IAS PLUS

Deloitte Touche Tohmatsu

Published for our clients and staff in the Europe-Africa region

In this Issue **May 2001** **Published Quarterly, Issue No. 1**

IAS PLUS WEB SITE

Our new site is up and running. Please check it out at **http://www.iasplus.com** and give us suggestions for improvement. You will find the latest IASB and SIC news, summaries of all proposed and final Standards and Interpretations, updates on ongoing projects, reports about IASB meetings, and reference materials. Also there are links to other IAS-related web sites.

IASB NEWS

The baton is passed. The International Accounting Standards Board (IASB) officially took over from IASC effective 1 April 2001. The IASC Trustees, meeting in Brussels on 7-8 March, passed the necessary resolutions invoking certain portions of IASC's new Constitution. Brief biographies of IASB members are presented on pages 2-3.

An oversight foundation is created. As part of that action, the Trustees established a not-for-profit Delaware corporation, named the International Accounting Standards Committee Foundation, to oversee the IASB.

Advisory Council members are soon to be appointed. See page 3.

IASB meets informally, then officially. IASB held its first formal Board meeting on 18-20 April in London. In February, the Board had held an informal administrative meeting in Streatley-on-Thames, UK, at which no technical matters were discussed. IASB decisions at its April meeting are summarised on pages 4-5.

Think "IASB" not "IASC". IASB has revamped its website to reflect the new structure. Because the focus of the website is primarily on the work of the standards board, its Internet address is www.iasb.org.uk, although the old www.iasc.org.uk also works.

IASB meeting schedule. IASB announced its meeting schedule for the remainder of 2001. They plan to meet monthly, except in August, for three to five days each month. While most meetings will be in London, they have planned one meeting each in Washington and Paris during 2001. See page 6.

Standing Interpretations Committee (SIC). SIC met in Tokyo 12-13 February. It finalised its consensus on SIC 26 (incidental operations), began discussing comments on SIC D-27 (lease-leaseback), and reached a tentative consensus on the measurement of shares issued in a business combination, which was to be D28. However, in April the IASB decided that D26 should not be finalised and D28 should not be issued. The future of D27 is also uncertain. See pages 8-9. SIC meets 9-11 May in Melbourne, Australia. The agenda is discussed on page 10.

Reminder: IAS 12, 19, 39, and 40 take effect in 2001. See page 4.

EUROPEAN UNION PROPOSALS

European Union (EU) moves to IAS. The European Commission (EC) has proposed in February 2001 that all listed companies use IAS for their consolidated accounts starting in 2005. A special mechanism will be set up to provide legal endorsement of IAS for their use within the EU environment. The project will also require a modernisation of the EU accounting directives. See page 13.

Reactions to the EC's proposals to move to IAS. Key European accounting and business organisations have spelled out proposals for the European IAS endorsement mechanism and for providing European input to IASB. The Forum of European Securities Commissions (FESCO) issued their response to the new EU's accounting Strategy. See page 14.

For information about the content of **IAS PLUS** *please contact:*
Laurence Rivat: ***lrivat@deloitte.fr***

INTERNATIONAL ACCOUNTING STANDARDS BOARD MEMBERS

Sir David Tweedie, Chairman

Sir David Tweedie served as the first full-time Chairman of the U.K. Accounting Standards Board, with a term from 1990-2000. Before assuming the Chairmanship of the U.K. Board, Sir David was national technical partner for KPMG and has served as a professor of accounting in his native Scotland. He has worked on international standards setting issues both as the first Chairman of the G4+1, a cooperative group among leading standard setters, and as a member of the previous IASC Board.

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 principally in Belgium, Italy, France, and the United States throughout his professional career.

Mary E. Barth

As a part-time Board member, Mary Barth, an American citizen, will retain her position as a Professor of Accounting at the Graduate School of Business at Stanford University. Among the academic community, she is widely known and has won national awards both as an educator and for her body of scholarly work. Before entering academia, Prof. Barth was a partner at Arthur Andersen.

Hans-Georg Bruns – Liaison to German Standard Setter

Hans-Georg Bruns has served as the Chief Accounting Officer for DaimlerChrysler and has been head of a principal working group of his home country's German Accounting Standards Committee. In his role at Daimler-Benz and now DaimlerChrysler, Dr. Bruns was in charge of the task force listing Daimler-Benz on the New York Stock Exchange and was responsible for the accounting issues related to the DaimlerChrysler merger.

Anthony T. Cope

Tony Cope joined the U.S. Financial Accounting Standards Board in 1993. Prior to that engagement, Mr. Cope, a British citizen, worked as a financial analyst in the United States for 30 years, ultimately becoming Director of Fixed Income Research, Wellington Management Co in Boston. Mr. Cope, as a member of the IASC Strategy Working Party, was closely involved with the organization's current restructuring, and has served as FASB's observer to IASC Board meetings for the last five years.

Robert P. Garnett

Robert Garnett is the Executive Vice President of Finance for Anglo American plc, a South African company, listed on the London Stock Exchange. Mr. Garnett has worked as a preparer and analyst of financial statements in his native South Africa throughout his career and, as an IASB Board member, will reach out to the economies of Southern Africa to improve accounting standards.

Gilbert Gélard – Liaison to French Standard Setter

Currently a partner at KPMG in his native France, Gilbert Gélard has extensive experience with French industry. He served as a Deputy CFO with Groupe Hachette from 1973 to 1982 and Deputy Group Comptroller with Elf Aquitaine from 1982 to 1987. Mr. Gélard speaks eight languages and has been a member of the French standard-setting body (CNC). He served as a member of the former IASC Board.

Robert H. Herz

Robert Herz, as a part-time member of the Board, will continue to be a partner at PricewaterhouseCoopers where he has been in charge technical and professional matters in the United States and in the Americas. Mr. Herz has been a member of several FASB task forces and professional and academic committees and has recently been nominated to become the Chairman of the new Transnational Auditors Committee of the International Federation of Accountants. Though a U.S. citizen, Mr. Herz has also lived in England and Argentina, speaks Spanish, and has worked with many international companies on accounting and reporting matters.

James J. Leisenring – Liaison to the U.S. Standard Setter

Jim Leisenring has worked on issues related to accounting standards setting over the last three decades, as the Vice Chairman and most recently as Director of International Activities of the U.S. Financial Accounting Standards Board (FASB) in his home country. While at FASB, Mr. Leisenring served as FASB's observer for several years at meetings of the former IASC Board.

continued...

INTERNATIONAL ACCOUNTING STANDARDS BOARD MEMBERS continued

Warren McGregor – Liaison to Australian and New Zealand Standard Setters

Warren 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. In his most recent position with Stevenson McGregor, a company he co-founded in his native Australia, he has been involved in advising ASEAN nations on adopting high quality accounting standards.

Patricia O'Malley – Liaison to Canadian Standard-Setter

Patricia O'Malley currently serves as 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 her home country of Canada.

Harry K. Schmid

Harry Schmid brings over 40 years of experience as a preparer of financial statements for Nestlé, ultimately becoming Senior Vice President at its headquarters, responsible for corporate reporting. During his professional career and before returning to his native Switzerland, Mr. Schmid lived in Latin America for 17 years and was responsible for finance and control of a Latin American subsidiary. Mr. Schmid speaks four languages (German, French, English, and Spanish). He served as a member of the former IASC Board and the Standing Interpretations Committee.

Geoffrey Whittington – Liaison to U.K. Standard Setter

Geoffrey Whittington is the PricewaterhouseCoopers Professor of Financial Accounting at Cambridge University and formerly served as a member of the UK Monopolies and Merger Commission. In academia, Professor Whittington is widely respected internationally on issues related to accounting and financial statement analysis and has served as a member of the UK Accounting Standards Board in his native England.

Tatsumi Yamada – Liaison to Japanese Standard Setter

Tatsumi Yamada is currently a partner at ChuoAoyama Audit Corporation (a member firm of PricewaterhouseCoopers) in Tokyo. Mr. Yamada brings extensive experience with international standard setting as a Japanese member of the previous IASC board between 1996 and 2000, of which he became an Executive Committee member in 2000.

The Standards Advisory Council (SAC) will provide a forum through which IASB can hear the views of key constituency groups on technical and procedural issues. The Council will be a sounding board and a source of ideas for possible agenda projects.

INTERNATIONAL ACCOUNTING STANDARDS ADVISORY COUNCIL

In March, the IASC Trustees began deliberations regarding the 175 applicants and nominations to the International Accounting Standards Advisory Council (SAC). At the meeting, the Trustees reiterated their commitment to achieving a broad and representative balance of perspectives, both professionally and geographically, through the creation of SAC. The Trustees expect to complete the selection process for the Advisory Council in May.

SAC will have approximately 30 members and will provide a forum for organisations and individuals with an interest in international financial reporting to participate in the standard setting process. Members will be appointed for a renewable term of three years and have diverse geographic and functional backgrounds.

SAC will normally meet three times each year at meetings open to the public to:

- advise the Board on priorities in the Board's work;
- inform the Board of the implications of proposed standards for users and preparers of financial statements; and
- give other advice to the Board or to the Trustees.

Key decisions in April:
–All existing IASs and SICs continue in force.
–Grey-letter sections of IAS are no less authoritative than black-letter.
–New IASB Standards will be known as International Financial Reporting Standards.
–SIC D26 and D27 are not expected to be finalised in their current form. Proposed SIC D28 also will not be issued.
-IASB will embark on a project to make relatively small improvements to existing IAS.
–IAS 39 guidance questions and answers will be added as an illustrative appendix to the Standard itself.

IASB DISCUSSION AND DECISIONS IN APRIL

At its meeting in London 18-20 April 2001, IASB reached the following decisions:

Adoption of existing IASs and SICs. The IASC Board approved a resolution to adopt the IASC Standards and SIC Interpretations existing at 1 April 2001, the date that IASB assumed responsibility for setting standards. The resolution makes clear that the existing pronouncements continue to be applicable unless and until they are amended or withdrawn after formal due process.

Black letter vs. grey letter. IASB approved a proposed introduction to the old IASC Standards stating that "grey-letter" and "black-letter" paragraphs have equal authority, and an enterprise must apply both to comply with IAS. The status of appendices to IAS is unchanged. The Board will continue to discuss how to issue the proposed wording for comments at its next meeting in May 2001. The Board will also discuss style of the Standards at that time.

Name for new standards issued by IASB. New Standards issued by the IASB will be named "International Financial Reporting Standards".

Interpretations. SIC D26 and SIC D27 will not be issued as final Interpretations in their current form. Nor will SIC D28, Business Combinations: Measurement of Shares Issued, be published (SIC had approved D28 in February). IASB wants to have more involvement than the former IASC Board in developing draft Interpretations before they are issued. At its May meeting, IASB will discuss its future relationship with SIC, based on a paper to be prepared by the SIC. SIC D26 and SIC D28 will be included in the improvements project. The future of SIC D27 is uncertain.

Improvements project. IASB added to its agenda an improvements project. For some time, the staff of the IASB have been aware of a need for a project to address topics that can be dealt with relatively quickly and are not individually significant enough to be a project on their own. A number of potential topics have been raised with IASB staff, mainly by national standard setters, accounting firms, IOSCO, the SIC, and IASC Board Members. Potential topics for improvements are broadly of six types:

- elimination of choices;
- elimination of conceptual inconsistencies between IASs;
- additional guidance;
- additional disclosure;
- drafting improvements; and
- improvements in the structure of certain IASs.

IAS 39 implementation guidance. The IAS 39 Implementation Guidance Committee (IGC) should continue to finalise its current work. IGC will be asked to raise controversial issues for IASB to discuss before they are issued as final guidance. IGC's Q&As will be added to IAS 39 as an appendix illustrating application of the Standard.

The Board also discussed the following matters in some detail, but no decisions were taken:

- Board agenda and future work programme, including priorities, criteria for selecting agenda items, and their classification into potential projects on convergence, leadership, critical path, improvement, conceptual framework, and other financial reporting issues;
- Proposals by the Joint Working Group on Financial Instruments and Similar Items, including the recognition and derecognition model;
- Present Value;
- Insurance Contracts;
- Reporting Financial Performance;

- Bank Presentation and Disclosures;
- Leases; and
- Share-Based Payment.

INVENTORY OF POTENTIAL IASB PROJECTS

A wide variety of potential agenda projects were suggested to IASB. The critical path projects represent pervasive issues that arose in a number of past IASC projects and that were addressed by IASC on an ad hoc basis. Many of the convergence projects are matters on which IASC and major national accounting standard-setters have reached differing decisions in the past few years. The leadership projects are ones that have proved to be major stumbling blocks for individual national standard setters. For these, the collective effort of IASB and the national standard-setters – with IASB taking the initiative – offers the most likely path to agreement on comprehensive and high quality standards.

Listed below are the projects that were suggested for the new IASB's agenda, as discussed at the IASB's inaugural meeting 18-20 April:

Improvements Projects
- Improvements Project

Critical Path Projects
- Reporting Financial Performance
- Distinguishing Between Liabilities and Equity
- Consolidation Policy
- Present Value

Conceptual Framework Projects
- Definitions of the Elements of Financial Statements
- Measurement
- Liability Recognition
- Revenue Recognition

Leadership Projects
- Share-Based Payments
- Intangible Assets
- Leases
- Measurement of Financial Instruments at Fair Value
- Insurance Contracts
- Extractive Industries
- Rate-Regulated Enterprises, including Privatisation Issues
- Mutual Funds

Convergence Projects
- Impairment
- Business Combinations
- Consolidation Procedures
- Pension Accounting
- Income Taxes
- Joint Venture Accounting
- Derecognition
- Revaluations
- Non-Reciprocal Transfers
- Segment Reporting
- Accounting for Borrowing Costs

Other Financial Reporting Issues
- Financial Reporting by "Small" Enterprises and Emerging Markets
- Management Discussion and Analysis
- Transition and First Time Application of IAS
- Preface to International Accounting Standards
- Business Reporting on the Internet and XBRL Taxonomy
- Bank Disclosures and Presentation
- Implementation Guidance on IAS 41, Agriculture
- Long Operating Leases
- Venture Capital Enterprises
- Accounting for Associates
- Accounting for Commodity Inventories
- Financial Reporting in Hyperinflationary Economies

IASB plans to meet for three to five days each month, other than August, generally in London but occasionally elsewhere. Meetings are open to public observation. From an observer perspective, IASB's inaugural meeting was a "sell-out".

UPCOMING IASB MEETINGS

IASB has scheduled the following Board meetings for 2001 (in addition to its inaugural meeting held 18-20 April):

- 22-25 May 2001, London (May 24 will be an open meeting with the chairs of major global accounting standard setters)
- 26-28 June 2001, London
- 25-27 July 2001, London
- 11-13 September 2001, London
- 15-19 October 2001, Washington
- 27-29 November 2001, London
- 18-20 December 2001, Paris

Two new IAS take effect in 2001: IAS 39, and 40. IAS 41 will become operative in 2003. The limited revisions to IAS 12, 19, and 39 also take effect in 2001. And all of these will affect quarterly and half-yearly reports, not just annual reports. Deloitte Touche Tohmatsu can help with the transition.

RECENT IASC STANDARDS

International Accounting Standards are issued on approval of at least 8 of the 14 IASB members. Proposed Standards are first published for comment, and for larger projects a discussion paper is issued for comment before the proposal.

EFFECTIVE DATES OF INTERNATIONAL ACCOUNTING STANDARDS EFFECTIVE 2001 OR LATER

	New IAS	*Effective for Periods Beginning on or After*
IAS 39	Financial Instruments: Recognition and Measurement*	1 January 2001 (financial years beginning on or after)
IAS 40	Investment Property*	1 January 2001
IAS 41	Agriculture**	1 January 2003
IAS 12, 19, and 39	Limited Revisions to IAS 12, 19, and 39 and Other Related Standards**	1 January 2001

*Summarised in **IAS PLUS**, October 2000. **Summarised in **IAS PLUS** January 2001. Both newsletters are available at **http://www.iasplus.com**.

IASB has joined a global organisation whose goal is to make financial information reported on the Internet more easily retrievable and usable.

XBRL PROJECT

In February, IASC released a draft taxonomy of XBRL for Financial Statements to members of a global XBRL committee for review. XML is a general language in which Internet web sites are programmed. XBRL applies the XML language to business reporting of financial information on the Internet, enabling downloading of data into usable formats such as electronic spreadsheets and databases. The IASC taxonomy will specifically enable electronic retrieval and use of financial information prepared in accordance with International Accounting Standards. IASB will invite public comment prior to finalising the draft.

Issuance of the IASB issues paper on present value has been delayed until second half of 2001.

NEW TARGET DATES ON IASB PROJECTS

Present Value (Discounting). Under the new IASB structure, Issues Papers will normally be issued by the Board, not by the steering committee as in the past. The steering committee's work on an issues paper on Present Value is at an advanced stage. IASB held its initial discussion of the project at its inaugural meeting 18-20 April, but additional "educational sessions" will be needed, most likely continuing into the summer. Therefore, publication of a paper in the first half of 2001 is no longer a realistic expectation. Second half of 2001 is more likely.

Issuance of the Draft Statement of Principles on insurance contracts has been delayed until late 2001 or early 2002.

Insurance Contracts. Because of the transition to the new IASB, publication of a Draft Statement of Principles on Insurance Contracts is now no longer expected in the first half of 2001. Late 2001 or early 2002 is the most likely time frame at present.

IASB has demonstrated its ability to provide timely guidance on accounting for financial instruments. The IAS 39 Implementation Guidance Committee has now approved over 200 Q&A.

PROGRESS ON IAS 39 GUIDANCE

When the IASC Board voted to approve IAS 39 in December 1998, it instructed staff to monitor implementation issues and to consider how IASC can best respond to such issues. In March 2000, the IASC Board approved an approach proposed by staff to publish implementation guidance on IAS 39 in the form of Questions and Answers and appointed an IAS 39 Implementation Guidance Committee (IGC) to review and approve the draft Q&A and to seek public comment before final publication. IGC is chaired by John T. Smith of Deloitte & Touche, USA.

As of 15 January 2001, the IGC had issued 164 questions and answers (Q&A) in final form. These are available without charge in a single, comprehensive publication from IASB's website: www.iasb.org.uk, then click on Standards, then on IAS 39. In addition, about 50 draft Q&A were issued for public comment in December 2000 with a comment deadline of 19 February 2001. These too can be downloaded from IASB's website. IGC gave final approval nearly all of these draft Q&A at its meeting on 24-25 April 2001. These will be available on IASB's website shortly.

As the senior technical staff officer, the Director of Technical Activities will participate in the debate of both the IASB and the SIC. The Director of Research will oversee the drafting of papers and standards by the IASB staff. There will be approximately 15 project managers and other technical staff.

IASB HAS BEGUN A STAFF SEARCH

IASB is seeking two key technical staff leaders as well as project staff. The leadership positions are Director of Technical Activities and Director of Research.

The Director of Technical Activities will be responsible for ensuring that the technical staff is working effectively. The Director will participate in the debate, but not vote, at the meetings of the Board and the Standing Interpretations Committee.

Primary responsibilities of the Director of Technical Activities will include:

- coordinating the work agenda with the Chairman of the Board and other Board members;
- assigning staff to projects and evaluation of staff performance;
- ensuring the timeliness and quality of the work produced by the staff;
- liasing with the technical directors of national standards setters;
- overseeing the hiring of professional staff; and
- ensuring that the work being "outsourced" to national standard setters is consistent with the standards and expectations of the IASB.

The Director of Research will serve as senior counsel to all staff on technical projects being conducted and is expected to be involved with all technical activities and agenda projects. This individual will oversee the drafting of papers and standards by the staff. The Director of Research will report to the Technical Director and will assist in staff assignment and evaluation. The Director of Research will work closely with the Board Chairman.

IASC is also seeking project managers and other technical project staff, to expand to approximately 15 technical staff.

The Corporation of London has provided partial financial support toward IASB's occupancy expenses.

IASB WILL RELOCATE TO NEW LONDON OFFICES

IASB Board members and technical staff will be relocating to 30 Cannon Street, in the City (financial district) of London, in early June. Some administrative operations are expected to remain at 166 Fleet Street.

IASB wants to have more involvement than the former IASC Board in developing draft Interpretations before they are issued. IASB is deliberating its future relationship with SIC. Meanwhile, IASB decided, at its April meeting that SIC D26 and SIC D28 will be included in the improvements project. The future of SIC D27 is uncertain.

RECENT INTERPRETATIONS

IASC's Standing Interpretations Committee develops draft Interpretations and exposes them for public comment. The IASC Board must approve final Interpretations.

EFFECTIVE DATES OF NEW IASC INTERPRETATIONS

	New SIC Interpretation	*Effective Date*
SIC 17	Equity – Costs of an Equity Transaction*	Periods beginning on or after 30 January 2000
SIC 18	Consistency – Alternative Methods*	Periods beginning on or after 1 July 2000
SIC 19	Reporting Currency – Measurement and Presentation of Financial Statements Under IAS 21 and IAS 29**	Annual financial periods beginning on or after 1 January 2001
SIC 20	Equity Accounting Method – Recognition of Losses*	Periods beginning on or after 1 July 2000
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets*	Effective on 15 July 2000
SIC 22	Business Combinations - Subsequent Adjustment of Fair Values and Goodwill Initially Reported*	Annual periods ending on or after 15 July 2000
SIC 23	Property, Plant and Equipment – Major Inspection and Overhaul Costs*	Effective on 15 July 2000
SIC 24	Earnings Per Share – Financial Instruments and Other Contracts that May Be Settled in Shares**	1 December 2000
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*	Effective on 15 July 2000

*Summarised in **IAS PLUS**, October 2000. **Summarised in **IAS PLUS**, January 2001. Earlier issues of the IASPlus newsletter are available at **http://www.iasplus.com**.

D26 had proposed that incidental operating income during construction of long-lived asset must be reported in net profit or loss, not as a reduction of the asset's cost. However, IASB has concluded that this matter should be addressed in the improvements project. A final Interpretation will not be issued.

SIC 26, PROPERTY, PLANT AND EQUIPMENT – INCIDENTAL OPERATIONS, WILL NOT BE ISSUED IN FINAL FORM

SIC D26 addressed income earned and expenses incurred from operations that are incidental to the construction or development of property, plant, or equipment before the asset is fully operational. In D26, SIC had reached a consensus that the results of these incidental operations should be recognised in net profit or loss for the period. They should not be recognised as an adjustment of the cost of the related property, plant, or equipment asset.

In February 2001, SIC confirmed the consensus without any substantive changes, though SIC did clarify that selling product produced from a plant during its commissioning period is also an example of an incidental and start-up operation. SIC approved a final Interpretation and submitted to the IASB for approval. However, at its April 2001 meeting the Board did not approve the proposed Interpretation, concluding instead that the issue should be addressed in the improvements project.

OUTSTANDING DRAFT INTERPRETATIONS

If a property owner "leases" the property out to an investor for financing or tax reasons and simultaneously leases the property right back, so that the investor does not, in substance, have the right to use the asset for an agreed period of time, the transaction is most likely not a lease under IAS 17.

D27, TRANSACTIONS IN THE LEGAL FORM OF A LEASE AND LEASEBACK: ISSUANCE OF A FINAL INTERPRETATION IS UNCERTAIN

The issue is whether a transaction that takes the legal form of a lease of assets from an enterprise and a lease of the same assets back to the same enterprise is a lease under IAS 17. The draft Interpretation establishes the principle that the accounting should reflect the substance of the transaction. All aspects of a transaction should be evaluated to determine its substance, and whether a series of transactions are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole and should be accounted for as one transaction. The draft Interpretation identifies the following as examples of indications that the transaction is not a lease:

- the lease/leaseback transactions are linked together such that, in substance, during the sublease period the enterprise retains control of the underlying asset and enjoys substantially the same rights to its use as before the arrangement; or
- the transaction has been arranged predominantly for a particular purpose other than leasing (for instance, solely to generate tax benefits that can be shared or increase off-balance-sheet borrowings).

Most of these transactions involve a fee, and the draft Interpretation proposes guidance on whether to recognise fee income when execution of the "lease" agreement is finalised or to defer all or a portion of it to future periods. There is also guidance on determining whether separate investment account and sublease payment obligations should be recognised. Comment deadline was 20 December 2000.

A sizeable number of the comment letters on D27 criticised the proposal because it addressed a narrow fact pattern rather than clarifying a broader issue of principle. IASB discussed the matter at its April meeting but did not reach a conclusion as to whether SIC should proceed toward finalising this Interpretation. It is on SIC's May 2001 agenda for further discussion.

Like D26, this issue will become part of the improvements project rather than a separate Interpretation.

D28, BUSINESS COMBINATIONS – MEASUREMENT OF SHARES ISSUED, WAS APPROVED BY SIC BUT WILL NOT BE ISSUED

IAS 22 requires an acquisition to be accounted for at its cost at the date of exchange. The issues before the SIC in this project are, in a single step acquisition, (a) when does the date of exchange occur and (b) whether it is appropriate to move from a quoted market price, when one exists, in determining the fair value of shares issued.

At its meeting in February 2001, the SIC reached a consensus that the published price of a share quoted in an active market is the best evidence of the share's fair value. SIC also agreed that if there is an undue price fluctuation in an active market, then the published price should not be adjusted unless a more reliable estimate of the fair value can be made. The SIC approved a Draft Interpretation, which was tentatively numbered D28.

Before D28 was published, however, IASB discussed the matter at its April meeting. At that meeting, the IASB Board expressed a view that D28 should not be issued. Instead, IASB would prefer that the issue be addressed as part of the improvements project.

SIC MEETINGS AND AGENDA PROJECTS

SIC continues to function under the new IASB structure essentially as it had under the old IASC structure. The new, full-time IASB expects to take a more active role in the interpretation process than did its predecessor.

SIC met on 9-11 May, and has planned meetings for 6-7 August and 12-13 November. Currently on SIC's agenda for discussion (SIC added the last four to its agenda in February):

- **SIC D27, Transactions in the Legal Form of a Lease and Leaseback.** See story on previous page.
- **Transactions Among Enterprises Under Common Control.** IAS 22 excludes from its scope "transactions among enterprises under common control". SIC is developing guidance to identify which transactions qualify as common-control transactions, but the guidance will not address the accounting for such transactions. In transactions among enterprises under common control, old carrying amounts generally continue. But for non-common-control transactions, measurement (carrying amount or current fair value) becomes an issue.
- **Reporting Currency – Translation from Measurement Currency to Presentation Currency.** How to translate financial statements from a measurement currency to a different currency for presentation purposes (sometimes called a "convenience translation").
- **Advertising Barter Transactions.** What are the circumstances in which fair value may be reliably measured in an advertising barter transaction, particularly in an e-commerce environment.
- **Intangible Assets - Website Costs.** Application of IAS 38, Intangible Assets, in the context of costs incurred to develop and maintain a website, both by an enterprise whose website forms the basis of its business activities and an enterprise whose website supplements its existing business.
- **Service Concessions.** Disclosure of arrangements by which a private sector enterprise agrees to provide services of the type normally considered public (government) services.
- **Consolidation and Equity Method - Potential Voting Rights.** Under IAS 27, a subsidiary is defined in terms of control by an investor. Under IAS 28, an equity method associate is defined in terms of significant influence by an investor. This project addresses whether the existence of potential voting rights, such as share options, should be considered in determining whether control or significant influence exists.
- **Financial Instruments - Issuance with a Put Option, Exercisable at the Instrument's Fair Value.** If the holder of a financial instrument has the right to put it back to the issuer for cash equal to the fair value of the instrument at the date when the put is exercised, should the issuer classify that instrument as a liability or equity? Mutual funds (unit trusts) are an example of such an instrument.
- **Earnings Per Share - Preference Dividends.** When calculating basic earnings per share, IAS 33 requires that preference dividends be deducted from the net profit or loss for the period. SIC will consider, when an enterprise acquires or redeems its own preferred shares, whether any difference between the fair value of the consideration given and the carrying amount of those shares represents a preference dividend.

Potential SIC agenda items include the following:

- **Indefeasible Right of Use of Assets.** Accounting and disclosure for arrangements by which an enterprise contracts for either exclusive or joint use of infrastructure assets generally of an infrastructure or utility nature such as telecom cabling or an oil or gas pipeline.
- **Classification of Preference Shares.** Need for possible guidance in applying IAS 32 to decide on liability vs. equity classification.
- **SIC-12 Consolidation - Special Purpose Entities (SPEs)**. SIC will review some of the implementation difficulties being experienced and consider whether further clarification may be required.

The comment deadline on IASC's Extractive Industries Issues Paper is 30 June 2001. This Deloitte Touche Tohmatsu publication focuses on issues relevant to the mining industry.

ACCOUNTING IN THE MINING INDUSTRY

Deloitte Touche Tohmatsu has published a 45-page booklet summarising and analysing the issues in IASC's Extractive Industries Issues Paper from the perspective of mining enterprises. IASC has asked for comments on its 412-page issues paper by 30 June. We prepared this booklet to help mining clients and other interested parties more easily identify the issues that could have the greatest impact on their financial statements in years to come. Copies of the booklet may be downloaded at **http://www.iasplus.com**.

DELOITTE TOUCHE TOHMATSU MINING INDUSTRY LEADERSHIP TEAM	
Robin Fryer (Global leader) New York, USA Tel: +1 212 492 3835 Fax: +1 212 492 4001	**Rod Smith** Adelaide, Australia Tel: +61 8 8407 7104 Fax: +61 8 8407 7001
Bob Francis Toronto, Canada Tel: +1 416 601 6174 Fax: +1 416 601 6151	**Nourival Pedroso** Sao Paulo, Brazil Tel: +55 11 3150 1759 Fax: +55 11 257 0813
Costa Qually Johannesburg, South Africa Tel: +27 11 806 5889 Fax: +27 11 806 6138	**Luis Toro** Santaigo, Chile Tel: +56 2 270 3281 Fax: +56 2 374 9177
Urs Landolt Zurich, Switzerland +41 1 421 6227 +41 1 421 6600	**Tony Zoghby** Johannesburg, South Africa Tel: +27 11 806 5130 Fax: +27 11 806 5003

IASC has now made its Extractive Industries Issues Paper available for downloading in six PDF files totalling 2,195k. When printed it is 412 pages long. A separate 44-page summary (195k PDF file) can also be downloaded. All files are available at IASC's website: www.iasb.org.uk. Comment deadline is 30 June 2001.

Previously, individual country pages could be viewed on the Internet. Now, this important study can be downloaded in its entirety.

GAAP 2000 AVAILABLE ON LINE

In January 2001, the large accounting firms jointly published a study, *GAAP 2000: A Survey of National Accounting Rules in 53 Countries.* It provides an overview of some of the differences between national accounting rules and 60 key accounting measures (including a few areas of disclosure) under International Accounting Standards. The study highlights instances where a country's rules at December 2000 would not allow, or would not require, the IAS accounting treatment.

The study demonstrates the continuing problems of cross border interpretation of company financial data. The objective of GAAP 2000 is to alert as many players as possible in each country to the need for progress towards the convergence of accounting standards on a worldwide basis (governmental agencies, standard-setters, regulators, preparers, analysts and users of financial information).

The complete text of GAAP 2000 is now available as a single document that may be downloaded from **http://www.iasplus.com**.

G4+1 DISBANDS

The G4+1 group of standard-setters agreed to disband and cancel its planned future activities, because the new IASB is ready to start its activities. G4+1 does not plan any further publications or meetings.

The biggest "market" for International Accounting Standards in the next several years is likely to be Europe, if the EC proposal is adopted.

EC PROPOSES IAS THROUGHOUT EUROPE

In February 2001, the European Commission presented a proposal for a Regulation that would require all EU companies listed on a regulated market, including banks and insurance companies (about 7,000 companies in all), to prepare consolidated accounts in accordance with International Accounting Standards (IAS) by 2005, at the latest. EU Member States would have the option to extend this requirement to unlisted companies and to individual company accounts. The EC announcement said:

> "The Regulation would help eliminate barriers to cross-border trading in securities by ensuring that company accounts throughout the EU are more transparent and can be more easily compared. This would in turn increase market efficiency and reduce the cost of raising capital for companies. The proposal is a priority measure under the Financial Services Action Plan, endorsed by the Lisbon European Council as a key element of the creation of an integrated financial services market. It is also in line with the strategy outlined in the Commission's June 2000 Communication on the future of financial reporting in Europe."

Currently, approximately 275 European listed companies prepare their consolidated financial statements under IAS, 300 under US GAAP, and the remainder (about 6,500 companies) use their national GAAP. (These figures do not include Switzerland, where most large companies already follow IAS.) The EC said:

> "IAS will offer [those now using US GAAP] the same high quality level of financial information as US GAAP, with the additional advantage that IAS have been conceived in a truly international perspective and are not modelled by a particular national environment. The Commission hopes and expects that the US Securities and Exchange Commission (SEC) will accept in the near future financial statements prepared by EU issuers without requiring a reconciliation to US GAAP."

To manage the integration of IAS in the EU and to ensure that IAS represent an appropriate basis for European financial reporting, the proposed Regulation establishes a new EU mechanism which will assess IAS adopted by the new IASB and provide legal endorsement for their use within the EU. In addition, the mechanism is intended to improve accounting co-operation within the EU and with the IASB.

This endorsement mechanism will have a two-tier structure. At the regulatory level, there will be an Accounting Regulatory Committee which will have the legal power to adopt (or reject) an IAS on the basis of the Commission's proposals. The members of the Accounting Regulatory Committee will be nominated by the Member States. The Commission, in preparing its proposal, will obtain advice from an expert group. In addition to providing technical expertise concerning the use of IAS within the European environment, the role of the expert group will include providing input into the IASB standard setting process at all stages, the co-ordination of IAS views within the EU and recommending to the Commission appropriate changes to the European Accounting Directives. This expert level is to be set up as a private sector initiative by the main parties interested in financial reporting including users, preparers, the accounting profession and national standard setters (see below).

It is widely recognised that IAS rules adopted in Europe should not divert from the globally recognised rules. Therefore, this mechanism is not intended to create an extra level of standard setting but rather ensure IAS are technically sound for use in Europe and that European views are aptly considered in the development of IAS. (Note, the enforcement of IAS is currently a national responsibility and supervision of compliance with future EU accounting legislation by competent authorities is currently a topic being considered by the Forum of European Securities Commissions – see below).

The private sector organises itself for the adoption of IAS by 2005 and proposes the creation of the expert level of the EU endorsement mechanism of IAS: EFRAG.

SUPPORT FOR IAS FROM EUROPEAN GROUPS

In March 2001, in response to European Commission's proposal for an expert level in the EU IAS endorsement mechanism, a broad group of organisations representing the European accounting profession, preparers, users, and stock exchanges has proposed to organise a private-sector structure that would (a) provide input to the IASB and (b) assess whether IAS and SIC Interpretations are suitable for use in Europe. The proposed structure (details of which can be found at www.iasplus.com) would be known as EFRAG: the European Financial Reporting Advisory Group. The proposal envisages a two-tier structure:

1. An accounting technical committee – the Technical Expert Group – comprising a small group of "highly-qualified technical experts" drawn from national standard setters, the accountancy profession, preparers and users, and

2. A Supervisory Board of European Organisations "to guarantee representation of the full European interest and to enhance the legitimacy and credibility of EFRAG".

"The accounting technical committee... would participate actively in the international accounting standard setting process and organise the coordination within the EU of views concerning international accounting standards. This committee should be in place in the course of the second quarter of 2001, *i.e.*, soon after the new IASC Board becomes operative (from 1 April 2001 onwards). The Commission would be represented in this committee in an observer capacity."

The Technical Expert Group is expected to undertake a wide consultation process on IASB projects and proposals, including regular meeting with a "consultative forum" of all European accounting standard setters. The majority of the members of the Technical Expert Group may come from the Boards of the national standard setters. Members of the Technical Expert Group "will be accountable to the Supervisory Board and should work in the European interest".

The Technical Expert Group members are expected to spend 20-50% of their time on EFRAG activities and will continue to be employed by their existing employers.

Consistent with the views of the European Commission, the organisers of EFRAG envisage that EFRAG will participate in the IASB process rather than be an additional level of standard setting that could conflict with the role of the IASB as the global standard setter. EFRAG is not expected to issue separate interpretations of IAS or to modify existing IAS in any way.

Organisations sponsoring the proposal include:

Preparers:

- UNICE - Union des Confederations de l'Industrie et des Employeurs d'Europe
- GEBC - European Association of Cooperative Banks
- ESBG - European Savings Banks Group
- EBF - European Banking Federation
- CEA - Comite Europeen des Assurances

Organisations of Small and Medium-sized Enterprises:

- UEAPME - European Association of Craft, Small and Medium-sized Enterprises
- EFAA - European Federation of Accountants and Auditors for SMEs

Users:

- EFFAS - European Federation of Financial Analysts Societies
- FESE - Federation of European Securities Exchanges

Accountancy profession:

- FEE - Federation des Experts Comptables Europeens

FESCO'S RESPONSE TO EU'S NEW ACCOUNTING STRATEGY

In February 2001, the Forum of European Securities Commissions (FESCO) issued a report *FESCO's response to the EU's new accounting strategy – The final report from the Expert Group on Accounting*. The report concludes that FESCO needs to have an active involvement in the proposed endorsement mechanism with respect to the adoption of IAS in Europe. FESCO wants to convey the needs of the European market regulators on the enforceability of IAS. The Commission supports FESCO's request of an observer status in the EFRAG and has indicated that FESCO views will be made known to the Accounting Regulatory Committee where these views differ from EFRAG's.

A common approach to the enforcement of IAS in Europe is required. The paper discusses various options and the parties involved in such a process and in response to the paper FESCO has created a Standing Committee on Financial Reporting (FESCOFIN) to co-ordinate FESCO's views on both endorsement and enforcement of IAS. Further details on the FESCO discussion paper are available at **http://www.europefesco.org/v1/default.asp.**

The European Commission proposal to impose IAS to listed companies will not eliminate the requirement to comply with the European Accounting Directives.

A REQUIRED MODERNISATION OF THE EU ACCOUNTING DIRECTIVES

The proposed adoption of IAS in Europe by 2005 would not currently change companies' and Member States requirements to comply with the European Accounting Directives. However, certain incompatibilities between the Accounting Directives and IAS have been identified which means a company, depending on its transactions, may not comply with both in one set of financial statements. Among some important differences are different concepts of realisation and prudence and the extent to which fair value accounting versus historical cost accounting is used to account for certain transactions. An earlier project for a limited revision of the Accounting Directives is under way to partly remove the differences in relation to fair value accounting of financial instruments (see below). However, in many cases, issues are arising due to the different roles the Directives are trying to serve, information function (accounting and disclosure) and legal function (for example, dividend distribution and taxation).

The Commission has indicated that they will introduce proposals on modernisation before the end of 2001 with the aim of:

- removing existing conflicts between IAS and the European Accounting Directives;
- enabling all options under IAS to be utilised with the European Accounting Directives framework;
- updating the structure of the Accounting Directives so that the framework for financial reporting is both consistent with modern practice and flexible enough to allow for future developments in financial reporting, in line with the IAS Framework and IAS 1. Given the proposed Regulation is mainly focused on listed companies, there are concerns that the gap between rules for listed and non-listed companies does not become too large; and
- resolving issues on profit distribution within a fair value accounting framework.

In April 2001, the Fédération des Experts Comptables Européens (FEE), which represents the accounting profession throughout Europe, published a *Discussion Paper on Modernisation of the Accounting Directives*. The paper discusses both the strategic and technical issues that are at stake and gives the advantages and disadvantages of the various approaches for modernisation. FEE's preferred solution would be to exempt listed companies that apply IAS from the EC Accounting Directives. FEE's paper may be downloaded from **http://www.iasplus.com**.

The limited revision to the European Accounting Directives to allow the use of IAS 39 in the European Union was approved by the European Parliament and awaits approval by the European Ministers.

EUROPEAN ACCOUNTING DIRECTIVES SOON TO BE AMENDED TO REMOVE CONFLICT WITH IAS 39

All companies' financial statements and EU Member States requirements must be in compliance with the European Directives. The 4^{th} and 7^{th} European Accounting Directives established in the early 70's and 80's specify the rules applicable to the preparation of annual accounts and consolidated accounts of Member States limited liability companies. The European Accounting Directives have previously been based on the historical cost valuation model that reflected standard practice at the time when they were adopted. However, the dynamic nature of international financial markets has now resulted in widespread use of complex financial instruments (including traditional primary financial instruments such as shares and bonds to derivative financial instruments such as futures, options, forward contracts and swaps). The current requirements under IAS 39, Financial Instruments – Recognition and Measurement, and FAS 133, Accounting for Derivative Instruments and Hedging Activities, to recognise derivatives at fair value, with changes in fair value recognised in the income statement, as well as the accounting for fair value hedges of an asset or liability, are not authorised under the current European Accounting Directives.

In order to remove these conflicts, the European Commission undertook a project about two years ago to propose a limited revision to the 4^{th} and 7^{th} Directives. Amendments to European Directives follow a long due process, requiring approval, amongst other things, by the European Council as well as by the deputies of the European Parliament. The proposed amendments were approved by the European Parliament on 15 May and await final approval by the European Council of Ministers, who are expected to take up the issue in late May. The revised Directives could become effective in the second half of 2001. However, the next challenge will be the adoption of the revised Directives by each Member State, as only then can companies effectively apply the amendments in their jurisdiction. In many countries, this will require going through a legislative process and may also take time depending on government priorities.

Canada's securities regulators are wrestling with the same kinds of issues as the US SEC is considering in its Concepts Release.

CANADA CONSIDERING IAS OR US GAAP

Canadian securities regulators have requested comment on whether they should allow Canadian and foreign companies to file using IAS or US GAAP instead of Canadian GAAP. Currently, Canadian registrants must use Canadian GAAP. Foreign registrants may use IAS but then generally must reconcile to Canadian GAAP. Many Canadian companies already prepare US GAAP statements, in additional to Canadian GAAP, because they have US as well as Canadian listings. In Canada, securities markets are regulated provincially rather than nationally. The provincial regulators have published a joint request for comments that is available on the IASPlus website **http://www.iasplus.com**.

Meanwhile, in a public statement to Canada's Accounting Standards Oversight Council, the Certified General Accountants Association of Canada strongly supported adopting the IASC standards in Canada. CGA-Canada "firmly supports moving away from setting national accounting standards based on those set by the Financial Accounting Standards Board (FASB), in favour of harmonized global standards".

Companies whose primary listing is on the Stock Exchange of Hong Kong will be permitted to prepare IAS financial statements, rather than Hong Kong GAAP.

HONG KONG EXCHANGE ALLOWS IAS

Effective 1 April, companies that have a primary listing on the Stock Exchange of Hong Kong (SEHK) are permitted to adopt IAS instead of Hong Kong GAAP. They will be required to explain any significant differences with Hong Kong GAAP, including a reconciliation of the financial effect. The reconciliation requirement will not apply to companies from mainland China whose "H Shares" are listed on SEHK; they have previously been allowed to use IAS without reconciliation. Overseas-incorporated issuers and applicants that have or will have only a secondary listing on the SEHK are permitted also to follow US GAAP.

Currently, 739 companies are listed on the SEHK's Main Board (including 48 incorporated in mainland China) plus 11 overseas listings. Those companies had a market capitalisation of HK$ 4.8 trillion. SEHK's GEM (growth equities) market has 60 listed companies with a market capitalisation of HK$ 67 billion.

Europe begins to gear up for IAS ***(see story on page 13).***

FRENCH COB: PREPARE FOR IAS NOW

The French securities regulator COB has issued a Bulletin recommending that French listed companies commence without delay their preparations for the transition to IAS by 2005 and reminding the companies that they will have to present comparative figures for 2003 and 2004.

GERMAN STOCK EXCHANGE TO REQUIRE IAS OR US GAAP FOR SMALL-CAP COMPANIES

Deutsche Bourse will require small-cap companies listed on the Smax index to use IAS or US GAAP, rather than German GAAP, starting in 2002. The goal is to enhance understandability of financial information for international investors. Currently, 127 companies are included in the Smax list. Smax is intended to be a "quality segment" of companies that have agreed to "meet increased criteria of transparency and publicity according to international standards".

UPDATE ON RESTRUCTURING THE IASC

IASC's restructuring is nearly complete. The new Board has begun to meet; appointment of the Standards Advisory Council is imminent; search for a Technical Director, Director of Research, and technical staff is under way; and the IASB will relocate to new, larger facilities in June.

Brief biographies of the members of the IASB are presented on pages 2 and 3.

Here is a brief summary of steps to date in the IASC restructuring:

CHRONOLOGY OF THE IASC RESTRUCTURING	
September 1996	IASC Board approves formation of a "Strategy Working Party" (SWP) to consider what IASC's strategy and structure should be when it completes the "Core Standards" work programme.
December 1998	SWP publishes a Discussion Paper, Shaping IASC for the Future, and invites comments.
April to October 1999	Various meetings of SWP to discuss the comments on their initial proposal and to develop final recommendations.
December 1999	SWP final report, *Recommendations on Shaping IASC for the Future*. IASC Board passes a resolution supporting the report and appoints a Nominating Committee for the initial Trustees.
January 2000	Nominating Committee elects SEC Chairman Arthur Levitt as its Chair and invites nominations from public.
March 2000	IASC Board approves a new Constitution reflecting the SWP proposals.
May 2000	Nominating Committee announces initial Trustees (see table below).
May 2000	IASC Member Bodies approve the restructuring and the new IASC Constitution.
June 2000	Trustees appoint Sir David Tweedie as the first Chairman of new IASC Board.
Starting in July 2000	Trustees invite nominations for membership on the new IASC Board, narrow the list to approximately 45 finalists, and conduct interviews in London, New York, and Tokyo.
January 2001	Trustees invite nominations for membership on the new Advisory Council.
January 2001	Members of the International Accounting Standards Board announced. New name of the standard-setting board is International Accounting Standards Board.
February 2001	Informal meeting of members of new IASB.
March 2001	IASC Trustees activate Part B of IASC's Constitution and establish a non-profit Delaware corporation, named the International Accounting Standards Committee Foundation, to oversee the IASB.
April 2001	On 1 April 2001, the new IASB takes over from the IASC the responsibility for setting International Accounting Standards.
April 2001	First official meeting of the new IASB to adopt existing IAS and SICs and to deliberate its agenda and other issues.
May 2001	IASB meets with chairs of those national accounting standards-setting bodies that have a formal liaison relationship with IASB – Australia/New Zealand, Canada, France, Germany, Japan, UK, and US – to begin coordinating agendas and setting out convergence goals.

AUSTRIA
Contact: *Erich Kandler and Kurt Schweighart*

In Austria, new accounting standards are issued after a decision of Parliament. However, new regulations are very likely to be discussed with representatives of the Austrian Chamber of Accountants as well as members from the Institute of Certified Public Accountants, both of which were members of the IASC prior to the restructuring. Within both these bodies, there are working groups that provide interpretations and guidelines on existing regulations.

In 1999, the Austrian Parliament enacted a law that allows all Austrian companies to use IAS or another internationally recognised set of accounting standards, rather than the Austrian commercial code (HGB), when preparing consolidated financial statements if the following prerequisites are met:

- the financial statements also comply with European Directives,
- the financial statements disclose the basis of accounting used as well as significant differences from Austrian Law,
- the quality of information is deemed at least equivalent to the quality of information if prepared in compliance with Austrian Law, and
- the auditor confirms that the above criteria are met.

This regulation is not limited to listed companies and was enacted in anticipation of the harmonisation process which is now also supported by the European Commission.

Since April 2001, the Vienna stock exchange requires all domestic and foreign companies listed on the A-Market and the Austrian Growth Market (AGM) to submit consolidated financial statements under either IAS or US GAAP. Other listed companies may issue IAS or US GAAP consolidated financial statements. So far about 50% of the companies listed on the A-Market have used IAS for their financial statements for the year 2000.

In the second quarter of 2001, Parliament will pass a new regulation regarding management stock option programmes with the aim to facilitate the raising of capital for companies having issued such programmes.

DENMARK
Contact: *Stig Enevoldsen and Jan Peter Larsen*

In January 2001, the Danish Parliament proposed a new Accounting Act aiming to tie the Danish Accounting Act into IAS as much as possible. The proposal, however, is required to be within the framework of the European Accounting Directives. If enacted, the proposed law will become effective for periods beginning on or after 1 January 2002.

Danish Accounting Standards (DKAS) are generally based on the equivalent IAS with some minor differences. The most recent DKAS's, approved by the Danish Accounting Standards Committee, effective for periods beginning on or after 1 July 2001 are:

- DKAS 14, Income Taxes (IAS 12)
- DKAS 15, Financial Instruments: Disclosure and Offsetting (IAS 32)

However, unlike IAS 32, DKAS 15 does not deal with the classification of an instrument as either a liability or an equity instrument according to its substance and the presentation of related dividends and interest. This difference arose because such classification is in conflict with national legal requirements concerning the classification and presentation of issued capital.

Exposure Drafts (ED-DKAS) currently outstanding include:

- ED-DKAS 14, Investment Property (IAS 40)
- ED-DKAS 18, Provisions, Contingent Liabilities and Contingent Assets (IAS 37)
- ED-DKAS 19, Business Combinations (IAS 22)

In addition, there is a project in process to revise existing DKAS to further harmonise with IAS.

FRANCE
Contact: *Laurence Rivat*

In January 2001, Mr Antoine Bracchi, was appointed by the Ministry of Finance, chairman of the Conseil National de la Comptabilitié (CNC). The CNC is the organisation that prepares and proposes accounting regulation for the endorsement of the Comité de la Réglementation Comptable (CRC). (CNC and CRC members are appointed by the Ministry of Finance). Mr Bracchi has a background as an auditor and retired managing partner of E&Y France.

Although French Parliament approved a law in 1998 that allows the use of internationally recognised accounting principles to prepare financial statements (i.e. IAS And US GAAP), the conditions to make the law effective were never met. As a result, French companies must prepare and publish primary financial statements according to French GAAP. There are certain conflicts between French GAAP and IAS. However, if a company does not have the certain types of transactions that conflict, it may be able to comply with IAS.

Just after the restructuring of the French standard setting system (restructuring of the CNC and creation of the CRC), major accounting texts were issued in 1999 and 2000. In particular, two regulations relating to revisions of the consolidation rules were endorsed in 1999, one for the commercial and industrial companies (CRC regulation n°99-02), the other one for banks (CRC regulation n°99-07), effective for annual financial statements beginning on or after 1 January 2000. Revisions of the consolidation rules for insurance companies were also issued in 2000 (see below). Although one aim of the revisions was to harmonise with IAS as far as possible, the new standards do not fully comply with IAS.

Recent standards endorsed by the CRC in late 2000 are:

- CRC n°2000-05: revisions to the new consolidation rules for insurance companies, effective for annual financial statements beginning on or after 1 January 2001 (earlier adoption permitted).
- CRC n°2000-06: results in new rules to account for provisions and certain liabilities. The new rules are compliant in many respects with IAS 37 and are stricter than previous French rules regarding the recognition criteria (for instance regarding restructuring). However, differences with IAS still exist: provisions for major maintenance and repairs are allowed and French companies may choose either to not, partly or fully account for provisions for post retirement benefits. Full provisioning however is the preferential method. Effective for annual financial statements beginning on or after 1 January 2002 (earlier adoption permitted).
- CRC n°2007 and CRC n°2008 relate to the "French pooling method" and amend previous requirements included in CRC regulations n°99-02 and n°99-07.

Note that the CNC also operates an urgent issue task force (*Comité d'urgence*) to interpret or clarify existing accounting standards. In 2000 and early 2001, the task force mainly examined specific issues relating to consolidation rules including the "French pooling method", presentation and accounting for dissimilar activities, accounting for an additional share in capital acquired in a joint venture already consolidated under the proportional method, and whether to recognise a deferred tax asset arising on the carry forward of unlimited tax losses.

GERMANY
Contact: *Reinhard Scharpenberg*

In 1998, section 292a, was introduced into the German Commercial Code (Handelsgesetzbuch), allowing listed companies to prepare consolidated financial statements using either IAS or US-GAAP instead of German GAAP. As a consequence nearly all companies listed on the DAX 30 prepare consolidated financial statements using IAS or US-GAAP. In addition, those companies listed in the "Neuer Markt", the counterpart to NASDAQ, must prepare consolidated financial statements using IAS or US-GAAP.

Simultaneously, the German Accounting Standards Committee (GASC - www.drsc.de) a private standard setting body, was established to reform German accounting regulations concerning consolidated financial statements. Its objective is to harmonise German accounting standards with international standards (IAS/US-GAAP), by the end of 2004. As accounting regulations in Germany are normally established through the law, the standards of the GASC have to be approved by the Minister of Justice and published in the federal gazette (Bundesanzeiger) to become legally effective. Currently, the following standards have been either published or drafted:

Standard	Title	Status
DRS 1	Exempting Consolidated Financial Statements in accordance with Sec. 292a of the Commercial Code General Part	Published
DRS 2/-10/-20[1]	Cash Flow Statements	Published
DRS 3/-10/-20	Segment Reporting	Published
DRS 4	Purchase Accounting	Published
E-DRS 5/-20	Risk Reporting	Draft
DRS 5-10	Risk Reporting by Financial Enterprises	Published
DRS 6	Interim Financial Statements	Published
E-DRS 7	Presenting Equity in Consolidated Financial Statements	Draft
E-DRS 8	Accounting for Investments in Associates	Draft
E-DRS 9	Accounting for Investments in Joint Ventures	Draft

[1] /–10 refers to specific regulations for financial enterprises, /-20 refers to specific regulations for insurance enterprises

The GASC has also published the following position and discussion papers, the comment periods for which have already lapsed:

- Position Paper 1, Accounting for Share Option and Similar Compensation Plans
- Position Paper 2, Group Accounting by Insurance Enterprises
- Discussion Paper, Uniform Purchase Accounting

GREECE
Contact: *Manos Pelidis*

In Greece, there is no official standard setting body, with changes to generally accepted accounting practices resulting from either changes in Company or Tax Law, or from Capital Markets Committee regulations (for quoted companies).

The European Commission's proposal requiring all listed companies to prepared consolidated accounts in accordance with IAS by 2005 has aroused a lot of interest in Greece.

The latest accounting development is a requirement by the Capital Markets Committee for all listed companies to produce a cash flow statement. The prescribed format for this is a hybrid of the direct and indirect method, as prescribed by IAS, tailored to meet the various accounts of the General Accounting Plan followed by all Greek companies.

ITALY
Contact: *Costante Beltracchi*

Financial reporting requirements for companies incorporated in Italy are set out in the Civil Code. Accounting Principles (AP), issued by the Accounting Standards Board (ASB) of the Italian National Council of Accountants, are considered as interpretations of the general principles stated in the Civil Code. In formulating the AP's, ASB gives due consideration to IAS, and try to integrate them to the extent possible, in light of the conditions and practices prevailing in Italy.

The following AP's have been recently approved by the Italian National Council of Accountants:

- AP 28, Shareholders' Equity (approved October 2000)
- AP 29, Changes in Accounting Principles, Changes in Estimates, Fundamental Errors, Extraordinary Items, Events After the Balance Sheet Date (approved February 2001)

AP 28 includes a recommendation for listed companies to include in financial statements earnings per share information. This information is consistent with IAS 33 disclosures.

AP 29 differs from IAS 8 principally because only the *allowed alternative treatment* to account for the effects of the changes in accounting principles and the corrections of the fundamental errors is allowed. The *benchmark treatment,* recommended by IAS 8, was rejected by the Italian National Council of Accountants. This position follows a similar recommendation made by CONSOB (the Italian securities regulator) to listed companies in July 1999. In addition, the effect of changes in accounting principles and corrections of fundamental errors should be accounted for as extraordinary income/expense and not as profit and loss from ordinary activities. The inclusion of pro-forma condensed financial statements is also encouraged if the effects are relevant.

LUXEMBOURG
Contact: *Vafa Moayed*

Luxembourg reporting requirements are based on the Commercial Law of August 10, 1915 (as amended), which incorporates the EU 4th and 7th Directives. The EU Banking and Insurance Directives are incorporated into the banking and insurance laws respectively. As such, the Luxembourg accounting environment for statutory accounts is not very detailed, resulting in more options and far less disclosure than would be required under IAS. With the exception of IAS 39, a commercial company wishing to comply with IAS should be able to comply with the Luxembourg Law and IAS simultaneously, and a few companies in Luxembourg produce IAS accounts. However, with IAS 39 becoming effective, this will no longer be the case as Luxembourg Law does not allow the revaluation of assets upwards (prudence being the over riding concept).

Luxembourg has made some tentative steps towards IAS. The *projet de loi* of 18 May 1999 covering accounting and filing reforms includes a proposal to allow large companies listed on foreign stock exchanges, to individually apply for the ability to report under IAS (or other recognised national GAAP such as US GAAP). However, as compliance with the European Accounting Directives will still be required, IAS compliance is not currently possible. This *projet de loi* was issued prior to the proposal that all EU listed companies must comply with IAS by 2005, at the latest, but the proposal has been the impetus for many companies in Luxembourg to begin considering the impact of IAS on their financial statements.

PORTUGAL
Contact: *Manuel Boto*

Portuguese accounting requirements are mainly set out in the National Accounting Code, supplemented by the accounting directives issued by the Portuguese Accounting Standards Board (CNC - Comissão de Normalização Contabilística).

In July 2000, the CNC issued accounting directive 27 – Segmental Reporting. This new standard is mandatory for listed companies and for all companies that decide to present segment information, for accounting periods beginning on or after January 1, 2001. Basically, this standard is in line with IAS 14.

Currently, the CNC is working on two new projects related to deferred taxes and financial instruments (options) although first drafts are still being finalised.

A commission has also been created in order to study the possibility of issuing a new accounting code.

RUSSIAN FEDERATION
Contact: *Matthew Howell*

The Russian Federation's move to a market economy has necessitated a change in the standards of accounting for reporting the financial position and results of operations of Russian enterprises.

The Ministry of Finance of the Russian Federation has responsibility for instituting reform to Russian Accounting Standards (RAS) applicable for all organisations, except those that are required to report to the Central Bank of the Russian Federation.

Beginning in 1995, but mostly since 1998, the Ministry of Finance instituted revisions in an effort to account for transactions under more internationally accepted methods. Specifically, 14 provisions on accounting (termed PBU) have been issued. These PBUs include:

- Accounting Policy (PBU 1/1998)
- Accounting for Construction Contracts (PBU 2/1998)
- Accounting for Assets and Liabilities Denominated in Foreign Currency (PBU 3/2000)
- Financial Statements (PBU 4/1999)
- Accounting for Inventory (PBU 5/1998)
- Accounting for Property, Plant and Equipment (PBU 6/1997)
- Post Balance Sheet Events (PBU 7/1998)
- Contingencies (PBU 8/1998)
- Income of an Enterprise (PBU 9/1999)
- Expenses of an Enterprise (PBU 10/1999)
- Related party Disclosures (PBU 11/2000)
- Segment Information (PBU 12/2000)
- Accounting for Government Assistance (PBU 13/2000)
- Accounting for Intangible Assets (PBU 14/2000)

However, even with the issuance of these accounting policies, fundamental differences still remain with internationally accepted methods. While the PBUs may be similar to IAS, important differences still exist. For example, the recording of accounts receivable bad debt provisions is not consistent, inventory need not be carried at the lower of cost or market and depreciation of fixed assets does not necessarily coincide with an assets economic life. In addition, differences still exist with respect to wholly owned subsidiaries as, under RAS, a subsidiary company does not have to be consolidated.

SOUTH AFRICA
Contact: *Graeme Berry*

The Accounting Standards Board (ASB) in South Africa (SA) has a policy of harmonising SA Statements of Generally Accepted Accounting Practice (GAAP) with IAS.

SA Statements are similar to IAS, other than their effective date and often include increased disclosure requirements.

Recently, the ASB has approved the following Statements:

- AC 107, Contingencies and Post Balance Sheet Events – Effective Date 1/1/2001 (IAS 10);
- AC 116, Employee Benefits – Effective Date 1/1/2001 (IAS 19);
- AC 134, Accounting for Government Grants and Disclosure of Government Assistance – Effective Date 1/7/2000 (IAS 20); and
- AC 135, Investment Property – Effective Date 1/4/2001 (IAS 40).

In addition, the ASB has also recently approved the following Interpretations of SA Statements of GAAP:

- AC 417, Equity – Costs of an Equity Transaction – Effective Date 1/8/2000 (SIC 17);
- AC 418, Consistency – Alternative Methods – Effective Date 1/7/2000 (SIC 18);
- AC 420, Equity Accounting Method – Recognition of Losses – Effective Date October 2000 (SIC 20);
- AC 421, Income Taxes – Recovery of Revalued Non-Depreciable Assets – Effective Date October 2000 (SIC 21);
- AC 422, Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported – Effective Date October 2000 (SIC 22);
- AC 423, Property, Plant and Equipment – Major Inspection or Overhaul Costs – Effective Date October 2000 (SIC 23); and
- AC 425, Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders – Effective Date October 2000 (SIC 25).

These Interpretations harmonise with the equivalent SIC.

The following SA Exposure Drafts are still outstanding:

- ED 135, Agriculture (IAS 41);
- ED 136, Accounting and Reporting by Post-Employment Benefit Plans (IAS 26);
- ED 140, Report of Historical Financial Information to be Included in a Prospectus (NO IAS);
- ED 141, Financial Instruments - Recognition and Measurement (IAS 39, Revised 2000);
- ED 142, Employee Benefits / Pension Plan Assets (IAS 19, Revised 2000); and
- ED 143, Income Tax Consequences of Dividends (IAS 12, Revised 2000).

UNITED KINGDOM
Contact: *Andy Simmonds*

The last several months of 2000 and the beginning of 2001 were busy and eventful for the Accounting Standards Board (ASB) in the UK. In this short space of time the ASB issued the following standards, exposure drafts, UITFs and other publications:

Accounting Standards

- FRS 17, Retirement Benefits, issued 30 November 2000, becomes fully effective for periods ending on or after 22 June 2003 with certain disclosure requirements becoming effective earlier. Requires reflection of assets and liabilities from pension obligations at fair value and costs and value changes as they arise in a radical change from SSAP 24 approach.
- FRS 18, Accounting Policies, issued 7 December 2000, becomes effective for periods on or after 22 June 2001 (with some parts becoming effective later). It supersedes SSAP 2, updating it to be consistent with the Statement of Principles and other recent pronouncements.
- FRS 19, Deferred Taxation, issued 7 December 2000, effective for periods ending on or after 22 January 2002. It supersedes SSAP 15 with a move to full provision basis for timing differences using the incremental liability approach. Provision will be required for timing differences and committed transactions. Allows discounting.

Exposure Draft

- FRED 22, Reporting Financial Performance, issued 14 December 2000. Comments invited by 30 April 2001. The ASB moved ahead of IASC and the other former members of G4+1 group of standard setters in developing a comprehensive statement of financial performance. The FRED is based on earlier discussion paper prepared by the G4+1.

UITF Interpretations

- UITF 27, Review of Useful Economic Life of Goodwill, effective from 8 December 2000.
- UITF 28, Operating Lease Incentives, effective for periods ending on or after 22 September 2001.
- UITF 29, Website Development Costs, effective for periods ending on or after 23 March 2001.
- UITF 30, Date of Award of Rights to Shares, effective for periods ending on or after 22 June 2001.

Discussion Paper

- Revision of Financial Reporting Standard for Smaller Entities.

Special Projects

- JWG working paper on financial instruments published for consideration in the UK.
- The Convergence Handbook, a study sponsored by the Institute of Accountants in England and Wales that compares UK financial reporting requirements with IAS and SIC issued by the IASC.

As in other EU countries, in the UK, the issue of convergence between the national requirements and the IAS is going to dominate the standard setting agenda for the next few years. The publication of The Convergence Handbook is expected to help the ASB to identify and prioritise the areas where national standards should be changed and where it should try to influence the IASB to consider a UK approach or undertake a joint project.

On 1 January 2001, Mary Keegan became the new chairman of the ASB. She replaced in this role Sir David Tweedie who is the new chairman of the IASB. While continuing to work on its current projects, the ASB is likely to use this opportunity to undertake a strategic rethinking of its future role in the context of developments in Europe and internationally.

ABOUT DELOITTE TOUCHE TOHMATSU

Deloitte Touche Tohmatsu is one of the world's leading professional services firms, delivering world-class assurance and advisory, tax, and consulting services through its national practices.

More than 92,000 people in over 130 countries serve nearly one-fifth of the world's largest companies as well as large national enterprises, public institutions, and successful fast-growing companies. Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate. Our mission is to help our clients and our people excel.

In the Europe-Africa region, Deloitte Touche Tohmatsu has a network of more than 36,000 people in 79 countries throughout the region, stretching from Iceland to the Russian Federation, and from Middle-East to South Africa. Our offices are strategically placed, and provide our clients with the right combination of international and local expertise.

SUBSCRIBE TO IAS PLUS

DTT plans to make **IAS PLUS** available quarterly in electronic formats. We also plan to send by email for any important news arising between issues of **IAS PLUS**. If you would like to receive **IAS PLUS** regularly by email, please let us know.

☐ I would like to receive the electronic version of the international edition of **IAS PLUS** by email.

☐ I would like to receive the electronic version of the Europe-Africa edition of **IAS PLUS** by email.

☐ I would like to receive the electronic version of the Asia-Pacific edition of **IAS PLUS** by email.

Here are my contact details:

NAME	
COMPANY	
ADDRESS	
CITY, POST CODE, COUNTRY	
EMAIL ADDRESS	

You may:

- Fax this form to Ms. Nadia Moyse, DTT Paris +33-1-55-61-47-37
- Mail this form to Ms. Nadia Moyse, Deloitte Touche Tohmatsu, 185, avenue Charles de Gaulle, 92200 Neuilly sur Seine, France
- Email the information above to Laurence Rivat at **lrivat@deloitte.fr**

Electronic editions of **IAS PLUS** are available at: **http://www.iasplus.com**