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iGAAP Newsletter.

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In our last issue we outlined the IASB's plans in respect of convergence with US GAAP. Despite numerous speeches and publications by the IASB 'convergence' continues to be somewhat of an enigma: what is understood by convergence appears to vary significantly, depending on whom one talks to. Some constituents believe convergence means one set of global standards. Others have understood that convergence addresses only specifically identified areas. Others reason that convergence means US GAAP, while another group hope in earnest that convergence will be a two-way process with the FASB and the IASB finding and moving to the best solution. See Page 11 for summary of the convergence project and the Memorandum of Understanding between IASB and FASB as updated in February 2006.

At a two-day conference on **IFRS – Implications of Convergence**, hosted by the IASCF in Frankfurt on 6 and 7 April, Sir David Tweedie, the IASB Chairman promised to extend the 'breather' from additional changes to IFRS not only throughout 2006 but also for 2007. Most of the new guidance arising from the convergence process will become effective in 2008.

In the meantime, more and more people, including some of trustees of the IASC Foundation, raise concerns about consistent application of IFRS world-wide and in Europe specifically, as various national bodies issue their own interpretations of IFRS (see Page 20). Understanding that the role of national standard setters is key to consistent application of IFRSs, the IASB has published a **Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters**. The statement advocates greater communication and an active dialogue (see Page 10 for more detail).

Finally the IASB has published its proposals arising out of Phase A of its performance reporting project. The Exposure Draft (ED) of Proposed Amendments to IAS 1 Presentation of Financial Statements – **A Revised Presentation**, if confirmed, would bring IAS 1 largely into line with the equivalent US standard (see Page 10). The ED makes four key proposals:

- an alternative title for the Balance sheet is introduced: 'Statement of financial position';
- the Balance sheet would have two years of comparatives instead of the one year currently required;
- companies would have a choice of combining the income statement with the Statement of recognised income and expense (SORIE) into one statement;
- such a combined statement would now be called the 'Statement of recognised income and expense'.

Which of the items above are considered improvements your comment letters to the IASB will tell!

IAS Plus website

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IFRS News

IASB project timetable – Active projects

Accounting Standards for Small and Medium-sized Entities (Non-Publicly Accountable Entities)	• Discussion Paper was issued in June 2004. • Recognition and measurement questionnaire issued April 2005. • Public round-tables held October 2005. • Exposure draft (ED) expected summer 2006.
Business Combinations – Phase II **– Purchase Method*** **– Non-controlling Interest*** **– Liabilities (IAS 37 amendments)**	• Separate EDs on the three topics issued June 2005. • Public round-tables held November 2005. • Final standards expected second quarter 2007.
Conceptual Framework Eight phases in all	• ED on objectives and qualitative characteristics expected second quarter 2006.
Consolidation, including SPEs*	• ED(s) expected 2007. • Final standards expected 2008.
Convergence – Short-term Issues, IFRSs and US GAAP*	**IAS 12 Income Taxes** • ED expected third quarter 2006. • Final standard 2007. **IAS 23 Borrowing Cost** • ED expected second quarter 2006. • Final standard 2007. **IAS 14 Segment Reporting** • ED issued January 2006. • Final standard expected fourth quarter 2006. **IAS 31 Joint Ventures** • ED expected fourth quarter 2006. • Final standard expected 2007. **Impairment** • Project not yet started.
Earnings per Share amendment	• ED expected second quarter 2006. • Final standard expected 2007.
Financial Statement Presentation (Performance Reporting)* Phase A: IAS 1: A Revised Presentation Phase B: Presentation	• Working group appointed in 2005. • ED on Phase A issued March 2006. • Final standards on Phase A expected 2007. • Final standards on Phase A expected 2007. • Discussion paper on Phase B expected 2007.
Government Grants and Emission Rights Trading*	• Work has been deferred pending completion of the Liabilities (IAS 37 amendments) project.
Fair Value Measurement Guidance*	• IASB will issue ED wrap-around of final FASB standard on fair value measurement – expected third quarter 2006. • Final standards expected 2007.
IFRS 1 Amendment – Separate Financial Statements of Parent	• Added to agenda March 2006. • ED expected second half of 2006.
IFRS 2 Amendment – Vesting Conditions and Cancellations	• ED issued February 2006. • Final amendment expected fourth quarter 2006.
Insurance Contracts – Phase II	• Discussion paper expected fourth quarter 2006. • ED expected in 2008.
Revenue Recognition*	• Discussion paper expected fourth quarter 2006. • ED expected in 2008.
Puttable instruments	• ED expected second quarter 2006. • Final standard expected 2007.

IASB project timetable – Research agenda

Projects agreed in the February 2006 IASB-FASB convergence agreement:

Derecognition*	• Staff research paper being developed.
Financial Instruments*	• Working group appointed. • Staff research questionnaire issued March 2006.
Intangible Assets*	• Staff research under way.
Leases*	• Discussion paper in 2006.
Liabilities and Equity*	• Discussion paper in 2006 or later.
Post-retirement Benefits (including Pensions)*	• Staff research under way.

Other IASB Research Projects:

Extractive Industries	• Group of national standard setters conducting research.
Hyperinflationary Economies	• Group of national standard setters conducting research.
Investment Entities	• Plans not announced.
Management Commentary	• Discussion Paper issued October 2005.
Measurement Objectives	• Discussion Paper issued November 2005.

*IASB projects with milestones agreed in the February 2006 IASB-FASB Memorandum of Understanding on convergence – see story on Page 11.

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

UK News about IFRS and UK GAAP

www.asb.org.uk

Headline news Amendment to FRS 26 to implement the derecognition material in IAS 39 and the UK will not apply FRS 26 to unlisted entities

The United Kingdom Accounting Standards Board (ASB) has published an Amendment to Financial Reporting Standard (FRS) 26 (IAS 39) 'Financial Instruments: Measurement' – Recognition and Derecognition. The amendment brings the recognition and derecognition material of IAS 39 into FRS 26 for accounting periods beginning on or after 1st January 2007, with earlier adoption permitted. Transitional provisions are also set out for initial adoption of the amendments. Hence the existing derecognition requirements of FRS 5 Reporting the Substance of Transactions will be superceded for transactions that fall within the scope of the FRS 26 (IAS 39) requirements, but FRS 5 will continue to apply to transactions in non-financial assets and liabilities.

The ASB has decided not to finalise its proposal of April 2005 to extend the scope of Financial Reporting Standard (FRS) 26 Financial Instruments: Measurement to all entities other than SMEs that apply the Financial Reporting Standard for Smaller Entities (FRSSE). FRS 26 is essentially equivalent to IAS 39. Currently, FRS 26 applies to all listed entities still following UK standards and a small group of unlisted entities whose financial statements are prepared in accordance with the fair value accounting rules set out in the Companies Act.

www.asb.org.uk

ASB publishes its Communication Strategy

The ASB published a five-page communication strategy in March 2006. This followed from an open meeting in January, during which the ASB sought views on its communication objectives for influencing the direction of IFRSs and communicating with constituents.

The communication strategy states that the ASB has rarely consulted in the past on its own agenda. 'In the future the board will set out its planned work programme at least annually and request comments on its plans.' It also states that the Board's views will not be restricted to technical matters and that the ASB believes it is well placed to comment on the practical implication of proposed accounting standards and to form a view as to whether the technical merits of proposals are outweighed by practical concerns.

In the area of IFRS, the ASB reaffirms that the strategy aims to ensure the board demonstrates 'thought leadership' in its input to the development of IFRS. The strategy will be for the ASB to influence the development of IFRSs at the earliest possible stage. It will use a variety of means to get feedback from interested parties, including round table discussions, public meetings and one-to-one meetings.

www.icaew.co.uk

ICAEW publishes draft guidance on disclosure of auditors' remuneration

In August 2005, the UK Parliament approved Regulations requiring companies to provide more detail about the types of services that they and their associates have purchased from their auditors and their associates, and to ensure that this information is published in one place. The intention is to give shareholders and others information on which to make a judgment about whether the provision of non-audit services is a threat to the auditor's objectivity or independence and to enable users of accounts to make meaningful comparisons across companies.

The detailed legal requirements are set out in the Companies (Disclosure of Auditor Remuneration) Regulations 2005 (SI 2005/2417) and come into effect for periods commencing on or after 1 October 2005. The requirements replace those that applied for previous periods as set out in s 390A(3) and s390B of the Act. The Regulations therefore replace all of the previous requirements for disclosure of auditors' remuneration and not just those in relation to the disclosure of remuneration for non-audit work. They apply irrespective of whether the accounts are prepared under IFRSs or UK GAAP.

The Regulations apply to companies incorporated under the Companies Act 1985 and its predecessor Acts. They also apply to entities that have to comply with the requirements of the Act because of other legislation (e.g. limited liability partnerships), unless specifically exempted.

In broad terms, the Regulations preserve the requirement for all companies to disclose auditors' remuneration for audit services, although there are some differences of drafting which have an effect on the amounts disclosed in some cases. In relation to other services, the Regulations require more extensive disclosure than was previously the case.

However, small and medium-sized companies are exempt from the requirements relating to disclosures for other services, as they were in relation to the previous requirements in relation to non-audit services.

The Regulations require 'other services' to be analysed into 10 specified categories. They also contain definitions of 'associates' in relation to both a company and a company's auditors.

The ICAEW has developed draft guidance on the application of the new legal requirements. This was published in April 2006 as TECH 04/06 **Disclosure of auditor remuneration**. The guidance aims to ensure that directors and auditors understand the nature and purpose of the requirements, and in particular the basis for deciding into which categories and sub-categories a service provided by the auditors falls.

Comments on the draft guidance are requested by the ICAEW by 4 July 2006.

www.asb.org.uk

UITF issues Abstracts 41 and 42 on 'scope of FRS 20' and 'Reassessment of Embedded Derivatives'

The Urgent Issues Task Force (UITF) of the UK ASB has issued:

- UITF Abstract 41 'scope of FRS 20 (IFRS 2)'
- UITF Abstract 42 'Reassessment of Embedded Derivatives' which implements IFRIC 9 'Reassessment of Embedded Derivatives' into FRS 26 (IAS 39) **Financial Instruments; Measurement**.'

UITF Abstract 41 implements IFRIC 8 'scope of IFRS 2' into FRS 20 (IFRS 2) **Share-based Payment**. IFRIC 8 was developed to address situations in those parts of the world where companies give their shares or rights to shares to individuals, organisations or groups that have not provided goods or services to the company. Abstract 41 confirms that such arrangements fall within the scope of FRS 20 (IFRS 2).

UITF Abstract 42 implements IFRIC 9 'Reassessment of Embedded Derivatives' into FRS 26 (IAS 39) **Financial Instruments; Measurement**.' For IFRIC 9 see further detail in **IFRIC News** on Page 14.

www.asb.org.uk

UITF issues Draft UITF Abstract on 'Equivalence'

With effect for accounting periods commencing on or after 1 January 2005, the UK Companies Act 1985 has been amended to include a new section 228A. This exempts, subject to certain conditions, an intermediate parent undertaking from the requirement to prepare consolidated accounts where its parent entity is not established under the law of an EEA state.

Exemption is conditional upon compliance with various conditions, including that the intermediate parent and all of its subsidiaries are included in consolidated accounts for a larger group drawn up in accordance with the provisions of the Seventh Directive or in a manner 'equivalent' to consolidated accounts so drawn up.

Questions were raised as to whether financial statements drawn up in accordance with IFRS, US GAAP and other GAAPs meet the requirement for 'equivalence' with the Seventh Directive, and the UITF was asked to provide guidance.

The draft UITF Abstract, which was issued on 11 May 2006 states that US GAAP, Canadian GAAP and Japanese GAAP can be regarded as 'equivalent' subject to the following considerations:

- scope of consolidation – i.e. no Special Purpose Entities (SPEs) should be omitted from consolidation that would have to be consolidated under the Seventh Directive;
- consistent accounting policies – i.e. group accounts including results of any associates should be prepared using consistent accounting policies; and
- specialised industry issues – i.e. are there any unusual practices permitted by specialised industry standards that would not be permitted by the Seventh Directive.

The UITF invites comments on any aspect of the proposed Abstract by 23 June 2006.

www.asb.org.uk

ASB seeks views on the future application of reporting requirements for UK companies

The ASB has been considering its plans for convergence with IFRS for some time now. This has included a significant amount of public consultation, but as the ASB moves to finalising its proposals it would like to obtain the further views from its constituents.

The ASB's current thinking, on which it would like views, is:

1. All UK Public Quoted and other publicly accountable companies (currently expected to include AIM, OFEX and Investment Trust companies) would be required to apply full IFRS, irrespective of turnover and whether they present group accounts or not. This would mean that approximately another 1,000 to 1,500 companies would be require to report under IFRS.
2. The use of the ASB's Financial Reporting Standard for Smaller Entities (FRSSE), which enables small entities to take advantage of simplified requirements, would be extended beyond small companies to include medium-sized entities. This would mean that approximately another 30,000 companies would be able to use the FRSSE.
3. UK subsidiaries of group companies that apply full IFRS would also be required to apply full IFRS in respect of measurement and recognition, but with reduced disclosure requirements (yet to be defined). This would affect approximately 14,000 companies.
4. There has not yet been a decision on companies that do not fall within 1, 2 or 3 above. There are approximately 7,000 companies in this "gap". The alternatives seem to be (i) extend the application of the FRSSE further, (ii) apply IFRS to more companies, (iii) maintain UK GAAP for them, or (iv) some combination of these three alternatives.

The ASB urges UK entities that will be affected by such changes to consider the proposals carefully and make their views known to the ASB. In particular views on the following matters are being sought:

1. The extension of IFRS to more companies.
2. The proposal that medium sized companies be allowed to use FRSSE.
3. Reduced disclosure requirements for subsidiaries using IFRS.
4. The best financial reporting for those approximately 7,000 companies in the "gap".
5. How to operationalise the IASB definition of "publicly accountable companies".
6. The costs and benefits of the proposals.

Comments are requested by 31 July 2006.

News about IFRSs in Europe

You will find the formal agreement at:
www.iasplus.com/efrag/efrag.htm

Working relationship of EC and EFRAG

The European Commission (EC) and the European Financial Reporting Advisory Group (EFRAG) have entered into a formal Working Arrangement on issues relating to the application of IFRSs in Europe. EFRAG will continue to act as an advisor by providing endorsement advice to the EC and technical input to the standard setters, IASB, and IFRIC.

Under the Working Arrangement EFRAG will participate proactively in the IASB's due process. EFRAG will, in close consultation with the Commission, participate in the early phases of debate on all issues related to the standard-setting process and will, when requested by the Commission, attend working groups of the IASB, liaise with European national standard setters, and hold Advisory forums.

www.efrag.org

EFRAG urges comprehensive measurement debate

The Technical Expert Group of the European Financial Reporting Advisory Group (EFRAG) has written to IASB Chairman Sir David Tweedie recommending that the IASB organise a comprehensive global debate on measurement. An excerpt from the letter:

Measurement issues are at the core of many of the longer-duration projects on which the IASB is now working (including, for example, the projects considering revisions to IFRS 3 and IAS 37, and the fair value measurement guidance project). Many of these projects will determine the direction in which accounting will develop. We think it would be inappropriate for the IASB to publish any major new proposals or standards on measurement before the comprehensive measurement debate has taken place. Although we have argued before that the IASB should resolve framework issues before bringing forward proposals for standards that make assumptions about how those framework issues will be resolved, we understand that the IASB does not agree with this point of view. However, on measurement the issues involved are so fundamental and the concerns, misunderstandings, etc. so great that we suspect that it would not be possible for the IASB to win acceptance for any such proposals or standards until the underlying fundamental issues have been resolved.

www.fee.be

FEE urges mutual recognition of IFRSs and US GAAP

The European Federation of Accountants (FEE) has published a position paper on **Financial Reporting: Convergence, Equivalence and Mutual Recognition.** FEE notes that "the only way for Europe to make a real input to global convergence in standards is to be co-ordinated in its approach.... It is only through substantive European input to the IASB work programme, enhanced coordination and greater transparency and consultation that real progress can be achieved." In launching this paper, FEE President David Devlin said:

The time is right for the acceptance of IFRSs as truly global financial reporting standards. The European accountancy profession welcomes the recent confirmation of the European Commission's and the SEC's commitment to global accounting convergence and to eliminating reconciliation requirements. It is of crucial importance that a specific level of convergence is not needed for mutual recognition of IFRS and US GAAP.

http://europa.eu.int/comm/internal_market/accounting/index_en.htm

IFRIC 7 and IAS 21 amendments are adopted in Europe

European Commission Regulation (ECP No. 708/2006 of 8 May 2006 was published in the **Official Journal of the European Union** on 9 May 2006. Therefore the European Commission has now fully adopted the following guidance for use in Europe:

- IFRIC 7 **Applying the Restatement Approach under IAS 29** Financial Reporting in Hyperinflationary Economies, issued 24 November 2005.
- **Amendment to IAS 21 for Net Investment in a Foreign Entity** issued 15 December 2005.

http://europa.eu.int/comm/internal_market/accounting/index_en.htm

ARC supports IFRIC 8 and IFRIC 9

At its meeting on 24 April 2006, ARC recommended that the Commission endorse the following pronouncements for use in Europe:

- IFRIC 8 **Scope of IFRS 2**; and
- IFRIC 9 **Reassessment of Embedded Derivatives** (Page 14).

The Commission is expected to consider those two Interpretations during the summer of 2006.

www.cesr-eu.org/

CESR studies public access to IFRS reports

The Committee of European Securities Regulators (CESR) is studying the appropriate mechanism for making the financial reports of European listed companies available electronically throughout the European Union. Such reports would include annual, semi-annual, and other interim reports (which include IFRS financial statements), as well as reports of major holdings and insider information. Adoption of such a pan-European storage and retrieval mechanism is part of the process for implementing the 'Transparency Directive'.

Responses to the CESR consultation document on this topic due by 31 March 2006, and the comments made at the open hearing on 2 March 2006 are now being considered. CESR is expected to make a recommendation to the European Commission, with a goal of having an interim system in place by January 2007.

www.efrag.org

EFRAG letter to IASB on SME project

The European Financial Reporting Advisory Group (EFRAG) has written to IASB Board Vice Chairman Tom Jones, who chairs the Board's SME Working Group, recommending that the Board change its approach to developing an exposure draft of an IFRS for Small and Medium-sized Entities (SMEs). Here is an excerpt from EFRAG's letter:

EFRAG wants to express its full support for the comments you made in your introduction to the Board's deliberations at the January meeting where you indicated that:

(a) the direction in which the project is presently heading under Board members' guidance is leading to a standard which appears far too lengthy and complex; and

(b) more simplifications are needed than decided up to date in order to meet constituents' expectations.

We agree with this view. We think it is important that the IFRS for SMEs is easy to understand and comprehensive on a stand-alone basis.

EFRAG concerns on IASB measurement paper

www.efrag.org

The European Financial Reporting Advisory Group (EFRAG) is currently considering comments received on its draft response to the IASB Discussion Paper **Measurement Bases for Financial Accounting – Measurement on Initial Recognition**. In its draft response, EFRAG expresses "a number of fundamental concerns regarding the reasoning and conclusions reached in the paper", including the following:

- The paper's exclusive focus on initial measurement in isolation from subsequent measurement.
- The "basic assumption... that perfect markets (or at the very least active and liquid markets that involve low transaction costs) exist for every asset and liability". In EFRAG's view this is the exception rather than the norm.
- The necessity to decide on financial statement concepts of financial performance and financial position before addressing measurement issues.
- Lack of evidence for the superiority of market value measurement objectives over entity-specific measurement objectives. "If the arguments in the paper are the only arguments in favour that exist and have been expressed in the paper in the best way possible, we do not understand how the paper could have reached the conclusions it has."

EU financial regulators will study reporting requirements

www.cesr-eu.org/
www.c-ebs.org/
www.ceiops.org

The three main committees of European Union financial regulators – the Committee of European Securities Regulators (CESR), the Committee of European Banking Supervisors (CEBS), and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) – have published a common cross-sector work programme for 2006. The main goal of this supervisory cooperation is to enhance consistency in implementing EU legislation across financial sectors.

The Committees will request input from relevant market participants to take stock of potential inconsistencies in reporting requirements stemming from sectoral EU directives applying to European supervised entities and market participants, taking into account IFRSs. The Committees aim to present a first result of this inventory within the second half of 2006. Based on this inventory, future work may be proposed.

CEBS: Impact of IFRSs on European bank regulatory capital

www.c-ebs.org/

A study by the Committee of European Banking Supervisors (CEBS) has found that the guidelines that it published in December 2004 for adjustments to IFRS financial data reported by European banks for the purpose of determining banks' 'own funds' (equity capital for regulatory purposes) have satisfactorily addressed concerns of bank supervisors. Supervisors were concerned that the introduction of IFRSs might:

- Jeopardise the criteria that regulatory own funds have to fulfil, namely that they be (i) permanent, (ii) readily available for absorbing losses, and (iii) reliable as to their amounts.
- Introduce volatility into institutions' financial statements and, more particularly, into regulatory own funds, in ways which might not reflect the economic substance of institutions' financial positions.

The CEBS compared the 31 December 2004 national-GAAP balance sheets of banks in 18 European countries with their IFRS balance sheets at 1 January 2005. CEBS found that "the overall effect of transition to IFRS and of the application of the prudential filters results in a moderate decrease in 'Total Eligible Own Funds': 2% in the aggregate sample." CEBS concludes that:

- The analysis of the aggregate sample data confirms that the Guidelines neutralise the negative impact on credit institutions' regulatory own funds that IAS/IFRS were observed to have at transition.
- The results of this analysis – together with the conclusions of a survey that CEBS conducted in 2005 on the implementation of the Guidelines, which indicated that participating CEBS members complied satisfactorily with the Guidelines' recommendations – should help to mitigate supervisors' concerns.

IASB news

Details:
www.iasplus.com/standard/ias01.htm
The ED is available on the IASB's website until the close of the comment period:
www.iasb.org

IASB proposes to amend IAS 1

As part of the first stage of its Performance Reporting Project, the IASB has issued an Exposure Draft (ED) of proposed amendments to IAS 1 **Presentation of Financial Statements**. The ED, if adopted, would enable presentation largely into line with the equivalent US standard.

Comment deadline is 17 July 2006.

The Exposure Draft:

- specifies that entities should present all income and expenses in one or two statements, separately from changes in equity arising from transactions with owners in their capacity as owners (that is, owner changes in equity). Accordingly, entities are not permitted to present income and expenses (ie non-owner changes in equity), as defined in the Framework, in the statement of changes in equity. The purpose of this amendment is to provide better information to users by requiring aggregation of items with shared characteristics.
- requires a statement of financial position at the beginning of the period as well as at the end of the period. Accordingly, in addition to notes, entities presenting comparative information for the previous period are required to include, as a minimum, three statements of financial position and two of each of the other financial statements.
- replaces the term 'balance sheet' with 'statement of financial position' to reflect the function of that statement more closely. Although use if the term 'balance sheet' is permitted.

We believe the that this ED will have limited impact in practice and would encourage the Board to complete Segment B of this project in order to achieve more significant improvements to the presentation of financial statements.

You can download the Statement of Best Practice here:
www.iasplus.com/resource/0602workingrelationships.pdf

IASB statement on relationships with standard setters

The IASB has published a **Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters**. The Statement identifies a range of activities that the IASB and regional and national accounting standard-setters believe they should undertake in the interests of facilitating the adoption of or convergence with IFRSs issued by the IASB. Those activities include:

- Communication, both between standard-setters and their constituents and among standard-setters themselves.
- Project development, including the ways in which other accounting standard-setters can assist the IASB in progressing particular projects.
- Input on IASB consultative documents.
- The processes and approaches other accounting standard-setters might employ in adopting or converging with IFRSs.
- Co-operation in the development of interpretations of IFRSs.

The Statement makes the following points, among others, regarding local adoption of IFRSs:

- In adopting IFRSs to apply in their own jurisdictions, other accounting standard-setters should not change requirements contained in IFRSs.
- If a requirement in an IFRS is deleted temporarily because of a legal impediment to its use, the standard-setter should seek to achieve full conformity with the IFRS as soon as circumstances permit.
- If a jurisdiction's policy is to converge local standards with IFRSs rather than adopting them verbatim, the ultimate objective should be to enable the entities applying the standards that have converged with IFRSs to make an unreserved statement of compliance with IFRSs.
- If an accounting standard-setter makes any changes to an IFRS, for example adding a disclosure that is considered necessary in the local environment, or removing an optional treatment, this should be made clear so that users of the standard are aware of the changes.

You can download the full text of the MOU here:
www.iasplus.com/pressrel
0602roadmapmou.pdf

Updated IASB-FASB convergence agreement

In February 2006, the US Financial Accounting Standards Board (FASB) and the IASB published a Memorandum of Understanding (MOU) that reaffirms the boards' shared objective of developing high quality, common accounting standards for use in the world's capital markets. The MOU is a further elaboration of the objectives and principles first described in an MOU published in October 2002. While the new document does not represent a change in the boards' convergence work programme, it does reflect the context of the US SEC's 'roadmap' for the removal of the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States. It also reflects the work undertaken by the Committee of European Securities Regulators (CESR) to identify areas for improvement of accounting standards.

Both the FASB and the IASB note that removing the current reconciliation requirements will require continued progress on the boards' convergence programme. Accordingly, the MOU sets out milestones that the FASB and the IASB believe are achievable:

- The boards agreed that trying to eliminate differences between standards that are both in need of significant improvement is not the best use of resources. Instead, new common standards should be developed. Consistent with that principle, convergence work will continue to proceed on the following two tracks:
  - First, the boards will reach a conclusion about whether major differences in focused areas identified below, should be eliminated through one or more short-term standard-setting projects, and, if so, the goal is to complete or substantially complete work in those areas by 2008.
  - Second, the FASB and the IASB will seek to make continued progress in other areas identified by both boards where accounting practices under US GAAP and IFRSs are regarded as candidates for improvement.

The goal, by 2008, is to reach a conclusion about whether major differences in the following few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, to complete or substantially complete work in those areas.

Issues to be examined by the FASB

- Fair value option*
- Impairment (jointly with the IASB)
- Income tax (jointly with the IASB)
- Investment properties**
- Research and development
- Subsequent events

*Already on FASB's active agenda.

** To be considered by the FASB as part of the fair value option project.

Issues to be examined by the IASB

- Borrowing costs
- Impairment (jointly with the FASB)
- Income tax (jointly with the FASB)
- Government grants
- Joint ventures
- Segment reporting

These topics are already part of the IASB's existing short-term convergence project except for impairment, which will be added to that project.

The two Boards met on 27 and 28 April 2006 in London, when they discussed the topics described in the MOU.

Both the US SEC and the European Commission have issued press releases expressing strong support for the updated MOU. The SEC's release said:

SEC Chairman Christopher Cox has publicly stressed the agency's commitment to a 'roadmap' for elimination of the requirement that foreign private issuers reconcile financial statements prepared using international financial reporting standards to the U.S. system of Generally Accepted Accounting Principles (GAAP). "The SEC is working diligently toward the goal of eliminating the existing IFRS to U.S. GAAP reconciliation requirement", he said.... "Achieving that goal depends on the contributions of many parties, including U.S. and international standard setters. This important step by IASB and FASB will help ensure that investor protection remains paramount in these efforts."

IASB and FASB study fair value for financial instruments

You can download the full text of the questionnaire here: www.iasplus.com/pressrel/0603fairvaluequestionnaire.pdf

The IASB and the US FASB are jointly requesting input from users of financial statements about the kinds of information about fair values of financial instruments, and changes in those fair values that is useful to those making investment or credit decisions or advising others on investment or credit decisions. For this purpose, financial instruments include not only debt securities, equity securities, and derivatives, but also loans and accounts payable or receivable, and almost any other amount payable or receivable.

The Boards issued a questionnaire and related background paper aimed at seeking users' views about whether current standards provide the information which investors and creditors need to analyse companies that report some or all financial instruments at fair value. The Boards cite the following as examples of possible additional information that users may need:

- Quantitative information about the reasons why the fair values of financial instruments changed.
- Disclosure of exposures to future changes in the fair values of financial instruments.

The questionnaire has five questions with various sub-questions:

- Question 1 asks users about how they currently use fair value information about financial instruments and what information they wish they had but do not currently receive.
- Question 2 asks about the kinds of information users of financial statements would like to help them understand the reasons why fair values changed during a period.
- Question 3 asks about reporting interest income and expense for financial instruments measured at fair value and whether such interest should reflect current market cost/return and credit quality.
- Question 4 asks how users assess exposure to future changes in fair values of financial instruments.
- Question 5 asks about the relative importance of different types of information that should be required.

The response deadline was 14 April 2006.

Deloitte Letters of Comment

All Deloitte letters of comment to IASC and IASB may be found here: www.iasplus.com/dttletr/comment.htm

Our view: Management commentary proposals

We have submitted our comments on the IASB's discussion paper Management Commentary, which was published on 27 October 2005. The discussion paper addresses information presented outside the financial statements in the form of management's explanation of the entity's financial condition, changes in financial condition, results of operations, and causes of changes in material line items. This project is currently on the Board's research agenda. The main points of our comments:

In summary, we do not believe the development of an MC standard is an appropriate task for the IASB at this time, if ever. We believe that the desirable content of MC is driven by cultural factors and expectations about how companies should do business. We therefore consider that the form and content of MC should continue to be regulated by local or regional regulators. We believe that the amount of IASB staff and Board time that would be consumed by the project is not justifiable until such time as the Board has completed some of the more contentious projects currently on its agenda. Should this item become an active Board project in the future, we would strongly recommend that the IASB staff work with a selection of local regulators in developing the requirements.

All Deloitte letters of comment to IASC and IASB may be found here: www.iasplus.com/dttletr/comment.htm

Our view: IFRIC D18

IFRIC Draft Interpretation D18 Interim Financial Reporting and Impairment addresses a conflict between IAS 34 and the guidance in IAS 36 and IAS 39 on reversals of impairment losses.

Deloitte supports the guidance proposed in the draft Interpretation as an interim solution: "We …support the statement that… the prohibitions on reversals of impairment losses on goodwill in IAS 36 and equity securities available for sale and financial assets carried at cost in IAS 39 should take precedence over IAS 34, which requires that the frequency of an entity's reporting should not affect its annual results." However, we believe the draft interpretations is "not ideal as a long-term and sustainable solution" as there are other similar conflicts between IAS 34 and standards other than IAS 36 and IAS 39. These conflicts cannot be solved by IFRIC interpretations, but by an amendment or indeed a rewrite of IAS 34.

All past Deloitte letters of comment to IASC and IASB may be found here: www.iasplus.com/dttletr/comment.htm

Our view: Measurement bases discussion paper

On 17 November 2005, the IASB published for public comment a Discussion Paper Measurement Bases for Financial Reporting – Measurement on Initial Recognition. The Discussion Paper, prepared by staff of the Canadian Accounting Standards Board (AcSB), analyses possible bases for measuring assets and liabilities on initial recognition. These include: historical cost, current cost, fair value, net realisable value, value in use, and deprival value.

The main points of our comments:

It is not clear to us how this discussion paper fits into the current agenda of the International Accounting Standards Board (IASB). The IASB should have indicated how it believes this discussion paper is intended to complement its work on the fair value measurement and concepts projects, if at all. It appears that the discussion paper has been overtaken by events elsewhere in the IASB's agenda. In addition, the discussion paper deals with the narrow issue of measurement on initial recognition after making the presumption that assets and liabilities should be measured as of the date they are initially recognised (paragraph 415). The issue of when initial recognition should take place is deferred to a different analysis that is yet to be undertaken. Given the interdependencies between the question of 'when' initial recognition should take place and 'what' should be recognised with the initial measurement issue discussed in the paper, we are of the view that the issues related to 'when' and 'what' should have been thoroughly researched first. The issue of 'how' to measure assets and liabilities follows from there. This approach may have highlighted issues that could have lead to less uncertainty about the discussions and proposals in the discussion paper. We imagine that when the IASB deals with the 'when' and 'what' issues, some parts of the discussion paper may become irrelevant.

Our summary of issues not added to IFRIC's agenda: www.iasplus.com/ifric/notadded.htm

News from IFRIC

Issues not added to IFRIC agenda

At its meetings in January and March 2006, the International Financial Reporting Interpretations Committee (IFRIC) decided not to add to its agenda the following potential projects:

- Scope of IFRS 6 Extractive Industries.
- IFRS 3 Business Combinations – Whether a new entity that pays cash can be identified as the acquirer.
- IFRS 3 Business Combinations – 'Transitory' common control.
- IAS 17 Leases – Leases of land that do not transfer title to the lessee.
- IAS 12 Income Taxes – Scope.
- IAS 18 Revenue – Subscriber acquisition costs in the telecommunications industry.
- IAS 27 Consolidated and Separate Financial Statements – Separate financial statements issued before consolidated financial statements.

See also www.iasplus.com for details of IFRIC's reasons for rejection of an item for its Agenda

Where the IFRIC decides not to add an item to its agenda, it publishes in its monthly IFRIC Update newsletter its rationale for doing so.

Our summary of IFRIC 9: www.iasplus.com/interps/ifric009.htm

IFRIC Interpretation 9 on embedded derivatives

On 1 March 2006, the IFRIC issued Interpretation 9 **Reassessment of Embedded Derivatives.** An embedded derivative is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract (for example, the conversion option in convertible debt). Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. IAS 39 requires an entity, when it first becomes a party to a hybrid contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as if they were stand-alone derivatives.

IFRIC 9 addresses whether IAS 39 requires such an assessment to be made only when the entity first becomes a party to the hybrid contract, or whether the assessment should be reconsidered throughout the life of the contract. IFRIC 9 concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

IFRIC 9 is effective for annual periods beginning on or after 1 June 2006. Earlier application is encouraged.

You can download the report from the IASB's website: www.iasb.org/uploaded_files/documents/8_137_DraftDueProcessIFRIC.pdf

IFRIC due process

The Trustees of the International Accounting Standards Committee (IASC) Foundation have invited public comment on the **Draft Due Process for the International Financial Reporting Interpretations Committee** (IFRIC). Comment deadline is 30 September 2006.

You will find the full list of IFRIC members here: www.iasplus.com/restruct/ifric.htm

Ken Wild reappointed to IFRIC

The Trustees of the International Accounting Standards Committee Foundation have reappointed Ken Wild as a member of the International Financial Reporting Interpretations Committee (IFRIC) for another three-year term.

Ken is the National Director of Accounting and Audit at Deloitte &Touche LLP (United Kingdom) and is Deloitte Touche Tohmatsu's Global IFRS Leader. The Trustees have also initiated a search to replace three retiring IFRIC members – Shunichi Toyoda, Leo van der Tas, and Patricia Walters.

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	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	6-7 July 2006
London, UK	7-8 September 2006
London, UK	2-3 November 2006

Other News

The ED is available here: www.ifac.org/IPSASB

IPSASB ED on non-exchange revenue

The International Public Sector Accounting Standards Board (IPSASB) has proposed a new accounting standard for non-exchange revenue, including taxes and transfers. The exposure draft, **Revenue from Non-Exchange Transactions (Including Taxes and Transfers**) deals with the basis on which different kinds of taxes should be recognised and how they should be measured.

The ED also addresses accounting for other major sources of non-exchange revenue for public sector entities, including transfers from other governments and international organisations, and gifts and donations. The ED also provides guidance on how conditions and restrictions on the use of transferred resources are to be reflected in the financial statements.

The IPSASB requests comments on the ED by 30 June 2006.

IASC Foundation news

Full list of IASCF Trustees: www.iasplus.com/restruct/trustees.htm

New Trustees

David L Shedlarz has been appointed as a Trustee of the IASC Foundation for a term ending 31 December 2008. Mr Shedlarz is a Vice Chairman and member of the Executive Committee of Pfizer Inc, where he oversees operations including finance, strategic planning, global sourcing, human resources, and information systems. He served on the Standards Advisory Council from 2001 to 2005.

Alicja Kornasiewicz of Poland has been named a Trustee of the IASC Foundation, under which the IASB operates. Mrs Kornasiewicz will complete the term of Jens Røder, who retired following the Trustees' meeting in March 2006. Mrs Kornasiewicz's term expires on 31 December 2007. Mrs Kornasiewicz is a member of the Board of CA IB Corporate Finance Gmbh, Vienna, and serves as CEO and Chairman of CA IB Group in Poland. She is also Chairman of the Supervisory Board of Bank BPH S.A., the third largest bank in Poland. Previously, until October 2000, Mrs Kornasiewicz was Secretary of State – First Deputy Minister of the Ministry of the State Treasury of Poland.

You can download the report from the IASB's website: www.iasb.org/uploaded_files/documents/10_845_IASCF2005-AnnualReports.pdf

The Trustees meet next in Berlin, Germany on 28-29 June 2006

IASC Foundation 2005 annual report is available

The IASC Foundation has published its report on its activities in 2005. The report also contains audited financial statements and other information, including a report on the IASB's activities.

IASCF Trustees meeting 23 March 2006

The Trustees of the IASC Foundation (IASCF), under which the IASB operates, met in public session on 23 March 2006. Here is a brief summary of the points they discussed:

Divergent interpretations of IFRSs. The Trustees discussed reports of divergent interpretations of IFRS by various national bodies. They considered:

- The role of national/regional regulators and standard-setters in interpreting IFRSs.
- Whether IFRIC should provide more Interpretations.
- IASB communication with national standard-setters.
- Principles-based vs. rules-based standards.

Trustees agreed that this is an important strategic issue that should be discussed in a more structured manner during the next meeting.

IASCF Trustees' Meetings. The trustees agreed to hold four meetings a year, rather than the current three.

IASB's Due Process Handbook. The revisions to the Handbook were discussed in November 2005. The Trustees approved the revised Handbook. It is available on the IASB's website.

IFRIC's Draft Due Process Handbook. The Trustees approved the Draft Handbook for release for public comment for a period of 120 days.

Activities of the Standards Advisory Council (SAC). The SAC Chairman identified four challenges for IFRSs as a set of global standards: interpretation, education, enforcement, and translation. He indicated that SAC members are generally happy with the Board's agenda, though SAC will try to be more active in the future agenda discussions. In response to a question on whether the SAC Chairman saw the SAC's main objective as (a) helping the Board with the strategic direction or (b) participating in technical discussions, the SAC Chairman said that SAC's involvement in the technical issues is unavoidable.

IASB's Work Programme on Convergence. The IASB's Chairman, Sir David Tweedie, made a presentation outlining three groups of convergence projects: short-, mid- and long-term. The first two aim to eliminate reconciliations between IFRS and US GAAP for SEC private registrants. A summary of Sir David's report is presented on the next page.

Report of IASB Chairman to IASCF Trustees, 23 March 2006
IASB Work Programme

Convergence projects

Short-term:

- IAS 12 – various issues.
- IAS 23 – eliminate the expense option for borrowing costs.
- IAS 31 – eliminate the proportionate consolidation option for joint ventures.
- IAS 14 – converge with US GAAP (FAS 131) for segment reporting. ED 8 has been issued.

Mid-term, that is, by 2008, including implementation in 2008:

- Business Combinations Phase II – Sir David acknowledged that there is little support for the existing IASB-FASB joint Exposure Draft. The IASB will deliberate again.
- Consolidations, including SPEs. The US tends to look at majority ownership while IFRSs use a control approach.
- Fair Value – IASB will propose measurement guidance based on the forthcoming FASB standard.
- Liability and equity – the FASB is leading the project.
- Performance Reporting – The IASB issued an Exposure Draft on Segment A in mid-March 2006, addressing the format of the income statement. Segment B will address more fundamental issues.
- Pensions accounting causes many concerns world-wide. This project is not on the agenda at the moment, but the IASB would like to address it.
- Revenue Recognition – the project will result in a Discussion Paper.

Long-term, that is, five year period:

- Derecognition generally.
- Replacement of IAS 39.
- Intangible assets (project led by Australian Standard-Setter).
- Leases – liabilities should be on balance sheet.

Projects not part of the convergence programme

- Insurance.
- Standards for SMEs. Sir David said that the main objective is to simplify IFRSs. The IASB's main challenge is to find the right balance between simplification and being faithful to IFRSs.
- Conceptual Framework.

IFRS-related news from the United States

www.sec.gov/news/speech/spch022306cag.htm

An SEC Commissioner comments on the reconciliation

In remarks before the Tenth Annual Conference on SEC Regulation Outside the United States, US SEC Commissioner Cynthia Glassman spoke about, among other things, convergence of US GAAP and IFRSs and eliminating the SEC's required reconciliation. An excerpt:

The other significant issue on the international accounting front is reconciliation. As you well know, in their SEC filings, companies that use IFRS or other accounting standards have to reconcile their financial statements to U.S. GAAP. I fully support what has become known as the 'roadmap' to achieving the acceptance of IFRS in the U.S. without reconciliation. Basically, our staff is looking to see the nature and scope of the reconciliations and the consistency of IFRS implementation across countries. While our staff has already begun planning the initial phase of the roadmap, we really cannot get started evaluating the 2005 results of the IFRS/US GAAP reconciliations until mid-year, because IFRS has only been recently implemented in many countries for the first time.

FASB statements and exposure drafts (full text) may be downloaded without charge from:
www.fasb.org

FASB convergence on embedded derivatives

The US Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standard No. 155 **Accounting for Certain Hybrid Instruments** that allows financial instruments with embedded derivatives to be accounted for as a whole at fair value through profit and loss. This option eliminates the need to separate the derivative from its host contract. A similar accounting option was added to IAS 39 as part of the Fair Value Option Amendments to IAS 39 in June 2005.

FASB currently has on its agenda a separate project to consider the other aspects of the IAS 39 fair value option (story on page 18).

FASB statements and exposure drafts (full text) may be downloaded without charge from:
www.fasb.org

FASB issues pensions exposure draft

In early April 2006, the FASB proposed that employers recognise the overfunded or underfunded positions of defined benefit postretirement plans, including pension plans, in their balance sheets. The so-called 'corridor approach' that allows deferral of most actuarial gains and losses would be eliminated. IAS 19 currently also allows the 'corridor approach'.

The proposal would also require that employers measure plan assets and obligations as of the date of their financial statements. FASB's exposure draft is the first phase of a comprehensive project to reconsider its Statement 87 **Employers' Accounting for Pensions and Statement 106 Employers' Accounting for Postretirement Benefits Other Than Pensions**.

A second, broader phase will comprehensively address remaining issues. The FASB said it expects to collaborate with the IASB on that phase, though the IASB does not yet have the project on its agenda. Comment period ends 31 May 2006.

FASB statements and exposure drafts (full text) may be downloaded without charge from:
www.fasb.org

FASB issues 'fair value option' exposure draft

FASB has issued an exposure draft that would provide companies with the option to report selected financial assets and liabilities at fair value. Under the option, any changes in fair value would be included in earnings. FASB's proposed 'fair value option' is similar to the one included in IAS 39 **Financial Instruments: Recognition and Measurement.** The intent of such an option is to reduce volatility in earnings caused by 'accounting mismatches' when different bases are used for measuring related financial instruments. Comment deadline on the ED is 10 April 2006.

FASB response to SEC on off-balance-sheet items

The FASB has submitted its response to the **SEC Staff Report on Off-Balance Sheet Arrangements, Special Purpose Entities, and Related Issues** released by the US Securities and Exchange Commission in June 2005. The SEC Staff Report was prepared pursuant to the Sarbanes-Oxley Act of 2002 and was submitted to the President and several Congressional committees. The SEC Staff Report includes an analysis of the filings of issuers as well as an analysis of pertinent US generally accepted accounting principles and Commission disclosure rules. The Report contains several recommendations for potentially sweeping changes in current accounting and reporting requirements for pensions, leases, financial instruments, and consolidation.

FASB's response discusses a number of "fundamental structural, institutional, cultural, and behavioural forces" that it believes cause complexity and impede transparent financial reporting. FASB provides an update on its activities and projects intended to address and improve outdated, overly complex accounting standards. The FASB also identifies several other initiatives aimed at improving the understandability, consistency, and overall usability of existing accounting literature, through codification, by attempting to stem the proliferation of new pronouncements emanating from multiple sources, and by developing new standards in a 'principles-based' or 'objectives-oriented' approach.

IFRS publications from Deloitte

Special IAS Plus newsletter on ED 8 operating segments

Download this special edition newsletter here: www.iasplus.com/iasplus/iasplus.htm

On 19 January 2006, the IASB published Exposure Draft 8 **Operating Segments**. ED 8 would replace IAS 14 and align segment reporting with the requirements of FASB's SFAS 131 **Disclosures about Segments of an Enterprise and Related Information**. Deloitte has published a Special Edition of the IAS Plus Newsletter explaining ED 8.

Special IAS Plus newsletter on IFRIC 9

Download this special edition newsletter here: www.iasplus.com/iasplus/iasplus.htm

We have posted a new IAS Plus Newsletter explaining IFRIC 9 **Reassessment of Embedded Derivatives** (see story on Page 14). The newsletter provides details about the ED and includes two examples.

Special IAS Plus newsletter on revisions to IAS 1

Download this special edition newsletter here: www.iasplus.com/iasplus/iasplus.htm

We have published a special edition of our IAS Plus newsletter on **Proposals to Revise Presentation of Financial Statements**. On 16 March 2006, the IASB issued an Exposure Draft (ED) of proposed amendments to IAS 1 **Presentation of Financial Statements** (see story on Page 10). The newsletter provides details about the ED.

New Deloitte guide to interim financial reporting

You will find this and other Deloitte IFRS-related publications at: www.iasplus.com/pubs/pubs.htm

IAS 34 **Interim Financial Reporting** prescribes the minimum content for an interim financial report and the principles for recognition and measurement in financial statements for a financial reporting period shorter than a full financial year. Our new publication **Interim Financial Reporting: A Guide to IAS 34** provides an overview of the Standard, application guidance and examples, a model interim financial report, and an IAS 34 compliance checklist.

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