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October 2000

### ABOUT THIS NEWSLETTER

This is the first issue of **IAS PLUS**. It is prepared by the DTT Technical Department in Hong Kong with contributions from DTT people who assist our clients worldwide in implementing International Accounting Standards (IAS). We plan to publish **IAS PLUS** quarterly in both printed and electronic formats. Information on how you can receive it regularly is at the end of this newsletter.

Although every DTT office has people knowledgeable in IAS, we have established Centres of Excellence – Hong Kong (Asia-Pacific), Wilton, Connecticut (the Americas), and Paris and Copenhagen (Europe) – to address IAS issues at regional and global levels, and to provide support for our practice offices. Jointly, representatives from the Centres of Excellence develop a global DTT response to the issues papers and proposals from the IASC and the G4+1.

IAS are particularly relevant in the Asia-Pacific region where, in one way or another, national accounting standard-setters increasingly look to IAS as the basis for their own standards. In part this trend is the result of the globalisation of the world's capital markets. In part, also, it is because the Asian economic crisis of the 1990s brought to light some shortcomings in national accounting standards.

We have made this first issue of **IAS PLUS** something of a catch-up newsletter. We summarise each of the recent IAS and each of the recent SIC Interpretations that will take effect in 2000 or later. We also summarise the outstanding IASC Exposure Drafts and outstanding Draft Interpretations.

We have highlighted the agendas for the upcoming meetings of the IASC Board and the Interpretations Committee. In particular the IASC plans to finalise four Standards (well, three are really amendments to existing standards) before the end of the year.

Regular features will be updates on the restructuring of IASC (at least until the new Board is off and running – probably next Spring) and accounting updates from countries in the Asia-Pacific Region.

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## RECENT IASC STANDARDS TAKING EFFECT IN 2000 OR LATER

*International Accounting Standards are issued on approval of at least 12 of the 16 IASC Board members. Proposed Standards are first published for comment, and for larger projects a discussion paper is issued for comment before the proposal.*

*IAS 10, 22, 36, 37, and 38 are effective for calendar year 2000 companies. Both IAS 39 and IAS 40 take effect in 2001 though early adoption is permitted.*

EFFECTIVE DATES OF NEW IASC STANDARDS BRIEF SUMMARIES ARE PRESENTED BELOW		
	New IAS	Effective for Periods Beginning on or After
IAS 10	Events After the Balance Sheet Date	1 January 2000
IAS 22	Business Combinations	1 July 1999
IAS 36	Impairment of Assets	1 July 1999
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 July 1999
IAS 38	Intangible Assets	1 July 1999
IAS 39	Financial Instruments: Recognition and Measurement	1 January 2001 (financial years beginning on or after)
IAS 40	Investment Property	1 January 2001

*Dividends declared after the balance sheet date but before approval of financial statements no longer can be accrued. A “sleeper” provision that applies to all companies is the required disclosure of when and how the financial statements were approved for issuance.*

### IAS 10, EVENTS AFTER THE BALANCE SHEET DATE

IAS 10 was revised in 1999, but the basic concept of the old IAS 10 was retained, namely:

- q Adjust financial statements for events after the balance sheet date that provide further evidence of conditions that existed at the balance sheet.
- q Do not adjust for events or conditions that arose after the balance sheet date.

A number of clarifications were made, including these:

- q If dividends to holders of equity instruments are proposed or declared after the balance sheet date, do not recognise those dividends as a liability (but IAS 1 requires disclosure).
- q Do not prepare financial statements on a going concern basis if management determines after the balance sheet date either that it intends to liquidate the enterprise or to cease trading.
- q Companies must disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise must disclose that fact.
- q A company should update disclosures that relate to conditions that existed at the balance sheet date in the light of any new information that it receives after the balance sheet date about those conditions.

*Revised IAS 22 doesn't change the rules for deciding acquisition or uniting (purchase or pooling). Opens the door a bit for amortising goodwill over more than 20 years, but tightens up on when restructuring provisions can be accrued at the time of an acquisition.*

### IAS 22, BUSINESS COMBINATIONS

IAS 22 was adopted nearly 20 years ago. Most business combinations are accounted for as acquisitions (purchases). In the rare circumstance that an acquirer cannot be identified, uniting of interests accounting (called pooling of interests in the US) is used. In 1998, IASC made some changes to IAS 22 effective for periods beginning 1 July 1999. The main changes relate to the requirements for amortisation of goodwill, the recognition of restructuring provisions at the date of acquisition, and the treatment of negative goodwill:

- q The former 20 year ceiling on the amortisation period of goodwill has been made a rebuttable presumption rather than an absolute limit. An infinite useful life is not permitted.

## IAS 22, BUSINESS COMBINATIONS, continued

- q Restructuring provisions may be recognised at acquisition of the restructuring is an integral part of the acquirer's plan for the acquisition and, among other things, the main features of the restructuring plan were announced at, or before, the date of acquisition.
- q Negative goodwill must always be measured and initially recognised as the full difference between the acquirer's interest in the fair values of the identifiable assets and liabilities acquired less the cost of acquisition. Negative goodwill must be presented as a deduction from (positive) goodwill. The Standard has strict guidelines for recognising negative goodwill in income.
- q For the purpose of allocating the cost of an acquisition, IAS 22 now uses the same definition of fair value as is used in other IAS – the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value is no longer determined based on intended use of the asset.
- q Subsequent identification of or changes in the values of assets and liabilities acquired in a business combination must be made by the end of the first financial year after the acquisition.

*An impairment loss must be recognised if the recoverable amount of fixed assets, intangibles, and most other nonfinancial assets is less than carrying amount. Financial assets aren't off the hook – IAS 39 requires that impairment be recognised for these.*

## IAS 36, IMPAIRMENT OF ASSETS

IAS 36 deals with impairment of goodwill, intangible assets, and property, plant and equipment. It requires recognition of an impairment loss whenever the recoverable amount of an asset is less than its carrying amount (sometimes called "book value").

- q The recoverable amount of an asset is the higher of its net selling price and its value in use, both based on present value calculations.
- q Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, less the costs of disposal.
- q Value in use is the amount obtainable from the use of an asset until the end of its useful life and from its subsequent disposal, calculated by discounting estimated future cash flows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.
- q The impairment loss is an expense in the income statement for assets carried at cost and is treated as a revaluation decrease for assets carried at revalued amount.
- q An impairment loss should be reversed (and income recognised) if recoverable amount goes back up (only in some cases for goodwill).
- q The recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired. IAS 36 includes a list of indicators of impairment to be considered at each balance sheet date.

*Reduces flexibility in accruing restructuring provisions. Prohibits accrual of general reserves, "self-insurance" costs, and future maintenance or overhauls. On the other hand, requires accrual of provisions for warranties, customer refunds, and environmental cleanups.*

## IAS 37, PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A provision is a liability of uncertain timing or amount. An enterprise must accrue a provision if, and only if, a present obligation has arisen as a result of a past event, payment is probable, and the amount can be estimated reliably. A possible obligation (contingent liability) is disclosed but not accrued (no disclosure if payment is remote). Provisions for one-off events (restructuring, environmental clean-up, settlement of a lawsuit) are measured at the most likely amount. Provisions for large populations of events (warranties, customer refunds) are measured at a probability-weighted expected value. Both measurements are at discounted present value. Some examples:

- q Restructuring by sale of an operation: accrue a provision only after a binding sale agreement.

## **IAS 37, PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS, continued**

- q Restructuring by closure or reorganisation: accrue a provision only after a detailed formal plan is adopted and announced publicly. A Board decision is not enough.
- q Warranty: recognise a provision.
- q Land contamination: accrue a provision if the company's policy is to clean up even if there is no legal requirement to do so.
- q Customer refunds: accrue if the established policy is to give refunds.
- q Offshore oil rig must be removed and sea bed restored: accrue a provision when installed, and add to the cost of the asset.
- q Abandoned leasehold, four years to run: accrue a provision.
- q CPA firm must hold staff training for recent changes in tax law: no provision (no obligation).
- q Self-insured airline: no provision until a crash (no past event).
- q Self-insured restaurant, people were poisoned, lawsuits are expected but none have been filed yet: accrue a provision (past event).
- q Major overhaul or repairs: no provision (no obligation – see discussion of SIC 23 below)).

*IAS 38 replaces IAS 9, but it retains the IAS 9 rules regarding capitalising R&D costs (no for R and yes for that portion of D incurred after technical and commercial feasibility). Prohibits capitalising all internally generated goodwill and pre-operating costs, among others. Sets new rules for software development costs. 20 years presumed maximum amortisation period (rebuttable).*

## **IAS 38, INTANGIBLE ASSETS**

An intangible asset (purchased or self-created) should be recognised when (a) it is probable that future economic benefits from the asset will flow to the enterprise and (b) cost can be measured reliably. Examples:

- q Internally generated intangible assets: Charge all research cost to expense. Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established. These must be expensed:
  - Internally generated goodwill
  - Start-up, pre-opening, and pre-operating costs
  - Training cost
  - Advertising cost
  - Relocation costs
- q Intangibles acquired in a business combination: Measure at fair value. If fair value cannot be measured reliably, include the cost in goodwill.
- q Purchased intangibles: measure at cost.
- q Computer software:
  - Purchased: capitalise
  - Operating system for hardware: include in hardware cost
  - Internally developed (whether for use or sale): charge to expense until technological feasibility, probable future benefits, intent and ability to use or sell the software, resources to complete the software, and ability to measure cost.
- q Amortisation: over useful life (presumption of not more than 20 years), based on pattern of benefits (straight-line is the default).
- q IAS 36, Impairment, applies (compulsory annual test if amortisation period exceeds 20 years or intangible is not ready for use).

*A comprehensive accounting recognition and measurement standard for financial assets and financial liabilities.*

## **IAS 39, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT**

Under IAS 39, all financial assets and financial liabilities are recognised on the balance sheet, including all derivatives. They are initially measured at cost, which is the fair value of whatever was paid or received to acquire the financial asset or liability.

Normal purchases of financial assets in the market place are recorded either at trade date or settlement date, with recognition of certain value changes between trade and settlement dates if settlement date accounting is used.

*Derivatives must be recognised as assets or liabilities. All financial assets are marked to market except originated loans and certain held-to-maturity debt investments. If the asset is held for trading, the value change is reported in earnings. For other marked-to-market assets, each company can make a one-time accounting policy choice – reflect the value change immediately in P&L or defer it in equity until the asset is disposed of, at which time it is “recycled” into earnings. Impairment calculations are required for financial assets measured at cost. Financial liabilities generally are measured at amortised original amount, not marked to market. IAS 39 restricts the risk management practices that qualify for hedge accounting.*

## **IAS 39, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT, continued**

Although IAS 39 currently requires settlement date for normal sales of financial assets, IASC has proposed a change to make purchases and sales symmetrical.

Transaction costs are included in the initial measurement of all financial instruments.

Subsequent to initial recognition, all financial assets are remeasured to fair value, except for the following, which must be carried at amortised cost:

- q Loans and receivables originated by the enterprise and not held for trading
- q Other fixed maturity investments, such as debt securities and mandatorily redeemable preferred shares, that the enterprise intends and is able to hold to maturity; and
- q Financial assets whose fair value cannot be reliably measured (generally limited to some equity securities with no quoted market price and forwards and options on unquoted equity securities).

Loans and receivables that a company has originated and does not hold for trading are measured at amortised cost, less reductions for impairment or uncollectability. The company need not demonstrate an intent to hold originated loans and receivables to maturity.

An intended or actual sale of a held-to-maturity security due to a non-recurring and not reasonably anticipated circumstance beyond the enterprise's control should not call into question the enterprise's ability to hold its remaining portfolio to maturity. If an enterprise is prohibited from classifying financial assets as held-to-maturity because it has sold more than an insignificant amount of assets that it had previously said it intended to hold to maturity, that prohibition should expire at the end of the second financial year following the premature sales.

After acquisition most financial liabilities are measured at amortised cost. Only derivatives and liabilities held for trading (such as securities borrowed by a short seller) are remeasured to fair value.

For those financial assets and liabilities that are remeasured to fair value, an enterprise will have a single, enterprise-wide option either to:

- q recognise the entire adjustment in net profit or loss for the period, or
- q recognise in net profit or loss for the period only those changes in fair value relating to financial assets and liabilities held for trading, with the non-trading value changes reported in equity until the financial asset is sold, at which time the realised gain or loss is reported in net profit or loss. For this purpose, derivatives are always deemed held for trading unless they are designated as hedging instruments.

IAS 39 requires that an impairment loss be recognised for a financial asset whose recoverable amount is less than carrying amount. Guidance is provided for calculating impairment.

IAS 39 establishes conditions for determining when control over a financial asset or liability has been transferred to another party. For financial assets a transfer normally would be recognised if (a) the transferee has the right to sell or pledge the asset and (b) the transferor does not have the right to reacquire the transferred assets unless either the asset is readily obtainable in the market or the reacquisition price is fair value at the time of reacquisition.



## IAS 39, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT, continued

With respect to derecognition of liabilities, the debtor must be legally released from primary responsibility for the liability (or part thereof) either judicially or by the creditor. If part of a financial asset or liability is sold or extinguished, the carrying amount is split based on relative fair values. If fair values are not determinable, a cost recovery approach to profit recognition is taken.

Though IAS 39 as adopted requires a recipient of collateral to recognise collateral received as an asset and the obligation to repay the collateral as a liability in certain cases, IASC has recently proposed (E66) to substitute a note disclosure requirement for that accounting rule.

If a guarantee is recognised as a liability, it should be measured at fair value until it expires, or at original recorded amount if fair value cannot be measured reliably.

Hedging, for accounting purposes, means designating a derivative or a non-derivative (only for hedges of foreign currency risks) financial instrument as an offset in net profit or loss, in whole or in part, to the change in fair value or cash flows of a hedged item. Hedge accounting is permitted under IAS 39 in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective.

Hedge accounting is permitted only if an enterprise designates a specific hedging instrument as a hedge of a change in value or cash flow of a specific hedged item, rather than as a hedge of an overall net balance sheet position. However, the approximate income statement effect of hedge accounting for an overall net position can be achieved, in some cases, by designating part of one of the underlying items as the hedged position.

For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the basis (carrying amount) of the acquired asset or liability.

IAS 39 supplements the disclosure requirements of IAS 32 for financial instruments.

## IAS 40, INVESTMENT PROPERTY

IAS 40 covers investment property held by all enterprises, not just firms whose main activities are in this area. Investment property is land or a building (or part of a building), owned or held under a finance lease, to earn rentals or for capital appreciation or both. Investment property does not include (a) property a company uses for production or for administrative purposes (IAS 16 applies), (b) property held for sale (IAS 2 applies), or (c) property under construction (IAS 16 applies until completion). Under IAS 40, an enterprise must choose one of the following two models for all of its investment property:

- q A fair value model: investment property should be measured at fair value and changes in fair value should be recognised in the income statement; or
- q A cost model: investment property should be measured at depreciated cost (less any accumulated impairment losses). An enterprise that chooses the cost model should disclose the fair value of its investment property.

Once the fair value model is adopted, IAS 40 presumes a switch back to cost is inappropriate.

*Important: Even though IAS 39 doesn't take effect until 2001, you cannot wait until sometime in 2001 to begin planning your transition. For example, to qualify for hedge accounting, a hedge must be designated and formally documented at the inception of the hedge. You can't wait until the end of 2001 to designate hedges that are intended to qualify for hedge accounting throughout all of 2001.*

*Allows a company to choose whether buildings or land held to earn rentals or for capital appreciation are accounted for (a) at historical cost with depreciation and impairment testing or (b) at fair value with value changes reported in earnings. One policy must be chosen and applied to all property.*

## RECENT IASC INTERPRETATIONS TAKING EFFECT IN 2000 OR LATER

*Under IAS 1, SIC Interpretations have equal authority with the Standards themselves. They are more than suggested guidance, they're required.*

*IASC's Standing Interpretations Committee develops draft Interpretations and exposes them for public comment. Final Interpretations must be approved by the IASC Board.*

EFFECTIVE DATES OF NEW IASC INTERPRETATIONS BRIEF SUMMARIES ARE PRESENTED BELOW		
	<i>New SIC Interpretation</i>	<i>Effective Date</i>
SIC 14	Property, Plant and Equipment - Compensation for the Impairment or Loss of Items	Annual periods beginning on or after 1 July 1999
SIC16	Share Capital – Reacquired Own Equity Instruments (Treasury Shares)	Annual periods beginning on or after 1 July 1999
SIC 17	Equity - Costs of an Equity Transaction	Periods beginning on or after 30 January 2000
SIC 18	Consistency - Alternative Methods	Periods beginning on or after 1 July 2000
SIC 20	Equity Accounting Method – Recognition of Losses	Periods beginning on or after 1 July 2000
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	Effective on 15 July 2000
SIC 22	Business Combinations - Subsequent Adjustment of Fair Values and Goodwill Initially Reported	Annual periods ending on or after 15 July 2000
SIC 23	Property, Plant and Equipment - Major Inspection and Overhaul Costs	Effective on 15 July 2000
SIC 25	Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders	Effective on 15 July 2000

*Impairment of an asset must be recognised separately from possible compensation for the loss.*

### SIC 14, PROPERTY, PLANT AND EQUIPMENT - COMPENSATION FOR THE IMPAIRMENT OR LOSS OF ITEMS

If a fixed asset is impaired or lost, any claim for compensation from a third party or any subsequent cost of repair or acquisition of a replacement asset are separate economic events and should be accounted for separately. Impairments should be recognised under IAS 36. Monetary or non-monetary compensation from third parties (insurance companies, governments, or lawsuits) should be included in the income statement when it is probable and measurable. Compensation that is contingent on the occurrence of some future event, such as winning a lawsuit, must be virtually certain before it can be recognised. The cost of a replacement asset would normally be capitalised. Restoration cost would be capitalised only if it increases the performance capability of the asset.

*Treasury stock may no longer be presented as an asset, and a difference between the purchase price and resale price of treasury shares affects equity, not earnings.*

*Costs incurred to issue or repurchase an enterprise's equity shares are deducted from equity.*

*If an IAS allows a choice of accounting policy, an enterprise must choose and apply one policy for all items unless the IAS itself allows application to categories of items.*

*In general, an equity method investor stops recording losses when its investment is reduced to zero. If it is obligated for a debt guarantee, it may have to make a provision.*

*Deferred tax on revalued land should be provided at the capital gains tax rate.*

## **SIC 16, SHARE CAPITAL – REACQUIRED OWN EQUITY INSTRUMENTS (TREASURY SHARES)**

Treasury shares (an enterprise's own equity instruments that have been reacquired by the enterprise or any of its subsidiaries) should be presented in the balance sheet as a deduction from equity, and the acquisition of treasury shares should be presented in the financial statements as a change in equity. Treasury shares may not be reported as an asset. Additionally, no gain or loss should be recognised in the income statement on the sale, issuance, or cancellation of treasury shares, and consideration received should be presented in the financial statements as a change in equity.

## **SIC 17, EQUITY – COSTS OF AN EQUITY TRANSACTION**

The SIC agreed that transaction costs, defined as incremental external costs directly attributable to an equity transaction, should be accounted for as a deduction from equity. The Interpretation applies to transactions involving the issuance or acquisition of instruments of the reporting enterprise that are classified by that enterprise as equity and result in a net increase or decrease to equity. Typical examples of equity transactions subject to the Interpretation would include the issuance of common shares for cash and the acquisition by an enterprise of its own equity instruments. Costs of a stock exchange listing of shares already outstanding, a secondary offering of shares, a share split, or a stock dividend would not be considered costs of an equity transaction subject to the Interpretation.

## **SIC 18, CONSISTENCY – ALTERNATIVE METHODS**

The SIC agreed that if more than one accounting policy is available under an International Accounting Standard or Interpretation, an enterprise should choose and apply consistently one of those policies unless the Standard or Interpretation specifically requires or permits categorisation of items (transactions, events, balances, or amounts) for which different policies may be appropriate. If a Standard requires or permits categorisation of items, the most appropriate accounting policy should be selected and applied consistently to each category. Additional guidance on the application of the Interpretation to specific choices available under IAS is provided in an appendix.

## **SIC 20, EQUITY ACCOUNTING METHOD - RECOGNITION OF LOSSES**

In applying the equity method of accounting, the investor normally stops recording its share of the continuing losses of an associate once the carrying amounts of financial interests that are accounted for under the equity method are reduced to nil.

## **SIC 21, INCOME TAXES - RECOVERY OF REVALUED NON-DEPRECIABLE ASSETS**

If a non-depreciable asset is carried at revalued amount under IAS 16, no part of its carrying amount is considered to be recovered through its use. Therefore, the deferred tax liability or asset that arises from revaluation must be measured based on the tax consequences that would follow from the sale of the asset rather than through use. In some jurisdictions, this means using a capital gains tax rate rather than the rate applicable to ordinary corporate earnings.



*Guidance on when information that becomes available after a business combination justifies adjusting the previously recorded fair values of acquired assets and goodwill.*

*Major inspection and overhaul costs are capitalised only if the asset component being overhauled was originally accounted for and depreciated separately.*

*If a change in the tax status of an enterprise or its shareholders causes the enterprise to pay additional tax (or possibly get a tax refund) the amount is reported in earnings, not equity.*

*Under E65, all agricultural livestock, crops, and forests, as well as harvested produce at the point of harvest or slaughter, would be measured at fair value at each balance sheet date, with value changes in net profit or loss. As a result of comments on E65, the IASC Board is likely to include a "measurement reliability" exception in a final Standard.*

## **SIC 22, BUSINESS COMBINATIONS - SUBSEQUENT ADJUSTMENT OF FAIR VALUES AND GOODWILL INITIALLY REPORTED**

In very limited circumstances, IAS 22 permits the subsequent recognition of identifiable assets and liabilities that had not been recognised in the original accounting for an acquisition under the purchase method or adjustment of the amounts initially assigned to identifiable assets and liabilities to reflect additional evidence which has become available. SIC-22 indicates that the adjustment made in such circumstances should be calculated as if the newly assigned values had been used from the date of the acquisition. In some cases there will also be an effect on goodwill or negative goodwill. The Interpretation also addresses the presentation and disclosure of such an adjustment.

## **SIC 23, PROPERTY, PLANT AND EQUIPMENT - MAJOR INSPECTION AND OVERHAUL COSTS**

The cost of a major inspection or overhaul of an asset generally should be expensed as incurred. The exception is where the enterprise treats the cost of the component requiring the major inspection or overhaul as a separate asset for accounting purposes and depreciates that component to reflect the consumption of benefits resulting from the major inspection or overhaul.

## **SIC 25, INCOME TAXES - CHANGES IN THE TAX STATUS OF AN ENTERPRISE OR ITS SHAREHOLDERS**

A change in the tax status of an enterprise or its shareholders does not give rise to increases or decreases in the pre-tax amounts recognised directly in equity. Therefore, the current and deferred tax consequences of the change in tax status should be included in net profit or loss for the period. However, where a transaction or event does result in a direct credit or charge to equity, for example the revaluation of property, plant or equipment under IAS 16, the related tax consequence would still be recognised directly in equity.

## **OUTSTANDING IASC EXPOSURE DRAFTS**

### **E65, AGRICULTURE**

- q Agriculture is the managed transformation of biological assets (living animals and plants) to yield agricultural produce awaiting further processing, sale, or consumption.
- q Measure all biological assets at fair value.
- q Measure agricultural produce at fair value at the point of harvest.
- q The change in fair value of biological assets during a period is reported in net profit or loss.
- q Fair value is the highest price obtainable, net of costs, in any available market. Market price in the intended location of sale is starting point to determine fair value.
- q The change in fair value of biological assets is part physical change (growth, etc.) and part unit price change. Separate disclosure of the two components should be encouraged, not required.
- q Fair value measurement stops at harvest. IAS 2, Inventories, applies after harvest.
- q Agricultural land: follow IAS 16.
- q Unconditional government grants received in respect of biological assets measured at fair value are reported as income when the grant becomes receivable.
- q On adoption of the new standard, remeasurement to fair value would be an adjustment of retained earnings.

*E66 proposes relatively minor amendments to IAS 39.*

## **E66, LIMITED REVISIONS TO IAS 39, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT**

E66 proposes:

- q Consistent accounting for purchases and sales of financial assets using either trade date accounting or settlement date accounting. IAS 39 currently requires settlement date accounting for sales of financial assets, but permits both trade date and settlement date accounting for purchases.
- q Elimination of a requirement for a lender to recognise collateral received from a borrower in its balance sheet.
- q Clarification that impairment must be recognised individually for significant financial assets.
- q Consistent accounting for temporary investments in equity securities between IAS 39 and other International Accounting Standards.
- q Elimination of redundant disclosure requirements for hedges that were in IAS 32, Financial Instruments: Disclosure and Presentation.

*E67 would require employers to recognise certain pension reimbursements from governments or insurance companies as assets.*

## **E67, PENSION PLAN ASSETS**

E67 proposes to change the definition of plan assets in IAS 19 to reflect pension schemes that exist in a number of countries. Under the revised definition, if it is virtually certain that another party (government or an insurance company) will reimburse some or all of an employer's expenditure to settle a defined benefit obligation, the employer will recognise its right to receive reimbursement as a separate asset.

*If income is taxed at different rates depending on whether it is retained or distributed, do not anticipate future distributions in measuring tax assets and liabilities.*

## **E68, INCOME TAX CONSEQUENCES OF DIVIDENDS**

In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend. In other jurisdictions, income taxes may be refundable if part or all of the net profit or retained earnings is paid out as a dividend. E68 proposes that current and deferred tax assets and liabilities would be measured using the tax rate applicable to undistributed profits, that is, you do not assume a distribution or refund that has not occurred.

*The IASC Board is expected to approve these two as final Interpretations at its October meeting.*

## **OUTSTANDING DRAFT INTERPRETATIONS**

### **D19, REPORTING CURRENCY: MEASUREMENT AND PRESENTATION UNDER IAS 21 AND IAS 29**

Guidance on selection of the appropriate currency for measuring items in financial statements, particularly in a hyperinflationary economy.

### **D24, EARNINGS PER SHARE: FINANCIAL INSTRUMENTS THAT MAY BE SETTLED IN SHARES**

All financial instruments that may result in the issuance of ordinary shares, at the option of the issuer or the holder, are potential ordinary shares for the purpose of computing diluted earnings per share under IAS 33.

*The restructuring of IASC currently under way is not slowing down IASC's productivity.*

## **CURRENT IASC WORK PLAN**

*By the end of 2000, IASC plans to complete the following:*

### **Final Standards on:**

- q Agriculture
- q Minor amendments to IAS 39 (E66)
- q Pension Plan Assets (E67)
- q Tax Consequences of Dividends (E68)

### **Issues or Discussion Papers on:**

- q Extractive Industries (Mining and Oil and Gas Companies)
- q Discounting (Present Value Concepts)
- q Performance Reporting
- q A proposal by the Joint Working Group on Financial Instruments for full fair value accounting

### **Other publications:**

- q Guidance on internet reporting
- q Study on barter accounting

*IASC has recently added a December 2000 meeting to ensure that it can complete its work plan.*

## **UPCOMING IASC AND SIC MEETINGS**

- q 16-20 October 2000, IASC Board, Tokyo. The agenda for this meeting includes approval of the following final Standards and final Interpretations:
  - E65, Agriculture
  - E66, Proposed Limited Revisions to IAS 39 - Financial Instruments
  - E67, Pension Plan Assets
  - E68, Income Tax Consequences of Dividends
  - SIC 19, Reporting Currency: Measurement and Presentation under IAS 21 And IAS 29
  - SIC 24, Earnings per Share: Financial Instruments that May Be Settled in Shares
- q 8-9 November 2000, Standing Interpretations Committee (SIC), Berlin. Currently on SIC's agenda:
  - Lease and leaseback transactions (Draft Interpretation being developed)
  - Property, plant, and equipment: results of incidental operations (Draft Interpretation being developed)
  - Definition of common control
  - Measurement of shares issued
- q 11-13 December 2000, IASC Board, London

## UPDATE ON RESTRUCTURING THE IASC

To perform its role effectively, IASC must find a way to bring about convergence between national accounting standards and practices and high-quality global accounting standards. To do that, IASC saw a need to change its infrastructure. In late 1997 IASC formed a Working Party to re-examine its structure and strategy. The Working Party published its report in December 1998. After soliciting comments, the Working Party published its final recommendations in late 1999.

The IASC Board approved the proposals unanimously in December 1999, and the IASC member bodies did the same in May 2000. A new IASC Constitution took effect 1 July 2000.

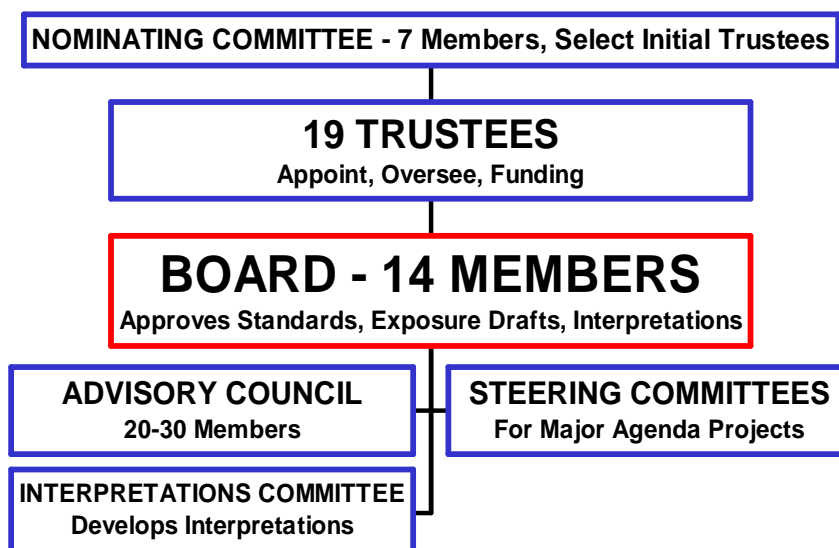
The restructured IASC will operate as an independent organisation such as a foundation (the exact structure depends on an examination of legal alternatives now under way). The organisation will have two main bodies, the Trustees and the Board, as well as a Standing Interpretations Committee and Standards Advisory Council. A nominating committee, chaired by US SEC Chairman Arthur Levitt, was formed in December 1999. James E. Copeland, Jr, Chief Executive Officer of Deloitte Touche Tohmatsu, served on that committee. The committee completed its work in May 2000 by selecting the initial 19 Trustees.

- q **Trustees:** The Trustees will appoint the Members of the IASC Board, the Standing Interpretations Committee and the Standards Advisory Council. They will monitor IASC's effectiveness, raise funds, approve IASC's budget, and have responsibility for constitutional changes. The initial 19 Trustees include six from North America, seven from Europe, four from Asia Pacific, and one each from Africa and South America. They come from diverse functional backgrounds. Koji Tajika, former Co-Chairman

of Deloitte Touche Tohmatsu, is one of the Trustees. In their first action, the Trustees selected Sir David Tweedie, currently Chairman of the UK Accounting Standards Board, to chair the restructured IASC.

- q **IASC Board:** The current IASC Board will be replaced in early 2001 by a new 14-person Board with 12 full-time and two part-time members. The key qualification for Board membership is technical expertise. The Trustees also must ensure that the Board is not dominated by any particular constituency or regional interest. To achieve a balance of perspectives and experience, at least five members must have backgrounds as practising auditors, at least three as financial statement preparers, at least three as users of financial statements, and at least one as an academician. Seven of the 14 board members will have direct liaison responsibility with one or more national standard setters. The publication of a Standard, Exposure Draft, or final SIC Interpretation will require approval by eight of the Board's 14 members (a simple majority). IASC members serve for terms of up to five years, renewable once.
- q **Standards Advisory Council:** A new Standards Advisory Council would provide a formal vehicle for further groups and individuals having diverse geographic and functional backgrounds to give advice to the Board and, at times, to advise the Trustees.
- q **Standing Interpretations Committee:** The SIC would continue essentially in its present form: 12 members, unpaid but expenses reimbursed, with draft and final Interpretations approved if there are not more than three dissents. Final Interpretations must also be approved by the IASC Board.

The diagram below sets out the new IASC structure:



## 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 IAS.

For 30 June 2000 year-ends, the following Standards came into effect (their equivalent IAS is indicated for reference):

- q AASB 1001 (revised), Accounting Policies (IAS 1 & IAS 8)
- q AASB 1006 (revised), Interests in Joint Ventures (IAS 31)
- q AASB 1008 (revised), Leases (IAS 17)
- q AASB 1019 (revised) Inventories (IAS 2)
- q AASB 1038 Life Insurance Business

AASB 1038 was developed in conjunction with the New Zealand Financial Reporting Standards Board and does not currently have an IAS equivalent. Standards issued by the AASB as part of the harmonisation program do not necessarily conform to the IAS in every respect.

In addition the following Standards have been issued but are not yet applicable:

- q AASB 1005 (revised) Segment Reporting (applies to annual reporting periods beginning on or after 1 July 2001) (IAS 14)
- q AASB 1010 (revised) Recoverable Amount of Non-Current Assets (applies to reporting periods beginning on or after 1 July 2000) (IAS 36)
- q AASB 1015 (revised) Acquisitions of Assets (applies to half-years ending on or after 30 June 2000, and financial years beginning on or after 31 December 2000) (IAS 22)
- q AASB 1018 (revised), Statement of Financial Performance (applies to half-years ending on or after 31 December 2000 and financial years ending on or after 30 June 2001) (IAS 1 and IAS 8)
- q AASB 1020 (revised), Income Taxes (applies to half-years ending on or after 31 December 2002 and financial years ending on or after 30 June 2003) (IAS 12)
- q AASB 1033 (revised), Presentation and Disclosure of Financial Instruments (applies to half-years ending on or after 30 June 2000 and financial years ending on or after 31 December 2000) (IAS 32 and IAS 39)
- q AASB 1034 (revised), Financial Report Presentation and Disclosure (applies to half-years ending on or after 31 December 2000 and financial years ending on or after 30 June 2001) (IAS 1)
- q AASB 1037, Self-Generating and Regenerating Assets (applies to financial years ending on or after 30 June 2001) (E65)
- q AASB 1040, Statement of Financial Position (applies to half-years ending on or after 31 December 2000 and financial years ending on or after 30 June 2001) (IAS 1)
- q AASB 1041, Revaluation of Non-Current Assets (applies to financial years beginning on or after 1 July 2000) (IAS 16)
- q AASB 1042, Discontinuing Operations (applies to annual reporting periods beginning on or after 1 July 2001) (IAS 35)

The Urgent Issues Group (UIG), a sub-committee of the AASB issues Abstracts which give interpretations of existing AASB Accounting Standards. The UIG is also responsible for reviewing SIC Interpretations to determine whether they should apply to Australian reporting entities. Abstracts issued in 2000 are as follows

- q UIG 13 (revised) The Presentation of the Financial Report of Entities whose Securities are Stapled
- q UIG 23 (revised) Transaction Costs Arising on the Issue of Equity Instruments
- q UIG 30 Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Methods



## AUSTRALIA, continued

- q UIG 31 Accounting for the Goods and Services Tax (GST)
- q UIG 32 Designation as Hedges – Rollover Strategies
- q UIG 33 Hedges of Anticipated Purchases and Sales
- q UIG 34 Acquisitions and Goodwill – First Time Application of Accounting Standards
- q UIG 35 Disclosure of Contingent Liabilities

The AASB has issued a number of exposure drafts, which are currently being considered for issue as Standards. The topics of those exposure drafts are as follows.

- q Earnings Per Share (IAS 33)
- q Foreign Currency Translation (IAS 21)
- q Provisions and Contingencies (IAS 37)
- q Interim Financial Reporting (IAS 34)
- q Employee Benefits (IAS 19)
- q Impairment of Assets (IAS 36)
- q Provision of Public Sector Infrastructure by Other Entities (this project deals with accounting for build, own, operate and build, own, operate, transfer infrastructure arrangements)

Other projects on which the AASB is expected to issue Exposure Drafts in the next twelve months are

- q Related Party Disclosures
- q Director and Executive Disclosures
- q Consolidation
- q Investment Properties

The AASB has recently commenced a project on accounting for intangible assets.

## CHINA

Contact: [Patrick TSANG](#)

Since China opened its doors to foreign investment in 1979, the rapid growth of its economy, international trade, and securities markets has shaped new objectives for financial reporting. State owned enterprises look more like profit-oriented businesses, and managers and others need reliable and relevant financial information on which to base decisions about the efficient allocation of capital. At the same time, China has reached out to the international community to form joint ventures and gain greater access to the latest technologies and the world's capital markets. This growing economy increasingly demanded a framework of accounting standards to meet the needs of investors and creditors as well as management and government.

In 1993, with funding from the World Bank, the Ministry of Finance (MOF) of China engaged Deloitte Touche Tohmatsu as consultants on a three-year project to develop some 30 accounting standards appropriate to China's developing socialist market economy aimed at bringing accounting and financial reporting practices in China more into line with those used internationally. Exposure drafts on the 30 standards were published, and to date 10 have been issued as final standards. The others are currently being revised.

DTT has been engaged as consultants in the second phase of the project, which began earlier this year. The goal is to begin work in 17 additional areas.

The ten PRC Accounting Standards were drafted by reference to equivalent International Accounting Standards except for the standards on Debt Restructuring (which is based on US FASB Statement 15, Accounting by Debtors and Creditors for Troubled Debt Restructuring), and Non-Monetary Transactions (which is based on US APB Opinion No. 29, Accounting for Non-monetary Transactions). As the new standards require more professional expertise in applying the accounting concepts, most were initially applicable to listed Chinese enterprises, which have more resources and accounting professionals to implement the new standards. The table on the next page lists the 10 effective PRC accounting standards.

## PRC Accounting Standards

	Accounting Standard	Issue Date	Effective Date
1	Disclosure of Related Party Relationships and Transactions*	25 May 1997	1 January 1997
2	Cash Flow Statements**	20 March 1998	1 January 1998
3	Events Occurring After the Balance Sheet Date*	12 May 1998	1 January 1998
4	Debt Restructuring**	12 June 1998	1 January 1999
5	Revenue*	20 June 1998	1 January 1999
6	Investments*	24 June 1998	1 January 1999
7	Construction Contracts*	25 June 1998	1 January 1999
8	Changes in Accounting Policies and Estimates and Corrections of Accounting Errors*	25 June 1998	1 January 1999
9	Non-monetary Transactions**	28 June 1999	1 January 2000
10	Contingencies**	27 April 2000	1 July 2000

\*Standards that are initially applied to listed Chinese enterprises.

\*\*Standards that are applicable to all PRC enterprises.

## HONG KONG

Contact: *Stephen TAYLOR*

The Hong Kong Society of Accountants (HKSA) is continuing its policy of harmonising Hong Kong Statements of Standard Accounting Practice (SSAP) with IAS.

For 31 December 1999 year-ends, the following SSAPs came into effect (their equivalent IAS is indicated for reference):

- q SSAP 1 (revised), Presentation of Financial Statements (IAS 1)
- q SSAP 2 (revised), Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (IAS 8)
- q SSAP 10 (revised), Accounting for Investments in Associates (IAS 28)
- q SSAP 24, Accounting for Investments in Securities
- q SSAP 27, Accounting for Group Reconstructions

SSAP 24 and SSAP 27 were prompted by specific reporting issues in Hong Kong and are not strictly equivalent, or in compliance, with relevant IAS. Accordingly these standards may need to be revisited at a later date. In addition the following SSAPs go into effect for periods beginning on the dates indicated:

- q SSAP 14, Leases (IAS 17), 1 July 2000
- q SSAP 25, Interim Financial Reporting (IAS 34), 1 January 2000
- q SSAP 26, Segment Reporting (IAS 14), 1 January 2001

The HKSA has set up an Interpretations Committee the Urgent Issues and Interpretation Sub-Committee to issue interpretations of Hong Kong SSAPs. The Committee has so far issued nine Interpretations (INT), many of which mirror relevant SICs. The interpretations issued in 2000 are as follows:

- q INT 7, Application of Acquisition Accounting
- q INT 8, Presentation of Financial Statements—Current Assets
- q Classification of Restricted and Appropriated Cash Balances
- q INT 9, Accounting for Pre-operating Costs

The main outstanding project for the HKSA is issuance of a suite of standards that are currently at their exposure stage:

- q Provisions, Contingent Liabilities and Contingent Assets (IAS 37)
- q Intangible Assets (IAS 38)
- q Business Combinations (IAS 22)
- q Impairment of Assets (IAS 36)
- q Events after the Balance Sheet Date, (IAS 10)

## HONG KONG, continued

- q Consolidated Financial Statements and Accounting for Investments in Subsidiaries, (IAS 27)

The above package of IAS compliant standards is expected to be released in January 2001 and will represent a major step in the IAS harmonisation process.

## INDIA

Contact: *Narendra P. SARDA*

Financial reporting requirements for companies incorporated in India are set out in the Companies Act. An amendment to that Act that took effect 31 October 1998 requires compliance with accounting standards established by a new National Advisory Committee on Accounting Standards (NAC). Accounting standards specified by the Institute of Chartered Accountants of India (ICAI) must be followed until NAC has addressed the issue. The ICAI's Accounting Standards Board also publishes accounting standards. The ASB's policy is to take IAS into consideration in developing its standards. While many of the standards conform in all material respects to IAS, those on R&D, foreign exchange, borrowing costs, banks, and business combinations do not.

## INDONESIA

Contact: *Lianny LEO*

The standard-setting body in Indonesia is Komite Standar Akuntansi Keuangan (Committee on Financial Accounting Standards). After they issue a Statement of Financial Accounting Standards, it must be endorsed by the Indonesian Institute of Accountants, though the Committee's Interpretations need not be endorsed by IIA. Under Indonesian law, both public and private companies must comply with those accounting standards. Since 1994, it has been the policy of the Committee to use International Accounting Standards as the basis for developing Indonesian standards.

## JAPAN

Contact: *Shigeo OGI*

The Business Accounting Deliberation Council (BADC), an advisory body of MOF, is continuing its policy to make Japanese accounting standards more compatible with IAS. In the past few years, new accounting standards or revisions of the standards, which fundamentally change the current accounting practices, have been issued.

For 31 March 2000 year-ends, the following new accounting standards came into effect:

- q For consolidation policies and procedures
- q Consolidated statement of cash flows
- q Interperiod tax allocations
- q Research and development costs.

For 31 March 2001 year-ends, the following new accounting standards will come into effect:

- q Pensions
- q Financial instruments
- q Introduction of semi-annual consolidated financial statements (interim reporting).

Furthermore, new standards on the following are currently under discussion. There are currently no specific accounting standards in these areas in Japan:

- q Impairment of long-lived assets
- q Securitisation of real estate
- q Business combinations.

As mentioned above, accounting standards are currently issued by BADC. However, the Japanese Institute of Certified Public Accountants and the Japan Federation of Economic Organization (Keidanren) jointly announced that a new private sector standard-setting body will be established in the near future in line with the restructuring of the IASC organization planned in 2001. The standard-setting body is expected to independently issue accounting standards on a timely basis.

Following the financial crisis in 1997, the Korean government, in consultation with the World Bank, embarked on a plan to improve financial reporting practices, taking IAS as their benchmark. A new independent private-sector Korea Accounting Standards Board (KASB) was created as of 1 September 1999. The Board operates under a new Korea Accounting Institute, created as of 1 July 1999.

KASB's goal is to improve Korean accounting standards to a level consistent with international best practices. Since its establishment, the KASB has adopted a policy of harmonizing Korean Accounting Standards (KAS) with IAS.

Currently, KAS consist of the body of literature that was carried forward when the KASB began:

- q Financial accounting standards (FAS) consisting of 91 articles
- q 13 working rules for specific industries and/or topics
- q 58 interpretations of the FAS, prepared in a statement or Q&A format
- q In addition, there are 30 implementation guides published by the Korean Financial Supervisory Services Authority from their answers to individual questions

After taking over the authority to issue accounting standards, the KASB has so far issued two research reports and four discussion papers

#### Research Reports

- q No.1, Review of the Working Rules
- q No.2, Review of the Interpretations (including comparison with IAS and US GAAP)

#### Discussion Paper

- q No.1, Changes in accounting policy and estimates, and correction of errors
- q No.2, Intangible assets
- q No.3, Revenue recognition
- q No.4, Valuation of equity securities and debt securities
- q These discussion papers were issued as a part of formalizing a Statement of Korean Accounting Standards.

KASB's due process includes preparation of exposure drafts, holding public hearings, and issuance of Statement of Korea Accounting Standards.

Other outstanding projects of the KASB include additional discussion papers that are under preparation:

- q Interim reporting
- q Present value
- q Discontinued operations
- q Tangible fixed assets
- q Debt restructuring
- q Deferred income taxes
- q Transfers of receivables and payables
- q Intellectual assets
- q Convertible securities
- q Segment information
- q Reserves in the nature of liabilities
- q Environmental accounting
- q Cash flow statement

The Malaysian Accounting Standards Board (MASB) is the sole authority established under the Financial Reporting Act, 1997 to set legally binding accounting standards for financial reporting in Malaysia. One of MASB's aims is to pursue a policy of internationalisation and harmonisation of MASB standards to be compatible, in all significant respects, with standards and concepts of other national and international standard setters, primarily the IASC. In developing its own standards, MASB reviews the standards previously issued by the Malaysian accountancy profession and the IASC and also the current practices in Malaysia. It will modify IASC standards, when necessary, or develop other technical pronouncements to address issues or matters to suit the Malaysian environment.

As a transitional arrangement towards a new financial reporting regime, in 1998 the MASB adopted 24 of the then-extant accounting standards issued by the Malaysian accounting profession (MAS) as approved accounting standards, including several IASs. Those standards are being reviewed and revised or replaced by new MASB standards. The following are the transitional MAS and IAS that remain in effect at 1 October 2000:

- q IAS 10, Contingencies and Events Occurring after the Balance Sheet Date
- q IAS 12, Accounting for Taxes on Income
- q IAS 14, Reporting Financial Information by Segment
- q IAS 19, Accounting for Retirement Benefits in the Financial Statements of Employers
- q IAS 25, Accounting for Investments
- q IAS 26, Accounting and Reporting by Retirement Benefit Plans
- q MAS 3, Accounting for General Insurance Business
- q MAS 4, Accounting for Life Insurance Business
- q MAS 5, Accounting for Aquaculture
- q MAS 7, Accounting for Property Development Activities

The following MASB standards (their equivalent IAS is indicated for reference) are effective for accounting periods beginning on or after 1 January 2000 (MASB 1 to 7 were effective prior to 2000):

- q MASB 1, Presentation of Financial Statements [IAS 1 (revised)]
- q MASB 2, Inventories [IAS 2(revised)]
- q MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies [IAS 8 (revised)]
- q MASB 4, Research & Development Costs [IAS 9 (revised)]
- q MASB 5, Cash Flow Statement [IAS 7 (revised)]
- q MASB 6, The Effects of Changes in Foreign Exchange Rates [IAS 21 (revised)]
- q MASB 7, Construction Contracts [IAS 11 (revised)]
- q MASB 8, Related Party Disclosures [IAS 24]
- q MASB 9, Revenue [IAS 18 (revised)]
- q MASB 10, Leases [IAS 17 (revised)]
- q MASB 11, Consolidated Financial Statements and Investments in Subsidiaries [IAS 27]
- q MASB 12, Investments in Associates [IAS 28]
- q MASB 13, Earnings Per Share [IAS 33]

The following three MASB standards have also been issued and are effective for accounting periods beginning 1 July 2000:

- q MASB 14, Depreciation Accounting [IAS 4]
- q MASB 15, Property, Plant and Equipment [IAS 16 (revised)]
- q MASB 16, Financial Reporting of Interests in Joint Ventures [IAS 31]

At 1 October 2000, the MASB has issued the following exposure drafts for comments:

- q ED 17, General Insurance Business
- q ED 18, Life Insurance Business
- q ED 19, Borrowing Costs [IAS 23 (revised)]



## MALAYSIA, continued

- q ED 20, Events After the Balance Sheet Date [IAS 10 (revised)]
- q ED 21, Provisions, Contingent Liabilities and Contingent Assets [IAS 37]
- q ED 22, Segment Reporting [IAS 14 (revised)]
- q ED 23, Business Combinations [IAS 22 (revised)]
- q ED 24, Financial Instruments Disclosure and Presentation [IAS 32]
- q ED 25, Impairment of Assets [IAS 36]
- q ED 26, Financial Reporting by Units Trusts
- q ED 27, Property Development Activities

## NEW ZEALAND

Contact: *Hilton*  
*SHUTTLEWORTH*

Exposure drafts are issued by the Financial Reporting Standards Board (FRSB). After due process, the FRSB submits a proposed standard to the Accounting Standards Review Board (ASRB) for approval. Once approved by the ASRB as an applicable financial reporting standard, the requirements of the standard are legally enforceable under the Financial Reporting Act, 1993.

The FRSB has a policy of harmonising the standards as far as possible with the international and Australian standards.

FRS 5, Events after Balance Date, was issued as a financial reporting standard in July 2000 and applies to all general purpose financial reports covering periods ending on or after 30 June 2001.

Exposure drafts that are likely to give rise to financial reporting standards in the foreseeable future are:

- q ED 82, Accounting for Property, Plant and Equipment
- q ED 83, Accounting for Acquisitions Resulting in Equity Combinations
- q ED 84, Consolidating Investments in Subsidiaries
- q ED 86, Provisions, Contingent Liabilities and Contingent Assets
- q ED 87, Accounting For Intangible Assets

## PAKISTAN

Contact *Usman GHANI AKBANI*

The Institute of Chartered Accountants of Pakistan (ICAP) reviews all International Accounting Standards (IAS) and recommends to the Securities and Exchange Commission of Pakistan (SECP) to issue notification. The IAS becomes part of company law and becomes applicable to all listed companies only. Other companies are encouraged to apply them. The following IAS have been adopted by SECP.

- q IAS 1, Presentation of Financial Statements (Revised 1997)
- q IAS 2, Inventories (Revised 1993)
- q IAS 4, Depreciation Accounting (Reformatted 1994)
- q IAS 7, Cash Flow Statements (Revised 1992)
- q IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (Revised 1993)
- q IAS 10, Events After the Balance Sheet Date (Revised 1999)
- q IAS 11, Construction Contracts (Revised 1993)
- q IAS 12, Income Taxes (Revised 1996)\*
- q IAS 14, Segment Reporting (Revised 1997)
- q IAS 16, Property, Plant and Equipment (Revised 1998)
- q IAS 17, Leases (Revised 1997)
- q IAS 18, Revenue (Revised 1993)
- q IAS 19, Employee Benefits (Revised 1998)
- q IAS 20, Accounting for Government Grants and Disclosure of Government Assistance (Reformatted 1994)
- q IAS 21, The Effects of Changes in Foreign Exchange Rates (Revised 1993)
- q IAS 23, Borrowing Costs (Revised 1993)
- q IAS 24, Related Party Disclosures (Reformatted 1994)
- q IAS 25, Accounting for Investments (Reformatted 1994)

## PAKISTAN, continued

- q IAS 26, Accounting and Reporting by Retirement Benefit Plans (Reformatted 1994)
- q IAS 27, Consolidated financial Statements and Accounting for Investments in Subsidiaries (Reformatted 1994)
- q IAS 28, Accounting for Investments in Associates (Revised 1998)
- q IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Reformatted 1994)
- q IAS 31, Financial Reporting of Interests in Joint Ventures (Revised 1998)
- q IAS 32, Financial Instruments: Disclosure and Presentation (Revised 1998)
- q IAS 33, Earnings Per Share (1997)
- q IAS 34, Interim Reporting (1998)

*\*Applicability of IAS 12 (Revised 1996) has been deferred until periods beginning on or after 1 January 2002. Until then IAS 12 (Reformatted 1994) applies.*

The following IAS are in the process of adoption by SECP.

- q IAS 35, Discontinuing Operations (1998)
- q IAS 36, Impairment of Assets (1998)
- q IAS 37, Provisions, Contingent Liabilities and Contingent Assets (1998)
- q IAS 38, Intangible Assets (1998)
- q IAS 39, Financial Instruments: Recognition and Measurement (1998)

The ICAP has also issued Technical Releases and Selected Opinions, which are further interpretations of IAS on the basis of local specific circumstances.

Specialised regulations have been established for banks and insurance companies.

## PHILIPPINES

Contact: *Melissa S. Delgado*

All public companies and all companies with more than 20 shareholders must follow rules of the Philippine Securities and Exchange Commission. All public companies and all companies with more than 20 shareholders must follow rules of the Philippine Securities and Exchange Commission (SEC). The Accounting Standards Council (ASC) of the Philippines Institute of Certified Public Accountants (PICPA) issues accounting standards.

ASC standards are recognised by the SEC and Central Bank of Philippines. After approval by the Board of Accountancy and the Professional Regulation Commission (government bodies), ASC standards become mandatory. ASC's policy is to review and adopt both existing and new IASC Standards as Philippine standards such that "compliance with Philippine GAAP would mean automatic compliance with IASC standards".

In pursuit of its principal objective, which is to establish generally accepted accounting principles in the Philippines, the Accounting Standards Council (ASC) has an on-going project to replace existing Statement of Financial Accounting Standards (SFAS) with their counterpart International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC). For 1999 and 2000, the following exposure draft were issued for comments by the Accounting Standards Council:

Proposals that would be effective for periods beginning on or after 1 January 2001:

- q ED 32, Inventories (revised)
- q ED 33, Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

## PHILIPPINES, continued

- q ED 34, Cash Flow Statements (revised)
- q ED 35, Interim Financial Reporting
- q ED 36, Segment Reporting

Proposals that would be effective for periods beginning on or after 1 January 2002:

- q ED 37, The Effects of Changes in Foreign Exchange Rates (revised) with the following Draft Interpretation
- q ED D1-1, Foreign Exchange - Capitalization of Losses Resulting from Severe Currency Devaluations
- q ED 38, Property, Plant and Equipment (PPE) (revised)
- q ED 39, Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- q ED 40, Accounting for Investments in Associates
- q ED 41, Related Party Disclosures (revised)
- q ED 42, Financial reporting of Interests in joint Ventures

## SINGAPORE

Contact: *Dinyar FRAMJEE*

The Institute of Certified Public Accountants of Singapore (ICPAS) is continuing its policy of harmonising Singapore Statements of Accounting Standard (SAS) with IAS. The ICPAS has announced their plan to simultaneously issue exposure drafts and standards with the IASC and to make the standards effective in the quarter following adoption.

For 31 December 1999 year-ends, the following SASs came into effect (their equivalent IAS is indicated for reference):

- q SAS 6 (revised), Earnings Per Share (IAS 33)

The following standards have been issued and are effective for periods beginning 1 January 2000:

- q SAS 1 (revised), Presentation of Financial Statements (IAS 1)
- q SAS 15 (revised), Leases (IAS 17)
- q SAS 23 (revised), Segment Reporting (IAS 14)

The following standards have been issued and are effective for periods beginning 1 July 2000:

- q SAS 8 (revised), Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy (IAS 8)

The following standards have been issued and are effective for periods beginning 1 October 2000:

- q SAS 10 (revised), Events Occurring After the Balance Sheet Date (IAS 10)
- q SAS 17, Employee Benefits (IAS 19)
- q SAS 22 (revised), Business Combinations (IAS 22)
- q SAS 31, Provisions, Contingent Liabilities and Contingent Assets (IAS 37)
- q SAS 32, Financial Instruments: Disclosure and Presentation (IAS 32)
- q SAS 34, Intangible Assets (IAS 38)
- q SAS 35, Discontinuing Operations (IAS 35)
- q SAS 36, Impairment of Assets (IAS 36)

The following standard has been issued and effective for periods beginning 1 July 2001:

- q SAS 33, Financial Instruments: Recognition and Measurement (IAS 39)

The ICPAS' Accounting Standards Committee issues interpretations of Singapore's SASs. The ICPAS has so far issued nine interpretations (INT), many of which mirror relevant SICs. The interpretations issued in 2000 are:

- q INT 4, Foreign Exchange - Capitalisation of Losses Resulting from Severe Currency Devaluation

## SINGAPORE, continued

- q INT 5, Consolidation - Special Purpose Entities
- q INT 6, Government Assistance - No Specific Relation to Operating Activities
- q INT 7, Jointly Controlled Entities - Non-Monetary Contributions by Venturers
- q INT 8, Operating Leases - Incentives
- q INT 9, Property, Plant and Equipment - Compensation for the Impairment or Loss of Items

The main outstanding project for the ICPAS is the issuance of the IAS standards and SIC interpretations not yet adopted in Singapore. The ICPAS has reduced the exposure period to three months. These are the standards and interpretations at the exposure stage as at 15 September 2000:

- q Income Tax (IAS 12) and E68 revisions
- q Information Reflecting the Effects of Changing Prices (IAS 15)
- q Financial Reporting in Hyperinflationary Economies (IAS 29)
- q Interim Financial Reporting (IAS 34)
- q Investment Property (IAS 40)
- q Agriculture (IAS 41)
- q E66 revisions to IAS 39
- q E67 revisions to IAS 19
- q Accounting for Share Buy-Backs
- q Equity Accounting Method - Recognition of Losses (SIC 20)
- q Income Taxes-Recovery of Revalued Non-Depreciable Assets (SIC 21)
- q Business Combinations-Subsequent Adjustment of Fair Values and Goodwill Initially Reported (SIC 22)
- q Property, Plant and Equipment-Major Inspection or Overhaul Costs (SIC 23)
- q Income Taxes-Changes in the Tax Status of an Enterprise or its Shareholders (SIC 25)

## SRI LANKA

Contact: *M. B. ISMAIL*

The Institute of Chartered Accountants of Sri Lanka is continuing its policy of harmonizing Sri Lanka Accounting Standards (SLAS) with IAS.

The following SLAS's came in to effect from 1 April 2000.

- q SLAS 3, Presentation of Financial Statements. This Standard replaces the following: SLAS 3, Disclosure of Accounting Policies and SLAS 15, Presentation of Current Assets and Liabilities
- q SLAS 28, Segment Reporting. This Standard replaces SLAS 28, Reporting Financial Information by Segment
- q SLAS 34, Earning per Share
- q Further Sri Lanka Accounting and Auditing Standards Act No 15 of 1995 came in to effect in respect of periods commencing on or after 1 January 1999. The Act applies mainly to the preparation, presentation, and audit of financial statements of specified enterprises in respect of periods commencing on or after 1 January 1999. The Act imposes certain duties and obligation on specified business enterprises and their directors, officers, and auditors, the default of which would result in various penalties, extending up to an imprisonment of either description for a term of 5 years.

## TAIWAN

Contact: *William B. LIN*

The Securities and Exchange Commission of the Taiwan Ministry of Finance sets the financial reporting requirements for public companies. The Ministry of Economic Affairs issues accounting regulations for both public and nonpublic companies. An independent accounting standards board (Accounting Research and Development Foundation, or ARDF), established in 1984, publishes Statements of Financial Accounting Standards (SFAS) that are recognised by the Ministry of Finance. ARDF also publishes interpretive guidance in the form of Supplementary Explanation Statements.

## TAIWAN, continued

Statements that have been published and that will be effective for financial years ending on or after 31 December 2000:

- q SFAS 17, Statement of Cash Flows (Revised 9 December 1999)
- q SFAS 22, Accounting for Income Taxes (Revised 11 November 1999)
- q SFAS 23, Interim Financial Reporting and Disclosures (revised on 29 July 1999)
- q SFAS 28, Disclosures in the Financial Statements of Banks (issued on 31 March 1999)
- q SFAS 29, Accounting for Government Grants (issued on 24 June 1999)

Statements that have been published and that will be effective for financial years ending on or after 31 December 2001:

- q SFAS 30, Accounting for Treasury Stock (issued on 7 July 2000)
- q SFAS 31, Accounting for Joint Ventures (issued on 7 September 2000)

Statements that are under revision:

- q SFAS 3, Capitalisation of Interest Cost (secondary revision)
- q SFAS 18, Accounting for Pensions (revision)

Planned future projects

- q Earnings per Share (amending the existing standard)
- q Accounting for Warrants
- q Review of the following statements to determine whether revision is necessary:
  - SFAS 1, Summary of Generally Accepted Accounting Principles
  - SFAS 6, Disclosure of Related Party Transactions
  - SFAS 8, Accounting Changes and Prior Period Adjustments
  - SFAS 9, Contingencies and Subsequent Events
  - SFAS 12, Accounting for Income Tax Credits
  - SFAS 19, Development Stage Accounting
  - SFAS 21, Accounting for Convertible Bonds

## THAILAND

Contact: *Russell Toy*

Thai accounting requirements come from two sources. The Ministerial Regulations, issued under the Accounting Law, and standards of the Institute of Certified Accountants and Auditors.

There are no Thai standards in a number of important areas addressed by IAS, including intangible assets, some aspects of leases, provisions, employee benefits, and deferred income taxes.

There are also some differences between Thai standards and IAS.

## VIETNAM

Contact: *Rowell Tan*

Decrees issued by the Ministry of Finance (MOF) provide some guidance on accounting standards that companies doing business in Vietnam must follow. Domestic companies must follow the Vietnamese Accounting System (VAS). Foreign companies, with very few exceptions, are also required to follow this accounting system.

In line with the MOF's intention to implement a uniform accounting system, MOF issued a letter confirming its position to require that all foreign companies that have not applied VAS to start applying VAS from 1 January 2001. Recently, a dialogue between MOF officials and foreign companies' representative is scheduled to take place in early October to discuss the possibility of extending the implementation beyond 1 January 2001.

MOF plans to have national accounting standards that are in line with IAS. The Accounting and Auditing Department of the MOF is currently drafting its first four accounting standards, which it expects to issue before the end of the year. Those four standards will cover accounting for inventory, tangible assets, intangible assets, and revenue. MOF plans to complete and issue all accounting standards that are in line with IAS by the year 2003.



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