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Deloitte IFRS Publications

You can find links to many Deloitte IFRS-related publications at www.iasplus.com/dttpubs/pubs.htm. Here are a few:

Deloitte's IFRS e-Learning	e-Learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at www.iasplus.com.
Model IFRS Financial Statements	Based on IFRSs effective for 2005.
IAS Plus Newsletter	A quarterly newsletter on recent developments in International Financial Reporting Standards and accounting updates for individual countries. To subscribe, visit our IAS Plus website.
www.iasplus.com	Our IAS Plus website provides up-to-date news on IASB developments as well as summaries of standards and interpretations and reference materials for download.
iGAAP 2005 Financial Instruments: IAS 32 and IAS 39 Explained	Guidance on how to apply both of these complex standards, including illustrative examples, and interpretations.
Key Differences Between IFRSs and US GAAP	Includes a status report on what is being done about each difference.
IFRS in your Pocket	Not just this booklet in English, but also translations into French, Spanish, Polish, Danish, Finnish, Chinese, and other languages.
First-time Adoption: A Guide to IFRS 1	Application guidance for the "stable platform" standards effective in 2005.
Share-based Payment: A Guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.
Business Combinations: A Guide to IFRS 3	Supplements the IASB's own guidance for applying the new standard.

Foreword from Our Global Audit Leader

Today, the world's capital markets know no borders——and the participants in those markets should have no barriers to the high-quality, transparent, and comparable financial information they need to make sound economic decisions. Since 1973, the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee, have been serving the public interest by developing a single set of high-quality, understandable, and enforceable International Financial Reporting Standards (IFRSs) for equity investors, lenders, and other information users.

This fourth edition of IFRS in your Pocket is a terrific guide to help you know and understand IFRSs and how these reporting standards are being adopted around the world. We have seen significant progress in recent years:

- The International Organization of Securities Commissions has recommended that the world's securities regulators permit foreign issuers to use IFRSs in preparing financial statements for cross-border offerings and listings.
- Listed companies in Europe are required to begin using IFRSs in their consolidated financial statements in 2005. While the European Commission's two modifications to IAS 39 have received much publicity, the Commission has explicitly reiterated its support for high quality international standards and has emphasised that the modifications are an "exceptional situation" and are temporary.
- Many other countries are replacing their national GAAP with IFRSs for some or all domestic companies.
- Other countries have adopted policies of approving IFRSs either verbatim or almost word-for-word as their national standards.
- The IASB and its U.S. counterpart, the Financial Accounting Standards Board, have embarked on a comprehensive program aimed at converging IFRSs and U.S. GAAP to the greatest extent possible over the next several years. The IASB has also begun a convergence project with Japan.

Often, the transition to IFRSs requires great effort. I believe those efforts will be rewarded with greater economic vitality and productivity. Global business requires a global capital market. The foundation of that market will be good governance, good laws, and a set of globally accepted accounting standards. A single set of accounting practices is a prerequisite to a truly global market.

Steve Almond
Global Audit Leader
Deloitte Touche Tohmatsu

Why IFRSs? Why Now?

"The effective functioning of capital markets is essential to our economic well-being. In my view, a sound financial reporting infrastructure must be built on four pillars: (1) accounting standards that are consistent, comprehensive, and based on clear principles to enable financial reports to reflect underlying economic reality; (2) effective corporate governance practices, including a requirement for strong internal controls, that implement the accounting standards; (3) auditing practices that give confidence to the outside world that an entity is faithfully reflecting its economic performance and financial position; and (4) an enforcement or oversight mechanism that ensures that the principles as laid out by the accounting and auditing standards are followed."

"As the world's capital markets integrate, the logic of a single set of accounting standards is evident. A single set of international standards will enhance comparability of financial information and should make the allocation of capital across borders more efficient. The development and acceptance of international standards should also reduce compliance costs for corporations and improve consistency in audit quality."

Sir David Tweedie
Chairman, International Accounting Standards Board
Testimony before the
Committee on Banking, Housing and Urban Affairs
Of the United States Senate
Washington
9 September 2004

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Our IAS Plus Website

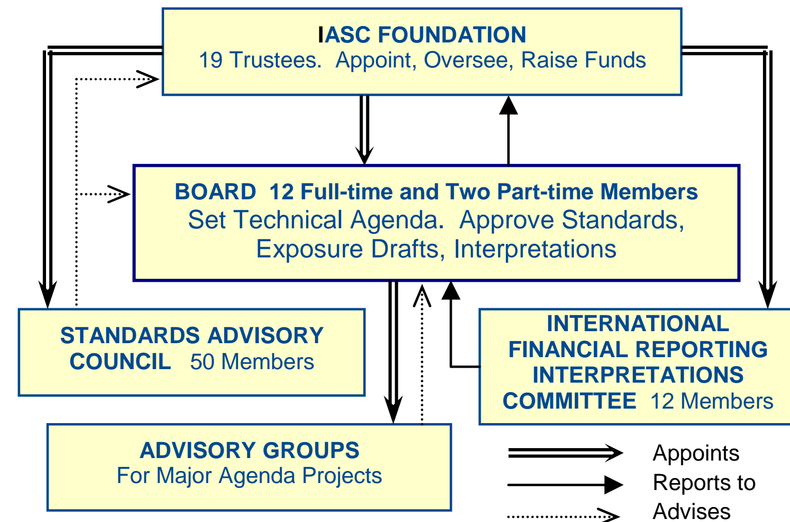
Deloitte's **www.iasplus.com** website provides comprehensive information about international financial reporting in general and IASB activities in particular. Unique features include:

- Daily news about financial reporting globally.
- Summaries of all standards, interpretations, and proposals.
- Many IFRS-related publications available for download.
- Model IFRS financial statements.
- An electronic library of several hundred IFRS resources.
- All Deloitte Touche Tohmatsu comment letters to the IASB.
- Links to several hundred international accounting websites.
- E-learning modules for each IAS and IFRS – at no charge.
- Complete history of adoption of IFRSs in Europe.
- Updates on national accounting standards development.

Abbreviations Used in this Publication

ARC	Accounting Regulatory Committee of the EC
CESR	Committee of European Securities Regulators
EEA	European Economic Area (3 non-EU countries)
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
EITF	Emerging Issues Task Force (of FASB)
EU	European Union (25 countries)
FASB	Financial Accounting Standards Board (US)
GAAP	Generally Accepted Accounting Principle(s)
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	IASC Foundation (parent body of the IASB)
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee of the IASB
IFRS	International Financial Reporting Standard
IOSCO	International Organization of Securities Commissions
SAC	Standards Advisory Council (advisory to the IASB)
SEC	Securities and Exchange Commission (US)
SIC	Standing Interpretations Committee of the IASC, and interpretations issued by that committee

The IASB Structure



Proposed Changes to IASB Structure

In November 2004, the IASC Foundation trustees proposed several changes to the IASB structure, including:

- expand the number of trustees from 19 to 22;
- retain the current provision for two part-time IASB members;
- ease the required mix of backgrounds on the IASB. The current minimums of five practising auditors, three preparers, three users, and one academician would be changed to “an appropriate mix of practical experience among auditors, preparers, users, and academics”, including at least one IASB member who has recent experience in each of those fields.
- give trustees the right to comment on and make suggestions about the IASB's agenda, but not authority to decide the agenda; and
- increase the vote for exposure drafts, standards, and interpretations from a simple majority to nine out of 14 IASB members.

IASB Contact Information

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30 Cannon Street, London EC4M 6XH, United Kingdom

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- Publications Email: publications@iasb.org
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Board Chairman and Vice Chairman, and Senior Technical Officers:

Sir David Tweedie	IASB Chairman	dtweedie@iasb.org
Thomas E. Jones	IASB Vice Chairman	tjones@iasb.org
Kevin Stevenson	Director of Technical Activities	kstevenson@iasb.org
Wayne S. Upton	Director of Research	wupton@iasb.org
Paul Pacter	Director of Standards for SMEs	ppacter@iasb.org

IASB Chronology

1973 Agreement to establish IASC signed by representatives of the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom/Ireland, and United States.

Steering committees appointed for IASC's first three projects.

1975 First final IAS published: IAS 1 (1975), *Disclosure of Accounting Policies*, and IAS 2 (1975), *Valuation and Presentation of Inventories in the Context of the Historical Cost System.*

1982 The IASC Board is expanded to up to 17 members, including 13 country members appointed by the Council of the International Federation of Accountants (IFAC) and up to 4 representatives of organisations with an interest in financial reporting. All members of IFAC are members of IASC. IFAC recognises and will look to IASC as the global accounting standard setter.

1989 European Accounting Federation (FEE) supports international harmonisation and greater European involvement in IASC. IFAC adopts a public sector guideline to require government business enterprises to follow IAS.

1994 Establishment of IASC Advisory Council approved, with responsibilities for oversight and finances.

1995 European Commission supports the agreement between IASC and International Organization of Securities Commissions (IOSCO) to complete core standards and concludes that IAS should be followed by European Union multinationals.

1996 US SEC announces its support of the IASC's objective to develop, as expeditiously as possible, accounting standards that could be used for preparing financial statements used in cross-border offerings.

1997 Standing Interpretations Committee (SIC) is formed. 12 voting members. Mission to develop interpretations of IAS for final approval by the IASC.

Strategy Working Party is formed to make recommendations regarding the future structure and operation of IASC.

1998 IFAC/IASC membership expands to 140 accountancy bodies in 101 countries.

IASC completes the core standards by approving IAS 39.

1999 G7 Finance Ministers and IMF urge support for IAS to "strengthen the international financial architecture".

IASC Board unanimously approves restructuring into 14-member board under an independent board of trustees.

2000 IOSCO recommends that its members allow multinational issuers to use IASC standards in cross-border offerings and listings.

Ad hoc nominating committee is formed, chaired by US SEC Chairman Arthur Levitt, to nominate the Trustees who will oversee the new IASB structure.

IASC member bodies approve IASC's restructuring and a new IASC Constitution.

Nominating Committee announces initial Trustees.

Trustees name Sir David Tweedie (chairman of the UK Accounting Standards Board) as the first Chairman of the restructured International Accounting Standards Board.

2001 Members and new name of IASB announced. IASC Foundation formed. On 1 April 2001, the new IASB assumes its standard-setting responsibilities from the IASC. Existing IAS and SIC adopted by IASB.

IASB moves into its new offices at 30 Cannon St., London.

IASB meets with chairs of its eight liaison national accounting standard-setting bodies to begin coordinating agendas and setting out convergence goals.

2002 SIC is renamed as the International Financial Reporting Interpretations Committee (IFRIC) with a mandate not only to interpret existing IASs and IFRSs but also to provide timely guidance on matters not addressed in an IAS or IFRS.

Europe requires IFRSs for listed companies starting 2005.

IASB and FASB issue joint agreement on convergence.

2003 First final IFRS and first IFRIC draft Interpretation published.

Improvements project completed – major revisions to 14 IASs.

2004 Extensive discussions about IAS 39 in Europe, leading to EC endorsement with two sections of IAS 39 'carved out'.

Webcasting of IASB meetings begins.

First IASB discussion paper and first final IFRIC Interpretation.

IFRSs 2 through 6 are published.

Use of IFRSs Around the World

Use of IFRSs for Domestic Reporting By Listed Companies as of 2005

Country or Region	IFRSs Not Permitted	IFRSs Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Albania	No stock exchange. Companies use Albanian GAAP.			
Argentina	X			
Armenia				X
Aruba		X		
Austria				X
Australia				X
Bahamas				X
Bahrain			Banks	
Barbados				X
Bangladesh				X
Belgium		X		X
Benin	X			
Bermuda		X		
Bolivia		X		
Botswana		X		
Brazil	X			
Brunei Darussalam		X		
Bulgaria				X
Burkina Faso	X			
Cambodia	X			
Cayman Is.		X		
Canada	X			
Chile	X			
China			X	
Cote D'Ivoire	X			
Colombia	X			Proposed
Costa Rica				X
Croatia				X
Cyprus				X
Czech Republic				X
Denmark				X

Country or Region	IFRSs Not Permitted	IFRSs Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Dominica		X		
Dominican Republic				X
Ecuador				X
Egypt				X
El Salvador		X		
Estonia				X
Finland				X
Fiji	X			
France				X
Germany				X
Georgia				X
Ghana	X			
Greece				X
Guam	No stock exchange. Companies use US GAAP.			
Guatemala				X
Guyana				X
Haiti				X
Honduras				X
Hong Kong SAR		X		
Hungary				X
Iceland				X
India	X			
Indonesia	X			
Ireland				X
Israel	X			
Italy				X
Jamaica				X
Japan	X			
Jordan				X
Kazakhstan			Banks	
Kenya				X
Korea (South)	X			
Kuwait				X
Kyrgyzstan				X
Laos		X		

Country or Region	IFRSs Not Permitted	IFRSs Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Latvia				X
Lebanon				X
Liechtenstein				X
Lesotho		X		
Lithuania				X
Luxembourg				X
Macedonia				X
Malawi				X
Mali	X			
Malta				X
Malaysia	X			
Mauritius				X
Mexico	X			
Moldova	X			
Myanmar		X		
Namibia		X		
Netherlands				X
NL Antilles		X		
Nepal				X
New Zealand				2007
Niger	X			
Norway				X
Oman				X
Pakistan	X			
Panama				X
Papua New Guinea				X
Peru				X
Philippines	X			
Poland				X
Portugal				X
Romania			All large companies	
Russian Federation			X	Phasing in 2004-7
Saudi Arabia	X			

Country or Region	IFRSs Not Permitted	IFRSs Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Singapore	X			
Slovenia				X
Slovak Republic				X
South Africa				X
Spain				X
Sri Lanka		X		
Sweden				X
Syria	X			
Swaziland		X		
Switzerland		X		
Taiwan	X			
Tajikistan				X
Tanzania				X
Thailand	X			
Togo	X			
Trinidad and Tobago				X
Tunisia	X			
Turkey		X		
Uganda		X		
Ukraine				X
United Arab Emirates			Banks	
United Kingdom				X
United States	X			
Uruguay	X			
Uzbekistan	X			
Venezuela				2006
Vietnam	X			
Yugoslavia				X
Zambia		X		
Zimbabwe				X

Use of IFRSs in Europe

European Accounting Regulation Takes Effect in 2005

Listed companies. To implement a "financial reporting strategy" adopted by the European Commission in June 2000, the European Union in 2002 approved an Accounting Regulation requiring all EU listed companies (about 9,000 companies in total) to follow IFRSs in their consolidated financial statements starting in 2005. In two limited cases, member States may exempt certain companies temporarily from the IFRS requirement – but only until 2007: (1) companies that are listed both in the EU and on a non-EU exchange and that currently use US GAAP as their primary accounting standards and (2) companies that have only publicly traded debt securities. Non-EU companies listed on EU exchanges can continue to use their national GAAPs until 2007. The IFRS requirement applies not only in the 25 EU countries but also in the 3 European Economic Area countries. Most large companies in Switzerland (not an EU or EEA member) already use IFRS.

Unlisted companies. Member States may extend the IFRS requirement to non-listed companies and to company-only statements. The tentative plans of the 28 EU/EEA countries regarding the use of IFRSs in the consolidated financial statements of unlisted companies are as follows:

IFRSs Required	Cyprus, Malta, Slovakia
IFRSs Permitted	Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Italy, Ireland, Lithuania, Luxembourg, Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, United Kingdom
IFRSs Prohibited	Latvia, Lithuania, Poland

Endorsement of IFRSs for Use in Europe

Under the EU Accounting Regulation, IFRSs must be endorsed for use in Europe. The endorsement process involves the following steps:

- EU translates the IFRSs into all European languages;
- the private-sector European Financial Reporting Advisory Group (EFRAG) gives its views to the EC;
- the EC's Accounting Regulatory Committee makes an endorsement recommendation; and
- the 25-member Commission formally votes to endorse.

By the end of 2004, the EC had voted to endorse all IASs, IFRSs 1 through 5, and all Interpretations then in existence – but with two

carve-outs from IAS 39 Financial Instruments: Recognition and Measurement. The carve-outs (1) prohibit use of the IAS 39 fair value option as it applies to liabilities, and (2) allow use of fair value hedge accounting for interest rate hedges of core deposits on a portfolio basis.

Enforcement of IFRSs in Europe

European securities markets are regulated by individual member states, subject to certain regulations adopted at the EU level. EU-wide regulations include:

- Standards adopted by the Committee of European Securities Regulators, a consortium of national regulators. Standard No. 1, Enforcement of Standards on Financial Information in Europe, sets out 21 high level principles that EU member states should adopt in enforcing IFRS. Proposed Standard No. 2, Coordination of Enforcement Activities, proposes guidelines for implementing Standard No. 1.
- Proposed new Directive on Statutory Audit of Annual Accounts and Consolidated Accounts. The new Directive would replace the current 8th Directive and amend the 4th and 7th Directives. Among other things, the proposal would adopt International Standards on Auditing throughout the EU.
- Proposed amendments to EU directives that establish the collective responsibility of board members for a company's financial statements.

Use of IFRSs in the United States

SEC Recognition of IFRSs

Of the approximately 13,000 companies whose securities are registered with the US Securities and Exchange Commission, 1,200 are non-US companies. If these foreign companies submit IFRS or local GAAP financial statements rather than US GAAP, a reconciliation of earnings and net assets to US GAAP figures is required. Prior to 2005, there were about 50 IFRS filers with the SEC. Another 350 European companies listed in the United States are expected to switch to IFRSs in their SEC filings in 2005. SEC staff have said that they will examine those 2005 filings with a view toward eliminating the reconciliation requirement for foreign IFRS filers by the end of the decade, or possibly earlier.

IASB-FASB Convergence

In October 2002, the IASB and US Financial Accounting Standards Board embarked on a joint programme to converge US and international accounting standards to the maximum extent possible. Activities that are part of that programme include:

- twice-yearly joint meetings;
- aligned agendas;

- joint staffing of all major projects;
- short-term convergence projects;
- convergence inventory of every single difference with a plan to eliminate as many as possible; and
- coordination of the activities of their respective interpretative bodies – EITF and IFRIC.

Use of IFRSs in Canada

Currently, domestic Canadian companies listed in the United States are allowed to use US GAAP for domestic reporting, but not IFRSs. All other Canadian companies must use Canadian GAAP. Foreign issuers in Canada are permitted to use IFRSs or a limited group of non-Canadian national GAAPs. The Canadian Institute of Chartered Accountants has invited comments on whether it should continue to develop a separate Canadian GAAP or whether Canadian companies should be permitted or required to use IFRSs or US GAAP.

Use of IFRSs in Asia-Pacific

Asia-Pacific jurisdictions are taking a variety of approaches toward convergence of GAAP for domestic companies with IFRS.

Requirement for IFRSs in Place of Local GAAP

Only Bangladesh requires IFRSs for domestic listed companies.

All Local Standards Are Virtually Word-for-Word IFRSs

Australia, Hong Kong, and New Zealand are taking this approach. Effective dates and transitions may differ from IFRSs. Australia and New Zealand have eliminated some accounting policy options and added some disclosures and guidance. Philippines has adopted word-for-word all IASs that were effective in 2003 but has not yet adopted the improvements or new IFRSs issued in 2003-2004.

Most Local Standards Are Word-for-Word IFRSs

Singapore has adopted most IFRSs word for word but has modified several including IASs 2, 16, 17, 28, 31, and 40.

Some Local Standards Are Close to Word-for-Word IFRSs

India, Malaysia, Pakistan, Sri Lanka, and Thailand have adopted selected IFRSs quite closely, but significant differences exist in other local standards, and there are time lags in adopting new or amended IFRSs.

IFRSs Are Looked to in Developing Local GAAP

This is done to varying degrees in China, Indonesia, Japan, Korea, Taiwan, and Vietnam, but significant differences exist.

Some Domestic Listed Companies May Use IFRSs

This is true in China, Hong Kong, Laos, and Myanmar.

Members of the IASB

Sir David Tweedie, Chairman. Sir David served as the first full-time Chairman of the UK Accounting Standards Board from 1990-2000. Before that, he was national technical partner for KPMG and was a professor of accounting in his native Scotland. He has worked on international standard setting issues both as the first Chairman of the G4+1 and as a member of the IASC. Term expires 30 June 2006.

Thomas E. Jones, Vice-Chairman. As the former Principal Financial Officer of Citicorp and Chairman of the IASC Board, Tom Jones brings extensive experience in standard setting and the preparation of financial accounts for financial institutions. A British citizen, Mr. Jones has worked in Europe and the US. Term expires 30 June 2009.

Mary E. Barth. As a part-time Board member, Mary Barth, a US citizen, retains her position as Senior Associate Dean of the Graduate School of Business at Stanford University. Professor Barth was previously a partner at Arthur Andersen. Term expires 30 June 2009.

Hans-Georg Bruns. Liaison to the German standard setter. Mr. Bruns has served as the Chief Accounting Officer for Daimler Chrysler and has been head of a principal working group of his home country's German Accounting Standards Committee. He was responsible for addressing the accounting issues related to the Daimler Chrysler merger. Term expires 30 June 2006.

Anthony T. Cope. Mr. Cope, a British citizen, joined the US Financial Accounting Standards Board (FASB) in 1993. Prior to that, he worked as a financial analyst in the United States for 30 years. As a member of the IASC Strategy Working Party, he was closely involved with the IASC's restructuring, and served as FASB's observer at IASC Board meetings for the IASC's last five years. Term expires 30 June 2007.

Jan Engstrom. Jan Engstrom, a Swedish citizen, held senior financial and operating positions with the Volvo Group, including serving on the management board and as Chief Financial Officer. He also was Chief Executive Officer of Volvo Bus Corporation. Term expires 30 June 2009.

Robert P. Garnett. Mr. Garnett was the Executive Vice President of Finance for Anglo American plc, a South African company listed on the London Stock Exchange. He has worked as a preparer and analyst of financial statements in his native South Africa. Term expires 30 June 2005.

Gilbert Gelard. Liaison to the French standard setter. Having been a partner at KPMG in his native France, Gilbert Gelard has extensive experience with French industry. Mr. Gelard speaks eight languages and has been a member of the French standard-setting body (CNC). He also was a member of the former IASC Board. Term expires 30 June 2005.

James J. Leisenring. Liaison to the US standard setter. Jim Leisenring has worked on issues related to accounting standard setting over the last three decades, as the Vice Chairman and most recently as Director of International Activities of the FASB in his home country. While at FASB, Mr. Leisenring served for several years as FASB's observer at meetings of the former IASC Board. Term expires 30 June 2005.

Warren McGregor. Liaison to the Australian and New Zealand standard setters. Mr. McGregor developed an intimate knowledge of standard setting issues with his work over 20 years at the Australian Accounting Research Foundation, where he ultimately became the Chief Executive Officer. Term expires 30 June 2006.

Patricia O'Malley. Liaison to the Canadian standard setter. Ms. O'Malley was the first full-time Chair of the Accounting Standards Board of Canada. She has worked on issues related to global standard setting since 1983 and brings vast experience on work with financial instruments. Before joining the Canadian Board, Ms. O'Malley was a Technical Partner at KPMG in Canada. Term expires 30 June 2007.

John T. Smith. As a part-time member of the Board, Mr. Smith continues to be a partner at Deloitte & Touche (USA). He was a member of the FASB's Emerging Issues Task Force, Derivatives Implementation Group, and Financial Instruments Task Force. He served on the IASC Task Force on Financial Instruments and chaired the IASC's IAS 39 Implementation Guidance Committee. He was a member of the IASC, SIC, and IFRIC. Term expires 30 June 2007.

Geoffrey Whittington. Liaison to the UK standard setter. Mr. Whittington was the PricewaterhouseCoopers Professor of Financial Accounting at Cambridge University. Previously he was a member of the UK Monopolies and Merger Commission and a member of the UK Accounting Standards Board in his native England. Term expires 30 June 2006.

Tatsumi Yamada. Liaison to the Japanese standard setter. Tatsumi Yamada was a partner at ChuoAoyama Audit Corporation (a member firm of PricewaterhouseCoopers) in Tokyo. He brings extensive experience with international standard setting as a Japanese member of the former IASC Board between 1996 and 2000. Term expires 30 June 2006.

IASB members are appointed for terms of up to five years renewable once. At least five members must have backgrounds as auditors, three as financial statement preparers, three as users of financial statements, and one as an academician. There is no prescribed geographical mix. Twelve serve full time and two serve part time.

Effective Dates of Recent Pronouncements

New or Revised IFRS	Effective Date*
IFRS 1 First-time Adoption of International Financial Reporting Standards	First IFRS financial statements for a period beginning on or after 1 January 2004
IFRS 2 Share-based Payment	Annual periods beginning on or after 1 January 2005
IFRS 3 Business Combinations	Business combinations for which the agreement date is after 31 March 2004
IFRS 4 Insurance Contracts	Annual periods beginning on or after 1 January 2005
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Annual periods beginning on or after 1 January 2005
IFRS 6 Exploration for and Evaluation of Mineral Resources	Annual periods beginning on or after 1 January 2006
2003-2004 Revisions to IASs 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 32, 33, 39, 40	Annual periods beginning on or after 1 January 2005
2004 Revisions to IASs 36 and 38	1 April 2004 (or earlier date of adoption of IFRS 3)

*Earlier application of all of the above standards is encouraged, with certain restrictions in the cases of IFRS 3 and the revisions to IASs 36 and 38.

New Interpretation	Effective Date
IFRIC 1	Annual periods beginning on or after 1 September 2004
IFRIC 2	Annual periods beginning on or after 1 January 2005
IFRIC 3	Annual periods beginning on or after 1 March 2005
IFRIC 4	Annual periods beginning on or after 1 January 2006
IFRIC 5	Annual periods beginning on or after 1 January 2006

Summaries of Current Standards

On pages 20-63 we summarise the provisions of all International Financial Reporting Standards issued through mid-December 2004 and effective for 2005. These summaries are intended as general information and are not a substitute for reading the entire standard.

IAS 1 Presentation of Financial Statements (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To set out the overall framework for presenting general-purpose financial statements, including guidelines for their structure and the minimum content.

Summary

- Fundamental principles underlying the preparation of financial statements, including going concern assumption, consistency in presentation and classification, accrual basis of accounting, and materiality.
- Assets and liabilities, and income and expenses, may not be offset unless offsetting is permitted or required by another IFRS.
- Comparative prior-period information must be presented for amounts shown in the financial statements and notes.
- A complete set of financial statements should include a balance sheet, income statement, statement of changes in equity, cash flow statement, accounting policies and explanatory notes.
- The statement of changes in equity must show either:
  - all changes in equity; or
  - changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders.
- Financial statements generally to be prepared annually. If the date of the year end changes, and financial statements are presented for a period other than one year, disclosure thereof is required.
- Current/non-current distinction for assets and liabilities is normally required. In general

post-balance sheet events are not considered in classifying items as current or non-current.

- IAS 1 specifies minimum line items to be presented on the face of the balance sheet, income statement, and statement of changes in equity, and includes guidance for identifying additional line items.
- IAS 1 specifies minimum note disclosures. These must include information about:
  - accounting policies followed;
  - the judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements; and
  - the key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Interpretations

SIC 29, Disclosure – Service Concession Arrangements

Disclosure is required if an entity agrees to provide services that give the public access to major economic and social facilities.

IAS 2 Inventories (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the accounting treatment for inventories, including cost determination and expense recognition.

Summary

- Inventories are required to be stated at the lower of cost and net realisable value.
- Costs include purchase cost, conversion cost (materials, labour, and overhead), and other costs to bring inventory to its present location and condition, but not foreign exchange differences.
- For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory.
- For interchangeable items, cost is determined on either a FIFO or weighted average basis. LIFO is not permitted.
- When inventories are sold, the carrying amount should be recognised as an expense in the period in which the related revenue is recognised.

Interpretations None.

IAS 7 Cash Flow Statements (revised 1992)

Effective Date Periods beginning on or after 1 January 1994.

Objective To require the presentation of information about historical changes in an entity's cash and cash equivalents by means of a cash flow statement, which classifies cash flows during the period according to operating, investing, and financing activities.

Summary

- Cash flow statement must analyse changes in cash and cash equivalents during a period.
- Cash equivalents include investments that are short term (less than 3 months from date of acquisition), readily convertible to a known amount of cash, and subject to an insignificant risk of changes in value. Generally exclude equity investments.
- Cash flows from operating, investing, and financing activities must be separately reported.
- Cash flows for operating activities are reported using either the direct (recommended) or indirect methods.
- Cash flows arising from taxes on income are classified as operating unless they can be specifically identified with financing or investing activities.
- The exchange rate used for translation of transactions denominated in a foreign currency and the cash flows of a foreign subsidiary should be the rate in effect at the date of the cash flows.
- Aggregate cash flows relating to

acquisitions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures.

- Investing and financing transactions that do not require the use of cash should be excluded from the cash flow statement, but they should be separately disclosed.

Interpretations None.

IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in estimates, and errors.

Summary

- Prescribes a hierarchy for choosing accounting policies:
  - IASB standards and interpretations, taking into account any relevant IASB implementation guidance.
  - In the absence of a standard, look to the requirements and guidance in IASB standards and interpretations dealing with similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.
  - Management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practices.
- Apply accounting policies consistently to similar transactions.
- Make a change in accounting policy only if it is required by a standard or interpretation or results in more relevant and reliable information.
- If a change in accounting policy is required by a standard or interpretation, follow that pronouncement's transition requirements. If none are specified, or if the change is voluntary, apply the new accounting policy retrospectively by restating prior periods. If restatement is impracticable, include the cumulative effect of the change in profit or loss. If the cumulative effect cannot be determined, apply the new policy prospectively.
- Changes in accounting estimates (for example, change in useful life of an asset) are accounted for in the current year, or future years, or both (no restatement).
- All errors should be corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the opening balance sheet.
- Disclosures are required about accounting changes, changes in estimates, and error corrections.

Interpretations None.

IAS 10 Events After the Balance Sheet Date (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe:

When an entity should adjust its financial statements for events after the balance sheet date.

Disclosures about the date when the financial statements were authorised for issue and about events after the balance sheet date.

Summary

- Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue.
- Adjusting events – adjust the financial

statements to reflect those events that provide evidence of conditions that existed at balance sheet date (such as resolution of a court case after balance sheet date).

- Non-adjusting events – do not adjust the financial statements to reflect events that arose after the balance sheet date (such as a decline in market prices after year end, which does not change the valuation of investments at balance sheet date).
- Dividends proposed or declared on equity instruments after the balance sheet date should not be recognised as a liability at the balance sheet date. Disclosure is required.
- An entity should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate.
- An entity must disclose the date its financial statements are authorised for issue.

Interpretations None.

IAS 11 Construction Contracts (revised 1993)

Effective Date Periods beginning on or after 1 January 1995.

Objective To prescribe the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor.

Summary

- Contract revenue should comprise the amount agreed in the initial contract together with variations in contract work, claims, and incentive payments to the extent that it is probable that they will result in revenues and can be measured reliably.
- Contract costs should comprise costs that relate directly to the specific contract, costs that are attributable to general contract activity and that can be reasonably allocated to the contract, together with such other costs as are directly attributable to the customer under the terms of the contract.
- Where the outcome of a construction contract can be estimated reliably, revenue

and costs should be recognised by reference to the stage of completion of contract activity (the percentage of completion method of accounting).

- If the outcome cannot be estimated reliably, no profit should be recognised. Instead, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recovered, and contract costs should be expensed as incurred.
- If it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised immediately.

Interpretations None.

IAS 12 Income Taxes (revised 2000)

Effective Date Periods beginning on or after 1 January 1998. Certain revisions effective for periods beginning on or after 1 January 2001.

Objective To prescribe the accounting treatment for income taxes.

To establish the principles and provide guidance in accounting for the current and future income tax consequences related to:

- the future recovery (settlement) of carrying amounts of assets (liabilities) in an entity's balance sheet, and
- current period transactions recognised in the income statement or directly through equity.

Summary

- Current tax liabilities and assets should be recognised for current and prior period taxes, measured at the rates applicable for the period.
- A temporary difference is a difference between the carrying amount of an asset or liability and its tax base.
- Deferred tax liabilities must be recognised for the future tax consequences of all taxable temporary differences with three exceptions:
  - liabilities arising from the initial recognition of goodwill;
  - liabilities arising from the initial recognition

of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit; and

- liabilities arising from undistributed profits from investments where the enterprise is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

- A deferred tax asset must be recognised for deductible temporary differences, unused tax losses, and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, with this exception:
  - the deferred tax asset arises from the initial recognition of an asset/liability, other than in a business combination, which at the time of the transaction, does not affect the accounting or the taxable profit.
- Deferred tax liabilities (assets) should be measured at the tax rates expected to apply when the liability is settled or asset is realised, based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date.
- Discounting of deferred tax assets and liabilities is prohibited.
- Deferred taxes must be presented as non-current items in the balance sheet.
- IAS 12 specifies detailed disclosure requirements for income taxes.

Interpretations

SIC 21, Income Taxes – Recovery of Revalued Non-Depreciable Assets

Measure the deferred tax liability or asset arising from revaluation based on the tax consequences from the sale of the asset rather than through use.

SIC 25, Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders

The current and deferred tax consequences of the change should be included in net profit or loss for the period unless those consequences relate to transactions or events that were

recognised directly in equity.

IAS 14 Segment Reporting (revised 1997)

Effective Date Periods beginning on or after 1 July 1998.

Objective To establish principles for reporting financial information by line of business and by geographical area.

Summary

- IAS 14 applies to entities whose equity or debt securities are publicly traded and to entities in the process of issuing securities to the public. Also, any entity voluntarily providing segment information must comply with the requirements of IAS 14.
- An enterprise must look to its organisational structure and internal reporting system for the purpose of identifying its business segments and geographical segments.
- If internal segments are not geographical or products/service-based, then look to next lower level of internal segmentation to identify reportable segments.
- Guidance is provided on which segments are reportable (generally 10% thresholds).
- One basis of segmentation is primary and the other secondary.
- Segment information should be based on the same accounting policies as the consolidated group or entity.
- IAS 14 sets out disclosure requirements for primary and secondary segments, with considerably less disclosure for the secondary segments.

Interpretations None.

IAS 15 Information Reflecting the Effects of Changing Prices

Effective Date Withdrawn in December 2003.

IAS 16 Property, Plant & Equipment (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the principles for the initial recognition and subsequent accounting for property, plant, and equipment.

Summary

- Items of property, plant, and equipment should be recognised as assets when it is probable that the future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.
- Initial recognition at cost, which includes all costs necessary to get the asset ready for its intended use. If payment is deferred, interest must be recognised.
- In accounting subsequent to acquisition, IAS 16 allows a choice of accounting model:

  - Cost model: The asset is carried at cost less accumulated depreciation and impairment.

  - Revaluation model: The asset is carried at revalued amount, which is fair value at revaluation date less subsequent depreciation.
- Under the revaluation model, revaluations must be done regularly. All items of a given class must be revalued (for instance, all buildings). Revaluation increases are credited to equity. Revaluation decreases are charged first against the revaluation surplus in equity, and any excess against profit and loss. When the revalued asset is disposed of, the revaluation surplus in equity remains in equity and is not recycled through profit and loss.
- If the cost model is used, components of an asset with differing patterns of benefits must be depreciated separately.
- Under the cost model, depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern of benefit consumption. The residual value must be reviewed at least annually. If operation of an item of property, plant, and equipment (for example, an aircraft) requires regular major inspections, when each major inspection is performed, its cost is recognised in the carrying amount of the asset as a replacement if the recognition criteria are satisfied.
- Impairment of property, plant, and equipment must be assessed under IAS 36.
- All exchanges of property, plant, and equipment should be measured at fair value, including exchanges of similar items, unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.
- Disclosures include accounting policies; depreciation methods and lives; acquisitions, disposals, impairments, and reversals; amounts and details of revaluations; and commitments.

Interpretations None.

IAS 17 Leases (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

Summary

- A lease is classified as a finance lease if it transfers substantially all risks and rewards incident to ownership. Examples:

  - Lease covers substantially all of the asset's life.

  - Present value of lease payments is substantially equal to the asset's fair value.
- All other leases are classified as operating leases.
- A lease of both land and buildings should be split into land and building elements. Land element is generally an operating

lease. Building element is an operating or finance lease based on the criteria in IAS 17. However, separate measurement of the land and buildings elements is not required if the lessee's interest in both land and buildings is classified as an investment property under IAS 40 and the fair value model is adopted.

- Finance leases – Lessee's Accounting:
  - Recognise asset and liability at the lower of the present value of minimum lease payments and the fair value of the asset.
  - Depreciation policy – as for owned assets.
  - Finance lease payment – apportioned between interest and reduction in liability.
- Finance leases – Lessor's Accounting:
  - Recognise as a receivable at an amount equal to the net investment in the lease.
  - Recognise finance income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.
- Operating leases – Lessee's Accounting:
  - Recognise lease payments as an expense in the income statement on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
- Operating leases – Lessor's Accounting:
  - Assets held for operating leases should be presented in the lessor's balance sheet according to the nature of the asset.
  - Lease income should be recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
- Lessors must spread initial direct costs over the lease term (immediate expensing prohibited).
- Accounting for sale and leaseback transactions depends on whether these are essentially finance or operating leases.

Interpretations

SIC 15, Operating Leases – Incentives

Lease incentives (such as rent-free periods) should be recognised by both the lessor and the lessee as a reduction of rental income and

expense, respectively, over the lease term.

SIC 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease

If a series of transactions involves the legal form of a lease and can only be understood with reference to the series as a whole, then the series should be accounted for as a single transaction.

IFRIC 4, Determining Whether an Arrangement Contains a Lease

Arrangements that depend on a specific asset or convey the right to control a specific asset generally are leases under IAS 17.

IAS 18 Revenue (revised 1993)

Effective Date

Periods beginning on or after 1 January 1995.

Objective

To prescribe the accounting treatment for revenue arising from certain types of transactions and events.

Summary

- Revenue should be measured at the fair value of the consideration received/receivable.
- Recognition:
  - From sale of goods: When significant risks and rewards have been transferred to buyer, loss of effective control by seller, and amount can be reliably measured.
  - From sale of services: Percentage of completion method.
  - For interest, royalties, and dividends: Recognised when it is probable that economic benefits will flow to the entity:

    Interest – on a time proportion basis, taking into account the effective yield on the asset.

    Royalties – on an accrual basis in accordance with the substance of the agreement.

    Dividends – when shareholder's right to receive payment is established.
- Disclosure requirements include revenue recognition accounting policies.

Interpretations **SIC 31, Revenue – Barter Transactions Involving Advertising Services**

Recognise revenue from barter transactions involving advertising services only if substantial revenue is also received from non-barter transactions.

IAS 19 Employee Benefits (revised 2000)

Effective Date Periods beginning on or after 1 January 1999. Certain revisions effective on or after 1 January 2001; other revisions effective for periods ending 31 May 2002.

Objective To prescribe the accounting and disclosure for employee benefits, including short-term benefits (wages, annual leave, sick leave, annual profit-sharing, bonuses, and non-monetary benefits); pensions; post-employment life insurance and medical benefits; and other long-term employee benefits (long-service leave, disability, deferred compensation, and long-term profit-sharing and bonuses).

Summary

- Underlying principle: the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.
- Short-term employee benefits (payable within 12 months) should be recognised as an expense in the period in which the employee renders the service.
- Profit-sharing and bonus payments are to be recognised only when the entity has a constructive obligation to pay them and the costs can be reliably estimated.
- Post-employment benefit plans (such as pensions and health care) are categorised as either defined contribution plans or defined benefit plans.
- Under defined contribution plans, expenses are recognised in the period the contribution is payable.
- Under defined benefit plans, a liability is recognised in the balance sheet equal to the net of:
  - the present value of the defined benefit obligation (the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods);
  - deferred actuarial gains and losses and deferred past service cost; and
  - the fair value of any plan assets at the balance sheet date.
- Plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies.
- Long-term employee benefits should be recognised and measured the same way as post-employment benefits under a defined benefit plan. However, unlike defined benefit plans, the deferral of actuarial gains or losses and past service costs is prohibited.
- Termination benefits should be recognised when the entity is demonstrably committed to the termination of one or more employees before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.
- Equity compensation benefits are covered by IFRS 2, not IAS 19.

Interpretations None.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

Effective Date Periods beginning on or after 1 January 1984.

Objective To prescribe the accounting for, and disclosure of, government grants and other forms of government assistance.

Summary

- Recognise government grants only when there is reasonable assurance that the entity will comply with the conditions attached to the grants, and the grants will be received. Non-monetary grants are usually recognised at fair value, though recognition at nominal value is permitted.
- Apply the income approach systematically (recognise income over periods necessary to

match it with the related costs), and not the capital approach (credited directly to shareholders' equity).

- Income-related grants may either be presented as a credit in the income statement or deduction in reporting the related expense.
- Asset-related grants may be presented as either deferred income in the balance sheet, or deducted in arriving at the carrying amount of the asset.
- Repayment of a government grant is accounted for as a change in accounting estimate with different treatment for income- and asset-related grants.

Interpretations

SIC 10, Government Assistance – No Specific Relation to Operating Activities

Government assistance to entities that is aimed at encouragement or long-term support of business activities either in certain regions or industry sectors should be treated as a government grant under IAS 20.

IAS 21 The Effects of Changes in Foreign Exchange Rates (revised 2003)

Effective Date

Annual periods beginning on or after 1 January 2005.

Objective

To prescribe the accounting treatment for an entity's foreign currency transactions and foreign operations.

Summary

- First, determine reporting entity's functional currency.
- Then translate all foreign currency items into the functional currency:
  - At date of transaction, record using the transaction-date exchange rate for initial recognition and measurement.
  - At subsequent balance sheet dates:

    use closing rate for monetary items;

    use transaction-date exchange rates for non-monetary items carried at historical cost; and

    use valuation-date exchange rates for non-monetary items that are carried at fair value.

  - Exchange differences arising on settlement of monetary items and on translation of monetary items at a rate different than when initially recognised are included in net profit or loss, with one exception:

    exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognised in the consolidated financial statements that include the foreign operation in a separate component of equity; they will be recognised in profit or loss on disposal of the net investment.

- The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:
  - assets and liabilities for each balance sheet presented (including comparatives) are translated at the closing rate at the date of that balance sheet;
  - income and expenses for each income statement (including comparatives) are translated at exchange rates at the dates of the transactions; and
  - all resulting exchange differences are recognised as a separate component of equity.
- Special rules for translating into a presentation currency the results and financial position of an entity whose functional currency is hyperinflationary.

Interpretations

SIC 7, Introduction of the Euro

Explained how to apply IAS 21 when the Euro was first introduced.

IAS 22 Business Combinations (revised 1998)

Effective Date

Replaced by IFRS 3 in 2003, effective 1 April 2004.

IAS 23 Borrowing Costs

Effective Date Periods beginning on or after 1 January 1995.

Objective To prescribe the accounting treatment for borrowing costs.

Summary

- Borrowing costs include interest, amortisation of discounts or premiums on borrowings, and amortisation of ancillary costs incurred in the arrangement of borrowings.
- Two accounting models are allowed:
  - Expense model: Charge all borrowing costs to expense when incurred.
  - Capitalisation model: Capitalise borrowing costs directly attributable to the acquisition or construction of a qualifying asset, but only when it is probable that these costs will result in future economic benefits to the entity, and the costs can be measured reliably. All other borrowing costs that do not satisfy the conditions for capitalisation are to be expensed when incurred.
- A qualifying asset is one that requires a substantial period of time to make it ready for its intended use or sale. Examples include manufacturing plants, investment properties, and some inventories.
- If funds are borrowed generally and used for the purpose of obtaining the qualifying asset, apply a capitalisation rate (weighted average of borrowing costs applicable to the general outstanding borrowings during the period) to expenditure incurred during the period, to determine the amount of borrowing costs eligible for capitalisation.
- Disclosure includes the accounting policy adopted for borrowing costs.

Interpretations None.

IAS 24 Related Party Disclosures (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To ensure that financial statements draw

attention to the possibility that financial position and results of operations may have been affected by the existence of related parties.

Summary

- Related parties are parties that control or have significant influence on the reporting entity, including parent companies, subsidiaries, joint ventures, owners and their families, key management personnel, and post-employment benefit plans.
- Requires disclosure of:
  - Relationships involving control, even when there have been no transactions.
  - Related party transactions.
  - Management compensation.
- Examples of related party transactions that must be disclosed:
  - Purchases or sales of goods.
  - Purchases or sales of assets.
  - Rendering or receiving of services.
  - Leases.
  - Transfers of research and development.
  - Transfers under licence agreements.
  - Transfers under finance arrangements (including loans and equity contributions).
  - Provision of guarantees or collateral.
  - Settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

Interpretations None.

IAS 26 Accounting and Reporting by Retirement Benefit Plans

Effective Date Periods beginning on or after 1 January 1998.

Objective To specify the measurement and disclosure principles for the financial reports of retirement benefit plans.

Summary

- Sets out the reporting requirements for both defined contribution and defined benefit plans, including a statement of net assets available for benefits and disclosure of the actuarial present value of promised benefits

(split between vested and non-vested).

- Specifies the need for actuarial valuation of the benefits for defined benefits and the use of fair values for plan investments.

Interpretations None.

IAS 27 Consolidated and Separate Financial Statements (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe requirements for preparing and presenting consolidated financial statements for a group of entities under the control of a parent.

To prescribe how to account for investments in subsidiaries, jointly controlled entities, and associates in separate financial statements.

Summary

- A subsidiary is an entity controlled by another entity, known as the parent. Control is the power to govern the operating and financial policies.
- Consolidated financial statements are financial statements of a group (parent and subsidiaries) presented as those of a single economic entity.
- Consolidated financial statements must include all subsidiaries. No exemption for "temporary control" or "subsidiary that operates under severe long-term funds transfer restrictions".
- All entities in the group must use the same accounting policies.
- Reporting dates of subsidiaries cannot be more than three months different from the group reporting date.
- Minority interest is reported in equity in the balance sheet and is not deducted in measuring the group's profit or loss. However, group profit or loss is allocated between minority and the parent's shareholders on the face of the income statement.

- In the parent's separate financial statements: account for all of its investments in subsidiaries either at cost or as investments under IAS 39.

Interpretations **SIC 12, Consolidation – Special Purpose Entities**

An enterprise should consolidate a special purpose entity (SPE) when, in substance, the enterprise controls the SPE.

IAS 28 Investments in Associates (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the investor's accounting for investments in associates over which it has significant influence.

Summary

- Applies to all investments in which investor has significant influence unless investor is venture capital firm, mutual fund, or unit trust, in which case IAS 39 must be followed.
- Investor must use the equity method for all investments in associates over which it has significant influence.
- Rebuttable presumption of significant influence if investment held, directly and indirectly, is more than 20% of associate.
- Under the equity method, the investment is initially recorded at cost. It is subsequently adjusted by the investor's share of the investee's post acquisition change in net assets. Investor's income statement reflects its share of the investee's post-acquisition profit or loss.
- Associate's accounting policies must be the same as those of the investor.
- Equity accounting is required in the separate financial statements of the investor even if consolidated accounts are not required, for example, because the investor has no subsidiaries. However, the investor does not apply the equity method when presenting separate financial statements prepared in accordance with IAS 27. Instead, the investor accounts for the investment either at cost or as investments under IAS 39.

- Requirement for impairment testing in accordance with IAS 36, Impairment of Assets. The impairment indicators in IAS 39 apply.

Interpretations None.

IAS 29 Financial Reporting in Hyperinflationary Economies

Effective Date Periods beginning on or after 1 January 1990.

Objective To prescribe specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful.

Summary

- The financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date.
- Comparative figures for prior period(s) should be restated into the same current measuring unit.
- Generally an economy is hyperinflationary when there is 100% inflation over 3 years.

Interpretations None.

IAS 30 Disclosures in Financial Statements of Banks and Similar Institutions

Effective Date Periods beginning on or after 1 January 1991.

Objective To prescribe appropriate presentation and disclosure standards for banks and similar financial institutions, as a supplement to the requirements of other IFRSs.

Summary

- Requires banks to classify items in the income statement and balance sheet by their nature, and to present assets in order of relative liquidity.
- Identifies certain minimum income statement and balance sheet line items for banks.
- Disclosure requirements include concentration of assets, liabilities, and off-balance items; losses on loans and

advances; contingencies; asset pledges; and general banking risks.

Interpretations None.

IAS 31 Interests in Joint Ventures (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the accounting treatment required for interests in joint ventures (JVs), regardless of the structure or legal form of the JV activities.

Summary

- Applies to all investments in which investor has joint control unless investor is venture capital firm, mutual fund, or unit trust, in which case IAS 39 must be followed.
- The key characteristic of a JV is a contractual arrangement to share control. JVs may be classified as jointly controlled operations, jointly controlled assets, or jointly controlled entities. Different recognition principles for each type of JV:
- Jointly controlled operations: Venturer recognises the assets it controls, and expenses and liabilities it incurs, and its share of income earned, in both its separate and consolidated financial statements.
- Jointly controlled assets: Venturer recognises its share of the joint assets, any liabilities that it has incurred directly, and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture.
- Jointly controlled entities: Two accounting policy choices are permitted:

  - Proportionate consolidation. Under this method the venturer's balance sheet includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Its income statement includes its share of the income and expenses of the jointly controlled entity

- Equity method as described in IAS 28.

- In the venturer's separate financial statements, interests in joint ventures should be accounted for either at cost or as investments under IAS 39.

Interpretations **SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers**

Recognition of proportionate share of gains or losses on contributions of non-monetary assets is generally appropriate.

IAS 32 Financial Instruments: Disclosure and Presentation (revised 2003)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To enhance users' understanding of the significance of on-balance sheet and off-balance sheet financial instruments to an entity's financial position, performance, and cash flows.

Summary

- Issuer's classification of an instrument either as a liability or an equity instrument:
  - Based on substance, not form of the instrument.
  - Classification is made at the time of issuance and is not subsequently altered.
  - An instrument is a financial liability if the issuer may be obligated to deliver cash or another financial asset or the holder has a right to demand cash or another financial asset. An example is mandatorily redeemable preferred shares.
  - An instrument that does not give rise to such a contractual obligation is an equity instrument.
  - Interest, dividends, gains, and losses relating to an instrument classified as a liability should be reported as income or expense as appropriate.
- At issuance, an issuer must classify separately the debt and equity components of a single compound instrument such as convertible debt and debt issued with detachable rights or warrants.

- A financial asset and a financial liability should be offset and the net amount reported when, and only when, an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis or simultaneously.
- Cost of treasury shares is deducted from equity, and resales of treasury shares are equity transactions.
- Costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity, net of any related income tax benefit.
- Disclosure requirements include:
  - Risk management and hedging policies.
  - Hedge accounting policies and practices, and gains and losses from hedges.
  - Terms and conditions of, and accounting policies for, all financial instruments.
  - Information about exposure to interest rate risk.
  - Information about exposure to credit risk.
  - Fair values of all financial assets and financial liabilities, except those for which a reliable measure of fair value is not available.
  - Information about derecognition, collateral, impairment, defaults and breaches, and reclassifications.

Interpretations **IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments**

These are liabilities unless the co-op has the legal right not to redeem on demand.

Useful DTT Publication **iGAAP 2005 Financial Instruments: IAS 32 and IAS 39 Explained**

Guidance on how to apply both of these complex standards, including illustrative examples, and interpretations. Information at www.iasplus.com/dttpubs/pubs.htm.

IAS 33 Earnings per Share (revised 2003)

Effective Date Annual periods beginning on or after 1 January

2005.

Objective

To prescribe principles for determining and presenting earnings per share (EPS) amounts in order to improve performance comparisons between different entities in the same period and between different accounting periods for the same entity. Focus of IAS 33 is on the denominator of the EPS calculation.

Summary

- Applies to publicly traded entities, entities in the process of issuing such shares, and any other entity voluntarily presenting EPS.
- Present basic and diluted EPS on the face of the income statement:
  - For each class of ordinary shares.
  - With equal prominence.
  - For all periods presented.
- In consolidated financial statements, EPS reflects earnings attributable to the parent's shareholders.
- Dilution is a reduction in EPS or an increase in loss per share on the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued when specified conditions are met.
- Basic EPS calculation:
  - Earnings numerator: Should be after deduction of all expenses including tax and minority interests, and after deduction of preference dividends.
  - Denominator: Weighted average number of shares outstanding during the period.
- Diluted EPS calculation:
  - Earnings numerator: The net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares (such as options, warrants, convertible securities, and contingent insurance agreements), and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

  - Denominator: Should be adjusted for the number of shares that would be issued on the conversion of all of the dilutive potential ordinary shares into ordinary shares.
  - Anti-dilutive potential ordinary shares are to be excluded from the calculation.

Interpretations

None.

IAS 34 Interim Financial Reporting

Effective Date

Periods beginning on or after 1 January 1999.

Objective

To prescribe the minimum content of an interim financial report (IFR) and the recognition and measurement principles for an IFR.

Summary

- Applies only when the entity is required or elects to publish an IFR in accordance with IFRSs.
- Local regulators (not IAS 34) mandate
  - which entities should publish interim financial reports;
  - how frequently; and
  - how soon after the end of an interim period.
- An IFR is a complete or condensed set of financial statements for a period shorter than an entity's full financial year.
- Minimum components of an IFR are a condensed balance sheet, income statement, statement of changes in equity, cash flow statement, and selected explanatory notes.
- Prescribes the comparative periods for which interim financial statements are required to be presented.
- Materiality is based on interim financial data, not forecasted annual amounts.
- The notes in an IFR should provide an explanation of events and transactions significant to understanding the changes since the last annual financial statements.
- Same accounting policies as annual.
- Revenue and costs to be recognised when they occur, not anticipated or deferred.

- Change in accounting policy – restate previously reported interim periods.

Interpretations None

IAS 35 Discontinuing Operations

Effective Date Replaced by IFRS 5 in 2004, effective 2005.

IAS 36 Impairment of Assets (revised 2004)

Effective Date 1 April 2004.

Objective To ensure that assets are carried at no more than their recoverable amount, and to prescribe how recoverable amount is calculated.

Summary

- IAS 36 applies to all assets except inventories (see IAS 2, Inventories), assets arising from construction contracts (see IAS 11, Construction Contracts), deferred tax assets (see IAS 12, Income Taxes), assets arising from employee benefits (see IAS 19, Employee Benefits), financial assets (see IAS 39, Financial Instruments: Recognition and Measurement), investment property measured at fair value (see IAS 40, Investment Property), biological assets related to agricultural activity measured at fair value less estimated point-of-sale costs (see IAS 41, Agriculture).
- Impairment loss to be recognised when the carrying amount of an asset exceeds its recoverable amount.
- Recognise impairment loss through income statement for assets carried at cost; treat as a decrease in the revaluation surplus for assets carried at revalued amount.
- Recoverable amount is the higher of an asset's net selling price and its value in use.
- Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.
- Discount rate is the pre-tax rate that reflects current market assessments of the time

value of money and the risks specific to the asset. The discount rate should not reflect risks for which future cash flows have been adjusted and should equal the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from the asset.

- At each balance sheet date, review assets to look for any indication that an asset may be impaired. If impairment is indicated, calculate recoverable amount.
- Goodwill and other intangibles with indefinite useful life must be tested for impairment at least annually, and recoverable amount calculated.
- If it is not possible to determine the recoverable amount for the individual asset, then determine recoverable amount for the asset's cash-generating unit. The impairment test for goodwill should be performed at the smallest group of cash-generating units to which goodwill can be allocated on a reasonable and consistent basis.
- Reversal of prior years' impairment losses allowed in certain instances (prohibited for goodwill).
- Disclose impairment losses by class of assets and by segment (if applying IAS 14, Segment Reporting).
- Disclose reversal of impairment losses.

Interpretations None.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Effective Date Periods beginning on or after 1 July 1999.

Objective To prescribe appropriate recognition criteria and measurement bases for provisions, contingent liabilities, and contingent assets and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. IAS 37 thus aims to ensure that only genuine obligations are dealt with in the financial

statements. Planned future expenditure, even where authorised by the board of directors or equivalent governing body, is excluded from recognition, as are accruals for self-insured losses, general uncertainties, and other events that have not yet taken place.

Summary

- Recognise a provision only when a past event has created a legal or constructive obligation, an outflow of resources is probable, and the amount of the obligation can be estimated reliably.
- Amount recognised as a provision is the best estimate of settlement amount at balance sheet date.
- Requires a review of provisions at each balance sheet date to adjust for changes in estimate.
- Utilise provisions only for original purposes.
- Examples of provisions may include onerous contracts, restructuring provisions, warranties, refunds, and site restoration.
- Comprehensive disclosures, including descriptions and amounts, are required for each class of provision.
- Contingent liability arises when:
  - there is a possible obligation to be confirmed by a future event that is outside the control of the entity; or
  - a present obligation may, but probably will not, require an outflow of resources; or
  - a sufficiently reliable estimate of the amount of a present obligation cannot be made (this is rare).
- Contingent liabilities require disclosure only (no recognition). If the possibility of outflow is remote, then no disclosure.
- Contingent asset arises when the inflow of economic benefits is probable, but not virtually certain, and occurrence depends on an event outside the control of the entity.
- Contingent assets require disclosure only. If the realisation of income is virtually certain, the related asset is not a contingent asset and recognition is appropriate.

Interpretations

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

Adjust the provision for changes in the amount or timing of future costs and for changes in the market-based discount rate.

IAS 38 Intangible Assets (revised 2004)

Effective Date 1 April 2004.

Objective

To prescribe the accounting treatment for recognising, measuring, and disclosing all intangible assets that are not dealt with specifically in another IFRS.

Summary

- Requires an entity to recognise an intangible asset, whether purchased or self-created, if:
  - it is probable that the future economic benefits that are attributable to the asset will flow to the entity, and
  - the cost of the asset can be measured reliably.
- Additional recognition criteria for internally generated intangible assets.
- All research costs are charged to expense when incurred.
- Development costs are capitalised only after technical and commercial feasibility of the resulting product or service have been established.
- Intangible assets, including in-process research and development (IPR&D), acquired in a business combination should be recognised separately from goodwill if they arise as a result of contractual or legal rights or are separable from the business.
- Internally-generated goodwill, brands, mastheads, publishing titles, customer lists, start-up costs, training costs, advertising costs, and relocation costs should not be recognised as assets.
- If an intangible item does not meet both the definition and the recognition criteria for an intangible asset, expenditure on the item is recognised as an expense when it is

incurred, except if the cost is incurred as part of a purchase business combination, in which case it should form part of the amount attributed to goodwill at the date of acquisition.

- For the purpose of accounting subsequent to initial acquisition, intangible assets are classified as:
  - Indefinite life: No foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. 'Indefinite' does not mean 'infinite'.
  - Finite life: A limited period of benefit to the entity.
- Intangible assets with indefinite useful lives are not amortised but must be tested for impairment at each reporting date. If recoverable amount is lower than the carrying amount, an impairment loss is recognised. The assessment must also consider whether the intangible continues to have an indefinite life.
- Generally, the cost (residual value is normally zero) of an intangible asset with a finite useful life is amortised over that life. If the intangible asset has a quoted market price in an active market, an accounting policy choice of a revaluation model is permitted. Under the revaluation model, the asset is carried at revalued amount, which is fair value at revaluation date less subsequent depreciation.
- Normally, subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense. Only rarely can the asset recognition criteria be met.

Interpretations

SIC 32, Intangible Assets – Web Site Costs

Certain initial infrastructure development and graphic design costs incurred in web site development may be capitalised.

IFRIC 3 Emission Rights

Tradable emissions allowances are intangible assets under IAS 38.

IAS 39 Financial Instruments: Recognition and Measurement (revised 2003 and 2004)

Effective Date

Annual periods beginning on or after 1 January 2005.

Objective

To establish principles for recognising, derecognising, and measuring financial assets and financial liabilities.

Summary

- All financial assets and financial liabilities, including all derivatives and certain embedded derivatives, must be recognised on the balance sheet.
- Financial instruments are initially measured at fair value on date of acquisition or issuance. Usually this is the same as cost, but sometimes an adjustment is required.
- An entity has an option of recognising normal purchases and sales of securities in the market place consistently either at trade date or settlement date. If settlement date accounting is used, IAS 39 requires recognition of certain value changes between trade and settlement dates.
- For the purpose of measuring a financial asset subsequent to initial recognition, IAS 39 classifies financial assets into four categories:
  1. Loans and receivables not held for trading.
  2. Held-to-maturity (HTM) investments, such as debt securities and mandatorily redeemable preferred shares, that the entity intends and is able to hold to maturity. If an entity sells any HTM investments (other than in exceptional circumstances), all of its other HTM investments must be reclassified as available-for-sale (category 4 below) for the current and next two financial reporting years.
  3. Financial assets measured at fair value through profit and loss, which includes those held for trading (short-term profit taking) and any other financial asset that the entity designates (the "fair value

option"). Derivative assets are always in this category unless they are designated as hedging instruments.

4. Available-for-sale financial assets (AFS) – all financial assets that do not fall into one of the other three categories. This includes all investments in equity instruments that are not measured at fair value through profit and loss. Additionally, an entity may designate any loans and receivables as AFS.

- Subsequent to initial recognition:
  - All financial assets in categories 1 and 2 above are carried at amortised cost subject to a test for impairment.
  - All financial assets in category 3 above are carried at fair value, with value changes recognised in profit or loss.
  - All financial assets in category 4 above (AFS) are measured at fair value in the balance sheet, with value changes recognised in equity, subject to impairment testing. If the fair value of an AFS asset cannot be measured reliably, the asset is carried at cost.
- After acquisition, most financial liabilities are measured at original recorded amount less principal repayments and amortisation. Three categories of liabilities are measured at fair value with value changes recognised in profit and loss:
  - derivative liabilities;
  - liabilities held for trading (short sales); and
  - any liabilities that the entity designates, at issuance, to be measured at fair value through profit and loss (the "fair value option").
- Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The IAS 39 fair value hierarchy:
  - Best is quoted market price in an active market.
  - Otherwise use a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models.

- IAS 39 establishes conditions for determining when control over a financial asset or liability has been transferred to another party and, therefore, it should be removed from the balance sheet (derecognised). Derecognition is not permitted to the extent to which the transferor has continuing involvement in an asset or a portion of an asset it has transferred.
- Hedge accounting (recognising the offsetting effects of fair value changes of both the hedging instrument and the hedged item in the same period's profit or loss) is permitted in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective. IAS 39 provides for three types of hedges:
  - Fair value hedge: If an entity hedges a change in fair value of a recognised asset or liability or firm commitment, the change in fair values of both the hedging instrument and the hedged item are recognised in profit or loss when they occur.
  - Cash flow hedge: If an entity hedges changes in the future cash flows relating to a recognised asset or liability or a probable forecast transaction, then the change in fair value of the hedging instrument is recognised directly in equity until such time as those future cash flows occur.
- A hedge of foreign currency risk in a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.
- Hedge of a net investment in a foreign entity: This is treated as a cash flow hedge.
- The 2003 amendments to IAS 39 moved all of the disclosures that were in IAS 39 into IAS 32.

Interpretations None.

IAS 39 Guidance During 1999-2000, an IASC committee developed approximately 250 questions and answers on IAS 39. Approximately 100 of those were addressed in the 2003 revisions to IAS 39. The remaining Q&As are included as part of the IASB's annual bound volume of IFRSs.

IAS 40 Investment Property (revised 2004)

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the accounting treatment for investment property and related disclosures.

Summary

- Investment property is land or buildings held (whether by the owner or under a finance lease) to earn rentals or for capital appreciation or both.
- IAS 40 does not apply to owner-occupied property or property that is being constructed or developed for future use as investment property, or property held for sale in the ordinary course of business.
- Permits an entity to choose either the fair value model or cost model.
  - Fair value model: Investment property is measured at fair value, and changes in fair value are recognised in the income statement.
  - Cost model: Investment property is measured at depreciated cost less any accumulated impairment losses. Fair value of the investment property must still be disclosed.
- The chosen measurement model must be applied to all of the entity's investment property.
- If an entity uses the fair value model but, when a particular property is acquired, there is clear evidence that the entity will not be able to determine fair value on a continuing basis, the cost model is used for that property – and it must continue to be used until disposal of the property.
- Change from one model to the other is

permitted if it will result in a more appropriate presentation (highly unlikely for change from fair value to cost model).
- A property interest held by a lessee under an operating lease can qualify as investment property provided that the lessee uses the fair value model of IAS 40. In this case, the lessee accounts for the lease as if it were a finance lease.
- Disclosures include:
  - Method of determining fair value.
  - Extent of use of independent valuer in determining fair value.
  - Criteria that were used to classify property as investment property or not.
  - Amounts recognised in profit and loss.

Interpretations None.

IAS 41 Agriculture

Effective Date Periods beginning on or after 1 January 2003.

Objective To prescribe accounting for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce.

Summary

- Measure all biological assets at fair value less expected point-of-sale costs at each balance sheet date, unless fair value cannot be measured reliably.
- Measure agricultural produce at fair value at the point of harvest less expected point-of-sale costs. Because harvested produce is a marketable commodity, there is no "measurement reliability" exception for produce.
- Change in fair value of biological assets during a period is reported in net profit or loss.
- Exception to fair value model for biological assets: if there is no active market at time of recognition in the financial statements, and no other reliable measurement method, then apply the cost model to the specific

biological asset only. The biological asset should be measured at depreciated cost less any accumulated impairment losses.

- Quoted market price in active market generally represents the best measure of fair value of a biological asset or agricultural produce. If an active market does not exist, IAS 41 provides guidance for choosing another measurement basis.
- Fair value measurement stops at harvest. IAS 2, Inventories, applies after harvest.
- Disclosures include:
  - Description of an entity's biological assets, by broad category.
  - Carrying amount of each category.
  - Change in fair value during the period.
  - Reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting.
  - Basis for determining fair value.

Interpretations None.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Effective Date First IFRS financial statements for a period beginning on or after 1 January 2004.

Objective To prescribe the procedures when an entity adopts IFRSs for the first time as the basis for preparing its general-purpose financial statements.

Summary

- Overview for an entity that adopts IFRSs for the first time in its annual financial statements for the year ended 31 December 2005:
- Select its accounting policies based on IFRSs in force at 31 December 2005.
- Prepare at least 2005 and 2004 financial statements and restate retrospectively the opening balance sheet (first period for which full comparative financial statements are presented) by applying the IFRSs in force at 31 December 2005.
  - Since IAS 1 requires at least one year of comparative prior period financial information, the opening balance sheet will be 1 January 2004 if not earlier.
  - If a 31 December 2005 adopter reports selected financial data (but not full financial statements) on an IFRS basis for periods prior to 2004, in addition to full financial statements for 2004 and 2005, that does not change the fact that its opening IFRS balance sheet is as of 1 January 2004.

Interpretations None

IFRS 2 Share-based Payment

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the accounting for a transaction in which an entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity.

Summary

- All share-based payment transactions must be recognised in the financial statements, using a fair value measurement basis.
- An expense is recognised when the goods or services received are consumed.
- The same recognition and measurement standards apply to both public and non-public companies.
- In principle, transactions in which goods or services are received as consideration for equity instruments of the entity should be measured at the fair value of the goods or services received. Only if the fair value of the goods or services cannot be measured reliably would the fair value of the equity instruments granted be used.
- For transactions with employees and others providing similar services, the entity is

required to measure the fair value of the equity instruments granted, because it is typically not possible to estimate reliably the fair value of employee services received.

- For transactions measured at the fair value of the equity instruments granted (such as transactions with employees), fair value should be estimated at grant date.
- For transactions measured at the fair value of the goods or services received, fair value should be estimated at the date of receipt of those goods or services.
- For goods or services measured by reference to the fair value of the equity instruments granted, IFRS 2 specifies that, in general, vesting conditions, except market conditions, are not taken into account when estimating the fair value of the shares or options at the relevant measurement date (as specified above). Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.
- IFRS 2 requires the fair value of equity instruments granted to be based on market prices, if available, and to take into account the terms and conditions on which those equity instruments were granted. In the absence of market prices, fair value is estimated using a valuation model to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. IFRS 2 does not specify which particular valuation model should be used.
- Disclosures include:
  - the nature and extent of share-based payment arrangements that existed during the period;
  - how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined; and
  - the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

Interpretations None.

IFRS 3 Business Combinations

Effective Date Business combinations after 31 March 2004.

Objective To prescribe the financial reporting by an entity when it undertakes a business combination.

Summary

- Purchase method is used for all business combinations. The uniting (pooling) of interests method that was used under IAS 22 in certain circumstances is now prohibited.
- Goodwill and other intangible assets with indefinite lives are not amortised, but they must be tested for impairment at least annually.
- Goodwill is impaired if its carrying amount exceeds its implied value. Implied value is the recoverable amount of the cash generating unit (CGU) to which the goodwill has been allocated and the current fair value of the CGU's identifiable net assets.
- If the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities exceeds the cost, the excess (sometimes called negative goodwill) is recognised as an immediate gain.
- Minority's share of acquired assets is measured at fair value.
- Minority interest is reported within equity in the balance sheet.

Interpretations None.

IFRS 4 Insurance Contracts

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the financial reporting for insurance contracts until the IASB completes the second phase of its project on insurance contracts.

Summary

- Insurers are exempted from applying the IASB Framework and certain existing IFRSs.
- Catastrophe reserves and equalisation provisions are prohibited.
- Requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.
- Insurance liabilities may not be offset against related reinsurance assets.
- Accounting policy changes are restricted.
- New disclosures are required.

Interpretations None.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Effective Date Annual periods beginning on or after 1 January 2005.

Objective To prescribe the accounting for assets held for sale and the presentation and disclosure of discontinued operations.

Summary

- Introduces the classification 'held for sale' and the concept of a disposal group (a group of assets to be disposed of in a single transaction, including any related liabilities also transferred).
- Assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell.
- Such assets or disposal groups are not depreciated
- An asset classified as held for sale, and the

assets and liabilities in a disposal group classified as held for sale, are presented separately on the face of the balance sheet.
- A major line of business or area of geographical operations must be classified as discontinued when its assets are classified as held for sale.

Interpretations None.

IFRS 6 Exploration for and Evaluation of Mineral Resources

Effective Date Annual periods beginning on or after 1 January 2006.

Objective To prescribe the financial reporting for the exploration for and evaluation of mineral resources.

Summary

- An entity is permitted to develop its accounting policy for exploration and evaluation assets under IFRSs without specifically considering the requirements of paragraphs 11 and 12 of IAS 8 – which specify a hierarchy of sources of IFRS GAAP in the absence of a specific standard. Thus an entity adopting IFRS 6 may continue to use its existing accounting policies.
- Requires an impairment test when there is an indication that the carrying amount of exploration and evaluation assets exceeds recoverable amount.
- Allows impairment to be assessed at a level higher than the "cash generating unit" under IAS 36, but measures impairment in accordance with IAS 36 once it is assessed.

Interpretations None.

Preface to International Financial Reporting Standards

Adoption Adopted by the IASB in May 2002.

Summary Covers, among other things:

- the objectives of the IASB;
- the scope of IFRSs;
- due process for developing IFRSs and Interpretations;
- equal status of "black letter" and "grey letter" paragraphs;
- policy on effective dates; and
- use of English as the official language.

Framework for the Preparation and Presentation of Financial Statements

Adoption Approved by the IASC Board in April 1989.

Adopted by the IASB in April 2001.

Summary The Framework:

- Defines the objective of financial statements.
- Identifies the qualitative characteristics that make information in financial statements useful.
- Defines the basic elements of financial statements and the concepts for recognising and measuring them in financial statements.

Current IASB Projects

Business Combinations – Phase II

Status. Phase II of IASB's Business Combinations project has three components:

- Issues related to the application of the purchase method.
- Accounting for business combinations in which separate entities or operations of entities are brought together to form a joint venture, including consideration of "fresh start accounting".
- Issues that were excluded from Phase I, including business combinations involving entities (or operations of entities) under common control.

The first component above (purchase method procedures) is a joint project with FASB. Tentative decisions to date:

- Recognise full goodwill, including minority share.
- Recognise contingent assets as well as liabilities.
- When a parent obtains control, all assets and liabilities of the subsidiary (including goodwill) are measured at fair value.
- When parent loses control, the retained interest is remeasured to fair value and gain or loss is recognised.
- After control is obtained, any changes in ownership interests are equity transactions if control is retained.

What's next? Final standard is expected in 2005, effective after 2005.

Performance Reporting (Reporting Comprehensive Income)

Status. Key issues in this project include:

- Should performance be reported in a single statement of comprehensive income, with subtotals for "income from continuing operations" and "net profit or loss"? Multiple statements?
- Should business activities be separated from financing? What other subtotals should be presented, for example, continuing operations.
- Should comparative data for prior periods be required? How many periods?

- Should recycling between "net profit or loss" and "comprehensive income" be permitted?
- Is there any role for the notion of realisation?
- How best to accommodate the current mixed attribute model? Separate initial measurement from remeasurements?
- Should the direct method be required in the cash flow statement?

What's next? A discussion paper is planned for late 2005.

Accounting Standards for Small and Medium-Sized Entities

Status. In June 2004 the Board published a discussion paper. The major issues set out in the Discussion Paper are:

- Should the IASB develop special financial reporting standards for SMEs?
- What should be the objectives of a set of financial reporting standards for SMEs?
- For which entities would IASB Standards for SMEs be intended?
- If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?
- May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?
- How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?
- If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?
- In what format should IASB Standards for SMEs be published?

The Board received around 120 responses.

What's next? An exposure draft of proposed standards is likely in 2005.

Short-Term Convergence Project: IFRS and US GAAP

Status. The objective of this project is to eliminate a variety of differences between International Financial Reporting Standards and US GAAP. The project, which is being done jointly by FASB and IASB, grew out of an agreement reached by the two Boards in September 2002. From the IASB side, some aspects of this project have been completed, including many of the changes to IASs in December 2003 as a result of the IASB's improvements project; IFRS 3 on business combinations and the related revisions to IAS 36 and IAS 38; and IFRS 5 on asset disposals and discontinued operations. An exposure draft of limited revisions to IAS 19 was issued as part of convergence.

What's next? The IASB will publish proposed revisions to IAS 12, IAS 20, and IAS 37 with the goal of convergence. Ongoing convergence activities between IASB and FASB include:

- Twice-yearly joint meetings.
- Aligned agendas.
- Joint staffing of major projects.
- Short-term convergence projects.
- Convergence inventory of differences with a plan to address.
- Coordination of activities of their interpretive bodies.

Ideally, convergence means not only the same answers, but also the same words. FASB is considering whether to adopt the IASB "black letter/grey letter" approach.

Insurance Contracts Phase II

Status. The insurance contracts project was carried forward from the former IASC. It is a comprehensive project addressing all issues on accounting for insurance contracts. However, in May 2002, the IASB agreed to split the project into two phases, so that some components can be put in place by 2005 without delaying the rest of the project.

Phase I. This phase involved issuance of an interim standard to provide guidance on how existing IFRSs should be applied to insurance contracts. Phase I was completed with the issuance of IFRS 4 Insurance Contracts, described elsewhere in this booklet.

Phase II. This phase is taking a fresh look at accounting for insurance contracts. In January 2003, the Board suspended work on Phase II pending completion of Phase I. Phase II resumed in September 2004 with appointment of a new Working Group. At that time, the Board noted that its predecessor had published an Issues Paper and a Draft Statement of Principles, and the IASB itself has discussed the project at many Board meetings. The Board said that it will "regard the past work as a useful resource, but will not feel bound by it. The only restrictions on a fresh look are the IASB's

Framework and the general principles established in the IASB's existing standards."

What's next? The next step in the Phase II project will be for the IASB to publish a discussion paper.

Financial Instruments: Disclosure

Status. In July 2004, the IASB issued ED 7 Financial Instruments: Disclosure. Proposed disclosures include:

- Disclosure of the significance of financial instruments for an entity's financial position and performance (this would incorporate many of the requirements currently in IAS 32).
- Qualitative and quantitative disclosures about exposure to risks arising from financial instruments and management's objectives, policies, and processes for managing those risks.
- Credit enhancements and the fair value of and other information about collateral received.
- Disclosures about interest rate risk, which would include both cash flow interest rate risk and fair value interest rate risk. Sensitivity analyses for interest rate and foreign exchange rate risks would be required.
- Disclosures about market risk, including information about asset quality and the liquidity of the markets in which a financial asset might be disposed.
- Disclosures about other risks, sometimes called residual value risks, that underlie financial instruments and that are not captured by the other disclosures.
- Details about an entity's own equity, including the entity's objectives, policies, and processes for managing capital.

What's next? A final standard is expected in 2005. Proposed effective date is annual periods beginning on or after 1 January 2007, with early application encouraged.

Liabilities and Revenue Recognition

Status. This is a joint project with FASB. Regarding revenue, the Boards have tentatively agreed that two criteria must be met to recognise revenue:

- An increase in assets or decrease in liabilities unrelated to a change in owners' investment.
- The increase/decrease in assets or liabilities can be reliably measured.

What's next? Revisions of both the IASB Framework and IAS 18, Revenue are likely. An exposure draft is expected in 2005.

Consolidation, Including Special Purpose Entities

Status. The objective of this project is to reconfirm the basis on which an entity should consolidate its investments and to provide more rigorous guidance around the concept of "control" including applying that concept to "special purpose entities". The Board's most recent thinking on the definition of control is as follows:

- Ability to set strategy and direct financing and operating policy.
- Ability to access benefits.
- Ability to use power to maintain, increase, protect benefits.

What's next? The project is likely to lead to revisions of IAS 27. IASB has not yet established a timetable.

Further Limited Amendments to IAS 39

Status. In addition to the significant changes to IAS 39 made in December 2003 and March 2004, the IASB has proposed limited amendments to IAS 39 relating to:

- The Fair Value Option.
- Transition and Initial Recognition of Financial Assets and Financial Liabilities.
- Cash Flow Hedge Accounting of Forecast Intragroup Transactions.
- Financial Guarantee Contracts and Credit Insurance.

What's next? Final revisions on the first two of the above proposals were approved in December 2004, for issuance in early 2005. Final revisions on the last two are expected in first quarter 2005. Effective dates for all would be 2005 except for the limited amendment on forecast transactions, which would be effective in 2006.

IASB's Active Research Topics

These are likely to become active agenda projects soon:

- Definitions of elements of financial statements.
- Extractive industries.
- Financial instruments.
- Intangibles.
- Joint ventures.
- Leases.
- Management discussion and analysis.
- Measurement objective.

Our www.iasplus.com website has the latest information about the IASB's and IFRIC's agenda projects, including summaries of decisions reached at each IASB and IFRIC meeting.

Interpretations

SIC Interpretations

The following Interpretations, issued by the Standing Interpretations Committee (SIC) from 1997-2001, remain in effect. All other SIC Interpretations were superseded when the improvements to IASs were adopted in December 2003:

- SIC 7 Introduction of the Euro
- SIC 10 Government Assistance - No Specific Relation to Operating Activities
- SIC 12 Consolidation - Special Purpose Entities
- SIC 13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers
- SIC 15 Operating Leases - Incentives
- SIC 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets
- SIC 25 Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders
- SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease
- SIC 29 Disclosure - Service Concession Arrangements
- SIC 31 Revenue - Barter Transactions Involving Advertising Services
- SIC 32 Intangible Assets - Website Costs

IFRIC Interpretations

The following Interpretations have been issued by the International Financial Reporting Interpretations Committee (IFRIC):

- IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments
- IFRIC 3 Emission Rights
- IFRIC 4 Determining Whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC), which replaced the Standing Interpretations Committee (SIC) in 2002. Interpretations are part of IASB's authoritative literature. Therefore, financial statements may not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable Interpretation.

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