

# IAS Plus

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Published for our clients and staff globally

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## IAS Plus website

Over 1.6 million people have visited our [www.iasplus.com](http://www.iasplus.com) web site. Our goal is to be the most comprehensive source of news about international financial reporting on the Internet. Please check in regularly.

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<b>TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS</b>	
<b>Accounting Standards for Small and Medium-Sized Entities</b>	<ul style="list-style-type: none"> <li>▪ Discussion Paper was issued in June 2004</li> <li>▪ Exposure draft in 2005</li> </ul>
<b>Amendments to IAS 32 and IAS 39</b> <b>2005</b>	<ul style="list-style-type: none"> <li>▪ Final standards issued December 2003</li> <li>▪ Revised IAS 39 reflecting macro hedging issued March 2004</li> <li>▪ Exposure drafts were issued on fair value option (April 2004) and other limited amendments (July 2004)</li> <li>▪ Final revisions 4<sup>th</sup> quarter 2004 and 1<sup>st</sup> quarter 2005</li> <li>▪ Effective date December 2005 year ends (limited amendment on forecast transactions would be effective 2006)</li> </ul>
<b>Business Combinations – Phase I</b> <b>2005</b>	<ul style="list-style-type: none"> <li>▪ IFRS 3, IAS 36, and IAS 38 were issued in March 2004</li> <li>▪ Exposure draft of scope amendments issued April 2004; final revised IFRS 3 expected 4<sup>th</sup> quarter 2004</li> <li>▪ Effective dates December 2005 year ends</li> </ul>
<b>Business Combinations – Phase II</b> <b>— Application of the Purchase Method</b>	<ul style="list-style-type: none"> <li>▪ Exposure draft in 4<sup>th</sup> quarter 2004</li> <li>▪ Final standards in 2005</li> <li>▪ Expected effective date after 2005 year ends</li> </ul>
<b>Consolidation (Including SPEs)</b>	<ul style="list-style-type: none"> <li>▪ Timetable to be determined</li> </ul>
<b>Convergence – Short-term Issues, IFRS and US GAAP.</b> <b>2005</b>	<p><b><u>Asset Disposals/Discontinued Operations</u></b></p> <ul style="list-style-type: none"> <li>▪ IFRS 5 was issued in March 2004. Effective date December 2005 year ends.</li> </ul> <p><b><u>IAS 12 Income Taxes</u></b></p> <ul style="list-style-type: none"> <li>▪ Exposure draft expected 4<sup>th</sup> quarter 2004</li> <li>▪ Final standard in 2005</li> </ul> <p><b><u>IAS 19 Employee Benefits</u></b></p> <ul style="list-style-type: none"> <li>▪ Exposure draft of limited amendment was issued April 2004</li> <li>▪ Final standard in 2004</li> </ul> <p><b><u>IAS 20 Government Grants</u></b></p> <ul style="list-style-type: none"> <li>▪ Exposure draft on replacement of IAS 20 expected 4<sup>th</sup> quarter 2004</li> <li>▪ Final standard 2005</li> </ul> <p><b><u>IAS 37 Provisions</u></b></p> <ul style="list-style-type: none"> <li>▪ Exposure draft on provisions expected 4<sup>th</sup> quarter 2004</li> <li>▪ Final standard expected in 2005. Expected effective date after 2005 year ends</li> </ul>
<b>Disclosure Financial Risk and Other Disclosures about Activities of Financial Institutions</b>	<ul style="list-style-type: none"> <li>▪ Exposure draft ED 7 was issued July 2004</li> <li>▪ Final standard in 2005</li> <li>▪ Expected effective date after 2005 year ends, but permitted for December 2005 year ends</li> </ul>
<b>Extractive Industries</b>	<ul style="list-style-type: none"> <li>▪ Exposure draft ED 6 was issued in January 2004</li> <li>▪ Final standard in 4<sup>th</sup> quarter 2004</li> <li>▪ Expected effective date after 2005 year ends, but permitted for December 2005 year ends</li> </ul>
<b>Insurance Contracts – Phase I</b> <b>2005</b>	<ul style="list-style-type: none"> <li>▪ IFRS 4 was issued in March 2004</li> <li>▪ Effective date December 2005 year ends</li> </ul>
<b>Insurance Contracts – Phase II</b>	<ul style="list-style-type: none"> <li>▪ Next step is a discussion paper</li> <li>▪ Timetable to be determined</li> </ul>
<b>Performance Reporting (Reporting Comprehensive Income)</b>	<ul style="list-style-type: none"> <li>▪ Joint ASB-FASB-IASB advisory group being formed</li> <li>▪ Discussion paper in 2005</li> <li>▪ Timetable to be determined</li> </ul>
<b>Revenue Recognition, Liabilities, and Equity: Concepts</b>	<ul style="list-style-type: none"> <li>▪ Discussion paper in 2005</li> <li>▪ Timetable to be determined</li> </ul>
<b>Share-Based Payment</b> <b>2005</b>	<ul style="list-style-type: none"> <li>▪ IFRS 2 was issued in February 2004</li> <li>▪ Effective date December 2005 year ends</li> </ul>

You will find summaries of all of the IASB's agenda projects at: [www.iasplus.com/agenda/agenda.htm](http://www.iasplus.com/agenda/agenda.htm)

## **New Approaches to Three Major Projects**

IASB Chairman Sir David Tweedie has indicated that the IASB has revised its approach to three major agenda projects:

- Insurance Contracts;
- Financial Instruments; and
- Performance Reporting (Reporting Comprehensive Income).

New advisory groups on insurance and financial instruments have already been appointed. A joint advisory group for the IASB, the UK ASB, and the US FASB is being formed for the performance reporting project.

The Board's next steps on each of the projects will be to issue discussion papers. "In due course exposure drafts will follow, but that may well be several years into the future," Sir David said. "I want to emphasise that we have not reached any decisions on these three projects. The advisory groups will therefore start with a clean slate. The IASB has made no commitment to a full fair value approach on insurance and financial instruments.... The field tests on the IASB's original proposals on performance reporting showed that we needed to develop alternative approaches."

You will find a list of members of the Insurance Working Group here: [www.iasplus.com/pastnews/2004sep.htm](http://www.iasplus.com/pastnews/2004sep.htm)

## **New Insurance Working Group**

The IASB has announced the membership of its new working group on financial reporting by insurers. Although the IASB's predecessor produced an Issues Paper and a Draft Statement of Principles, and the IASB itself has discussed the project at many Board meetings, other priorities forced the IASB to suspend work following the January 2003 meeting. Therefore, the IASB 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", the Board's announcement said.

You will find a list of members of the Financial Instruments Working Group here: [www.iasplus.com/pastnews/2004sep.htm](http://www.iasplus.com/pastnews/2004sep.htm)

## **New Financial Instruments Working Group**

The IASB has also announced the membership of its new working group on financial instruments. The group will help the IASB take a fresh look at IAS 39 Financial Instruments: Recognition and Measurement by examining and questioning the fundamentals of the standard within the context of the IASB's Framework. "The review will therefore focus on improving, simplifying, and ultimately replacing IAS 39 and will examine broader questions of the application and extent of fair value accounting – a topic on which the IASB has not reached any conclusion. Although any major revision of IAS 39 may take several years to complete, the IASB is willing to revise the standard in the short term if any immediate solutions emerge from the working group's discussions", the Board's announcement said.

## **Research Project on Interests in Joint Ventures**

The IASB is conducting a research project that is the first phase of a longer-term effort to improve IAS 31 Interests in Joint Ventures. The Australian Accounting Standards Board is leading a team of standard setters from Hong Kong, Malaysia, and New Zealand in conducting a survey, whose purpose is to identify and analyse the characteristics of joint venture investments. Survey responses were due by 30 September 2004.

Information about upcoming IASB meetings, and decision summaries of all past IASB meetings, can be found here:

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

### IASB announces new meeting week schedule

The IASB has announced that beginning in September 2004 it will generally hold its meetings in four half-day sessions during Board meeting weeks – Tuesday, Wednesday, and Thursday afternoons and Friday mornings, plus a non-decision-making educational session on Wednesday mornings.

The revised schedule provides for greater interaction between Board members and the IASB staff as well as time for small group meetings with constituents.

There will be four half-day meetings: Tuesday 13:00-16:00; Wednesday and Thursday 13:00-18:00; and Friday 08:00-12:00. Holding meetings in the afternoons will enable FASB staff to participate in the Board's discussions on joint projects. Meeting early on Friday accommodates project teams in Australia, Japan, and New Zealand.

In addition, a public educational session with the Board will be held on Wednesday mornings 08:00-12:00. This session will be used to provide background and education on difficult issues, to help the staff identify potential points of confusion or ideas for solutions. These sessions will consider issues to be discussed in subsequent months' meetings. No decisions will be made.

Tuesday and Thursday mornings are available for public meetings between the Board and outside groups. Should such meetings be scheduled, the details will be announced on the IASB's website.

You can download the full text of our letters of comment (going back to 1995) at:

[www.iasplus.com/  
dttletr/comment.htm](http://www.iasplus.com/dttletr/comment.htm)

### Deloitte Comment Letters

#### Proposed IAS 39 Amendments

Deloitte has submitted three letters of comment in response to the IASB's exposure drafts of proposed amendments to IAS 39. Here are brief summaries of our overall views:

- **Day One Profit Recognition.** We welcome the move to clarify the accounting for the gain or loss after initial recognition. However, we believe that the proposed wording is not sufficiently clear. We also encourage the Board to work closely with the FASB on this so as to prevent difference between the two GAAPs.
- **Cash Flow Hedge Accounting of Forecast Intragroup Transactions.** We welcome the clarification that, in the consolidated financial statements, a group can designate, as a hedged item in a foreign currency cash flow hedge, a highly probable external transaction denominated in the functional currency of the subsidiary entering into the transaction, provided it gives rise to an exposure that will have an effect on consolidated profit or loss. We also believe that as part of the proposed amendment the standard should state clearly that a commitment between two group entities without another commitment with an outside party does not meet the definition of a firm commitment and, therefore, such an internal hedge does not qualify for hedge accounting,
- **Financial Guarantee Contracts and Credit Insurance.** We support the proposed approach in the exposure draft that the legal form of a financial guarantee contract should not affect its accounting treatment. Therefore, we strongly support the proposal to bring financial guarantee contracts within the scope of IAS 39 and to remove them from the scope of IFRS 4 Insurance Contracts.

You can download the full text of our letters of comment at:

[www.iasplus.com/dttletr/comment.htm](http://www.iasplus.com/dttletr/comment.htm)

You will find links to summaries of all IFRIC Draft Interpretations here:

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

#### **IFRIC D7**

We have submitted our letter of comment on IFRIC Draft Amendment D7 to the Scope of Interpretation SIC 12 *Consolidation—Special Purpose Entities*. Deloitte’s overall view:

We support the removal of ‘equity compensation plans’ from the scope exemption in SIC 12 and encourage the IFRIC to continue its project on providing guidance to determine whether these plans should or should not be consolidated. However, we question whether the additional change – unrelated to equity compensation plans – that eliminates defined contribution plans accounted for under IAS 19 from the exemption is appropriate at this time.

#### **IFRIC D8**

In our letter of comment on IFRIC Draft Amendment D8 *Members’ Shares in Co-operative Entities*, our overall view is as follows:

We believe the draft Interpretation is an appropriate and practical interpretation of IAS 32 *Financial Instruments: Disclosure and Presentation* and support its issuance. We note the draft Interpretation addresses two significant matters of principle – adopting a portfolio approach (BC14-BC16) and reclassification (BC17). While we are cautious about the ramification such an interpretation may have when applied by analogy, we note that these issues are currently being addressed in the IASB’s project on the distinction between debt and equity. Pending further consideration by the IASB, we believe the IFRIC’s approach is appropriate under current IFRSs.

#### **IFRIC D9**

The following are our main comments on IFRIC Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*:

We note that the IFRIC’s conclusions in paragraphs 4(a) and 5 of the draft interpretation are consistent with the tentative decisions of the US Financial Accounting Standards Board (FASB). Given the similarities between International Financial Reporting Standards and US GAAP in the accounting for employee benefits, we encourage the IFRIC to coordinate with the FASB (and other national standard-setters) in the development of guidance on the accounting for employee benefit plans that have a promised return (sometimes referred to as ‘cash balance plans’).

We generally agree that an employee benefit plan with a promised return on contributions or notional contributions is a defined benefit plan under IAS 19 *Employee Benefits* and that in applying IAS 19 to such benefits the specified changes in the plan liability should be treated as actuarial gains and losses.

You can download the full text of our letters of comment at: [www.iasplus.com/dttletr/comment.htm](http://www.iasplus.com/dttletr/comment.htm)

Our summary of the IASB's preliminary views on SMEs is here: [www.iasplus.com/agenda/sme.htm](http://www.iasplus.com/agenda/sme.htm)

EFRAG – The European Financial Reporting Advisory Group – was established in June 2001 by a broad group of organisations representing the European accounting profession, preparers, users, and national standard-setters. Its mission is to provide technical expertise to the European Commission concerning the use of IFRSs within Europe and to participate in the IASB's standard setting process. EFRAG's website: [www.efrag.org](http://www.efrag.org)

### **Deloitte Comments on IASB SME Preliminary Views**

The Deloitte letter of comment on the IASB's Discussion Paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities* (SMEs) recommends creation of a separate committee to develop international accounting standards for SMEs. Its standards would be subject to approval by the IASB. Deloitte's overall view:

We believe that this consultation is timely as it will allow the IASB to consider the comments and to amend, as appropriate, its preliminary views before proceeding to an exposure draft stage. We have serious reservations about certain aspects of this project, which we detail in the appendix to this letter. In our view, if the IASB were to continue the project based on its preliminary views, then the resulting standards for small and medium-sized entities (SMEs) would be of limited practical use, would not address the needs of SMEs, and would not reduce significantly the number of separate accounting regimes for SMEs around the world. We believe that this SME project is very important politically for the IASB's standing around the world. The Board's consultations with national standard-setters and its own Standards Advisory Council have demonstrated the need for this project and the priority attached to it.

We acknowledge the current time and work pressures on the Board. We suggest that the IASB or the International Accounting Standards Committee Foundation considers establishing a committee focused on SME accounting. Responsibility for developing the Standards for SMEs would be deputed to this committee, with final approval by the IASB, in the same way as responsibility for developing Interpretations rests with IFRIC subject to final Board approval. This project needs adequate attention to ensure the correct foundations are in place.

### **Deloitte Letter to EFRAG re IAS 39 Modifications**

In a letter to EFRAG, Deloitte urged that any European modification of IAS 39 be applicable only to banks, and then only as an option that also permits banks to use the unmodified IAS 39. We said: "Our comments are offered in the context of seeking to help the Commission to find a way forward. Nothing in this letter should be taken as indicative of a change in our often stated and still held position as a global organisation of support for full and immediate endorsement of the IAS 39 in the form in which it has been issued by the IASB." Here is an excerpt:

We believe the best outcome would be a situation where the carve-out proposals are an option that is available only to banks, thereby achieving the Commission's objectives without exposing the standards and users in other sectors to the weaknesses and inconsistencies described in the appendix [to this letter]. Most importantly, in seeking to resolve difficulties for some banks, the Commission needs to avoid creating new difficulties for others. The Commission will be aware that whilst there are very few who would regard IAS 39 as anywhere near perfect, there are still many banks which would prefer full adoption rather than a carve-out solution. Not only does the Commission need to find a way to restrict the carve-out option to banks that need to apply hedge accounting to demand deposits, but it must also ensure that the carve-out is not made the only option available to banks. If it was to become the only option, we believe it could create as many problems for the EU banking industry as a whole as the Commission is endeavouring to solve with its carve-out proposals.

Information about the constitution review is here: [www.iasplus.com/restruct/constreview.htm](http://www.iasplus.com/restruct/constreview.htm)

## IASC Foundation News

### Proposals to Change IASC Foundation Constitution

Based on recommendations made by their Constitution Committee, the Trustees of the IASC Foundation agreed on certain proposed changes to the Foundation's constitution at a meeting in London on 25 October 2004. The recommendations will be published for public comment. Among the preliminary recommendations of the Trustees:

#### IASB:

- Retain the current provision for two part-time members of the IASB (the Constitution Committee had recommended an increase in the number of part-time Board members to four).
- Broaden the criteria for selecting IASB members – “professional competence and practical experience” would replace “technical expertise”.
- Ease the required mix of backgrounds on the IASB. Currently a minimum of five practising auditors, three preparers, three users, and one academician are required. That 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.
- Require nine votes (64%) by IASB members to approve an Exposure Draft, Standard, or Interpretation, rather than the current eight (57%).
- Enhance the IASB's due process by expanding its consultative arrangements and scope of liaison activities.

#### Trustees:

- Expand the number of trustees from 19 to 22 to broaden geographical representation and diversity of professional experience.
- Allow the chair of the IASC Foundation trustees to serve as chair for six years, even if that period is beyond the limit of two three-year terms for trustees.
- Give trustees the right to comment on and make suggestions about the IASB's agenda, but not authority to decide the agenda.
- Rather than necessarily developing educational programmes itself, the Foundation should foster and review the development of educational programmes and materials by others.

#### Standards Advisory Council:

- The chair of the Standards Advisory Council would be appointed by the Trustees (three-year term, one renewal permitted) and would not be a member of the IASB or its staff (currently the IASB chairman also chairs the SAC).

Complete list of IASCF trustees: [www.iasplus.com/restruct/trustees.htm](http://www.iasplus.com/restruct/trustees.htm)

### Richard G. Humphry of Australia is a New IASCF Trustee

Richard G. Humphry of Australia has been named a trustee of the IASC Foundation (parent body of the IASB) representing the Asia-Pacific region. Mr. Humphry will fill the vacancy left by the death of Kenneth Spencer and will begin his three-year term on 1 January 2005. Mr. Humphry is managing director and chief executive officer of the Australian Stock Exchange (ASX) Limited. His nomination carries the support of the International Federation of Accountants and the Financial Reporting Council of Australia.

## News from IFAC

[www.ifac.org](http://www.ifac.org)

### Audit Issues Arising from First-Time Adoption of IFRSs

To help auditors address reporting issues arising from the first-time adoption of International Financial Reporting Standards, the staff of the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) along with staff of professional accountancy bodies, national standard setters, and audit firms, have prepared a series of key questions and answers. IFAC has published the Q&As in a document entitled *First Time Adoption of IFRSs – Guidance for Auditors on Reporting Issues*.

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

### Upcoming Meetings

IASB and SAC MEETINGS 2004-2005	
London, UK	16-17 November 2004 (and 18-19 November 2004 with the Standards Advisory Council)
London, UK	15-17 December 2004
London, UK	17-21 January 2005
London, UK	14-18 February 2005 (and 10-11 February 2005 with the Standards Advisory Council)
London, UK	14-18 March 2005
London, UK	18-22 April 2005
London, UK	16-20 May 2005
London, UK	20-24 June 2005 (and 27-28 June 2005 with the Standards Advisory Council)
London, UK	18-22 July 2005
London, UK	19-23 September 2005
Norwalk, CT, USA	17-21 October 2005
London, UK	14-18 November 2005 (and 10-11 November 2005 with the Standards Advisory Council)
London, UK	12-16 December 2005

IFRIC MEETINGS 2004-2005	
London, UK	4-5 November 2004
London, UK	2-3 December 2004
London, UK	3-4 February 2005
London, UK	31 March - 1 April 2005
London, UK	2-3 June 2005
London, UK	28-29 July 2005
London, UK	1-2 September 2005
London, UK	3-4 November 2005
London, UK	1-2 December 2005
London, UK	3-4 February 2005



## IFRS-Related News from the United States

The full text of Mr. Nicolaisen's remarks may be found here:

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

### SEC Chief Accountant Comments on IFRS Reconciliation

In his remarks at the IASB meeting with world standard setters on 28 September 2004, US SEC Chief Accountant Donald T. Nicolaisen commented on IASB-FASB convergence activities and the possibility of eliminating the SEC's requirement that foreign registrants using IFRSs also submit a reconciliation of earnings and equity to US GAAP. An excerpt:

My personal view is that if things continue as they have been going – if the IASB operates as a strong independent standard-setter and continues to develop and issue high quality standards, if the commitment to quality application of IFRS remains, and if good progress is made in accounting convergence and the development of an effective global financial reporting infrastructure – then I believe that the SEC will be able to eliminate our reconciliation requirements. I assure you that I am eager to embrace IFRS because I believe our investors in the US will benefit.

In a presentation at the annual meeting of the American Accounting Association in August 2004, Mr. Nicolaisen commented on FASB and IASB cooperation: "The FASB and IASB support moving toward a single conceptual framework that would be used by both Boards. The work of these two Boards, and other national standards setters involved in the IASB process, is an important part of building and maintaining an effective global financial reporting infrastructure. I support global convergence. It's in the best interest of investors."

The IASB explains the purpose of the black-gray letter distinction in the Preface to International Financial Reporting Standards.

[www.iasplus.com/standard/preface.htm](http://www.iasplus.com/standard/preface.htm)

### FASB May Adopt IASB's Black Letter/Gray Letter Style

FASB's written response to the July 2003 SEC *Staff Report to Congress on a Principles-Based Accounting System* indicates that FASB "is considering using the black letter/gray letter style of the International Accounting Standards Board (IASB) and will use that style in its business combinations Exposure Draft. The Board intends to request constituent input on that style and will address the advantages and disadvantages of using that style in all FASB standards at a later date."

You can find background information on this and other FASB projects at:

[www.fasb.org/project](http://www.fasb.org/project)

### US House Overwhelmingly Approves Stock Options Legislation

The United States House of Representatives has approved HR 3574 *Stock Option Accounting Reform Act* by a vote of 312 to 111, with 10 nonvoting. This legislation would restrict the SEC from recognizing a FASB standard on expensing stock options to options granted to the top five officers of a company, would exclude volatility from the calculation of fair value for those options, and would delay implementation for at least a year pending completion of a joint study by the Secretaries of Commerce and of Labor of the economic impact of expensing of employee stock options. The bill would not prohibit voluntary expensing of stock options by SEC registrants.

The Senate must also pass the same legislation before the bill becomes law. Press reports indicate that the Senate committee responsible for putting parallel legislation before the Senate is not inclined to do so.

The FASB has issued an exposure draft proposing that the fair value of all share-based payment, including stock options, be recognized as an expense. The FASB proposal is similar to IFRS 2 Share-based Payment. Although the FASB proposal was to become effective for public companies at the start of 2005 – the same as IFRS 2 – in October 2004 the FASB voted to delay the effective date by six months, to interim or annual periods beginning after 15 June 2005. It would be effective for non-public companies in 2006.

You will find this information in the Division of Corporation Finance section of the SEC's website:  
[www.sec.gov](http://www.sec.gov)

### **Non-US Companies Registered with the SEC**

At 31 December 2003 there were 1,232 foreign companies registered with the US Securities and Exchange Commission (as compared to 1,319 a year earlier). They came from 57 countries (compared to 59 a year earlier).

### **Strong US Support for Uniform Global Accounting Standards**

A survey conducted by DePaul University for Grant Thornton LLP found that roughly three-fourths of 101 US senior financial executives surveyed support expensing stock options. By about the same percentage, the executives believe that there should be uniform global accounting standards and that greater transparency is needed in financial reporting.

A link to Sir David's testimony can be found on our September 2004 IASPlus news page:  
[www.iasplus.com/pastnews/2004sep.htm](http://www.iasplus.com/pastnews/2004sep.htm)

### **IASB Chairman Testifies before US Senate Committee**

In testimony 9 September 2004 in Washington before the US Senate Committee on Banking, Housing and Urban Affairs, IASB Chairman Sir David Tweedie provided the committee with an update on the work of the IASB and on efforts toward convergence of IFRSs with FASB standards since his last testimony before the committee in February 2002. An excerpt:

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. The Sarbanes-Oxley Act refocused attention on these pillars and provided many useful approaches to improve the financial reporting environment.

We have a complete report of the 25 October 2004 Trustees' meeting at:  
[www.iasplus.com/pastnews/2004oct.htm](http://www.iasplus.com/pastnews/2004oct.htm)

### **IASB Chairman Comments on Convergence**

In his report to the meeting of the Trustees of the IASB Foundation on 25 October 2004, IASB Chairman Sir David Tweedie said that the Board is targeting the year 2007 as the milestone at which there will no longer be a reconciliation required between IFRS financial statements to US GAAP. The Board's strategy, he said, has been to tackle the major areas of difference between the two accounting regimes, including joint projects on business combinations and income taxes, as well as smaller convergence projects. Sir David stressed the point that despite the scepticism about the 2007 target, the IASB, FASB, and SEC have been working together to try and meet that goal. He said that the SEC has been "pushing hard" to ensure that there is convergence within this timeframe.

### **New SEC Staff Appointee to Focus on International Issues**

The US Securities and Exchange Commission has announced the appointment of Julie A. Erhardt as Deputy Chief Accountant responsible for international issues. Ms. Erhardt will work closely with various international organisations including the IASB and IFAC on issues relating to convergence of accounting, auditing, and reporting standards. She spent seven months on an interim assignment with the IASB and also served a two-year fellowship at the FASB.

## News about IFRSs in Europe

The EC's accounting website:  
[europa.eu.int/comm/  
 internal\\_market/accounting/](http://europa.eu.int/comm/internal_market/accounting/)

### ARC endorses IAS 39 with two parts modified

At its meeting in Brussels on 1 October 2004, the Accounting Regulatory Committee of the European Commission voted to recommend endorsement of IAS 39 for use in Europe, with two modifications. The modifications:

- prohibit use of the IAS 39 fair value option as it applies to liabilities, and
- allow using fair value hedge accounting for interest rate hedges of core deposits on a portfolio basis.

With respect to hedging of core deposits, EU member states can elect to require the unmodified version of IAS 39. Further, if a Member State permits the modified version, companies can elect to apply the unmodified IAS 39. The fair value option as it applies to liabilities is regarded as inconsistent with the 4<sup>th</sup> Accounting Directive and therefore the modification is required for all companies.

Even though IFRSs become mandatory in Europe in 2005, the ARC has yet to vote on endorsement of the revised versions of 14 IASs that were adopted by the IASB in December 2003 as part of its Improvements Project (to date, the EC has endorsed only the pre-2003 versions). Nor has the ARC endorsed IAS 32, IFRSs 2 through 5, or IFRIC 1. These are on the announced agenda for the 30 November 2004 meeting of the ARC, though decisions on IFRIC 1 and IAS 32 may be deferred to a possible additional ARC meeting on 20 December 2004.

You can find the ASB's statement here:  
[www.asb.org.uk](http://www.asb.org.uk)

### UK ASB urges compliance with full IAS 39

The United Kingdom Accounting Standards Board has issued a statement on the implications for UK financial reporting of the modified version of IAS 39 Financial Instruments: Recognition and Measurement as recently endorsed by the Accounting Regulatory Committee of the European Commission. The ASB said:

The ASB strongly supports the view that all UK companies should comply as far as possible with the full hedging provisions of the standard and not the amended version.... If power to mandate full compliance lay with the Board, it would do so immediately. However, the Board understands that, as a consequence of the IAS Regulation, the Board may not currently have this power. The Board intends to explore all possible means of mandating compliance with the hedging requirements as soon as possible.

### IASB Chairman Testifies before EU Parliament Committee

The IASB has released the testimony of IASB Chairman Sir David Tweedie before the Committee on Monetary and Economic Affairs of the European Parliament on 22 September 2004. Sir David's prepared statement includes a report on the history, background, and progress of discussions on IAS 39. An excerpt:

The Committee asked the IASB to appear to discuss progress with IAS 39 and the proposals of the European Commission. In this statement, I shall focus on IAS 39, because the IASB has not taken a position on the proposals for endorsement. But I should emphasise at the outset that full endorsement of all of the IASB's standards, including IAS 39, is our preferred option. Although we are aware of the challenges that endorsement would pose, we are concerned that piecemeal approval of any of the IASB's standards risks undermining the coherence and integrity of the standards and making them more difficult to apply consistently.

The confirmation vote by the European Parliament on Mr. McCreevy and the other new EU Commissioners, which was planned for late October 2004, has been delayed until after 1 November 2004.

### McCreevy will be new EC Commissioner for Internal Market

Charlie McCreevy, who is an Irish Chartered Accountant, has been named as the European Union's new Commissioner for Internal Market and Services, replacing Frits Bolkestein. Among Mr. McCreevy's responsibilities will be accounting and financial reporting, including the implementation of IFRSs in Europe.

The new Commission will take office following approval by the European Parliament. The Parliament can vote only on the whole slate and not on individual Commissioners. The formal EC decisions on endorsing individual IFRSs for use in Europe, including IAS 39, must be made by the Commissioners.

### Use of IFRSs Elsewhere in the World

Australian Accounting Standards Board:  
[www.aasb.com.au](http://www.aasb.com.au)

#### Australia Brings all IFRSs as of 31 March 2004 into Effect

The Australian Accounting Standards Board (AASB) has voted to formally adopt all IASs and IFRSs existing at 31 March 2004 as Australian Accounting Standards, thereby effectively introducing those international accounting standards into Australian law for all companies and other entities for reporting periods commencing on or after 1 January 2005. The AASB's policy is to have standards in place one year before entities must adopt them, to allow time for entities to address systems changes and other transition problems.

Thus – with one exception – any further changes to IFRSs would take effect in Australia after 2005. The one exception is the standard expected to result from IASB's ED 6 on exploration and evaluation costs in the extractive industries. That exposure draft would, in effect, "grandfather" Australia's existing national GAAP for those industries. Thus, transition problems are not expected.

Because they are delegated legislation, the standards still must pass through a final endorsement process in both houses of the Australian Parliament. They can be rejected in whole or part by a majority vote in either house.

#### Listed Companies in Sri Lanka May Use IFRSs

As a result of a policy decision recently adopted by the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAAMB), listed companies in Sri Lanka may choose to prepare their financial statements in accordance with International Financial Reporting Standards, rather than Sri Lankan GAAP.

Sri Lanka Accounting and Auditing Standards Monitoring Board:  
[www.slaasmb.org](http://www.slaasmb.org)

#### Are IFRSs in Canada's Future?

The Accounting Standards Board of Canada is developing a five-year plan for the period 2005-2010. The possibility of adopting IFRSs in Canada is one possible outcome. The ASB's Invitation to Comment states:

Four key issues, which need to be addressed sequentially, are whether Canada should:

- maintain its own standard-setting capability;
- maintain its own GAAP or adopt either US GAAP or International Financial Reporting Standards (IFRS), the standards of the International Accounting Standards Board (IASB);
- maintain the current strategy of working to support the international convergence of accounting standards while harmonising with US GAAP; and
- consider modifying current GAAP requirements to provide better information to the users of financial statements of various different types of entities through, for example, a wider application of differential reporting.

Canadian Institute of Chartered Accountants:  
[www.cica.ca](http://www.cica.ca)

Currently, domestic Canadian companies are not permitted to use IFRSs in place of Canadian GAAP. Foreign securities issuers in Canada were permitted, starting in 2004, to use IFRSs without reconciliation to Canadian GAAP, though this affects only a handful of companies.

Hong Kong Institute of CPAs:  
[www.hkicpa.org.hk](http://www.hkicpa.org.hk)

### **Hong Kong GAAP Now Virtually Aligned with IFRSs**

The Financial Accounting Standards Committee of the Hong Kong Institute of CPAs develops Hong Kong Financial Reporting Standards. They take effect following approval of the Institute's Council. The Council has mandated that the FASC develop standards to achieve 100% convergence with IFRSs. Differences that remain relate primarily to effective date and transition and some added guidance.

Institute of Chartered Accountants in England and Wales:  
[www.icaew.co.uk](http://www.icaew.co.uk)

### **United Kingdom Guidance on IFRS Transition**

The Institute of Chartered Accountants in England and Wales has published guidance on *Auditing Implications of IFRS Transition* intended to assist auditors in assessing the state of their clients' readiness for the transition to IFRSs and to prepare for the auditing implications. The guidance warns against complacency that there are not many differences between UK GAAP and IFRSs:

See also the story on page 8 about similar guidance from IFAC.

It is easy to make a high-level comparison of UK GAAP and IFRS and conclude that there are few major differences; however there are many important detailed differences, many of which will be discovered only by a thorough analysis of a company's transactions and exposures. Matters that need to be considered include:

- changes brought by the move to IFRS will mean a major change in the actual format of the accounts;
- differences in definitions may mean that items previously classified in one way will need to be classified differently;
- some items that are not recognised under UK GAAP are recognised as assets or liabilities under IFRS, whilst others may cease to be recognised;
- some items may have to be measured differently in the accounts of an individual subsidiary and in the consolidated accounts;
- more extensive disclosure requirements will result in greater data capture needs; and
- some changes in accounting policies may require accounting systems to give different information.

Accounting Standards Board of Japan:  
[www.asb.or.jp/index\\_e.html](http://www.asb.or.jp/index_e.html)

### **IASB Convergence Project with Japan**

The International Accounting Standards Board and the Accounting Standards Board of Japan (ASBJ) have held the first meeting to plan a joint project aimed at minimising differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. Sir David Tweedie, IASB Chairman, said: "The decision of the ASBJ to join with us to examine the differences between our standards and, where the economic facts are similar, to discuss which of our two methods best reflects economic reality is a major boost for the convergence of accounting standards worldwide. I applaud the decision of the ASBJ to take this historic step."

You can always access IFRS e-learning without charge by clicking on the light bulb icon on the IASPlus home page:  
[www.iasplus.com](http://www.iasplus.com)

Download the IFRS 3 guide without charge:  
[www.iasplus.com/dttpubs/pubs.htm](http://www.iasplus.com/dttpubs/pubs.htm)

Download the IFRS 1 guide without charge:  
[www.iasplus.com/dttpubs/pubs.htm](http://www.iasplus.com/dttpubs/pubs.htm)

## Publications from Deloitte

### Added IFRS e-Learning Modules Available Without Charge

In October 2004, the 100,000th IFRS e-learning module was downloaded from IASPlus since Deloitte's e-learning was launched at the end of January 2004. Many of those modules have multiple users because organisations are permitted to install the Deloitte IFRS e-learning modules on their own servers for the internal use of their employees or students. In addition, tens of thousands of modules have been completed online and offline by Deloitte staff.

During the second half of 2004, some new e-learning modules were added:

- IAS 12 Income Taxes
- IAS 19 Employee Benefits
- IAS 23 Borrowing Costs
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 32 Financial Instruments: Presentation and Disclosure\*
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement\*
- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 3 Business Combinations

\*These are the first of three Deloitte e-learning modules on the two financial instruments standards.

We expect to release all of the remaining modules (namely IASs 24, 32/39 Parts 2 and 3, and 36 and IFRSs 2 and 5) before the end of the year.

### New Deloitte guide to applying IFRS 3 Business Combinations

Deloitte has published and is making available, on the IASPlus website, our new 84-page *Guide to IFRS 3 Business Combinations*. The guide:

- Outlines the key features of IFRS 3.
- Provides illustrative examples to assist readers in applying the standard.
- Discusses the requirements of IAS 36 Impairment of Assets and IAS 38 Intangible Assets as they relate to business combinations.
- Includes:
  - Guidance on determining fair value for the purposes of accounting for business combinations;
  - An overview comparison between the requirements of IFRS and those of US GAAP;
  - A number of frequently asked questions; and
  - Illustrative disclosures.

### Deloitte guide to IFRS 1 First-time Adoption of IFRSs

Deloitte has published *First-time Adoption – A Guide to IFRS 1*. This 104-page bound booklet deals with first-time adoption issues related to the stable platform IFRSs, with focus on 2005 adopters. The book includes:

- A summary of IFRS 1.
- Specific issues related to first-time adoption.
- Questions and responses.
- A disclosure checklist.
- A large number of illustrative examples.

iGAAP 2005 Financial Statements for UK Listed Groups may be ordered from CCH at +44 0870 777 2906

The model financial statements by themselves may be downloaded from:  
[www.iasplus.com/fs/fs.htm](http://www.iasplus.com/fs/fs.htm)

iGAAP 2005 Financial Instruments: IAS 32 and 39 Explained may be ordered from CCH at +44 0870 777 2906

For more information, please visit the publisher's website:  
[www.faz-institut.de](http://www.faz-institut.de)

### Model IFRS financial statements for 2005

A new publication – *iGAAP 2005 Financial Statements for UK Listed Groups* – focuses on how UK listed companies' financial statements will change as a result of the requirement to adopt IFRSs from 2005. The book:

- explains the regulatory framework that requires UK listed groups to prepare their consolidated financial statements in accordance with IFRS;
- contains model financial statements and detailed commentary to illustrate the principal statutory, professional, and listing authority requirements, and;
- comments on the EU regulation that is driving change from UK GAAP to IFRS GAAP for listed groups, the companies affected, and the standards from the International Accounting Standards Board.

The model financial statements are based on standards issued at 31 May 2004 that are expected to be effective for years beginning on or after 1 January 2005. They also reflect the proposed amendments to IAS 19 issued by the IASB in April 2004 on the assumption that they will be approved and become effective in 2005.

### IAS 32 and IAS 39 Explained

Deloitte has published *iGAAP 2005 Financial Instruments: IAS 32 and 39 Explained*, an authoritative guide to applying those two standards. The publication is relevant to current IFRS reporters that are adopting both of the revised standards, as well for first time adopters of IFRSs. The publication includes:

- Classification of financial assets and liabilities, derivatives and embedded derivatives, measurement, derecognition, extensive guidance on hedge accounting, as well as specific guidance on how to apply both of these complex standards if you are a first time reporter using IFRS.
- Detailed application guidance, illustrative examples, and interpretations of the standards.

### Second edition of Deloitte's German GAAP-IFRS comparison

The second edition of Deloitte's 170-page comparison of German GAAP and IFRSs – *Rechnungslegung nach IFRS* – is now available. The book contains a general introduction to IFRSs, the IASB, and the European IAS regulation; a summary of the key aspects of IFRS 1; and a line-item by line-item comparison. It concludes with an executive summary.

## *The most comprehensive IFRS news on the Net*

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

- A news page (updated almost daily). Day-by-day past news back to December 2000.
- Detailed summaries of all Standards and Interpretations.
- E-learning modules for each IAS and IFRS – made available at no charge in the public interest.
- Model IFRS financial statements and disclosure checklists.
- Downloadable Deloitte Touche Tohmatsu publications relating to IFRS (over 60 publications available).
- Background and updates on all IASB and IFRIC agenda projects, including decision summaries of all IASB meetings.
- Comparisons of IFRSs and various national GAAPs.
- Complete history of the adoption of IFRSs in Europe, with links to all the relevant documents.
- Information about adoptions of IFRSs elsewhere around the world.
- Updates on national accounting standards development in nearly 40 countries throughout the world.
- A resource library of important documents relating to International Financial Reporting Standards.
- Description of the IASB structure, component bodies, and key organisations with which it interrelates.
- History of the IASB, including a comprehensive chronology.
- Links to nearly 200 global IFRS-related websites.
- Even some tools to help in your work, such as world time clock, 9-year calendar, unit conversions, amortisation calculator, telephone codes, currency converter, stock market indexes, worldwide weather, and a calculator.

[www.iasplus.com](http://www.iasplus.com)



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- Email the information above to [info@iasplus.com](mailto:info@iasplus.com)

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