

IAS Plus

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

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IAS Plus website

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IASB PROJECT TIMETABLE – ACTIVE PROJECTS	
Accounting Standards for Small and Medium-sized Entities (Non-Publicly Accountable Entities)	<ul style="list-style-type: none"> ▪ Discussion Paper was issued in June 2004 ▪ Recognition and measurement questionnaire issued April 2005 ▪ Public round-tables held 13-14 October 2005 ▪ Exposure draft planned by 30 June 2006.
Business Combinations – Phase II – Application of the Purchase Method – Non-controlling Interest – Non-financial Liabilities	<ul style="list-style-type: none"> ▪ Separate exposure drafts on the three topics issued 30 June 2005 ▪ Public round-tables held 9 November 2005 ▪ Final standards expected 2006-2007
Conceptual Framework	<ul style="list-style-type: none"> ▪ Discussion paper in 2006 or later
Control, including SPEs (Consolidation)	<ul style="list-style-type: none"> ▪ Exposure drafts on control and SPEs expected 2006 or later
Convergence – Short-term Issues, IFRSs and US GAAP	<p><u>IAS 12 Income Taxes</u></p> <ul style="list-style-type: none"> ▪ Exposure draft expected 2006 <p><u>IAS 14 Segment Reporting</u></p> <ul style="list-style-type: none"> ▪ Exposure draft to replace IAS 14 issued January 2006 <p><u>IAS 37 Provisions</u></p> <ul style="list-style-type: none"> ▪ Exposure draft on non-financial liabilities issued 30 June 2005 ▪ Final standard expected 2006.
Emission Rights Trading, including amendments to IAS 20 on Government Grants	<ul style="list-style-type: none"> ▪ Next step(s) not yet decided
Fair Value Measurement Guidance	<ul style="list-style-type: none"> ▪ IASB will issue Invitation to Comment wrap-around of final FASB standard on fair value measurement.
Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> ▪ ED on shares puttable at fair value expected in 2006
Insurance Contracts – Phase II	<ul style="list-style-type: none"> ▪ Working group appointed in 2005 ▪ Next step is a discussion paper in 2006 or later
Reporting Comprehensive Income (Performance Reporting)	<ul style="list-style-type: none"> ▪ Working group appointed in 2005 ▪ Exposure draft on Segment A (required financial statements and comparative information) is expected in 1st quarter 2006
Revenue and Related Liabilities	<ul style="list-style-type: none"> ▪ Discussion paper expected in 2006
IASB PROJECT TIMETABLE – RESEARCH AGENDA	
Extractive Industries	<ul style="list-style-type: none"> ▪ Group of national standard setters conducting research
Financial Instruments – Comprehensive	<ul style="list-style-type: none"> ▪ Working group appointed
Hyperinflationary Economies	<ul style="list-style-type: none"> ▪ Group of national standard setters conducting research
Intangible Assets	<ul style="list-style-type: none"> ▪ Plans not announced
Investment Entities	<ul style="list-style-type: none"> ▪ Plans not announced
Joint ventures	<ul style="list-style-type: none"> ▪ Group of national standard setters conducting research
Leases	<ul style="list-style-type: none"> ▪ Discussion paper in 2006
Liabilities and Equity	<ul style="list-style-type: none"> ▪ Discussion paper in 2006 or later
Management Commentary	<ul style="list-style-type: none"> ▪ Discussion Paper issued 27 October 2005
Measurement Objectives	<ul style="list-style-type: none"> ▪ On 17 November 2005, IASB invited comment on Canadian Accounting Standards Board Discussion Paper

This timetable is derived from the IASB's published timetable supplemented by decisions and comments made at recent meetings of the Board.

IASB news

The exposure draft may be downloaded from the IASB's website:

www.iasb.org

IASB issues segment reporting exposure draft

The IASB has issued an Exposure Draft of an International Financial Reporting Standard (IFRS) ED 8 *Operating Segments*. The proposals are part of the IASB's efforts to converge IFRSs and US GAAP. ED 8 results from the IASB's comparison of International Accounting Standard (IAS) 14 *Segment Reporting* with the US standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*.

The proposed IFRS would replace IAS 14 and align segment reporting with the requirements of SFAS 131. ED 8 would require an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet.

The proposals would therefore require explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet. The proposed IFRS would apply to the annual financial statements for periods beginning on or after 1 January 2007, with earlier application encouraged.

The main features of ED 8 are set out in the table on the next page.

Conference details:

www.iascfconference.org

IASCF 'convergence conference' set for April

The International Accounting Standards Committee Foundation (IASCF) will host a two-day conference International Financial Reporting Standards – Implications of Convergence in Frankfurt on 6 and 7 April 2006. The conference has been designed as part of the IASC Foundation's education initiative to provide an opportunity for preparers, auditors, analysts and investors to exchange views and to discuss with standard-setters and regulators the IASB-FASB convergence programme. The conference will also provide a forum for discussion of implementation issues.

Main Features of ED 8 *Operating Segments*

Exposure Draft ED 8 *Operating Segments* would require an entity to report financial and descriptive information about its reportable segments. Reportable segments would be operating segments or aggregations of operating segments that meet specified criteria. Operating segments would be components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information would be required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

The Exposure Draft would:

- extend the scope of segment reporting to include entities that hold assets in a fiduciary capacity for a broad group of outsiders as well as entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets.
- require identification of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. This is because the requirements of the Exposure Draft are based on the information about the components of the entity that management uses to make decisions about operating matters.
- include a component of an entity that sells primarily or exclusively to other operating segments of the entity in the definition of an operating segment if the entity is managed that way.
- require the amount of each operating segment item reported to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.
- require reconciliations of total reportable segment revenues, total profit or loss, total assets, and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.
- require an explanation of how segment profit or loss and segment assets are measured for each reportable segment.
- require an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions.
- require an entity to give descriptive information about the way that the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

The proposed IFRS would replace IAS 14 *Segment Reporting* and would apply to the annual financial statements for periods beginning on or after 1 January 2007, with earlier application encouraged.

List of Board members and terms:

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

Information about IASCF:

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

Board and Trustee appointments

The Trustees of the IASC Foundation, under which the IASB operates, have made the following announcements with respect to appointments of members of the International Accounting Standards Board and Foundation trustees:

International Accounting Standards Board

- IASB Chairman Sir David Tweedie has been reappointed to a five-year term as Chairman of the Board. His current term expires 30 June 2006.
- The terms of four other members of the IASB expire on 30 June 2006: Hans-Georg Bruns, Warren McGregor, Geoffrey Whittington, and Tatsumi Yamada. Each of them is eligible for reappointment. However, Professor Whittington has indicated that he is not seeking reappointment.

IASCF Trustees

- Tommaso Padoa-Schioppa, a founding member of the Executive Board of the European Central Bank, replaces Paul Volcker as Chairman of the Board of Trustees of the IASC Foundation, effective 1 January 2006.
- In addition to Mr. Padoa-Schioppa, the following new Trustees have been appointed:
 - Marvin Cheung, retired Chairman of KPMG Hong Kong, Hong Kong SAR, People's Republic of China
 - Samuel DiPiazza, CEO, PricewaterhouseCoopers, United States
 - Liu Zhongli, President, Chinese Institute of Certified Public Accountants; former Minister, Ministry of Finance, People's Republic of China
 - William McDonough, former Chairman, US Public Company Accounting Oversight Board, United States; former President, Federal Reserve Bank of New York
 - Sir Bryan Nicholson, outgoing Chairman, Financial Reporting Council, United Kingdom
 - T. V. Mohandas Pai, Member of the Board and Chief Financial Officer, Infosys Technologies Limited; Chairman of the Board, Progeon Limited, India
 - David Shedlarz, Vice Chairman, Pfizer Inc., United States
 - Junichi Ujiie, Chairman, Nomura Holdings Inc, Japan.
- Max Dietrich Kley, a member of the Supervisory Board of BASF AG and a current IASCF trustee, has been reappointed as an IASCF trustee for a three-year term.

There are eight Trustees from Europe, six from North America (four from the United States), six from the Asia/Oceania region, and one each from Africa and South America.

The table on the next page is an up-to-date list of the IASCF Trustees and the expiry dates of their current terms. Note that Mr. Roder has indicated his intention to step down, and a search for a replacement is under way.

TRUSTEES OF THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE FOUNDATION

Tommaso Padoa-Schioppa , <i>Chairman</i> Founding Member, Executive Board of the European Central Bank, Italy	31 December 2008
Roy Andersen Director, Murray and Roberts Holdings, South Africa	31 December 2006
Marvin Cheung Retired Chairman of KPMG, Hong Kong SAR, People's Republic of China	31 December 2008
Bertrand Collomb Chairman, Association Francaise des Entreprises Privees, France	31 December 2006
Samuel DiPiazza CEO, PricewaterhouseCoopers, United States	31 December 2008
Oscar Fanjul Vice Chairman, Omega Capital, and former Chairman Founder and CEO, Repsol, SA, Spain	31 December 2007
L. Yves Fortier Chairman, Ogilvy Renault, Barristers and Solicitors; Former Ambassador of Canada to the United Nations, Canada	31 December 2006
Tsuguoki (Aki) Fujinuma Chairman and President, Japanese Institute of Certified Public Accountants, Japan	31 December 2007
Cornelius Herkstroter Former President, Royal Dutch Petroleum and Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group, The Netherlands	31 December 2006
Richard Humphry Former Managing Director and Chief Executive Officer, Australian Stock Exchange (ASX) Limited, Australia	31 December 2008
Max Dietrich Kley Member of the Supervisory Board, BASF AG, Germany	31 December 2008
Malcolm Knight General Manager, Bank for International Settlements	31 December 2007
Philip A Laskawy Retired Chairman, Ernst & Young International, United States	31 December 2006
William McDonough Former Chairman, US Public Company Accounting Oversight Board; former President, Federal Reserve Bank of New York, United States	31 December 2008
Sir Bryan Nicholson Outgoing Chairman, Financial Reporting Council, United Kingdom	31 December 2008
T. V. Mohandas Pai Member of the Board and Chief Financial Officer, Infosys Technologies Limited; Chairman of the Board, Progeon Limited, India	31 December 2008
Jens Roder Senior Partner, PricewaterhouseCoopers, Denmark	31 December 2007
David Shedlarz Vice Chairman and member of the Executive Committee of Pfizer Inc, United States	31 December 2008
Roberto Teixeira da Costa First Chairman, Brazilian Securities and Exchange Commission - CVM, Brazil	31 December 2007
Junichi Ujiie Chairman, Nomura Holdings Inc, Japan	31 December 2008
Antonio Vegezzi President and Director, Capital International SA, Switzerland	31 December 2007
Liu Zhongli President, Chinese Institute of Certified Public Accountants; former Minister, Ministry of Finance, People's Republic of China	31 December 2008

News from IFRIC

Our summary of IFRIC 7:
www.iasplus.com/interps/ifric007.htm

IFRIC 7 on hyperinflation

In November 2005, the International Financial Reporting Interpretations Committee (IFRIC) issued Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*. IFRIC 7 contains guidance on how an entity would restate its financial statements pursuant to IAS 29 in the first year it identifies the existence of hyperinflation in the economy of its functional currency. The Interpretation is effective for annual periods beginning on or after 1 March 2006. Earlier application is encouraged.

The main requirements of the Interpretation are:

- In the period in which the economy of an entity's functional currency becomes hyperinflationary, the entity shall apply the requirements of IAS 29 as though the economy had always been hyperinflationary. The effect of this requirement is that restatements of non-monetary items carried at historical cost are made from the dates at which those items were first recognised; for other non-monetary items the restatements are made from the dates at which revised current values for those items were established.
- Deferred tax amounts in the opening balance sheet are determined in two stages:
 - a. Deferred tax items are remeasured in accordance with IAS 12 *Income Taxes* after restating the nominal carrying amounts of the non-monetary items in the opening balance sheet by applying the measuring unit at that date.
 - b. The deferred tax items remeasured in this way are restated for the change in the measuring unit from the date of the opening balance sheet to the date of the closing balance sheet.

IFRIC 7 is effective for annual periods beginning on or after 1 March 2006. Earlier application is encouraged.

Our summary of IFRIC 8:
www.iasplus.com/interps/ifric008.htm

IFRIC Interpretation 8 on scope of IFRS 2

In January 2006, the IFRIC issued a final Interpretation – IFRIC 8 *Scope of IFRS 2*. IFRIC 8 clarifies that IFRS 2 *Share-based Payment* applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 does not apply to transactions that are specifically excluded from the scope of IFRS 2 (as set out in paragraphs 3 to 6 of the standard). IFRIC 8 is effective for annual periods beginning on or after 1 May 2006. Earlier application is encouraged.

The draft interpretation may be downloaded from the IASB's website:
www.iasb.org

IFRIC proposal on interim financial reporting and impairment

In January 2006, the IFRIC released for public comment a draft Interpretation D18 *Interim Financial Reporting and Impairment*. The proposed Interpretation would clarify the interaction between IAS 34 *Interim Financial Reporting* and two other standards, IAS 36 *Impairment of Assets* and IAS 39 *Financial Instruments: Recognition and Measurement*, and the effect of that interaction on subsequent interim and annual financial statements. The proposed Interpretation clarifies that an entity cannot reverse an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument classified as available for sale or a financial asset carried at cost.

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

Issues not added to IFRIC agenda - new IAS Plus web page

The IFRIC Agenda Committee considers potential projects for the IFRIC agenda and makes recommendations to the IFRIC. IFRIC's normal procedure is:

- The Agenda Committee makes a recommendation that an item not be added to the IFRIC's agenda, and recommends the wording for IFRIC's public explanation.
- IFRIC discusses the Agenda Committee recommendation and, if it agrees, it publishes the proposed explanation in the IFRIC Update newsletter. The newsletter indicates that if constituents disagree, they should email the IFRIC.
- At a subsequent meeting, the IFRIC decides not to add the item to its agenda and agrees on the final wording for its explanation. IFRIC's final decision and explanation are published in IFRIC Update.

We have created a new IASPlus web page with a comprehensive summary of issues not added to IFRIC's agenda. Sequenced by IAS/IFRS number, that page lists each item not added to IFRIC's agenda (back to 2002), the date the decision not to add was made, and IFRIC's public explanation of the reasons for not adding the item to its agenda. We believe that those who are responsible for preparing IFRS financial statements will find the information on our new web page useful. We will keep the page up to date after each IFRIC meeting.

IASC Foundation news

IASCF Constitution:
[www.iasplus.com/
 resource/const.htm](http://www.iasplus.com/resource/const.htm)

Trustees seek Board member candidates

The International Accounting Standards Committee Foundation is seeking applications for four full-time IASB Board member positions for terms beginning 1 July 2006. The terms of four IASB members will end on 30 June 2006 – Hans-Georg Bruns, Warren McGregor, Geoffrey Whittington, and Tatsumi Yamada. All are eligible for reappointment, but Professor Whittington is not seeking reappointment.

Board member qualifications are listed in the Annex of the IASC Foundation's Constitution. Successful new applicants will be asked to serve a five-year term and will be expected to reside in London, where the IASB is located. Interested candidates should send a cover letter and curriculum vitae by 28 February 2006 to Philip Laskawy, Chairman of the Nominating Committee, IASC Foundation, 30 Cannon Street, London EC4M 6XH or by email to Tom Seidenstein, Director of Operations, at tseidenstein@iasb.org.

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

Upcoming meeting dates

IASB and SAC MEETINGS 2006	
London, UK	20-24 February 2006, and 27-28 February 2006 with the Standards Advisory Council
London, UK	27-31 March 2006
London, UK	24-26 April 2006, and 27-28 April 2006 joint IASB/FASB meeting
London, UK	22-26 May 2006
London, UK	19-23 June 2006, and 26-27 June 2006 with the Standards Advisory Council
London, UK	17-21 July 2006
London, UK	18-22 September 2006
London, UK	16-20 October 2006
Norwalk, CT, USA	23-24 October 2006 joint meeting with FASB
London, UK	13-17 November 2006, and 9-10 November 2006 with the Standards Advisory Council
London, UK	11-15 December 2006

IFRIC MEETINGS 2006	
London, UK	12-13 January 2006
London, UK	2-3 March 2006
London, UK	11-12 May 2006
London, UK	6-7 July 2006
London, UK	7-8 September 2006
London, UK	2-3 November 2006

News from IFAC

You will find more information about IAASB, including a link to the Board's website, here:

[www.iasplus.com/
ifac/ifac.htm#iasb](http://www.iasplus.com/ifac/ifac.htm#iasb)

You will find more information about IPSASB, including a link to the Board's website, here:

[www.iasplus.com/
ifac/ifac.htm#ipsasb](http://www.iasplus.com/ifac/ifac.htm#ipsasb)

IAASB website:
www.ifac.org/IAASB

IAESB website:
www.ifac.org/education

Proposed international audit standard on related parties

The International Auditing and Assurance Standards Board has released for comment a proposed revision to International Standard on Auditing (ISA) 550 *Related Parties*. The current standard requires the auditor to perform certain specified procedures.

The proposed standard would extend current practice by requiring the auditor to obtain an understanding of the nature and business rationale of an entity's related party relationships and transactions sufficient to identify, assess, and respond to the risks of material misstatement resulting from them. It also places greater emphasis on the difficult task for the auditor of attempting to identify related party relationships and transactions not identified or disclosed by management.

The revision also places new emphasis on evaluating the effects of related party relationships and transactions on the financial statements, even in circumstances where the financial reporting framework does not establish related party accounting or disclosure requirements. Comments on the exposure draft are due by 30 April 2006.

IPSASB will address grantor accounting for service concessions

The International Public Sector Accounting Standards Board (IPSASB) develops standards for accounting and financial reporting by national, regional, and local governments and related governmental agencies. Those standards are generally based on IFRSs, and profit-oriented government business enterprises are required to comply directly with IFRSs.

The IPSASB's current work programme includes an ongoing project on *Convergence with International Financial Reporting Standards (IFRSs) issued by the IASB*. One IPSASB convergence issue relates to IFRIC's project on accounting for service concessions (public-private partnerships). Because IFRIC's draft Interpretations do not address accounting by grantors of service concessions, the IPSASB will work with national standard setters to explore the potential for coordinating national and international guidance on accounting by public sector entities involved in service concession arrangements.

Search begins for new IAASB chairperson

The International Federation of Accountants has begun a search for a new full-time chairperson of the International Auditing and Assurance Standards Board effective 1 January 2007. The current chairman, John Kellas, has decided not to seek reappointment when his term ends on 31 December 2006.

International Accounting Education Standards Board

At its meeting in November 2005, the IFAC Council approved, effective immediately, changes to IFAC's Constitution that included changing the name of the Education Committee to the International Accounting Education Standards Board (IAESB).

The change was seen as necessary to reflect the Education Committee's authority to independently set standards and the equivalent level of legitimacy between it and other international standard setters.

IFRS-related news from the United States

SEC news release:
[www.sec.gov/news/
press/2005-177.htm](http://www.sec.gov/news/press/2005-177.htm)

SEC and CESR chairmen meet

US Securities and Exchange Commission Chairman Christopher Cox met with Chairman Arthur Docters van Leeuwen of the Committee of European Securities Regulators (CESR) to discuss International Financial Reporting Standards and other potential agenda items for collaborative efforts in 2006. The chairmen expressed their support for continued close interaction to maintain and promote investor protection and market integrity in the transatlantic capital markets.

Chairman Cox also informed Chairman Docters van Leeuwen of the SEC's Rule Proposal on Deregistration Requirements for Foreign Issuers, which the Commission has published for public comment. The press release on the meeting between the two chairmen states:

In addition to reviewing IFRS reporting in their respective jurisdictions, potential collaborative efforts in 2006 include a review of the practical application of risk-based anti-money laundering procedures by securities firms and engaging relevant parties to consider the development of a common licensing exam for individuals who work in the international capital markets industry. The SEC and CESR staff also will exchange experiences regarding the use of IT systems to facilitate disclosure to investors and will focus on the use of interactive data in meeting disclosure requirements.

[www.sec.gov/news/
speech/spch120105.htm](http://www.sec.gov/news/speech/spch120105.htm)

The US GAAP reconciliation requirement and convergence

Ethiopia Tafara, Director, Office of International Affairs of the US Securities and Exchange Commission, discussed the SEC's 'roadmap' of milestones toward elimination of the US GAAP reconciliation requirement for IFRS filers in remarks at FEE's IFRS seminar in Brussels on 1 December 2005. An excerpt:

We do not expect full or even a finite degree of convergence before we are willing to eliminate the reconciliation requirement. What is important is that investors in the United States be able to understand financial statements prepared under IFRS. While convergence between IFRS and US GAAP will certainly help us all in reaching that goal, it is clearly possible for US investors to understand financial statements prepared using a rigorously applied system of IFRS, even if there remain differences between IFRS and US GAAP.

Accordingly, we do not expect an artificially paced standard-setting work targeted at a specific level of convergence before eliminating the reconciliation requirement. That said, before eliminating the requirement, the Commission likely will be keen to see that a robust process for converging IFRS and US GAAP is in place and active. This will help make sure that, going forward, both sets of accounting standards will converge rather than diverge. Of course, the only way to judge the effectiveness of a process is through the results it generates. This means that, before the reconciliation requirement can be eliminated, the Commission will need to review the progress of the IASB/FASB convergence project and will look for convergence of standards that reflect a sense of priority and a measure of efficiency.

www.sec.gov/news/speech/spch111705cag.htm

SEC Commissioner discusses convergence

In remarks at a conference sponsored by the Danish Ministry of Economic and Business Affairs in Copenhagen, US SEC Commissioner Cynthia A. Glassman discussed various SEC initiatives affecting foreign issuers, including accounting convergence and the SEC's reconciliation. An excerpt:

No speech to an international audience would be complete without a reference to the goal of international convergence of accounting standards. Since October 2002, the Financial Accounting Standards Board, the standard setter for U.S. GAAP, and the International Accounting Standards Board, the standard setter for IFRS, have been engaged in a project to converge U.S. GAAP and IFRS. I support the goals of this project, and was pleased to see a first draft of a joint standard on business combinations published in June. Although there will undoubtedly be transition issues, having one standard will be more efficient for issuers and more useful for investors.

Reconciliation is the other critical issue on the international front. As you well know, the Commission requires companies that use IFRS to reconcile their financial statements to U.S. GAAP in their filings with us. Don Nicolaisen, the Commission's former Chief Accountant, proposed a 'roadmap' to achieving the acceptance of IFRS in the U.S. without reconciliation. Under the roadmap, consistent interpretation, application and enforcement of IFRS around the world is a prerequisite to the Commission's consideration of eliminating the reconciliation requirement. Our staff has already begun a survey, but because IFRS is being implemented in many countries for the first time this year, the analysis is in its infancy. The staff will continue, however, to pursue the roadmap towards the elimination of the reconciliation requirement as quickly as possible.

News about IFRSs in Europe

www.cesr-eu.org/

CESR statement on IFRS accounting policy disclosures

The Committee of European Securities Regulators (CESR) has issued a public statement to remind European securities issuers using IFRSs of the importance of giving clear and transparent disclosure about (a) their use of any of the accounting policy options available under IFRSs and (b) their decisions regarding the determination of accounting policies in the absence of specific IFRS guidance.

CESR highlighted four specific situations where transparent disclosure will be particularly relevant for the 2005 annual financial statements because of first-time adoption of IFRSs:

- Firstly, the endorsed IAS/IFRS themselves provide several options, in particular on first time adoption of IFRS, between two or more recognition methods and measurement bases. The standards themselves include specific disclosure requirements which have to be followed, notably on the use of options.
- Secondly, there are areas that are not currently specifically dealt with under IFRSs (e.g. accounting for service concession arrangements, emission rights, puts on minority interests...). A transparent disclosure explaining the accounting treatment selected would provide meaningful information to the users of the financial statements (see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 10 and seq.).
- Thirdly, particular situations may arise where IAS/IFRS have not been fully endorsed for application in the EU. This is currently the case for some of the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* that are directly related to the accounting treatment of portfolio hedging. These provisions have not been adopted for mandatory use in the EU pursuant to the Commission Regulation (EC) No 2086/2004 of 19 November 2004 (the so-called ‘carve out’ of IAS 39). It can therefore be expected that a number of companies will choose to apply the full version of IAS 39, while others may apply the amended standard endorsed by the EU. As it is likely that companies will use different accounting approaches in the area of hedge accounting and effectiveness, issuers should be transparent in explaining their policies and all the more so where the “carve out” is used.
- Finally, there is always a time lag between the issue of IFRS by the IASB and their mandatory application in the EU as a result of the EU endorsement process. The European Commission recently informed Member States that Regulations endorsing IFRS published in the *Official Journal* and entering into force after the balance sheet date but before the date the financial statements are signed, can be used by companies (but they are not obliged to) where early application is permitted in the Regulation and the related IFRS.

EFRAG website
www.efrag.org

EFRAG recommends endorsement of IFRIC 7

The European Financial Reporting Advisory Group (EFRAG) has recommended that IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* be endorsed by the European Commission for use in Europe. EFRAG has also posted on its Website:

- A draft endorsement letter on the *Adoption of an Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation* (comments due 3 February 2006).
- Preliminary views regarding the IASB Discussion Paper Management Commentary (comments due 24 March 2006).

EFRAG website
www.efrag.org

EU bank regulators develop IFRS reporting framework

The Committee of European Banking Supervisors (CEBS) has published guidelines establishing a standardised Framework for Consolidated Financial Reporting (FINREP) for credit institutions operating in the EU. FINREP is designed for credit institutions that use IFRSs for their published financial statements, and that have to provide similar information in the periodic ‘prudential reports’ they are required to submit to their supervisory authorities.

The guidelines note that “the introduction of international accounting and reporting standards provides an opportunity to converge and ultimately harmonise prudential reporting in Europe.”

The framework is not intended to cover all aspects of IFRSs; rather it focuses on information that is important or relevant for prudential purposes. FINREP is intended to enable credit institutions to use the same standardised data formats and data definitions for prudential reporting in all countries where the framework will be applied. CEBS advises the European Commission on banking policy issues, promotes convergence of supervisory practise across the European Union, and fosters consistent application of EC banking legislation.

[http:// europa.eu.int/comm/
internal_market/accounting/
index_en.htm](http://europa.eu.int/comm/internal_market/accounting/index_en.htm)

IAS 39 amendment fully adopted in Europe

The European Commission has published the amendment of IAS 39 for *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* in the *Official Journal of the European Union*, making it fully endorsed for use in Europe.

[http:// europa.eu.int/comm/
internal_market/accounting/
index_en.htm](http://europa.eu.int/comm/internal_market/accounting/index_en.htm)

EU formally adopts various IFRSs

By publication in the *Official Journal of the European Union* on 24 November 2005, Commission Regulation (EC) No 1910/2005 of 8 November 2005 has been brought into law. Regulation 1910/2005 amends Regulation (EC) No 1725/2003 (the ‘Accounting Directive’ to formally adopt the latest revisions to the following International Financial Reporting Standards: IFRSs 1 and 6; IASs 1, 16, 19, 24, 38, and 39; and IFRIC Interpretations 4 and 5.

Further, in late January 2006, the Commission formally adopted recent revisions to IFRS 1, 4, 6 and 7, IAS 1, 14, 17, 32, 33, and 39 and IFRIC Interpretation 6. Only the following IASB pronouncements have not yet been endorsed for use in Europe:

- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*.
- IFRIC 8 *Scope of IFRS 2*.
- Amendments to IAS 21.

[http:// europa.eu.int/comm/
internal_market/accounting/
index_en.htm](http://europa.eu.int/comm/internal_market/accounting/index_en.htm)

Wording for stating compliance with IFRSs in Europe

The European Commission has adopted the following wording for use in the notes to the accounts and in the audit reports of companies subject to the EU Regulation 1606/2002/EC (the ‘IAS regulation’):

- “in accordance with International Financial Reporting Standards as adopted by the EU” or
- “in accordance with IFRSs as adopted by the EU”.

www.fee.be

Reference to reporting framework in Europe

The European Federation of Accountants (FEE) has urged the European accounting profession to use a standard reference to the financial reporting framework in the EU in their audit reports and in the basis of preparation note to financial statements of companies using ‘endorsed’ IFRSs. FEE notes that the European Commission has adopted the following wording: “in accordance with International Financial Reporting Standards as adopted by the EU” or “in accordance with IFRSs as adopted by the EU”. FEE also urges that the following three disclosures be included:

- An explanation in the notes to the accounts as to how companies’ accounting policies depart from full IFRS to enable investors to compare the results of companies within and outside the EU.
- A statement that the company is in compliance with full IFRSs (additional disclosure, not as the legal financial reporting framework).*
- An explanation of how companies are in compliance with ‘International Financial Reporting Standards as adopted by the EU’ or ‘IFRSs as adopted by the EU’ and full IFRS as issued by the IASB in cases where the two frameworks are recognised to be different.

*In this regard, paragraph 14 of IAS 1 *Presentation of Financial Statements* as endorsed for use in Europe states: “An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes.”

EC to study IFRSs and profit distribution

The European Commission’s Internal Market Directorate has invited public comment on future priorities for the *Action Plan on the Modernisation of Company Law and Corporate Governance*. Comment deadline is 31 March 2006. While the issues addressed in the consultation generally do not relate to accounting, the following point is noted regarding a study on the implications of IFRSs on profit distribution:

On 13 August 2005, the Commission published a call for tender for a feasibility study on alternative to capital maintenance regime as established by the Second Company Law Directive and the examination of the implications of the new EU-accounting regime on profit distribution. The terms of reference of the feasibility study will be re-examined by the members of the Advisory Group on Company Law and Corporate Governance and a further call for tender will be published in early 2006.

New European Group of Auditors' Oversight Bodies

The European Commission has formed a European Group of Auditors' Oversight Bodies (EAOB). The goal of EAOB is to ensure effective coordination of new public oversight systems of statutory auditors and audit firms that each EU Member State is required to establish under the October 2005 amendments to the 8th Company Law Directive. The new Group may also provide technical input to the preparation of possible measures of the Commission implementing the Directive, such as endorsement of the International Standards on Auditing or assessment of third countries' public oversight systems.

You can find Commissioner McCreevy's speech on IAS Plus: www.iasplus.com/restruct/euro2005.htm#dec2005 or on the EC website: http://europa.eu.int/comm/commission_barroso/mccreevy/speeches/index_en.htm

Commissioner McCreevy: EU interpretive body not needed

Charlie McCreevy, the European Commissioner for Internal Market and Services, spoke on 8 December 2005 on "Recent Developments in the Internal Market for Financial Services and Financial Reporting" before the Association of Corporate Treasurers in Belgium. Here are two excerpts from his comments on financial reporting:

Consistent application of IFRS in the EU. While CESR, auditors, and preparers of financial statements all have responsibilities in this area, "what is absolutely clear is that we do not want any EU body, formal or informal, providing EU interpretations and guidance. Where interpretations need to be done, this must be the job of the responsible body of the IASB, namely IFRIC."

Equivalence between third country GAAP and IFRS. "Making IFRS work in the EU puts us in a position to be able to claim an even bigger prize: greater access of EU companies to global capital markets. This should include removal of the reconciliation requirement to US GAAP for companies which list in the US. The US SEC agreed to a Road-map in April 2003 with the aim of working towards this at the earliest in 2007 and at the latest in 2009. In the EU we are, of course, also looking into the use of third country GAAP in order to establish whether these might be considered equivalent with IFRS. For the moment, my view is that the best way to proceed is for the EU to defer an equivalence decision and prolong the status quo, rather than taking any decision now. This option would align the EU's equivalence agenda with the US Roadmap for dropping the reconciliation requirement for foreign issuers in the US. It would mean we could work in parallel towards common agreed objectives."

You can find Commissioner McCreevy's speech on IAS Plus: www.iasplus.com/restruct/euro2005.htm#dec2005 or on the EC website: http://europa.eu.int/comm/commission_barroso/mccreevy/speeches/index_en.htm

Commissioner McCreevy: EC financial reporting strategy

Charlie McCreevy, the European Commissioner for Internal Market and Services, spoke about the *EC Strategy on Financial Reporting: Progress on Convergence and Consistency* at the European Federation of Accountants' (FEE) Seminar on International Financial Reporting Standards in Brussels on 1 December 2005. Here is an excerpt:

It is my firm belief that accounting standards should be international and be used across the globe. We have committed to use IFRS, but other important markets – notably the US – have not yet done so.

Our interest in the acceptance of IFRS in the US is of course not purely altruistic. Today there are about 250 EU issuers listed in the US using IFRS. The cost of the current US GAAP reconciliation requirement is enormous. I have heard estimates of between 1 and as much as 10 million dollars for the largest companies. And that is every year. But the story does not end here. There are many companies from other jurisdictions who also have US listings and use IFRS.

That is why I think my agreement earlier this year with the former SEC Chairman, Bill Donaldson, and the SEC roadmap to remove the US GAAP reconciliation requirement is so important. This Roadmap means that IFRS could be accepted in the US no later than 2009, or even sooner.

Call for more EU involvement in IFRS process

Pervenche Beres, Chairwoman of the committee on economics and monetary affairs in the European Parliament, spoke about *The Need for Better Involvement of the European Union in the IFRS Process* at the FEE Seminar on IFRS Convergence and Consistency held in Brussels on 1 December 2005. An excerpt:

Debates on the constitutional review of the IASB and on the (future) role of European Financial Reporting Advisory Group (EFRAG) represent an outstanding opportunity to strengthen the voice and the role of Europe, to improve the IASB corporate governance, and to make the decision making process at IASB level more balanced. We should fully take advantage of this momentum!

One of the European Parliament's very important concerns relates to the manner in which the EU is present and represented in the IASB, namely on the trustees and on the Board side. A greater transparency towards the European Parliament, especially when it comes to Commission's intended steps in this area, would be a clear asset in ensuring that the EU is represented in the IASB structures in an appropriate way.

www.iasplus.com/efrag/efrag.htm

EFRAG endorsement status reports

The European Financial Reporting Advisory Group (EFRAG) has begun publishing a report showing the status of endorsement, under the EU Accounting Regulation, of each IFRS, including standards, interpretations, and amendments. We are grateful to EFRAG for giving us permission to post them on the EFRAG page on www.iasplus.com.

Use of IFRSs elsewhere in the world

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

Smooth transition to IFRSs in Australia

The Australian Securities and Investments Commission has released a summary of its latest review of the recently introduced Australian equivalents to International Financial Reporting Standards (AIFRSs). ASIC reviewed disclosures made in financial reports by 1,250 listed companies with balance dates between 30 June and 31 July 2005. ASIC found that “all entities reviewed had successfully provided the required disclosure of the impacts of AIFRSs by explaining the key differences in accounting practices they expected under AIFRSs”.

- Only 19 of the companies reviewed concluded that there would be no material impact arising from the adoption of the new standards.
- About 700 of the companies provided disclosure of the quantitative impact for each point of key difference.
- A further 480 companies quantified some of the key differences.

AIFRSs apply to financial reporting periods from January 1, 2005.

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

Regulatory and IFRS reporting by Australian insurers

The Australian Prudential Regulation Authority (APRA) has amended its regulatory reporting requirements for life insurance companies to reflect the adoption of IFRSs in Australia. The changes align regulatory reporting with IFRS reporting where appropriate. At the same time, the new requirements ensure that APRA continues to receive consistent and standardised information to monitor prudential strength following the introduction of IFRSs. The new rules took effect from 31 December 2005. APRA has granted a six-week extension for filing the first reports under the new regime.

Other earlier APRA proposals relating to the adoption of IFRSs in Australia by deposit-taking institutions and general insurers address such issues as fair value measurement, employer sponsored defined benefit superannuation fund surpluses and deficits, and loan loss provisioning. Comments on that package were due by 16 January 2006.

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

China moves toward adoption of ISAs

The Chinese Auditing Standards Board (CASB) and the International Auditing and Assurance Standards Board (IAASB) have released a joint statement in which the CASB states its intention to converge Chinese auditing standards with the IAASB’s International Standards on Auditing (ISAs). To date the CASB has adopted 26 Chinese auditing standards. Seventeen exposure drafts are currently outstanding, and five more will be issued soon.

The CASB has made amendments to some of the ISAs and also has issued Chinese standards to deal with matters not covered in the ISAs. In the joint statement, the Ministry of Finance states its intention to “eliminate, over time, as the environment in China changes, those differences between Chinese auditing standards and the ISAs that still exist”.

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

Temporary SME standards in Philippines

The Philippines has adopted IFRSs in full as its national standards starting in 2005. However, on 22 December 2005, the Philippines Securities and Exchange Commission issued PAS 101 entitled *Financial Reporting Standards For Non-Publicly Accountable Entities (NPAEs)*, as approved by the Accounting Standards Council, to provide temporary relief to qualified small and medium-sized entities from applying the new accounting standards. Qualifying entities may choose instead to use the former Philippines Accounting Standards that were in effect in December 2004. That option will be available from 2005 through 2007 unless revoked earlier.

The SEC indicated that it is taking this action in recognition of the IASB's SME Project. The SEC adopted the IASB's draft criteria for distinguishing publicly accountable entities from non-publicly accountable – publicly accountable if (a) publicly listed, (b) holds assets in a fiduciary capacity, (c) public utility, or (d) economically significant. For Philippines purposes, economic significance means total assets over Php 250 million (approximately US\$ 5 million) or total liabilities over Php 150 million in 2004.

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

Canada approves plan for convergence with IFRSs

Canada's Accounting Standards Board (AcSB) has ratified a new "Strategic Plan for the Direction of Accounting Standards" that involves pursuing separate strategies for three major categories of reporting entities: public companies, private businesses, and not-for-profit organisations.

- **For public companies**, the AcSB's objective is to move to a single set of globally accepted high-quality standards. The AcSB has concluded that this objective is best accomplished by converging Canadian GAAP with International Financial Reporting Standards (IFRSs) over a transitional period. Australia and the European Union have already adopted IFRSs and other countries have convergence programs underway. The AcSB will develop and publish a detailed implementation plan for achieving convergence later this year. The AcSB expects that the transition period will take approximately five years, but the precise timing will depend on many factors, and will be continuously monitored throughout the process. At the end of that period, Canadian GAAP will cease to exist as a separate, distinct basis of financial reporting for public companies.
- **For private businesses**, the AcSB has begun, as a matter of urgency, a comprehensive examination of their financial reporting needs and will determine the most appropriate model for meeting those needs.
- **For not-for-profit organisations**, the AcSB will continue to apply those elements of GAAP for profit-oriented enterprises that are applicable to their circumstances, and develop other standards dealing with the special circumstances of the not-for-profit sector.

The AcSB recognises that some Canadian public companies that have significant market followings in the United States might prefer to use US GAAP. The Canadian Securities Administrators already permit those Canadian public companies that are SEC registrants to use US GAAP instead of Canadian GAAP.

In a related matter, the Canadian Auditing and Assurance Standards Board (AASB) has issued an invitation to comment on its proposed new standard-setting approach for the period 1 April 2006 to 31 March 2009. The new approach envisions convergence of Canadian auditing and assurance standards with the International Standards on Auditing (ISAs) and pronouncements of the International Auditing and Assurance Standards Board (IAASB). Comments requested by 14 March 2006.

Download the special edition newsletter here:

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You can always access IFRS e-learning without charge by clicking on the **light bulb icon** on the **IASPlus home page**.

IFRS publications from Deloitte

Special IAS Plus newsletter on IFRIC 7

In November 2005, the International Financial Reporting Interpretations Committee issued Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*. IFRIC 7 contains guidance on how an entity would restate its financial statements pursuant to IAS 29 in the first year it identifies the existence of hyperinflation in the economy of its functional currency (see story on page 20). Deloitte has published a special edition of our IAS Plus Newsletter explaining IFRIC 7.

Special IAS Plus newsletter on financial guarantees

In August 2005, the IASB amended the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to include financial guarantee contracts issued by the entity. If an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IAS 39 or IFRS 4 *Insurance Contracts* to such financial guarantee contracts. Deloitte has published a special edition of our IAS Plus Newsletter explaining the IASB's amendments to IAS 39 and IFRS 4.

Special IAS Plus newsletter on IFRIC 8

In January 2006, the IFRIC issued a final Interpretation – IFRIC 8 *Scope of IFRS 2*. IFRIC 8 clarifies that IFRS 2 *Share-based Payment* applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration (see story on page 7). Deloitte has published a special edition of our IAS Plus Newsletter explaining IFRIC 8.

Model IFRS financial statements in Danish

Deloitte & Touche (Denmark) has published model IFRS financial statements for 2005 in Danish.

Singapore 2005 model financial statements and update

Deloitte & Touche (Singapore) has published model financial statements and a presentation and disclosure checklist under Singapore Financial Reporting Standards for 2005. This publication is available in three forms – the model financial statements and presentation and disclosure checklist combined, and separate volumes for the statements and the checklist.

Deloitte & Touche (Singapore) has also published a 2005 version of its annual booklet about the recent *Changes to The Financial Reporting Framework in Singapore*. The booklet reflects some significant changes in regulatory reporting arising from the Companies (Amendment) Act 2005 that will affect all Singapore companies. The auditing and corporate governance regimes are also undergoing a wave of changes. Therefore the 2005 Edition highlights some significant changes in Singapore Standards on Auditing (SSA) and their implications on Singapore companies. It also covers changes in Code of Corporate Governance applicable for Singapore listed companies, and some important proposed changes to the listing rules.

Over 500,000 e-learning downloads from IASPlus

By the end of 2005, over 500,000 Deloitte IFRS e-learning modules had been downloaded from IAS Plus by people in over 150 countries. Deloitte's e-learning was launched at the end of January 2004. Thirty-five modules are now available.

Download this and other Deloitte IFRS publications without charge at:

www.iasplus.com/dttpubs/pubs.htm

Key considerations in applying IFRSs for 2005

Deloitte has published a new IAS Plus guide: IFRS Financial Statements 2005: Key Considerations for Preparers. The objective of this 56-page guide is to provide assistance with the process of drafting those financial statements. It is not a disclosure checklist, nor a comprehensive illustration of a set of financial statements. Those tools are already available on the IAS Plus website and from Deloitte offices globally. Rather, this publication draws on our experience of the presentation and disclosure requirements of the new and revised Standards and, in particular, of the understanding that we have gained by closely monitoring the drafting process. It deals with issues that we have faced, and overcome - in the hope that we can help readers to avoid those pitfalls.

Download this and other Deloitte IFRS publications without charge at:

www.iasplus.com/dttpubs/pubs.htm

German language IFRS presentation and disclosure checklist 2005

Deloitte (Germany) has published a German-language translation of the 2005 IFRS presentation and disclosure checklist: *Checkliste zu Ausweis- und Angabevorschriften 2005*. This publication complements the previously issued German language model IFRS financial statements for 2005, which can be downloaded from the IAS Plus model financial statements page.

iGAAP 2006 Financial Statements for UK Listed Groups can be purchased through CCH Online or by phone at +44 (0) 870 777 2906 or by email: customerservices@cch.co.uk

Model IFRS financial statements for UK

Deloitte & Touche LLP (United Kingdom) have developed iGAAP 2006 Financial Statements for UK Listed Groups, which has been published by CCH. The major part of this publication comprises model financial statements, accompanied by detailed commentary, to illustrate the typical disclosures required of a listed group reporting under International Financial Reporting Standards. A 'facing page' format is used so that the model disclosures can be viewed simultaneously with the relevant Deloitte commentary on the disclosure requirements.

The publication may be purchased by calling +44 (0)870 777 2906 or by emailing customerservices@cch.co.uk

Deloitte guide to applying IFRSs in the UK

iGAAP 2005-IFRS reporting in the UK, developed by Deloitte & Touche (United Kingdom), has been published. It provides comprehensive guidance for UK companies intending to report under International Financial Reporting Standards, by:

- focusing on the practical issues that companies will face;
- explaining clearly the requirements of IFRSs and how they differ from previous UK GAAP;
- adding interpretation and commentary where IFRSs are silent, ambiguous, or unclear;
- separately identifying those UK-specific requirements that will continue to apply; and
- providing many illustrative examples.

Download this and other Deloitte IFRS publications without charge at:

www.iasplus.com/dttpubs/pubs.htm

www.iasplus.com/fs/fs.htm

Transition to IFRSs in the retailing sector

Deloitte & Touche LLP (United Kingdom) has published *On Your Marks—Get Set?*, a booklet that identifies issues likely to arise as entities in the retailing sector make the transition to International Financial Reporting Standards. Specific issues examined include segment reporting (IAS 14); revenue recognition (IAS 18); inventories (IAS 2); impairment of assets (IAS 36); property, plant, and equipment (IAS 16); and goodwill and intangible assets (IFRS 3 and IAS 38). The booklet also summarises the results of a 2004 Deloitte benchmarking study of retailing groups to identify just how ready the retailing sector was to make the transition to IFRSs.

IFRS model financial statements - investment trusts

Deloitte, in conjunction with the Association of Investment Trust Companies (AITC), has developed model consolidated annual IFRS financial statements for 2005 for investment trust company (ITC) groups. The model statements assume, consistent with AITC recommendations, that equity and fixed-income investments are measured at fair value through profit and loss. Some investments are also classified as available for sale for illustrative purposes. These model statements do not illustrate an ITC parent company's separate financial statements. While they also do not illustrate an ITC's interim financial statements, many of the accounting issues faced will be common to both interim and annual financial statements.

Accounting Standards Update in the Asia-Pacific Region

AUSTRALIA

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In December 2005, the Australian Accounting Standards Board ('AASB') revised the following Accounting Standards:

- AASB 124 Related Party Disclosures – principally revised to include the disclosure requirements previously contained in Australian specific Accounting Standard AASB 1046 Directors and Executive Disclosures by Disclosing Entities, but other amendments have also been made including removal of parent entity relief. AASB 1046 has been withdrawn.
- AAS 25 Financial Reporting by Superannuation Plans – revised to require financial liabilities held by superannuation plans to be measured at net market values with changes being recognised in the profit or loss.
- AASB 1038 Life Insurance Contracts – revised to acknowledge that friendly societies may have unallocated surplus that is in the nature of 'policyholder equity'. Also, certain paragraphs from AASB 1038 were deleted to deal with potential incompatibilities with AASB 127 Consolidated and Separate Financial Statements.
- AASB 1023 General Insurance Contracts – certain paragraphs were deleted to deal with potential incompatibilities with AASB 127 Consolidated and Separate Financial Statements.

The revised Standards are applicable for annual reporting periods ending on or after 31 December 2005.

The AASB also issued its first Interpretation, AASB Interpretation 1002 Post-Date-of-Transition Stapling Arrangements, applicable to annual reporting periods ending on or after 31 December 2005. This Interpretation has the same status as an Urgent Issues Group ('UIG') Interpretation.

There have not been any new or revised Interpretations issued since the November 2005 Edition of the IAS Plus Quarterly Newsletter. However, the UIG has provided guidance on the following rejected issues:

- Employee Share Loan Plan;
- Capitalised Software; and
- Classification of Long Service Leave Liabilities.

CHINA

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Accounting Guidelines

In the second half of 2005, the Ministry of Finance (MOF) issued the following accounting guidelines.

- **Accounting Guidelines for Enterprises engaged in Guarantee Activities.** This guideline (issued in November 2005) sets out the supplementary accounting statements, the additional accounts, and specific accounting treatments applicable to enterprises engaged in the provision of guarantee activities. The guideline became effective on 1 January 2006.
- **Temporary Requirement in respect of Share Reforms of Listed Enterprises.** This guideline (issued in November 2005) prescribes the accounting treatment of share reforms of the enterprises listed on the PRC stock exchanges. Share reform refers to the change of the status of certain "non-circulating" equity shares of a listed enterprise to "circulating" shares. The pronouncement lists out seven methods an entity may employ to acquire the "circulating share" status and the corresponding accounting treatments.

CHINA, continued

- **Temporary Requirement in respect of Recognition and Measurement of Financial Instruments.** This guideline (issued in September 2005) is applicable to listed commercial banks and commercial banks that are in the process of seeking a listing status. It was drafted by reference to IAS 39 and it requires financial assets to be classified into four categories: held-for-trading financial assets, held-to-maturity securities, loans and receivables and available-for-sale financial assets. Financial liabilities are classified as held-for-trading and other financial liabilities.

Exposure Drafts of Accounting Standards

The MOF issued the following exposure drafts in respect of accounting standards during the second half of 2005. The standards have been drafted by reference to the corresponding IASs after considering the specific circumstances in the PRC:

- Investment properties (issued in July 2005)
- Impairment of assets (issued in July 2005)
- Biological assets (issued in July 2005)
- Donation and subsidies (issued in July 2005)
- Business combinations (issued in July 2005)
- Consolidated financial statements (issued in July 2005)
- Extraction of oil and natural gas (issued in July 2005)
- Employee remuneration (issued in August 2005)
- Income Taxes (issued in August 2005)
- Earnings per share (issued in August 2005)
- Enterprise annuity funds (issued in August 2005)
- Insurance contract (issued in August 2005)
- Re-insurance contract (issued in August 2005)

Regulatory Pronouncements issued by CSRC

The China Securities Regulatory Commission (CSRC) has recently revised two disclosure standards applicable to listed enterprises: namely No. 2 *Content and Format of Annual Reports* and No.5 *Content and Format of Statement of Changes in Share Capital*.

The revised standard on content and format of annual reports require more detail disclosure under the section of “Management Discussion and Analysis”, including an analysis of the operating environment, changes in net assets and income, cash flows and information of holding companies as well as future operating strategies. The revised standard on changes in share capital requires disclosure of the information of the share reform arrangements.

Auditing Standards Issued by CICPA

Representatives of the China Auditing Standards Committee (CASC) and the International Auditing and Assurance Standards Board (IAASB) released a joint statement on 8 December 2005, stating international convergence on auditing standards is the goal of both the CASC and the IAASB.

The Chinese Institute of Certified Public Accountants (CICPA) has issued the following exposure drafts of proposed amendments to certain existing auditing standards during 2005 and early 2006:

- Objective and General Principles Governing the Audit of Financial Statements
- Audit Evidence
- Audit Engagement Letter

CHINA, continued

- Documentation of Audit
- Consideration of Fraud in an Audit of Financial Statements
- Communications with Those Charged with Governance
- Planning an Audit

CICPA issued the following exposure drafts of new auditing standards:

- Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- The Procedures in Response to Assessed Risks of Material Misstatement
- Comparatives
- Quality Control for Professional Work
- Quality Control for Audits of Financial Statements
- Framework for Assurance Engagement
- Reports in respect of Compliance with International Financial Reporting Standards
- Consideration Relating to Entities Using Service Organization
- Assurance Engagements Other than Audits or Reviews of Historical Financial Information
- Compilation of Financial Information
- Auditing Fair Values Measurements and Disclosures
- Auditing Derivative Financial Instruments
- The Consideration of Environmental Matters in the Audit of Financial Statements
- The Relationship Between Banking Supervisors
- Electronic Commerce - Effect on the Audit of Financial Statements

HONG KONG

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During November 2005 the Hong Kong Institute of CPAs (HKICPA) issued a new Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5) and also amended the following Standards

- HKAS 16 Property, Plant and Equipment
- HKAS 27 Consolidated and Separate Financial Statements
- HKAS 40 Investment Property
- HKFRS 3 Business Combinations

AG 5 sets out the basic principles and procedures of merger accounting when recognising a common control combination and replaces SSAP 27 Accounting for Group Reconstructions, the last remaining SSAP.

As a result of the Companies (Amendment) Ordinance 2005 (see the November 2005 *IAS Plus Newsletter* for details), HKAS 27 and HKFRS 3 have been amended to limit the application of the special provisions for Hong Kong incorporated companies currently provided within the Standards to annual periods beginning before 1 January 2006 and to require retrospective application of the amended Standards in annual periods beginning on or after 1 January 2006.

The HKICPA issued new transitional provisions for HKAS 16 and HKAS 40 concerning entities that had previously followed the scope exemption from compliance with the requirements of SSAP 13 Accounting for Investment Properties and SSAP 17 Property, Plant and Equipment, for example, certain not-for-profit organisations. The new provisions allow such entities to deem the carrying amount of an item of PP&E or investment property immediately before the application of HKAS 16 and HKAS 40 as the cost of that item.

JAPAN

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New Standards and Proposals

The following accounting and auditing standards and related publications were issued in Japan during the fourth quarter of 2005:

Issued	Issuer*	Document Description
28 Oct. 2005	BAC	Revised Auditing Standards and Interim Auditing Standards, and Standards for Quality Control of Audit
11 Nov. 2005	ASBJ	Exposure Draft of PITF (Practical Issues Task Force) No.18, Tentative Treatment for Unification of Accounting Policies of Foreign Subsidiaries in Preparing the Consolidated Financial Statements
29 Nov. 2005	ASBJ	ASB Accounting Standard No.4, Accounting Standard for Directors' Bonuses
29 Nov. 2005	Ministry of Justice	Exposure Draft of Ministry Ordinance of New Company Law
8 Dec. 2005	BAC	Recommendation on Standard Setting concerning the Assessment and Audit of Internal Control over Financial Reporting
9 Dec. 2005	ASBJ	ASB Accounting Standard No.5, Accounting Standard for Presentation of Net Assets on the Balance Sheet ASB Guidance No.8, Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet
27 Dec. 2005	ASBJ	ASB Accounting Standard No.6, Accounting Standard for the Statement of Changes in Shareholders' Equity ASB Guidance No.9, Guidance on Accounting Standard for the Statement of Changes in Shareholders' Equity
27 Dec. 2005	ASBJ	ASB Accounting Standard No.7, Accounting Standard for Separation of Business ASB Guidance No.10, Guidance on Accounting Standard for Business Combinations and Separation of Business
27 Dec. 2005	ASBJ	ASB Accounting Standard No.8, Accounting Standard for Stock Options ASB Guidance No.11, Guidance on Accounting Standard for Stock Options
27 Dec. 2005	ASBJ	ASB Revised Accounting Standard No.1, Accounting Standard for Treasury Stock and Reserves ASB Revised Guidance No.2, Guidance on Accounting Standard for Treasury Stock and Reserves
27 Dec. 2005	ASBJ	ASB Revised Guidance No.3, Guidance on the Investors' Accounting for Dividends Provided from Other Capital Surplus by the Investee
27 Dec. 2005	ASBJ	Discussion Paper for Preparing the Quarterly Financial Statements
*ASBJ: Accounting Standards Board of Japan BAC: Business Accounting Council		

Revised Auditing Standards and Interim Auditing Standards, and Standards for Quality Control of Audit

On October 28, 2005, the Committee on Audit of the Business Accounting Council (BAC) issued the Revised Audit Standards and Interim Audit Standards, and Standards for Quality Control of Audit. These amend the current audit standards to clarify the risk approach and establish quality control rules in auditing firms.

These revised standards are effective from the fiscal year ending March 31, 2007. Early adoption is permitted.

Exposure Draft of Ministry Ordinance of New Company Law

On November 29, 2005, The Ministry of Justice issued an exposure draft of Ministry Ordinance of New Company Law, which is expected to be enacted in May 2006. The Ministry Ordinance will provide for guidance on the New Company Law, including statutory accounting and auditing systems. The final ordinance is expected to be issued in January 2006.

In line with the publication of the new Company Law, ASB issued several Standards during the 4th quarter in 2005 as amendments of current accounting practices.

ASB Accounting Standard No.5, Accounting Standard for Presentation of Net Assets on the Balance Sheet

On December 9, 2005, Accounting Standards Board of Japan (ASBJ) issued the Accounting Standard for Presentation of Net Assets and related guidance. The new standard requires companies to present Net Assets as a separate heading on the face of the balance sheet, which is composed of line items that present the following amounts:

- (a) Shareholders' equity;
- (b) Valuation gains and losses (arising from equity and debt securities, hedging instruments etc.) and Translation adjustments;
- (c) Stock acquisition rights; and
- (d) Minority interests.

The new standard and guidance will be effective in line with the enforcement of the new company law, from the fiscal year ending after May 2006.

ASB Accounting Standard No.6, Accounting Standard for the Statement of Changes in Shareholders' Equity

On December 27, 2005, ASBJ issued Accounting Standard for the Statement of Changes in Shareholders' Equity and related guidance. The new standard requires companies to prepare the statement of changes in shareholders' equity as a basic component of both consolidated and non-consolidated financial statements. In current practice, a company is only required to prepare the Statement of Surplus as a basic component of consolidated financial statements.

The new standard and guidance will be effective in line with the enforcement of the new company law, from the fiscal year ending after May 2006.

ASB Accounting Standard No.7, Accounting Standard for Separation of Business

On December 27, 2005, ASB issued Accounting Standard for Separation of Business and related guidance, together with the guidance on Accounting Standard for Business Combinations. The standard requires companies which receive cash or assets other than shares as consideration for the separation of its business should recognise in profit or loss the difference between the fair value of assets received as consideration and the net carrying amounts of the separated business.

JAPAN, continued

The guidance, at the same time, deals with the accounting for acquisitions, uniting (pooling) of interests, transactions under common control, the formation of jointly controlled entities, and the spin-off of a business.

The new standard and guidance will be effective in line with the enforcement of the new company law, from the fiscal year beginning April 1, 2006.

ASB Accounting Standard No.8, Accounting Standard for Stock Options

On December 27, 2005, ASBJ issued Accounting Standard for Stock Options and related guidance. The standard requires companies to recognise a compensation expense for stock options granted to employees based on grant-date fair value, and to spread the expense over the vesting period as consideration for receiving good or services. The standard also requires companies to account for their grant of stock options to non-employees based on the fair value of either the stock options or the goods or services acquired. In the balance sheet, stock options are presented as stock acquisition rights under the heading of Net Assets until exercised. The standard covers equity-settled share-based payment transactions but does not cover cash-settled share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The new standard and guidance will be effective in line with the enforcement of the new company law, for stock options newly granted after May 2006.

MALAYSIA

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In our previous country updates, we reported that the Malaysian Accounting Standards Board (MASB) had approved in principle 21 new or revised MASB approved accounting standards and 11 Interpretation Committee (IC) Interpretations. Of these, 18 standards and the 11 interpretations have been finalised for application in relation to financial statements that are required to be prepared or lodged under any law administered by the Securities Commission, Bank Negara Malaysia, or the Registrar of Companies for annual periods beginning on or after 1 January 2006.

An announcement on the effective date of the remaining three revised standards those on Leases (FRS 117), Related Party Disclosures (FRS 124), and the new standard on Financial Instruments: Recognition and Measurement (FRS 139) will be made towards the end of January or early February 2006.

The new MASB approved accounting standards referred to above are:

- FRS 1 First-time Adoption of Financial Reporting Standards
- FRS 2 Share-based Payment
- FRS 138 Intangible Assets
- FRS 140 Investment Property

MALAYSIA, continued

The revised MASB approved accounting standards referred to above are:

- FRS 3 Business Combinations
- FRS 5 Non-current Assets Held for Sale and Discontinued Operations
- FRS 101 Presentation of Financial Statements
- FRS 102 Inventories
- FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 110 Events after the Balance Sheet Date
- FRS 116 Property, Plant and Equipment
- FRS 121 The Effects of Changes in Foreign Exchange Rates
- FRS 127 Consolidated and Separate Financial Statements
- FRS 128 Investments in Associates
- FRS 131 Interests in Joint Ventures
- FRS 132 Financial Instruments: Disclosure and Presentation
- FRS 133 Earnings Per Share
- FRS 136 Impairment of Assets

The interpretations referred to above are:

- IC Interpretation 107 Introduction of the Euro
- IC Interpretation 110 Government Assistance - No Specific Relation to Operating Activities
- IC Interpretation 112 Consolidation - Special Purpose Entities
- IC Interpretation 113 Jointly Controlled Entities - Non-Monetary Contributions by Venturers
- IC Interpretation 115 Operating Leases - Incentives
- IC Interpretation 121 Income Taxes - Recovery of Revalued Non-Depreciable Assets
- IC Interpretation 125 Income Taxes - Changes in the Tax Status of an Entity or its Shareholders
- IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IC Interpretation 129 Disclosure - Service Concession Arrangements
- IC Interpretation 131 Revenue - Barter Transactions Involving Advertising Services
- IC Interpretation 132 Intangible Assets - Web Site Costs

NEW ZEALAND

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IASB Exposure Drafts and Discussion Papers Issued

The Financial Reporting Standards Board (FRSB) issued the following IASB and IFRIC documents for comment:

- IASB DP: Management Commentary
- IASB DP: Measurement Bases for Financial Accounting – Measurement on Initial Recognition
- IASB Draft Technical Correction 1 Proposed Amendments to IAS-21 The Effects of Changes in Foreign Exchange Rates – Net Investment in A Foreign Operation
- IASB Invitation to Comment: Policy for Technical Corrections
- IASB ED 7 Financial Instruments: Disclosures – Day 1 Profit Disclosures
- IASB ED Proposed Amendments to New Zealand Equivalent to IAS-37 Non-Financial liabilities (formerly known as Provisions, Contingent Liabilities and Contingent Assets and New Zealand Equivalent to IAS 19 Employee Benefits
- IASB ED Proposed Replacement of the New Zealand Equivalent to IFRS-3 Business Combinations
- IASB ED Proposed Amendments to New Zealand Equivalent to IAS 27 Consolidated and Separate Financial Statements
- IFRIC Draft Interpretation D16 Scope of IFRS 2
- IFRIC Draft Interpretation D17 IFRS 2 Group and Treasury Share Transactions

IASB Equivalent Standards Issued

The following New Zealand Equivalent standards to IFRS were issued:

- NZ IFRS 7 Financial Instruments: Disclosure and Amendments to NZ IAS 1 Presentation of Financial Statements-Capital Disclosures. NZ Amendment - Financial Institutions will be required to continue to comply with NZ IAS 30 and NZ IAS-32 if they choose to adopt NZ IFRS-7 early. An exposure draft of additional disclosures to be added to NZ IFRS 7 for financial institutions has also been released (see ED 106 below). An exposure draft of proposed differential reporting exemptions in relation to NZ IFRS 7 has also been released (see ED 104 below).
- NZ IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

IASB Amendments Issued

The following standards were amended for IASB amendments:

- Amendments to NZ IFRS 4 and NZ IAS 39 Financial Instruments: Recognition and Measurement - Financial Guarantee Contracts
- Amendments to NZ IFRS 6 and NZ IFRS 1
- Withdrawal of NZ IFRIC 3 Emission Rights

NEW ZEALAND, continued

NZ IFRS Issued for New Zealand Specific Matters

The following standards were amended for New Zealand specific matters

- Amendments to NZ IFRS 4 Insurance Contracts, Appendix C Life Insurance Entities and Appendix D Financial Reporting of Insurance Activities - The Fair Value Option. This amendment was necessary to align the requirements for those entities with insurance activities with the amendments made by the IASB to IAS-39 in relation to the restriction of the fair value option.
- Amendments to Appendix D Financial Reporting of Insurance Activities of the New Zealand Equivalent to IFRS 4 Insurance Contracts – Liability Adequacy Test
- Amendments to NZ IAS 1 Presentation of Financial Statements (Assertions and When is an Entity a PBE?). This amendment clarifies what assertions in relation to compliance with NZ GAAP and IFRS must be made. Guidance has also been added to assist in determining when an entity is a public benefit entity (PBE).

NZ Exposure Drafts Issued for New Zealand Specific Matters

In addition the FRSB issued the following New Zealand specific exposure drafts:

- ED 106 Proposed Additional Disclosure Requirements for Financial Institutions Applying New Zealand Equivalent to IFRS 7 Financial Instruments: Disclosures. ED 106 proposes to require additional disclosures for financial institutions over and above those required by IFRS 7. The ED has been developed in consultation with the Securities Commission and the Reserve Bank, among others, as part of the regulatory environment in New Zealand. The requirement for including the disclosures as part of the financial reporting process avoids the possibility of competing or contradictory requirements that could arise if the disclosures were required in legislation by different regulators. The FRSB approved the ED and accompanying Discussion Paper for issue with a comment date of 26 February 2006.
- ED-105 Proposed Amendments to New Zealand Equivalent to IAS 19 Employee Benefits: Actuarial Assumptions-Allowance for Taxes in Defined Benefit Plans. This ED proposes to remove two New Zealand specific paragraphs NZ 55.1 and NZ 55.2 to align with changes to the recently approved corresponding Australian standard AASB 119.
- ED-104 Proposed Differential Reporting Concessions for the forthcoming New Zealand Equivalent to IFRS 7 Financial Instruments: Disclosures and Amendments to New Zealand Equivalent to IAS 1 Presentation of Financial Statements-Capital Disclosures. This ED proposes concessions for those entities qualifying for differential reporting.
- Discussion Paper: Control and Public Benefit Entities that have Autonomy and Independence. This paper explores whether public benefit entities that have autonomy and independence should be consolidated by the Crown.
- ED 103 Prospective Financial Information. This exposure draft proposes to update FRS-29 Prospective Financial Information to ensure it is appropriate for application by public benefit entities, to remove the distinction between “projection” and “forecast” and to specify additional disclosures to be made in relation to prospective financial information.

PHILIPPINES
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Please see the story on page 19 regarding new Philippines accounting standards for small and medium-sized entities.

SINGAPORE

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The Council on Corporate Disclosure and Governance (CCDG) has exposed the following draft technical correction, which is identical to the one issued under the IASB's agenda during the last quarter of 2005:

- Draft Technical Corrections (DTC) to FRS 21 The Effects of Changes in Foreign Exchange Rates.

The following exposure drafts on proposed standards are still outstanding:

Issued in 2004

- ED Proposed Amendments to FRS 103 (IFRS 3) Business Combinations – Combinations by Contract Alone or Involving Mutual Entities;
- ED Proposed Amendments to FRS 39 (IAS 39) Financial Instruments: Recognition and Measurement – The Fair Value Option;
- ED Proposed Amendments to FRS 39 (IAS 39) and FRS 104 (IFRS 4) Financial Guarantee Contracts and Credit Insurance; and
- ED FRS Financial Instruments: Disclosures (IFRS 7).

Issued in 2005

- ED Proposed Amendments to FRS 101 First-time Adoption of Financial Reporting Standards (IFRS 1);
- ED Proposed Amendments to FRS 37 (IAS 37) Provisions, Contingent Liabilities and Contingent Assets and FRS 19 (IAS 19) Employee Benefits;
- ED Proposed Amendments to FRS 27 (IAS 27) Consolidated and Separate Financial Statements; and
- ED Proposed Amendments to FRS 103 (IFRS 3) Business Combinations;

The following exposure drafts on proposed interpretations are still outstanding:

Issued in 2004

- ED INT FRS Applying FRS 29 Financial Reporting in Hyperinflationary Economies for the First Time (IFRIC Interpretation 7);
- ED INT FRS Multi-employer Plans (IFRIC Draft Interpretation D6);
- ED INT FRS Members' Shares in Co-operative Entities (IFRIC Interpretation 2);
- ED INT FRS Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions (IFRIC Draft Interpretation D9);
- ED INT FRS Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (IFRIC Interpretation 6); and
- ED INT FRS Changes in Contributions to Employee Share Purchased Plans (IFRIC Draft Interpretation D11).

Issued in 2005

- ED INT FRS Service Concession Arrangements – Determining the Accounting Model (Draft IFRIC Interpretation D12);
- ED INT FRS Service Concession Arrangements – The Financial Asset Model (Draft IFRIC Interpretation D13);
- ED INT FRS Service Concession Arrangements – The Intangible Asset Model (Draft IFRIC Interpretation D14); and
- ED INT FRS Reassessment of Embedded Derivatives (Draft IFRIC Interpretation D15).

SINGAPORE, continued

Issued in 2005

- ED INT FRS *Service Concession Arrangements – Determining the Accounting Model* (Draft IFRIC Interpretation D12);
- ED INT FRS *Service Concession Arrangements – The Financial Asset Model* (Draft IFRIC Interpretation D13);
- ED INT FRS *Service Concession Arrangements – The Intangible Asset Model* (Draft IFRIC Interpretation D14);
- ED INT FRS *Reassessment of Embedded Derivatives* (Draft IFRIC Interpretation D15);
- ED INT FRS *Scope of FRS 102 Share-based Payment* (Draft IFRIC Interpretation D16); and
- ED INT FRS 102 *Group and Treasury Share Transactions* (Draft IFRIC Interpretation D17).

The most comprehensive IFRS news on the Net

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board and International Financial Reporting Standards, including:

- A news page (updated almost daily). Day-by-day past news back to December 2000.
- Detailed summaries of all Standards and Interpretations.
- E-learning modules for each IAS and IFRS – made available at no charge in the public interest.
- Model IFRS financial statements and disclosure checklists.
- Downloadable Deloitte publications relating to IFRSs (over 60 publications available).
- Background and updates on all IASB and IFRIC agenda projects, including decision summaries of all IASB meetings.
- Comparisons of IFRSs and various national GAAPs.
- Complete history of the adoption of IFRSs in Europe, with links to all the relevant documents.
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