at the date of acquisition. Such disclosures will be required in aggregate for those business combinations that are individually immaterial.
- ❑ For interim reporting purposes, the disclosures in IAS 34 will be conformed to those that will be required in the annual financial statements.



## PROJECT UPDATE: BUSINESS COMBINATIONS, continued

- ❑ In relation to the calculation of recoverable amount of goodwill and intangible assets with indefinite useful lives, disclose:
  - The key assumptions on which the cash flow projections are based should be disclosed, along with sensitivity analysis. However, such disclosures will not be required where net selling price exceeds carrying amount for a CGU and is determinable using observable market prices.
  - If assumptions do not reflect past experience, that fact and the justification must be disclosed.
  - A description and amount of the cash flows are to be disclosed.
  - If the projected period is greater than 5 years, disclosure is to be expanded beyond those in IAS 36.

Such disclosures should be made at a segment level unless goodwill or identifiable intangible assets with indefinite lives are a significant portion of a cash-generating unit (CGU) or the basis of determining recoverable amount differs between CGUs, in which case disclosure should be at a CGU level.

In addition, disclosures are proposed where assets are reallocated between segments or CGUs for impairment test purposes.

- ❑ The IAS 38 disclosures will be amended to reflect the tentative decisions to allow intangible assets to have an indefinite useful life and to introduce the requirement for comparative information.
- ❑ The disclosures from SIC 28, 'Date of Exchange' and Fair Value of Equity Instruments, and SIC 22, Subsequent Adjustment of Fair Values and Goodwill Initially Reported, will be incorporated, into the Standard. Therefore amongst other things, disclosures will be required if the price used is different from market price.
- ❑ The aggregate profit or loss for the year must be disclosed for a newly combined entity as if the business combination had occurred at the start of the year, unless such disclosures would require undue cost and effort.

### Identifiable Assets and Liabilities

- ❑ Intangible assets acquired in a business combination should be recognised separately from goodwill if it arises from contractual or legal rights or is separable. An 'assembled workforce', in the absence of a legal contract, will not meet the recognition criteria for an intangible asset. However, a labour contract can be an asset if it is at a favourable price.
- ❑ IAS 38 will be amended so it no longer requires a detailed impairment calculation for goodwill or other intangibles being amortised over an estimated life longer than 20 years.
- ❑ If the estimated life of an intangible asset is changed from indefinite to a finite life, such change will be accounted for as a change in estimate (prospectively).
- ❑ A liability will not be recognised for an obligation that is triggered as a result of a business combination (such as a 'golden parachute' payment). This will be an expense of the combined entity.
- ❑ IAS 22.71 currently requires that acquired assets or liabilities identified after the end of the 'allocation period' be recognised with a corresponding credit to income. The revised Standard will say that if the asset or liability was overlooked at the time of the acquisition, it should be recognised as a correction of an error (restatement) rather than as income. Similar requirements will exist where the initial measurement value is revised.

*While the Board has not yet taken a formal vote on whether to require recognition or disclosure of the fair values of share-based payments, Board member comments indicate a general sympathy with a recognition approach.*

*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.*

*Other key changes to IAS 39 that have been reported in prior issues of this newsletter:*

- ❑ *An enterprise may elect to measure most financial assets and financial liabilities at fair value, instrument by instrument, by designating them as part of the held-for-trading portfolio when they are acquired or issued.*
- ❑ *The option to measure at fair value will apply to originated loans under certain circumstances (for example, mortgage loans) by designating them as available-for-sale.*
- ❑ *Financial assets that do not have a fixed maturity will be eligible for classification as a loan or receivable originated by the entity.*
- ❑ *Changes in fair values of available-for-sale financial assets will be reported in equity until the asset is sold. The current IAS 39 option of reporting the value change in net income will be eliminated.*

*continued...*

## PROJECT UPDATE: SHARE-BASED PAYMENT

The Board concluded that if IASB were ultimately to require either recognition or disclosure of the fair values of share-based payments, disclosure should be required of:

- ❑ which model was used to determine the fair value, and
- ❑ inputs to that model, including which interest rate is used (both % and which market the rate comes from); historical and expected price volatility and discussion of the reasons for any differences between the two; and historical and expected dividend yield and discussion of the reasons for any differences between the two.

## PROJECT UPDATE: ACTIVITIES OF FINANCIAL INSTITUTIONS

This project was not discussed by the Board during its first-quarter 2002 meetings. The project involves reconsideration of IAS 30 and focuses on disclosure and presentation issues relating to deposit-taking, lending, and securities business activities. Goals of the project are to eliminate redundancies between IAS 30 and other Standards, bring the existing IAS 30 requirements up to date, and to enhance disclosures, particularly in the areas of risk exposure, asset quality, and capital adequacy.

## PROJECT UPDATE: AMENDMENTS TO IAS 32 and 39

### Derecognition

The derecognition provisions of IAS 39 will be clarified by establishing as the guiding principle a 'continuing involvement' approach that disallows derecognition to the extent to which the transferor has continuing involvement in an asset or a portion of an asset it has transferred.

A transferor has a continuing involvement when:

- ❑ It could, or could be required to, reacquire control of the transferred asset (for example, if the financial asset can be called back by the transferor, the transfer does not qualify for derecognition to the extent of the asset that is subject to the call option); or
- ❑ Compensation based on the performance of the transferred asset will be paid (for example, if the transferor provides a guarantee, derecognition is precluded up to the amount of the guarantee).

No exceptions are made to the general principle. The following existing exceptions in IAS 39 are eliminated:

- ❑ The notion that the transferor must not retain substantially all of the risk and returns of certain assets in order for any portion of those assets to qualify for derecognition; and
- ❑ The transferee 'right to sell or repledge' condition for derecognition.

Guidance will be provided dealing with pass-through arrangements. When the transferor continues to collect cash flows from the transferred asset, additional conditions must be met for a transfer to qualify for derecognition, including:

- ❑ The transferor has no obligation to pay cash flows to the transferee unless it collects equivalent cash flows from the transferred asset;
- ❑ The transferor cannot use the transferred asset for its benefit; and
- ❑ The transferor is obligated to remit on a timely basis any cash flows it collects on behalf of the transferee.

*Still more key changes to IAS 39 that have been reported in prior issues of this newsletter:*

- ❑ *Embedded derivatives contained in a liability host contract need not to be split out if the enterprise elects to measure the hybrid instrument at fair value with changes recorded in the income statement.*
- ❑ *Hedges of firm commitments will be classified as fair value hedges, not cash flow hedges.*
- ❑ *Gain or loss on a derivative acquired to hedge the acquisition cost of an asset or liability must remain in equity and separately amortised to net profit or loss in the period(s) in which the acquired asset or liability affects net profit or loss, such as through depreciation expense, interest income, or cost of goods sold. That is, “basis adjustment” will be prohibited.*

*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).*

## PROJECT UPDATE: AMENDMENTS TO IAS 32 and 39, continued

### Valuation Techniques

The Board discussed valuation techniques, which is a major issue following the collapse of Enron. The Board agreed that more guidance is needed on fair value but was unsure of what else to include as the objective was felt to be very clear. Additional disclosure regarding the valuation technique was decided to be the best solution.

### Impairment of Investments and Equity Carried at Fair Value

Impaired investments and equity instruments should be written down to the impaired amount with the write down going through the income statement. No reversal of the impairment is allowed, as it is permanent. This treatment tends to converge with the current US treatment. It was also agreed that debt and equity instruments must be treated in the same way.

### Hedging of Firm Commitments

- ❑ Hedges of firm commitments should be classified as fair value hedges (which is the US treatment in SFAS 133), and not as cash flow hedges (which is the current IAS 39 treatment).
- ❑ Basis adjustment will be prohibited when a cash flow hedge of a forecasted transaction results in the recognition of an asset or a liability. This proposal would converge with US GAAP.

### Transition

The old paragraph 39.172(h) will be replaced. If a financial instrument qualified for derecognition under the old rules but did not qualify for derecognition under the new rules, the financial instrument must be re-recognised on the balance sheet.

### SIC 5 and SIC 17

SIC 5, Classification of Financial Instruments–Contingent Settlement Provisions, and SIC 17, Equity – Costs of an Equity Transaction will be incorporated into IAS 32.

## PROJECT UPDATE: PERFORMANCE REPORTING

This project was discussed by the Board at its January and February 2002 meetings, though no tentative decisions were made. The discussions continued to suggest, however, strong support within the Board for the following broad principles:

- ❑ **Single performance statement.** All recognised income and expense items should be presented in a single statement of performance.
- ❑ **All-inclusive.** The statement should include the effects of all changes in net assets during the period other than transactions with owners.
- ❑ **Predictive ability.** Information in the performance statement should help to predict rates of change so the users can make better judgements. Segment reporting will help with this. Segment reporting may be aggregated in the performance statement.
- ❑ **No ‘recycling’.** Recycling of income and expense items should not be allowed; that is, items should be reported in the performance statement as income or expense only once.

- ❑ **Realised vs. unrealised.** Profits should not be based on a notion of realisation. Realisation has different meanings in different countries. In Europe and Asia realisation refers to net profit available for distribution. However, in the United States realisation refers to capital maintenance. A critical issue in Europe would be whether 'mark to market' gains are distributable. The Board's view is that distributable profits is not an accounting issue but a legal issue.
- ❑ **Operating vs. non-operating.** A split between operating and non-operating profits should not be made. Many entities have more than one core operation and it can change with time so it is difficult to make such a split and it may not always be appropriate.
- ❑ **Trading vs. holding gains.** Differentiation between trading gains and holding gains seems to be accepted as a working principle.
- ❑ **Fair value changes.** In principle, changes in fair values of assets in a period should be split based on causes, for example, value changes resulting from performance during the period, changes in economic conditions, and changes in market expectations.
- ❑ **Extraordinary items.** The extraordinary item category should be abolished.
- ❑ **Unusual items.** These should not be separately aggregated on the face of the income statement but rather disclosed in the notes.
- ❑ **Costs of capital.** There is a need to distinguish between costs of debt and costs of equity – to enable assessment of return on equity and return on total capital employed. However, the Board has noted practical concerns, including ambiguity as to where pension or insurance costs should be classified.
- ❑ **Gains resulting from accounting choices.** There should be segregation of gains and losses recognised in the period that result from a choice of accounting convention. For example, the profit on disposal of a fixed asset will be different if the accounting convention chosen is historical cost rather than revalued amounts.
- ❑ **Format of performance statement.** A prescribed format and subtotals for the performance statement is needed, but management should be given freedom to specify key performance indicators by having discretion over line items provided and the sequencing of those items. Management would not be allowed to add their own subtotals. Presentation of the performance statement needs to be discussed before the detail of this principle is decided.

At the March meeting, discussion focused on application of the following principle to tangible fixed assets: *For assets and liabilities held at current values, a useful distinction can be made in the performance statement between expected income, unexpected income of the period, and unexpected capital gains and losses.* Discussion centred on the meaning of 'expected' and 'unexpected' in the context of fixed assets. No tentative decisions were made.

## PROJECT UPDATE: INSURANCE CONTRACTS

*The IASC steering committee has been reconstituted as an IASB advisory group. It developed in June 2001 a Draft Statement of Principles to serve as the basis for IASB discussions. The DSOP can be downloaded from IASB's web site ([www.iasb.org.uk](http://www.iasb.org.uk)).*

*While the draft is not a formal IASB discussion document, IASB has invited those who wish to comment to send their views directly to Peter Clark, the project manager: [pclark@iasb.org.uk](mailto:pclark@iasb.org.uk).*

*IASB plans to publish an exposure draft of a Standard in the fourth quarter of 2002.*

The Board has continued to discuss the Draft Statement of Principles (DSOP) prepared by the former IASC Steering Committee. The project focuses on the accounting for insurance contracts, and therefore its application is not limited to insurance companies alone. As a summary of the key decisions previously made:

- ❑ An insurance contract is a contract under which one party (the insurer) accepts an insurance risk by agreeing with another party (the policyholder) to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary (other than an event that is only a change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable). Certain investment-linked contracts may be called insurance contracts but they do not meet the above definition because there is little or no insurance risk. These are covered by IAS 39 rather than this project.
- ❑ Insurance contracts should be measured at entity-specific value.
- ❑ The deferred and fund methods of accounting for insurance contracts should not be used.

The IASB has accepted a number of working hypotheses to guide its future work and during the last quarter has agreed in broad terms with a number of the principles contained in chapters 4-6 and 8-12 of the DSOP. These include:

- ❑ In determining entity-specific value, each cash flow scenario used to determine expected present value should be based on reasonable, supportable and explicit assumptions that:
  - (a) reflect:
    - (i) all future events, including changes in legislation and future technological change, that may affect future cash flows from the closed book of existing insurance contracts in that scenario;
    - (ii) inflation by estimating discount rates and cash flows either both in real terms (excluding general inflation, but including specific inflation) or both in nominal terms; and
    - (iii) all entity-specific future cash flows that would arise in that scenario for the current insurer, even cash flows that would not arise for other market participants if they took over the current insurer's rights and obligations under the insurance contract;
- ❑ The following future cash flows should not be included in determining the expected present value of future pre-tax cash flows arising from the closed book of insurance contracts:
  - (a) income tax payments and receipts;
  - (b) cash flows arising from future insurance contracts;
  - (c) payments to and from reinsurers;
  - (d) investment returns from current or future investments (except for certain performance-linked contracts); and
  - (e) cash flows between different components of the reporting entity.
- ❑ Should insurance liabilities be measured at fair value and fair value is not observable directly in the market, fair value should be estimated by using the above principles, but with the following two differences:
  - (a) fair value should not reflect entity-specific future cash flows that would not arise for other market participants if they took over the current insurer's rights and obligations under the contract; and
  - (b) if there is contrary data indicating that market participants would not use the same assumptions as the insurer, fair value should reflect that market information.

## PROJECT UPDATE: INSURANCE CONTRACTS, continued

- ❑ The entity-specific value of an insurance liability should not reflect the insurer's own credit standing. Conceptually fair value should reflect the insurer's own credit standing, but this would have practical implications that need further investigation that the IASB did not want to undertake at this time.
- ❑ An insurer should not recognise catastrophe provisions relating to possible future claims beyond the end of the contracts included in the closed book. Similarly, an insurer should not recognise equalisation provisions to cover random fluctuations of claim expenses around the expected value of claims.
- ❑ Acquisition costs should be recognised as an expense when they are incurred.
- ❑ The entity-specific value and fair value of insurance liabilities and insurance assets should always reflect risk and uncertainty. Adjustments for risk and uncertainty should be reflected preferably in the cash flows, or alternatively in the discount rate(s), without any double counting.
- ❑ In the exceptional cases when no reliable estimate can be made of the market value margin at initial recognition of an insurance liability or insurance asset, an insurer should set the market value margin at a level that leads to no net underwriting profit or loss from the contract, until a reliable estimate of the market value margin becomes possible.
- ❑ A reinsurance contract should be defined as an insurance contract issued by one insurer (the reinsurer) to indemnify another insurer (the cedant) against losses on an insurance contract issued by the cedant.
- ❑ Reinsurers and cedants should apply all the recognition, derecognition and measurement requirements in principles 2.1-7.6 to all reinsurance contracts.
- ❑ If a reinsurance transaction doesn't qualify for derecognition of the related direct insurance liability under principle 2.3, a cedant should present:
  - an insurance asset arising under reinsurance contracts as an asset, not as a deduction from the related direct insurance liability; and
  - reinsurance premiums as an expense and the reinsurer's share of claim expense as income.
- ❑ The Board rejected the principle that a policyholder should apply principles 3.1 to 7.6 in measuring its contractual rights and obligations under a direct insurance contract. The Board felt that there were acceptable approximations to measure contractual rights and obligations under direct insurance contracts, therefore it was decided that these approximations should always be used, rather than introducing arbitrary dividing lines. It was decided that more work and research needed to be done in this area, especially with regard to any investment components of the contracts.



## PROJECT UPDATE: INSURANCE CONTRACTS, continued

At its meeting in March 2002, the Board considered two alternative approaches to performance reporting:

- ❑ The traditional insurance reporting model, which separates underwriting and investing and financing activities; and
- ❑ The reporting model developed by the Insurance Steering Committee, which would report three components of performance: profit or loss from new business, ongoing profit or loss from prior years' business, and profit or loss from investing and financing activities.

The two approaches are illustrated as follows:

### Income Statement: Traditional insurance reporting model

Premiums earned	xxx	
Claims incurred	(xxx)	
Amortisation of acquisition costs	(xxx)	
Maintenance costs	<u>xxx</u>	
Profit (loss) – underwriting business		xxx
Investing and financing activities:		
Investment income	<u>xxx</u>	
Net profit (loss)		xxx

### Income Statement: Steering Committee reporting model

New business–new policyholders:		
EPV of premiums	xxx	
EPV of claims	(xxx)	
Provision for risk and uncertainty	xxx	
EPV of maintenance costs	(xxx)	
Acquisition costs	<u>(xxx)</u>	
Profit (loss) – new business		xxx
Previous years' business:		
Changes in estimates/assumptions	xxx	
Release of risk	xxx	
Change in adjustment for risk and uncertainty	xxx	
Profit (loss) – insurance business		xxx
Investing and financing activities:		
Unwinding of discount – insurance provisions	(xxx)	
Effect of changes in discount rate	xxx	
Return on investments	<u>xxx</u>	
Profit (loss) – investing and financing activities		xxx
Net profit (loss)		xxx

The two approaches to performance reporting differ not only in presentation format but more fundamentally with respect to when profit or loss from insurance contracts should be recognised. The traditional model is a deferral and matching approach. The Steering Committee proposal is to recognise more profit or loss at the time the contract is entered into. The Board felt that further educational sessions are needed on these issues and made no tentative decisions at this meeting.

The Project Manager reported on some of the field visits they are making to insurance companies. Several companies in Canada are using a form of the Steering Committee model. They said it causes substantial added costs and the information content is worth the added cost, not only for the benefit of managers running the business but also directors who are not insurance experts.



*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

### International Accounting Standards Board (IASB)

- ❑ 17-19 April 2002, London, UK
- ❑ 20-24 May 2002, London, UK (20-21 May with chairs of national standard setters)
- ❑ 17-21 June 2002, Berlin, Germany (20-21 June with the Standards Advisory Council)
- ❑ 17-19 July 2002, London, UK
- ❑ 18-20 September 2002, Norwalk, CT, USA

### Standards Advisory Council (SAC)

- ❑ 20-21 June 2002, Berlin, Germany

### Trustees of the IASC Foundation (IASCF)

- ❑ 12 June 2002, London, UK
- ❑ 19 November 2002, Hong Kong, China

### International Financial Reporting Interpretations Committee (IFRIC)

- ❑ 23-24 April 2002, London, UK
- ❑ 23-24 July 2002, London, UK
- ❑ 28-29 August 2002, London, UK
- ❑ 25-26 November 2002, London, UK

*A CD version of the Bound Volume will also be available, with updates three times per year.*

## SHIPPING OF 2002 BOUND VOLUME BEGINS LATER THIS MONTH

IASB will print its 2002 Bound Volume of Standards and Interpretations in mid-April. They are taking advance orders by e-mail now. Their priority will be to send copies to subscribers and some others first, then to process advance orders received. Given the volume of orders to be sent, it will take several weeks for shipping, plus delivery time.

There is a single price for the 2002 Bound Volume: £47 or US\$73 (shipping included). You can place an advance order only by sending an email with shipping details and credit card information to [publications@iasb.org.uk](mailto:publications@iasb.org.uk). After shipping has begun, you can place your order on IASB's web site.

## NEWS FROM THE UNITED STATES

### CHAIRMEN OF IASB AND IASCF TESTIFY BEFORE US CONGRESS

*Others who have testified at hearings by this committee include:*

- ❑ *the current Chairman and five former Chairmen of the SEC (see story on next page)*
- ❑ *the current and former Chairmen of FASB*
- ❑ *former Chief Accountants of the SEC*
- ❑ *accounting educators*
- ❑ *representatives of consumer and labour organisations*
- ❑ *CEOs of securities firms and investment organisations*
- ❑ *officers of the American Institute of Certified Public Accountants*
- ❑ *others from the public accounting profession including James E. Copeland, CEO of Deloitte & Touche.*

*Details can be found at the Committee's web site:  
<http://banking.senate.gov>*

IASB Chairman Sir David Tweedie and IASC Foundation Chairman Paul Volcker testified at a hearing conducted by the US Senate Committee on Banking, Housing, and Urban Affairs on 14 February 2002 on "Accounting and Investor Protection Issues Raised by Enron and Other Public Companies: International Accounting Standards and Necessary Reforms to Improve Financial Reporting".

#### Excerpts from Sir David's statement:

*"I do not plan to comment on specific accounting and auditing issues surrounding Enron, although there are many. None of us knows enough about the specifics of the transactions, the information available to the auditors, and the judgements involved to form a solid professional conclusion. As we learn more, we may find the U.S. accounting standards should be improved. If so, we plan to learn from this case and to make sure that international accounting standards do not have similar problems...."*

*"Why have an international standard setter?"*

- ❑ *First, there is a recognised and growing need for international accounting standards.*
- ❑ *Second, no individual standard setter has a monopoly on the best solutions to accounting problems.*
- ❑ *Third, no national standard setter is in a position to set accounting standards that can gain acceptance around the world.*
- ❑ *Lastly, there are many areas of financial reporting in which a national standard setter finds it difficult to act alone."*

#### Excerpts from Mr. Volcker's statement.

*"We have had too many restatements of earnings, too many doubts about 'pro forma' earnings, too many sudden charges of billions of dollars to 'goodwill', too many perceived auditing failures accompanying bankruptcies to make us at all comfortable. To the contrary, it has become clear that some fundamental changes and reforms will be required to provide assurance that our financial reporting will be accurate, transparent, and meaningful...."*

*"I think of good financial reporting as resting on three pillars:*

- ❑ *Accounting standards setting out with clarity logically consistent and comprehensive 'rules of the game' that reasonably reflect underlying economic reality.*
- ❑ *Accounting and auditing practices and policies able to translate those standards into accurate, understandable, and timely reports by individual public companies.*
- ❑ *A legislative and regulatory framework capable of providing and maintaining needed discipline."*

## SUPPORT FOR IAS FROM FORMER SEC CHAIRMEN

Five former SEC Chairmen (Roderick M. Hills, Harold M. Williams, David Ruder, Richard C. Breeden, and Arthur Levitt, Jr.) testified at the US Congressional committee hearing on “Accounting and Investor Protection Issues Raised by Enron and Other Public Companies”.

- ❑ Chairmen Breeden and Levitt supported giving the SEC the authority to adopt other standards when it finds shortcomings in FASB’s standards. Chairman Breeden said: “the SEC should be able to adopt International Accounting Standards or standards drafted by other authorities, as well as its own staff, where it finds that FASB standards are not in the interest of investors. The FASB is too slow, standards are too complex, and it is not sufficiently accountable for action.”
- ❑ In his oral testimony, Chairman Levitt praised IASB’s willingness to tackle expense recognition for stock options.
- ❑ Chairman Breeden expressed a preference for IASB’s “Ten Commandments” approach to principle-based standards in contrast to FASB’s “cookbook” approach.
- ❑ Chairman Williams noted: “Rule making itself is very difficult particularly as financial activity and economic transactions become increasingly complicated and sophisticated. For example, the FASB has engaged for a number of years in an effort to create a clear standard for disclosing off-the-books transactions and special purpose entities. They have not been able to come up with a rule acceptable to the business community and the profession. That acceptability should not ultimately be the determining factor.”

## SEC CHAIRMAN URGES “PRINCIPLES -BASED” STANDARDS

In a speech before the Federal Bar Council, SEC Chairman Harvey L. Pitt called for a “move toward a principles-based set of accounting standards”:

*“Present-day accounting standards are cumbersome and offer far too detailed prescriptive requirements for companies and their accountants to follow. That approach, by necessity, encourages accountants to ‘check the boxes’ — that is, to read accounting principles narrowly, to ascertain whether there is technical compliance with applicable accounting principles.*

*“But the first principle should always be the one Judge Henry Friendly articulated four decades ago... If literal compliance with GAAP creates a fraudulent or materially misleading impression in the minds of shareholders, the accountants could, and would, be held criminally liable.*

*“That is why we are advocating fundamental and far-reaching changes in the Financial Accounting Standards Board. We seek to move toward a principles -based set of accounting standards.”*

## NEW SEC DISCLOSURE REQUIREMENTS APPLY TO FOREIGN REGISTRANTS

The US SEC has issued a statement on disclosure requirements for public companies that applies to both domestic and foreign registrants. The statement sets forth the Commission's views regarding certain disclosures that should be considered by public companies while preparing annual reports for the year recently ended. The disclosure areas are liquidity and capital resources including off-balance sheet arrangements; certain trading activities that include non-exchange traded contracts accounted for at fair value; and effects of transactions with related and certain other parties. The document is available on the SEC’s web site: [www.sec.gov](http://www.sec.gov).

*Details:*

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

## **US PUBLIC OVERSIGHT BOARD IS DISSOLVED**

The US Public Oversight Board (POB) – which since 1977 has been the independent, private sector oversight body for the accounting profession – voted to dissolve as of 31 March 2002. The decision was made as a result of a public Statement issued by Harvey L. Pitt, Chairman of the US Securities and Exchange Commission, – precipitated by the Enron case, – that seemed to suggest the SEC's proposals for changing the system of self-regulation of the accounting profession do not include a place for the POB.

Former FASB Chairman Donald J. Kirk, who was vice chairman of the POB, will continue as caretaker head of the POB to allow for orderly completion of peer reviews that are under way. A number of countries have set up or are considering a professional self-regulatory structure similar to that in the United States.

*Details:* <http://www.aicpa.org/news/p010302.htm>

## **AICPA MEMBERS SOUNDLY DEFEAT GLOBAL CREDENTIAL**

By a vote of 83,390 (62.5%) opposed to 50,034 (37.5%) in favour, members of the American Institute of CPAs have defeated the proposal to create a global professional credential. The global credential, alternatively referred to as XYZ, Cognitor, and Strategic Business Professional (IISBP), was proposed as a supplement to the national accounting credential such as CPA and CA. The credential was intended to recognise an individual's ability to integrate knowledge from multiple business disciplines and to apply that knowledge to provide strategic business insight. Besides the AICPA, a number of other national accounting bodies had agreed to participate in the global credential process, including Australia, Canada, France, Italy, and New Zealand. The AICPA had spent about \$5 million over the past three years in developing the initiative.

## **EU COMMISSIONER URGES IAS IN THE UNITED STATES**

In an interview with the Financial Times, Frits Bolkestein, European internal market commissioner, urged the US SEC to replace the 'cookery book' approach of US GAAP with the more 'substance over form' approach of IAS. The Commission plans to require listed European companies to use IAS by 2005. Mr. Bolkestein expressed concern about what he felt is a rule-book approach of US GAAP: "You tick the boxes and out come the answers," he is quoted as saying. "Having rules is a good thing, but having rigid rules is not the best thing.... American investors are no more protected than European investors."

At a minimum, he will ask the SEC to allow US-listed European companies to submit IAS financial statements without reconciliation to US GAAP.

## NEWS ABOUT IAS IN EUROPE

On our website [www.iasplus.com](http://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.

*Several European countries, including Spain, are considering requiring IAS for all companies, not just listed companies.*

### EUROPEAN PARLIAMENT OVERWHELMINGLY ADOPTS IAS RESOLUTION

By a vote of 492 for, 5 against, and 29 abstentions, on 12 March 2002 the European Parliament endorsed the Commission's proposal that all EU listed companies must follow standards issued by the International Accounting Standards Board in their consolidated financial statements starting no later than 2005. Companies preparing for listing would not be required to follow IAS.

Member States are permitted to decide whether non-listed companies must also follow IAS. Member States also have the option to exempt certain companies temporarily from the IAS requirement – but only until 2007 – in two cases: (1) companies that are listed both in the EU and on a non-EU exchange and that follow another set of internationally accepted standards as the primary basis of their consolidated financial statements and (2) companies that have only publicly traded debt securities. The first exemption would apply mainly to European companies listed in the US that currently use US GAAP for their primary financial statements.

The legislation is unclear as to whether companies from outside Europe whose shares are traded on a European exchange will also be required to follow IAS.

### EUROPE IS DEVELOPING COMPREHENSIVE DISCLOSURE LEGISLATION

With the objective of creating a fully integrated pan-European securities market, the European Commission is preparing a new proposal for a Directive dealing with ongoing and periodic transparency requirements of securities issuers. The proposed Directive is likely to be submitted to the European Parliament and Council by the summer of 2002. The proposal will be based on views expressed by 90 respondents to a July 2001 EC invitation to comment. The main points expressed by respondents related to:

- ☐ Consolidation of all existing periodic and ongoing disclosure obligations into a single legal text.
- ☐ Upgrading of the periodic disclosure obligations of enterprises admitted for trading on a regulated market.
- ☐ Publication of information via the Internet.
- ☐ Each Member State should have a single authority responsible for public disclosure by securities issuers.

### DENMARK

The Copenhagen Stock Exchange has recommended that Danish listed companies consider adopting IAS earlier than the proposed 1 January 2005 date for all EU listed companies.

*You will find comprehensive information about the use of IAS in Europe on our web site: [www.iasplus.com](http://www.iasplus.com).*

*International Standards on Auditing are developed by the International Auditing and Assurance Standards Board of IFAC. Their web site is: [www.iaasb.org](http://www.iaasb.org).*

## **EFRAG REPORTS ON CONSISTENCY OF “MODERNISED” DIRECTIVES AND IAS**

The European Commission is considering revisions to the 4<sup>th</sup> and 7<sup>th</sup> Accounting Directives, which aim to remove all existing conflicts with IAS. The revised Directives are expected to be approved by the end of 2002.

As part of the project EFRAG has been requested to review and confirm that after the proposed revisions there would be no remaining inconsistencies between IAS and the Directives. The EFRAG Technical Expert Group has concluded, in a Report to the Commission, that there are “no actual inconsistencies between IAS 1 to 41 (and related SIC) and the [‘proposed modernised’] 4<sup>th</sup> and 7<sup>th</sup> Directives”. However, EFRAG has recommended clarification of the proposed Directives with respect to:

- ☐ the treatment of fundamental errors and accounting policy changes under IAS 8 where retroactive application is applied;
- ☐ the corridor approach under IAS 19; and
- ☐ reverse acquisitions under IAS 22.

EFRAG also noted, “a number of standards are in the process of being changed and this could result in conflicts with the proposed Directives”.

## **FEE STUDY URGES EU TO REQUIRE INTERNATIONAL STANDARDS ON AUDITING (ISAs) BY 2005**

A discussion paper published by the Federation of European Accountants (FEE) proposes that by 2005 national auditing standards in the European Union should require auditors of financial statements to:

- ☐ Perform audit procedures that comply with International Standards on Auditing (ISAs).
- ☐ Report on financial statements in accordance with ISAs.
- ☐ Perform additional audit procedures and report on additional matters in response to specific legal, regulatory, or other needs established at a national level.

## **BIS CHIEF EXECUTIVE URGES GLOBAL ADOPTION OF IAS**

Andrew Crockett, General Manager of the Bank for International Settlements and Chairman of the Global Stability Forum, has called global financial reporting standards “a critical pillar in the international financial architecture”:

*“The prospects of acceptance of international standards look better than ever before, a testimony to the efforts made so far. In particular, the European Commission has supported strongly the concept of international standards. It has proposed that quoted companies in the Union produce consolidated accounts according to international standards by 2005. And it has set up a two-tier mechanism (political and technical) for endorsement. At the same time, uncertainties remain. General support by the US authorities has been tempered by what they see as the potential risk of weakening national standards. It is important that the current momentum be maintained and, if possible, increased.”*

Mr. Crockett proposed a three-pronged approach toward implementing global standards:

- ☐ Securing acceptance of international standards by national standard setters and securities regulators.
- ☐ Reconciling the different perspectives of accounting and prudential authorities.
- ☐ Ensuring the monitoring and enforcement of the standards.

## NEW FROM DELOITTE TOUCHE TOHMATSU

*There is no charge to download these documents.*

### PRACTICAL GUIDE TO IAS IS NOW AVAILABLE FOR DOWNLOAD

We are making available without charge the electronic version of *International Accounting Standards: A Practical Guide to Financial Reporting*, by Deloitte Touche Tohmatsu, second edition, published December 2001. This 224 page book includes:

- ☐ Summaries of all current standards.
- ☐ Model financial statements.
- ☐ A presentation and disclosure checklist.

You can download the book in PDF format from [www.iasplus.com/links/pubs.htm](http://www.iasplus.com/links/pubs.htm). It is 2.53mb, so if you do not have a broadband connection, please be patient.

### IAS IN YOUR POCKET GUIDE IS BEING UPDATED AND TRANSLATED

The second English edition of our popular booklet, *IAS In Your Pocket*, will be available in May. It will contain nearly 80 pages of summaries of IASB Standards and Interpretations, background on IASB projects, and other useful IASB-related information. New in this edition: the summaries of Standards will identify potential changes based on tentative leanings of the IASB in its current agenda projects.

In addition to an English edition, the following versions are or soon will be available:

- ☐ **Polish.** You can download the electronic version at [www.iasplus.com/links/pubs.htm](http://www.iasplus.com/links/pubs.htm).
- ☐ **French.** A printed copy may be ordered from Deloitte Touche Tohmatsu, Service Documentation, 185, Av. Charles de Gaulle, 92524 Neuilly-sur-Seine Cedex, France, fax: +33 1 5561 6609, or e-mail: [publications@deloitte.fr](mailto:publications@deloitte.fr)
- ☐ **Chinese and Spanish.** Available soon.

### DELOITTE TOUCHE TOHMATSU MODEL IAS FINANCIAL STATEMENTS ARE AVAILABLE IN CHINESE

We have developed, and posted on [www.iasplus.com](http://www.iasplus.com), the Chinese version of our IAS Model Financial Statements. The English version is posted as well.



## ACCOUNTING STANDARDS UPDATE IN THE ASIA-PACIFIC REGION

### AUSTRALIA

Contact: *Bruce Porter*

The Australian Accounting Standards Board (AASB) is continuing its policy of harmonising Australian Accounting Standards with International Accounting Standards (IAS). In February 2002, the AASB released a publication, *The Australian Convergence Handbook*, which contains an analysis of the current differences between Australian Standards and International Standards issued by the former International Accounting Standard Committee.

The AASB has not issued any new/revised authoritative pronouncements since the last IAS Plus newsletter. However, one of the key developments since then is that the AASB has developed a draft Exposure Draft proposing amendments to AASB 1018, Statement of Financial Performance, AASB 1034, Financial Report Presentation and Disclosures, and AASB 1040, Statement of Financial Position (the Trilogy). It is expected that the proposed amendments will be effective for reporting periods ending on or after 30 June 2002.

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 44, Acquisition of In-Process Research and Development. This Abstract addresses the recognition of in-process research and development acquired as part of an acquisition of an entity or operation.

### CHINA

Contact: *Patrick Tsang*

In March 2002, the Ministry of Finance adopted four auditing pronouncements formulated by the Chinese Institute of Certified Public Accountants (CICPA). The pronouncements, which will take effect from July 1, 2002, and their international counterparts are as follows:

Specific Independent Auditing Standards (SIAS)	Equivalent International Auditing Standard
#26: Attendance of Physical Inventory Counting	#501: Audit Evidence—Additional Considerations for Specific Items
#27: Confirmation	#505: External Confirmation

Independent Auditing Practice Pronouncement (IAPP)	Equivalent International Auditing Standard
#9: Performing Agreed-upon Procedures regarding Financial Information	#920: Engagements to Perform Agreed-upon Procedures regarding Financial Information
#10: Review of Financial Statements	#910: Engagements to Review Financial Statements

All four pronouncements are generally consistent with the principles of the equivalent International Auditing Standards.

In March 2002, the China Securities Regulatory Commission reversed its decision of 30 December 2001 (reported in the January 2001 edition of this newsletter) that, for all initial and secondary public offerings of 'A Shares' (shares that can be purchased by Chinese investors), supplementary IAS financial statements must be published that must be audited by an international accounting firm. The revised rules require supplementary audits only if a company is issuing 300 million or more shares (which, in recent years, has only happened two or three times a year). Further, in those cases the supplementary audits would be conducted by licensed Chinese accounting firms, not international firms, and only a reconciliation of net income to IAS would be required, not complete supplementary IAS financial statements.

**SSAP 35, Government Grants**

The Hong Kong Society of Accountants (HKSA) has issued one new Standard in the first quarter of 2002 – SSAP 35, Accounting for Government Grants and Disclosure of Government Assistance. This SSAP, which is closely modelled on IAS 20 of the same title, requires government grants not to be credited directly to equity but to be recognised as income in a way that matches with the related costs. SSAP 35 is effective for accounting periods beginning on or after 1 July 2002. On implementation, reporting enterprises can opt for retrospective application or, alternatively, can elect to apply the accounting provisions of the Standard only to grants or portions of grants becoming receivable or repayable after the effective date.

**Two Exposure Drafts on Financial Instruments**

The HKSA has also issued two exposure drafts for new Accounting Standards: Financial Instruments: Disclosure and Presentation and Financial Instruments: Recognition and Measurement. These exposure drafts are based on IAS 32 and IAS 39 and propose to establish principles for presenting, recognising, measuring, and disclosing information about financial instruments so as to bring financial statements prepared under Hong Kong Generally Accepted Accounting Practice into line with international accounting practice.

In addition, the HKSA has issued (in CD ROM format) proposed Implementation Guidance based on the Implementation Guidance issued by the IAS 39 Implementation Guidance Committee of the International Accounting Standards Board. Comments on the proposed standards and implementation guidance should be submitted to the HKSA on or before 15 July 2002.

In issuing the two financial instruments exposure drafts, the HKSA acknowledged that IASB has under way a project to amend IAS 32 and IAS 39. HKSA intends to take into account the results of that project before it issues final Standards based on IAS 32 and IAS 39.

**Five Draft Interpretations**

Finally, the HKSA has issued 5 draft interpretations on which comments are invited on or before 30 April 2002. Each of the drafts is based on an equivalent Interpretation of the Standing Interpretations Committee of the International Accounting Standards Committee. They are:

- ❑ Evaluating the Substance of Transactions Involving the Legal Form of a Lease (Draft Interpretation 14)
- ❑ Business Combinations - “Date of Exchange” and Fair Value of Equity Instruments (Draft Interpretation 15)
- ❑ Disclosure - Service Concession Arrangements (Draft Interpretation 16)
- ❑ Revenue - Barter Transactions Involving Advertising Services (Draft Interpretation 17)
- ❑ Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests (Draft Interpretation 18)

The following Accounting Standards have been issued by the Institute of Chartered Accountants of India:

**AS 24, Accounting Standard on Discontinuing Operations**

- ❑ AS 24 enhances the ability of the users of the financial statements to make projections of an enterprise's cash flows, earnings-generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations.
- ❑ AS 24 does not establish any recognition and measurement principles. Rather, it requires that an enterprise follow recognition and measurement principles established in other Accounting Standards.
- ❑ This Standard is recommendatory in nature at present.

**AS 25, Accounting Standard on Interim Financial Reporting\***

- ❑ The objective of AS 25 is to prescribe the minimum contents of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period.
- ❑ If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Standard.
- ❑ Effective for accounting periods commencing on or after 1 April 2002.

**AS 26, Accounting Standard on Intangible Assets\***

- ❑ This Standard came into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1 April 2002 and is mandatory in nature from that date for the following:
  - (i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises which are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India.
  - (ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 500 million.
- ❑ In respect of all other enterprises, AS 26 takes effect in accounting periods commencing on or after 1 April 2004 and is mandatory in nature from that date.
- ❑ From the date that AS 26 becomes mandatory for the concerned enterprises, the following stand withdrawn:
  - (i) Accounting Standard (AS) 8 on Accounting for Research and Development;
  - (ii) Accounting Standard (AS) 9 on Depreciation Accounting with respect to the amortisation (depreciation) of intangible assets; and
  - (iii) Accounting Standard (AS) 10 on Accounting for Fixed Assets – certain relevant portions.
- ❑ AS 26 addresses the accounting for intangible assets that are not dealt with specifically in other Accounting Standards. It requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. AS 26 also specifies how to measure the carrying amount of intangible assets and requires disclosures about intangible assets.

**AS 27, Accounting Standard on Financial Reporting of Interests in Joint Ventures\***

- ❑ AS 27 sets out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income, and expenses in the financial statements of the venturers and investors.
- ❑ AS 27 is mandatory for both the separate financial statements and the consolidated financial statements prepared by an enterprise.
- ❑ Effective for accounting periods commencing on or after 1 April 2002.

\*Exposure drafts of these Standards were reported in the January 2002 issue of this newsletter.

The following standards have been deferred:

- ❑ SAS 32, Financial Instruments: Disclosure and Presentation (IAS 32) – for insurance enterprises only, deferment of the application of paragraph 33 (offsetting assets and liabilities) for one year.
- ❑ SAS 33, Financial Instruments: Recognition and Measurement (IAS 39) – now effective for financial statement periods beginning on or after January 1, 2004.

As a result, the consequential revisions to other accounting standards arising from the adoption of SAS 33 (IAS 39) are also correspondingly deferred. These other related statements are:

- ❑ SAS 26, Consolidated Financial Statements and Accounting for Investments in Subsidiaries (IAS 27)
- ❑ SAS 27, Accounting for Investments in Associates (IAS 28)
- ❑ SAS 29, Financial Reporting of Interests in Joint Ventures (IAS 31); and
- ❑ SAS 32, Financial Instruments: Disclosure and Presentation (IAS 32)

The following standards have been revised to eliminate differences with the equivalent IAS. The revisions are effective for financial statement periods beginning on or after 1 April 2002:

- ❑ SAS 1, Presentation of Financial Statements (IAS 1)
- ❑ SAS 11, Construction Contracts (IAS 11)
- ❑ SAS 14, Property, Plant and Equipment (IAS 16)
- ❑ SAS 16, Revenue (IAS 18)
- ❑ SAS 20, The Effects of Changes in Foreign Exchange Rates (IAS 21)
- ❑ SAS 25, Accounting for Investments (IAS 25 - Superseded)
- ❑ SAS 37, Information Reflecting the Effects of Changing Prices (IAS 37)

The following exposure draft of proposed standards are still outstanding:

- ❑ ED/SAS 40, Investment Property (IAS 40)
- ❑ ED/SAS 45, Share-based Compensation
- ❑ ED/SAS 46, Proposed Amendments to SAS 17 (IAS 19), Employee Benefits: The Asset Ceiling

The following interpretations have been adopted:

- ❑ INT 18, Consistency–Alternative Methods (SIC 18)
- ❑ INT 19, Disclosure–Service Concession Arrangements (SIC 29)
- ❑ INT 20, Equity–Costs of an Equity Transaction (SIC 17)
- ❑ INT 21, Revenue–Barter Transactions Involving Advertising Services (SIC 31)
- ❑ INT 22, Evaluating the Substance of Transactions in the Legal Form of a Lease (SIC 27)
- ❑ INT 23, Business Combinations – ‘Date of Exchange’ and Fair Value of Equity Instruments (SIC 28)
- ❑ INT 24, Consolidation and Equity Method–Potential Voting Rights and Allocation of Ownership Interest (SIC 33)

Effective dates:

- ❑ INT 18, INT 20 and INT 24: annual financial periods beginning on or after 1 April 2002.
- ❑ INT 19, INT 21 and INT 22: on 1 April 2002.
- ❑ INT 23: acquisitions given initial accounting recognition on or after 1 April 2002.

## SINGAPORE, continued

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)
- ❑ ED/INT 25, Intangible Assets–Website Costs (SIC D32)
- ❑ ED/INT 28, Reporting Currency –Translation from Measurement Currency to Presentation Currency (SIC 30)
- ❑ ED/INT 31, Financial Instruments - Instruments or Rights Redeemable by the Holder (SIC D34)

## THAILAND

Contact: *Russell Toy*

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 have been superseded.

Under the Accountancy Act B.E. 2543, Thai Accounting Standards (TAS) must be approved by the Ministry of Commerce in Thailand (the MOC) and placed into law before companies are required to adopt such standards.

The following nine TAS have been issued by the ICAAT, however, they have not yet been approved by the MOC nor have they been placed into law. All of these unapproved TASs, which were pending MOC approval, have been withdrawn by the ICAAT from the MOC's consideration, pending the outcome of a review by the ICAAT. Currently, adoption of these TASs is optional.

These accounting standards are generally based on IAS. However, they do not necessarily conform to the standards upon that are based on in every respect.

TAS No.	Title	Proposed Effective Date
34	Troubled Debt Restructuring	30 September 1998
49	Construction Contracts	1 January 2001
50	Segment Reporting (IAS 14)	1 January 2002
51	Intangible Assets (IAS 38)	1 January 2004
52	Events After the Balance Sheet Date (IAS 10)	1 January 2004
53	Provision, Contingent Liabilities, Contingent Assets (IAS 37)	1 January 2004
54	Discontinuing Operations (IAS 35)	1 January 2006
55	Accounting for Government Grants and Disclosure of Government Assistance (IAS 20)	1 January 2004
56	Income Taxes (IAS 12)	1 January 2007

In December 2001, the ICAAT issued an announcement which exempted non-public limited 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 of financial statements under the Accountancy Act, which will become effective accounting periods subsequent to December 31, 2001, with early application permitted.

Recently, the ICAAT has also issued the following new Thai Accounting Standard Interpretations (TASI) effective 1 January 2004:

TASI No. 5	Classification of Financial Instruments-Contingent Settlement Provisions
TASI No. 6	Jointly Controlled Entities – Nonmonetary Contributions by Venturers
TASI No. 7	Property, Plant and Equipment – Compensation for the Impairment or Loss of Items
TASI No. 8	Operating Leases – Incentives

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