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IAS PLUS WEB SITE
Over 480,000 people visited our www.iasplus.com web site in 2003 (compared to 267,000 in 2002 and 89,000 in 2001). Our goal is to be the most comprehensive source of news about IFRS on the Internet. Please check in regularly during 2004.

The IASB published fifteen revised standards in December 2003 and intends to publish final revisions to IAS 39 in the first quarter of 2004 to reflect the Board's decision on macro hedging. During February and March, five other new or revised standards will also be published and the EU machinery to adopt these remaining standards will swing into action.

The improvement project has largely focused on removing options and converging IAS and US GAAP. There are also some further disclosure requirements. However, with the exception of the finalisation of the section of IAS 39 dealing with macro hedging, the standards are now substantially in place and preparations for 2005 need not wait upon further details.

Other changes for post 2005 implementation include the detailed disclosure of financial risks by all firms (not just banks) and further consideration of reporting comprehensive income.

Clearly as we report in more detail overleaf there are some political tensions regarding IAS in Europe. These are highlighted in the debate over IAS 39 and macro hedging. Positive comments from the SEC Deputy Chief Accountant and the FASB Chairman regarding convergence between US GAAP and IFRS have been noted. Bob Herz's comments at a recent AICPA conference likening the "hi-tech lobby against expensing stock options" to "certain financial institutions who have lobbied the European Commission and national governments against [aspects of IAS 39]" raises political interference as the biggest potential obstacle to convergence, and begs the question "…whether the politicians …have the vision and political will to restrain themselves from intervening [in] independent and effective processes."

As we go to press, the brinkmanship continues. Nonetheless, firms would be ill advised to lessen the pace of their preparations for IAS implementation in 2005.

Particularly as:

(i) CESR has now published its recommendations setting out a four stage process for European companies to communicate the financial aspect of transitioning to IFRS in 2005; and

(ii) Gordon Brown has confirmed the acceptability of IFRS for submission of accounts to the Inland Revenue.

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IASB news

News about IFRS in Europe. Political wrangling hits IFRS implementation (page 3). Final CESR recommendations on transition to IFRS (page 4). EC comments on IAS regulation and directives (page 4). Proposal to enhance EFRAG (page 4).

News from IASC Foundation. Constitutional review is begun (page 5).

IFRS-related news from the United States. FASB agrees on expensing stock options (page 5).

Improved IASs are issued. The IASB has published 13 revised IASs reflecting changes made in the Improvements Project: IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 33, and 40. Also IAS 15 was withdrawn. Page 7.

Financial instruments standards revised. The Board published revised versions of IAS 32 and IAS 39. IAS 39 will be further revised in the first quarter of 2004 to reflect the Board's decisions on macro hedging. Page 7.

Remaining standards for 2005 adoption. Share-based payment; business combinations (revisions to IAS 22, 36, and 38); insurance contracts; macro hedging amendments to IAS 39; asset disposals and discontinued operations (including replacement of IAS 35); and extractive industries. Page 7.

Agenda project updates.

Upcoming meeting dates. Page 18.

News about IFRS in Europe

Political wrangling hits IFRS implementation

Frits Bolkestein, the EC Commissioner for Internal Markets, Taxation and Customs has spoken about progress toward implementing a single set of financial reporting standards for listed companies in Europe and IAS 39:

> "The decision to move to a common system for financial reporting for EU listed companies has been one of the boldest and most significant steps under the FSAP. For the first time, European investors will be able to compare "like with like" when reading annual accounts. On IAS 39, we are aware of profound concern regarding the prospects for reaching a satisfactory solution. The Commission is doing everything in its power to find a viable solution. Failure could have significant consequences for our long-term objective of facilitating the emergence of a global financial reporting standard."

On IASs 32 and 39, Mr Bolkestein said that a committee of "industry specialists" would be established in an attempt to reach agreement between the IASB and parties opposed to the implementation of the standards in their present form (most notably, many of the French banks). If agreement cannot be reached by a deadline of mid-March, the standards (or relevant parts thereof) would not be adopted by the EC in time for 2005.

The Chief Accountant at the Securities and Exchange Commission (SEC), Donald Nicolaisen, is reported to have said that this dispute could jeopardise efforts to achieve convergence between US and international accounting standards. Mr Nicolaison stated that: "There are legitimate issues that need to be resolved. It absolutely has to be sorted out. We do not want [IAS 39] watered down," and indicated that any dilution of IAS 39 could damage the possible chances of the SEC dropping the requirement that European companies with US share listings produce accounts under US accounting rules after 2005.

In a letter to the Financial Times, John Rogers and David Damant, Chief Executive and Chairman respectively of the Accounting Advocacy Committee of UKSIP decry the political controversy that has arisen regarding adoption in Europe of IASs 32 and 39 on financial instruments. The letter condemns what it sees as attacks on the IASB's standard setting process and stresses that opposition to IASs 32 and 39 on financial standards could have far-reaching and damaging consequences for transparency in financial statements and on the European capital markets.

The letter admonishes political interference and trade-offs in the standard-setting process: "No one can say that the US generally accepted accounting principals are perfect, but they are user-oriented and they serve deep and efficient capital markets that also serve the needs of users. Companies in Europe, in choosing between such markets in the US and an EU system modified by considerations contrary to the needs of investors, may choose the first."

With opposing positions so entrenched, it would seem extremely unlikely that the required level of agreement will be attained by mid-March.

With opposing positions so entrenched, it would seem extremely unlikely that the required level of agreement will be attained by mid-March. The consequences for UK companies of the non-adoption of IASs 32 and 39 would be far-reaching. The lack of a consistent accounting framework for financial instruments has long been identified as a major problem for transparency in UK accounts. In addition, with FRS 13 no longer applicable to listed companies after 2005, the FSA would need to consider the adequacy of disclosures relating to risk and risk management for derivatives and other financial instruments.

Other IFRSs have significant interrelationships with and dependencies on the financial instruments standards – significant amendments would be required to many of these. The outcome may well be something more akin to a separate 'European GAAP', at odds with the IASB and FASB's laudable recent progress towards global harmonisation. The comments of Mr Nicolaisen will be of particular concern for companies with US listings.

It would be a matter of great regret if political horse-trading were to hinder the progress towards harmonised, transparent accounting in Europe.

More information:
www.europefesco.org/

Final CESR recommendations on transition to IRFS

In late December 2003, the Committee of European Securities Regulators (CESR) published recommendations on how listed European companies can effectively communicate to investors the financial impact of transitioning to IFRS in 2005. The recommendations identify four milestones in the transition process, as follows:

- **Publication of the 2003 annual report (including the 2003 financial statements).** Companies should explain (a) how they intend to carry out the transition to IAS/IFRS (plans and degree of achievement for the transition) and (b) the key differences between their present accounting policies and the ones they know with sufficient certainty they will have to apply under IAS/IFRS.
- **Publication of the 2004 annual report (including the 2004 financial statements).** As soon as a company can quantify the impact of the change to IAS/IFRS on its 2004 financial statements in a sufficiently reliable manner, it should disclose the relevant quantified information.
- **2005 interim financial reports (half-yearly and quarterly financial reports).** In interim financial reports for 2005, listed companies should start applying as of 1 January 2005 either IAS 34, Interim Financial Reporting, or, if this is not possible, at least the IAS/IFRS recognition and measurement principles that will be applicable at year end. IAS 34 applies if an entity is required or elects to publish interims in accordance with IFRS. The FSA Director of Listing, Ken Rushton has reminded companies that "Listing Rule 12.47a requires an issuer to present its interim results in accordance with the accounting policies and presentation to be followed in the subsequent annual financial statements. Therefore an issuer with a 31 December 2005 year-end will have to present its June 2005 interim results in accordance with IFRS." This means that the 2005 interims ok UK listed companies will need to be in compliance with IAS 34.
- **2005 annual financial statements.** For most listed companies in Europe, these will be the first complete set of financial statements presented under IAS/IFRS. CESR does not propose a requirement for more than one year of comparatives (2004) under IAS/IFRS. But if, because of national regulation or choice, a company presents three successive periods but has not restated under IAS/IFRS the earliest period presented (2003), CESR proposes a format ("the bridge approach") for presenting comparative figures (2004 and 2003).

The FSA has indicated that it would not introduce any special reporting requirements to reflect CESR recommendations, but that it would rather encourage companies to provide disclosure and information necessary to assess their progress with the transition to IAS.

The EC comments can be found here:
http://europa.eu.int/comm/internal_market/accounting/ias_en.htm

EC comments on IAS regulation and directives

The European Commission has published the final version of a document interpreting aspects of the EU's IAS Regulation and the interaction of the Regulation with the Accounting Directives (upon which Companies Act 1985 is based). The formal title of the document is a long one: Comments Concerning Certain Articles of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the Application of International Accounting Standards and the Fourth Council Directive 78/660/EEC of 25 July 1978 and the Seventh Council Directive 83/349/EEC of 13 June 1983 on Accounting.

More information:
www.efrag.org

Proposal to enhance EFRAG'S role and processes

The European Financial Reporting Advisory Group (EFRAG) has invited comment on proposals to enhance its role and streamline its operating processes with the goal of "strengthening European input to the IASB". EFRAG, a private-sector body, was created in mid-2001 by a broad array of groups interested in financial reporting in Europe, including the preparers and the accountancy profession. Its principal goal is to make a pro-active contribution to the work of IASB while also advising the European Commission on the technical assessment of the IASB standards and interpretations for application in Europe.

Key proposals include:

- Increasing EFRAG's pro-active role with the IASB, to allow EFRAG to present European concerns at the earliest stage.
- Seeking full recognition of EFRAG as a liaison standard-setter by the IASB.
- Creating an Advisory Forum to allow a wide range of stakeholders to contribute to the European financial reporting debate.
- Making EFRAG's working processes more efficient, including (a) closer relationships with the European national standard setters; (b) smaller and more efficient Supervisory Board; and (c) a full-time Chairman for the Technical Expert Group.
- Increasing EFRAG's resources.

Written comments on the proposals were invited by 12 January 2004. A public hearing was held in Brussels on 8 January 2004.

In our letter of comment we suggested a number of ways for strengthening EFRAG so as to improve its visibility and recognition. EFRAG's constitution requires it to have regard to the "European public good" when issuing recommendations on whether an IFRS should be adopted in Europe. We suggest in our letter that a presumption should be established as part of the European adoption process, high quality and transparency in accounting are, by definition, in the "European public good".

You will find more information about the constitution review here: www.iasplus.com/restruct/constreview.htm

IASC foundation begins a comprehensive review of IASB's constitution

In November 2003, the trustees of the IASC Foundation (which oversees the IASB) announced the appointment of a committee to review the IASB's constitution. The committee is chaired by Paul Volcker, chairman of the IASC Foundation Trustees. Committee members are IACF Trustees John Biggs, Roberto Teixeira da Costa, Toru Hashimoto, Cornelius Herkstroter, Philip Laskawy, and Sir Sydney Lipworth.

At its first meeting, the committee decided on the procedures and timetable for the review. Committee meetings will generally be open, with proposals published prior to decisions being made. The Trustees published an Invitation to Comment setting out the main issues for the constitution review, though the entire constitution is subject to reconsideration. Written comments are sought by 11 February 2004.

FASB: www.fasb.org

IFRS-related news from the United States

FASB agrees to propose expensing stock options

The US Financial Accounting Standards Board has agreed to expose, for public comment, a standard that would require companies to expense the fair value of stock options granted to employees. The proposal would likely be issued in February 2004 and, if adopted, would take effect in 2005. The IASB published a similar proposal last year (Exposure Draft ED 2) and is expected to issue a final standard during the first quarter of 2004, also effective in 2005.

Currently, companies in the United States are permitted, but not required, to recognise stock options as part of employee compensation cost. Several hundred listed companies (out of about 15,000) recognise the expense. Even if they elect not to charge the cost to expense, companies must disclose the fair values of options granted. Current IFRS require neither expensing nor disclosure of the fair values of share-based compensation. Both the FASB and IASB proposals would apply to all companies, not just publicly traded ones.

Timetable for IASB's active agenda projects

Accounting Standards for Small and Medium-Sized Entities		• Exposure draft in 2004.
Amendments to IAS 32 and IAS 39	2005	• Final standards issued December 2003 (ex macro hedging). • Revised standard reflecting macro hedging 1st quarter 2004. • Effective date December 2005 year ends.
Business Combinations – Phase I	2005	• Exposure drafts were issued December 2002. • Final standards in 1st quarter 2004. • Expected effective date December 2005 year ends.
Business Combinations – Phase II – Application of the Purchase Method		• Exposure draft in 1st quarter 2004. • Final standards in 2004. • Expected effective date after 2005 year ends.
Consolidation (Including SPEs)		• Exposure draft in 2004.
Convergence – Short-term Issues, IFRS and US GAAP. Includes: **Joint project with FASB Phase I** – **Asset Disposals and Discontinued Operations (including replacement of IAS 35)** – **Amendment of IAS 37 (Provisions)** **Joint project with FASB Phase II** – **Various issues** – **Amendment of IAS 19 (Employee Benefits)** – **Replacement of IAS 20 (Government Grants)**	2005	**Joint project with FASB Phase I** • Exposure draft on Asset Disposals/Discontinued Operations was issued August 2003. Final standard expected 1st quarter 2004. Expected effective date December 2005 year ends. • Exposure draft on provisions expected 1st quarter 2004. Final standard expected before the end of 2004. Expected effective date December 2005 year ends. **Joint project with FASB Phase II** • Exposure drafts on the various Phase II convergence issues other than IAS 19 and IAS 20 are expected before the end of 2004. Timing of final standards not yet announced. • Employee Benefits – timing of exposure draft and final standard is under review. • Exposure draft on replacement of IAS 20 expected before the end of 2004. Timing of final standard not yet announced.
Dsclosure Financial Risk and Other Disclosures about Activities of Financial Institutions		• Exposure draft in 2004. • Final standard in 2004 or 2005. • Expected effective date after 2005 year ends.
Extractive Industries		• Exposure draft in 1st quarter 2004. • Final standard in 2004. • Expected effective date December 2005 year ends.
First-Time Adoption of IFRS	2005	• Final standard was issued 19 June 2003.
Improvements to International Accounting Standards	2005	• Final standards were issued in 4th quarter 2003. • Effective date December 2005 year ends.
Insurance Contracts – Phase I	2005	• Exposure draft was issued August 2003. • Final standard in 1st quarter 2004. • Expected effective date December 2005 year ends (except certain fair value disclosures 2006 year ends).
Insurance Contracts – Phase II		• Exposure draft 2004. • Final standard timetable not yet established. • Expected effective date after 2005 year ends.
Performance Reporting **(Reporting Comprehensive Income)**		• Exposure draft – timing is under review. • Final standard – timing is under review. • Expected effective date after 2005 year ends.
Concepts: Revenue Recognition and Related Liabilities		• Exposure draft 2004. • Final standard timetable not yet established. • Expected effective date after 2005 year ends.
Share-Based Payment	2005	• Exposure draft was issued in November 2002. • Final standard in 1st quarter 2004. • Expected effective date December 2005 year ends.

You can always find an up-to-date timetable at: www.iasplus.com/agenda/timetabl.htm

Timetable for IASB projects

During December 2003, the IASB published the following 15 revised International Accounting Standards:

- IAS 1, Presentation of Financial Statements.
- IAS 2, Inventories.
- IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
- IAS 10, Events after the Balance Sheet Date.
- IAS 16, Property, Plant and Equipment.
- IAS 17, Leases.
- IAS 21, The Effects of Changes in Foreign Exchange Rates.
- IAS 24, Related Party Disclosures.
- IAS 27, Consolidated and Separate Financial Statements.
- IAS 28, Investments in Associates.
- IAS 31, Interests in Joint Ventures.
- IAS 32, Financial Instruments: Disclosure and Presentation.
- IAS 33, Earnings per Share.
- IAS 39, Financial Instruments: Recognition and Measurement.
- IAS 40, Investment Property.

IAS 39 is expected to be further revised in first quarter 2004 to reflect the Board's decisions regarding macro hedging.

The Board also withdrew IAS 15, Information Reflecting the Effects of Changing Prices, which had not been mandatory since 1989.

In addition, the Board made some changes in its project timetables, delaying several exposure drafts or final standards. Presented on the facing page is a summary of the timetable for the IASB's active agenda projects.

What's left to do for 2005?

Completion of the above revised standards brings the IASB closer to its commitment to have a platform of high quality, improved standards in place by the end of March 2004. The IASB has set itself this deadline to ease the implementation of its standards in the many countries, including those of the European Union, that will be adopting international standards from 2005.

The following new or revised standards that will be effective in 2005 still remain to be issued:

- Share-Based Payment.
- Business Combinations Phase I – 3 standards (revisions to IAS 22, IAS 36, and IAS 38).
- Insurance Contracts Phase I.
- Macro Hedging Amendments to IAS 39.
- Extractive Industries: Exploration and Evaluation Costs.
- Asset Disposals and Discontinued Operations.

Each of those final standards, as well as any new interpretations, will be made available on the IASB's website without charge. Once these are published, any additional standards that the IASB issues would be effective after 2005.

IOSCO is the worldwide association of approximately 100 national securities regulatory commissions, such as the Securities and Exchange Commission in the United States and the Financial Services Authority in the United Kingdom.

IOSCO Statement of convergence of global GAAPs

Following is an excerpt from the Final Communiqué of the 28th Annual Conference of the International Organization of Securities Commissions (IOSCO) that was held on 14-17 October 2003 in Seoul:

> The Technical Committee also is continuing its close cooperation with the International Accounting Standards Board (IASB). The Technical Committee and the IASB have developed ongoing arrangements for the Technical Committee to provide input on IASB projects as they are developed and initiated and to monitor IASB work on an ongoing basis. IOSCO welcomes the efforts of accounting standard setting bodies towards convergence of international accounting standards. Looking ahead, IOSCO encourages the IASB and national standard setters to continue to work cooperatively and expeditiously to achieve convergence in order to facilitate cross-border offerings and listings and encourages regulators to address the broader issues of consistent interpretation, application and enforcement of accounting standards.

An observer from Deloitte Touche Tohmatsu attends every IASB meeting, and we publish the Board's tentative decisions on our web site, www.iasplus.com, usually the next day.

IASB agenda project updates

On the next several pages, we note some of the recent key decisions made by the Board on its agenda projects. More detailed project information can be found on our web site and on the IASB's site.

This project is a limited scope project addressing only costs incurred in exploration and evaluation activities. The IASB's predecessor (IASC) published a comprehensive discussion paper broadly addressing accounting in the extractive industries.

Project update: extractive industries

Status. This project is developing interim guidance on how IFRS should be applied to exploration and evaluation costs incurred in the oil and gas and mining industries (extractive industries). Key principles that will be included in an exposure draft include:

- Clarify that IFRS apply to entities in the extractive industries. Thus, exploration and evaluation costs would be added to the scopes of both IAS 16 and IAS 38 (those Standards currently exclude such costs).
- Costs incurred in exploration and evaluation could continue to be accounted for using existing accounting policies.
- If an entity's accounting policies treat exploration and evaluation costs as assets, it will not be required to apply the concept of cash generating units as defined in IAS 36, Impairment of Assets, for the purpose of testing for impairment tests. The ED will propose a different cash generating unit for the extractive industries.
- All capitalised exploration and evaluation costs will be subject to an annual impairment test.

Recent discussions. In December, the Board concluded that the guidance in the proposed exposure draft was incomplete because it addressed only those expenditures that could be included in the exploration and evaluation asset and did not address those expenditures that could not be included. The Board agreed to include guidance on initial and subsequent measurement.

What's next? Exposure draft in first quarter of 2004, final standard in 2004, effective for 2005.

A special edition of the IASPLUS newsletter is available at www.iasplus.com

Project update: improvements to IFRS

Status: Final standards were issued on 18 December 2003. We have recently published a special edition of the IASPLUS Newsletter dealing with these standards. This 16-page newsletter presents the key features of each of the 13 revised standards, along with their impact on UK companies. The revised standards all apply to periods beginning on or after 1 January 2005, with earlier adoption encouraged. This publication is available at www.iasplus.com.

The revisions to IAS 27 and SIC 12 will not be effective for 2005 reporting

Consolidation, including special purpose entities

Status. The Board is developing an exposure draft that would replace both IAS 27 and SIC 12. Control would continue to be the basis for consolidation. The Board has tentatively developed the following criteria for assessing control:

- the ability to set strategic direction and to direct financing and operating policy and strategy;
- the ability to access benefits; and
- the ability to use such power so as to increase, maintain or protect the amount of those benefits.

Recent deliberations. The Board discussed how the foregoing definition of control would apply in the case of a special purpose entity where the policies and significant decisions are predetermined, and the predetermination is effectively unchangeable.

What's next? Exposure draft some time in 2004. The Board has not indicated a target date for the final standard.

You can download ED 2 from the IASB's website: www.iasb.org.uk

You can download our comment letter at: www.iasplus.com links/comment.htm

Project update: shared-based payment

Status. Exposure draft ED 2 issued in November 2002. Comments were due 7 March 2003. Main proposals in ED 2:

- All share-based payment transactions recognised at fair value.
- Expense recognised when the goods or services received are sold or consumed.
- Same standards for all entities, listed and non-listed.
- Measure fair value at grant date:
  - For employee options based on fair value of the option, using an option pricing model that takes into account vesting conditions;
  - For shares or options given to non-employees, normally based on fair value of goods or services received.

Recent deliberations. The main area of discussions related to accounting for a tax deduction that an employer gets when shares or share options are granted to employees. The Board debated various methods to allocate the tax effects between the income statement and equity, and tentatively concluded that:

- The measurement of the deferred tax asset each period should be based on the expected future tax benefits relating to both the income statement item and the equity item.
- The expected future tax benefits (and, ultimately, the tax benefits actually received), should be allocated between the income statement and equity on the following basis:
  a. If the estimated (or actual) tax deduction is less than, or equal to, the cumulative recognised compensation expense, the associated tax benefits are recognised in profit or loss.
  b. If the estimated (or actual) tax deduction exceeds the cumulative recognised compensation expense, the excess associated tax benefits are recognised directly in equity.

What's next? Final standard in first quarter of 2004, effective for 2005. The US FASB plans to approve, in the first quarter of 2004, an exposure draft that is broadly consistent with the IASB standard.

You can download the Deloitte Touche Tohmatsu comment letter on ED 3 and the related EDs on impairment and intangible assets from this link: www.iasplus.com/links/comment.htm

Project update: Business Combinations – Phase 1

Status. Exposure drafts were issued in December 2002, one proposing a new IFRS to replace IAS 22, Business Combinations, and the other proposing amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets. Key proposals:

- Purchase method would be used for all business combinations; uniting (pooling) of interests prohibited.
- Goodwill and other intangible assets with indefinite lives would not be amortised, but they would be tested for impairment at least annually.
- Amortisation continues for finite-lived intangible assets; no presumption of a maximum life.
- Negative goodwill will be an immediate gain.
- Minority's share of acquired assets measured at fair value.
- Minority interest reported within equity in the balance sheet.

Recent deliberations. The Board did not change any of the foregoing key proposals. It has made some changes with respect to subsequent measurement of contingent liabilities, measuring value in use, treatment of forward contracts, and definition of an "operation".

What's next? Final standards in first quarter of 2004, effective for 2005.

This is a joint project with the FASB. You will find their project summary at: www.fasb.org/project/index.shtml

Project update: Business Combinations – Phase II

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

1. Issues related to the application of the purchase method.
2. Accounting for business combinations in which separate entities or operations of entities are brought together to form a joint venture, including consideration of 'fresh start accounting'.
3. Issues that were excluded from phase I:
   - Business combinations involving entities (or operations of entities) under common control;
   - Business combinations involving two or more mutual entities (such as mutual insurance companies or mutual cooperative entities); and
   - Business combinations in which separate entities are brought together to form a reporting entity by contract only without the obtaining of an ownership interest.

Item 1 is the first component being pursued jointly by the IASB and the US FASB.

Recent deliberations. Previously, the Board had concluded that if less than a 100% interest is acquired, the acquirer should recognise all of the goodwill of the acquiree, not just the acquirer's share. This is called the 'full goodwill method'. During the fourth quarter the IASB met with the FASB to review each board's tentative decisions in the project and to identify ways to resolve differences. The main areas of difference relate to determining which assets and liabilities should be included in the business combination accounting (versus post-combination).

What's next? The Board will issue an exposure draft on application of the purchase method during the first quarter of 2004, with a final standard before the end of 2004. The proposed effective date is expected to be 1 January 2006, with earlier application optional. The requirements would have to be applied retrospectively, unless impracticable. However, all business combinations that occur after the earliest business combination that has been retrospectively restated must also be restated.

A timetable has not been set for other Phase II components, including combinations of entities under common control and fresh start accounting.

This is a joint project with the FASB. You will find their project summary at: www.fasb.org/project/index.shtml

Project update: concepts of revenue and liabilities

Status. This joint project with the US FASB addresses general principles for recognising revenue and related liabilities. The Board is exploring an approach that focuses on changes in assets and liabilities rather than a notion of completion of an earnings process. The IASB has tentatively agreed that two criteria must be met to recognise revenue:

- The **elements criterion** requires that a change in assets or liabilities has occurred, specifically:
  - An increase in assets has occurred that increases equity, without a commensurate investment by owners; and
  - A decrease in liabilities has occurred that increases equity, without a commensurate investment by owners (such as the forgiveness by owners of a debt owed to them by the entity).
- The **measurement criterion** requires that the change in assets or liabilities can be appropriately measured, specifically:
  - The assets or liabilities are measured by means of a relevant attribute; and
  - The increase in assets or decrease in liabilities is measurable with sufficient reliability.

Recent deliberations. Among the issues discussed was how conditional and unconditional contractual rights should affect the recognition of revenue and liabilities.

What's next? The project is likely to lead to revisions of both the IASB Framework and IAS 18, Revenue. An exposure draft is planned for 2004. Any final standard would not be effective until after 2005.

The ED on macro hedging would permit an entity to use fair value hedge accounting for a net portfolio hedge of interest rate risk if specified conditions are met.

Project update: Amendments to IAS 32 and IAS 39, financial instruments

Status. The Board published revised versions of IAS 32 and IAS 39 on financial instruments on 17 December 2003. Still outstanding is the August 2003 exposure draft on macro hedging issues.

Recent deliberations on macro hedging. The Board considered an initial analysis of the comment letters received. It was noted that commentators in general were supportive of the Board addressing the issue. However, many believed the Board had not gone far enough in the proposals, particularly because a financial liability that the counterparty can redeem on demand (most notably bank core deposits) cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the counterparty can demand payment.

*****HEADLINE NEWS***** The Board has decided not to amend proposals in relation to liabilities with a demand feature ('core deposits'). In particular, that (i) a core deposit cannot qualify for fair value hedge accounting for any period beyond the shortest period in which the counterparty can demand payment; and (ii) the fair value of a core deposit cannot be less than the amount payable on demand discounted from the first date the amount could be required to be paid.

*****HEADLINE NEWS***** At its January meeting, the Board discussed how to designate the hedged item and measure ineffectiveness in a macro hedge. It made a number of tentative decisions, including (i) to retain the proposal that a net position cannot be designated as the hedged item; and (ii) that effectiveness should be measured by reference to the change in the fair value of the entire asset or liability that is attributable to changes in interest rates – if that cannot be measured reliably, the percentage method proposed in the exposure draft should be used.

What's next? The Board expects to issue a revised IAS 39 that reflects its macro hedging decisions by the end of March 2004. It would be effective for December 2005 year-ends.

The IASB is currently rethinking the timetable for proceeding on this project.

Project update: reporting comprehensive income (performance reporting)

Status. The Board is developing a standard for presenting performance – a new format for the traditional income statement that will reflect all items of income and expense recognised in the current period. Items would no longer be reported directly in equity; nor would recycling of items from equity into profit or loss be allowed.

Key decisions to date. This is a presentation project that will not change any recognition or measurement standards. The Board currently favours a three-column statement of comprehensive income that will segregate profit other than remeasurements from gains and losses recognised as a result of remeasurements of previously recognised assets and liabilities. Also, rows on the income statement would separate operating profit, other business profit, financial income, financing expense, income taxes, discontinuing operations, and results of cash flow hedges.

Recent deliberations. The IASB and FASB discussed the project during their joint meeting in October 2003. Differences between the decisions of the two Boards include:

- Definitions of the business category – FASB staff has proposed it relates to core business. (Each entity would have to define their core business and apply it consistently.)
- Definitions of the finance category where FASB allows the inclusion of income from cash and cash equivalents only.
- FASB has an 'other' category.
- FASB is debating the inclusion of an 'other comprehensive income' category. (IASB members questioned whether this gave rise to recycling. This is still under debate at FASB.)

FASB staff noted that various IASB tentative decisions were still to be debated by FASB in particular remeasurement and disaggregation. The two Boards agreed to set up a joint working party to consider the project and propose a joint solution for consideration by both Boards.

What's next? The IASB has announced that the timing of an exposure draft is under review. In any event, the Board has indicated that a final standard would not be mandatory in time for 2005 financial reporting.

The IASB and the FASB met jointly in October 2003 in Toronto, Ontario, Canada, and will meet again in October 2004 in Norwalk, Connecticut, USA.

Project update: convergence – short-term issues: IFRS and US GAAP

Status. The objective of this project is to eliminate a variety of differences between International Financial Reporting Standards and US GAAP. The project, which is being done jointly by FASB and IASB, grew out of an agreement reached by the two boards in September 2002. It currently has two Phases:

Phase I

- Asset disposals and discontinued operations (including replacement of IAS 35). The Board has already issued ED 4, Disposal of Non-Current Assets and Reporting Discontinued Operations.
- Amendment of the definition of contingent liability in IAS 37.

Phase II

- Wide variety of smaller issues.
- Improvements to IAS 19, Employee Benefits, including potential elimination of the 'corridor approach' now part of both IFRS and US GAAP.
- Replacement of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

The last two aspects of Phase II have gone beyond convergence of IFRS and US GAAP and are more in the nature of improvements to IAS.

*****HEADLINE NEWS***** At its January meeting, the Board tentatively decided to amend ED 4's requirements in relation to assets that were revalued before being classified as held for sale. Tangible and intangible assets should be held at lower of carrying amount and fair value. Investment properties and agricultural assets would continue to be held at valuation.

*****HEADLINE NEWS***** On employee benefits, the Board has re-debated the proposed amendment to include an option in IAS 19 to recognise actuarial gains and losses outside of the income statement, and a proposed exemption from defined benefit plan accounting for subsidiaries where there is a group plan. The Board will take a final decision on these limited revisions at February's meeting as it was noted that six Board members would potentially dissent because of the proposed exemption for subsidiaries from defined benefit plan accounting.

What's next? A final standard resulting from ED 4 is expected in first quarter 2004.
An exposure drafts on amendments to IAS 37 is expected in the first quarter of 2004, with a final standard before the end of 2004. EDs on the various smaller issues and on replacement of IAS 20 are expected before the end of 2004. Timing of improvements to IAS 19 is under review.

Because neither the principle of "no public accountability" nor the indicators includes a size criterion, the Board asked the staff to try to find a term other than "small or medium-sized entities" to describe the class of entities for which the standards would be suitable.

Project update: Standards for small and medium-sized entities

Status. The basic intention of the IASB's project to develop standards for small and medium-sized entities (SMEs) is to reduce the financial reporting burden on SMEs. Development of IASB SME standards should start by extracting the fundamental concepts from the IASB Framework and the principles and related mandatory guidance from IFRSs and Interpretations. Any modifications to those concepts or principles must be based on the identified needs of users of SME financial statements. The Board has said that it is likely that some disclosure and presentation modifications will be justified based on user needs, but there would be a rebuttable presumption that no modifications would be made to the recognition and measurement principles in IFRSs.

Recent deliberations. A principle of "no public accountability" should be the overriding characteristic to identify those business entities for which IASB SME standards would be intended. The Board agreed to adopt presumptive indicators of public accountability. A business entity would be regarded as having public accountability if it meets any one of the following criteria:

- It has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
- It holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities brokerage, pension fund, mutual fund, or investment banking entity.
- It is a public utility or similar entity that provides an essential public service.
- It is of economic significance in the jurisdiction in which it is domiciled.
- One or more of its owners has expressed objection to the entity's decision to use SME standards rather than full IFRSs (all owners, including those not otherwise entitled to vote, having been informed of that decision).

What's next? The Board plans to issue an exposure draft by the end of 2004.

In May 2002, the IASB decided to split the insurance contracts project into two phases, so that European (and other) insurance companies that will be adopting IFRS for the first time as of 2005 will have some guidance on how to apply existing IAS and IFRS to insurance contracts. Phase II is a comprehensive project on accounting for insurance contracts taking a fresh look at all issues. An exposure draft on Phase I was issued in August 2003.

Project update: insurance contracts – Phase I

Status. The goal of Phase I of this two-part project is to provide guidance on applying existing IFRS to accounting insurance contracts and requires additional disclosures. An exposure draft (ED 5, Insurance Contracts) was issued in August 2003. Comment deadline was 31 October 2003. The Board intends this Standard to be effective in time for the changeover to IFRS in Europe in 2005.

Phase II is a comprehensive project that is taking a complete fresh look at insurance accounting. Here are some of the key proposals in Phase I:

- In recognising and measuring insurance liabilities, catastrophe and equalisation provisions would be prohibited.
- An insurer must carry out a loss recognition test relating to losses already incurred at each balance sheet date and, if necessary, adjust its insurance liabilities through net profit or loss.
- If an insurance contract contains both an insurance component and a deposit (investment) component, the deposit component must be treated as a financial liability or financial asset under IAS 39. As a result, the insurer would not recognise premium receipts for the deposit component as revenue.
- Insurance liabilities cannot be offset against related reinsurance assets. Nor can income and expense from reinsurance contracts be netted against related items from the underlying insurance contracts.
- Many new disclosures are proposed, including fair values of insurance assets and insurance liabilities (starting for financial statements for years ended 31 December 2006).

Recent deliberations. The Board began considering comments on ED 5 at its November and December 2003 meetings. Among the decisions:

- Many commentators expressed concern about a "mismatch" between the measurement of an insurer's assets and the measurement of its liabilities. The Board has been considering a proposal to adjust the measurement of interest-sensitive insurance liabilities to reflect changes in interest rates that also have a corresponding effect on the fair value of fixed-maturity financial assets that are designated as backing those liabilities (and are carried at fair value and meet various restrictions to be determined).
- In adopting IFRS, an insurer may (but is not required to) change its accounting policies so that a recognised but unrealised gain or loss on an asset affects the measurement of related insurance liabilities (and deferred acquisition costs) in the same way that a realised gain or loss does. If the unrealised gains or losses are recognised directly in equity, the related adjustment to the insurance liability or deferred acquisition costs should also be recognised in equity. This is not the same thing as fair value hedge accounting and will not usually have the same effect.

At its January meeting, the Board continued decided to clarify a number of points, including the treatment of origination costs (by adding an appendix to IAS 18) and discretionary participation features.

What's next? The Board plans to issue a final standard in the first quarter of 2004. It would be effective for December 2005 year ends, except for certain fair value disclosures which would be effective for December 2006 year ends.

IFRIC news on our web site:
Summaries of Interpretations:
www.iasplus.com/interps/interps.htm

IFRIC projects by topic:
www.iasplus.com/ifric/ifricissues.htm
Topics not added to IFRIC's agenda:
www.iasplus.com/ifric/notadded.htm

IFRIC update

IFRIC D3 determining whether an arrangement contains a lease

This draft interpretation, published on 15 January, would require an arrangement that does not take the legal form of a lease, but that has the substance of a lease, to be accounted for in accordance with IAS 17, Leases. Types of arrangements addressed include outsourcing arrangements; contracts to supply network capacity in the telecommunications industry; take-or-pay contracts and service concession arrangements in which a supplier provides the use of an item of infrastructure to a purchaser. Comments have been requested by 19 March.

IFRIC D4 decommissioning, restoration and environmental rehabilitation funds

This draft interpretation, also published on 15 January, would provide guidance where entities contribute to funds established to reimburse their decommissioning, restoration, or rehabilitation obligations when the costs are incurred. IFRIC proposes that the contributor should determine whether it has control, joint control, or significant influence over the fund by reference to the standards dealing with subsidiaries, joint ventures, associates and special purpose entities. If it does, the contributor should account for its interest in the fund in accordance with those standards. If this does not apply, and the fund does not relieve the contributor of its obligation to pay decommissioning costs, the contributor should recognise a separate asset (for rights to reimbursement from the fund) and liability (to pay decommissioning costs). Comments have been requested by 19 March.

The International Financial Reporting Interpretations Committee (IFRIC) met on 3-4 December 2003 and on 3-4 February 2004. Highlights of the discussions are:

Emission rights (Draft Interpretation D1)

The staff proposed that IFRIC create a new category of intangible asset – intangible assets that will be used to extinguish a liability – to be accounted for at fair value if there is an active market. IFRIC generally agreed with the proposal because it solves a part of the mismatch problem (change in liability to income and change in asset to equity under current IAS 38). Consistent with this decision, the IASB decided to amend IAS 38 with the result that the emission rights and liabilities should be measured at fair value with changes in value recognised in profit and loss. The IASB has decided that the IFRIC should re-expose its Interpretation on emission rights at the same time as the Board exposes its intention to withdraw IAS 20 and amend IAS 38. An exposure draft is expected in June 2004 with a final Interpretation issued in November 2004. It is unclear whether it would recommend a required effective date for those adopting IFRS in 2005.

Concessions

The IFRIC agreed with the staff's proposal that the lease model is the most suitable model. Some members expressed concerns about the process and asked for a timeline with expected objectives for IFRIC at each meeting.

The staff presented several examples with which the IFRIC generally agreed. IFRIC asked the staff to explore and emphasise, in the draft Interpretation, the conditions that transform a contract from being accounted for under IAS 11 to being accounted for under IAS 17 (that is, what types of services may lead to a lease contract). IFRIC asked the staff to work on the componentisation and segmentation of contracts and to explore whether some contracts should be seen as "leaseback contracts" by analogy because the "rights" could be reversed. IFRIC asked the staff to look at alternative models as well.

Revenue recognition will be dealt at future meeting. Given the significance of this project and the breadth of issues to be addressed, this issue should be considered a long-term project.

Onerous contracts: operating leases and other executory contracts

IFRIC was asked to develop an Interpretation addressing how the guidance on onerous contracts in IAS 37 should be applied to certain issues not currently being addressed by the IASB's convergence project. The issues relate to determining whether a lease contract is onerous if the leased asset is used in production. After discussing on the Board's progress on revisions to IAS 37, IFRIC concluded that this issue (which was basically rejected by the IASB as being too difficult and requiring a fundamental rewrite to IAS 37) is better addressed at the Board level. Therefore, this item was removed from the IFRIC agenda.

IAS 29, financial reporting in hyperinflationary economies

IFRIC is developing an interpretation that would allow entities to use an independent valuation of fair value when historical records of asset acquisition dates are not available for the purpose of applying general price level adjustments.

Allocation of pension benefits to periods of service

The IFRIC reaffirmed its position that it will not address this issue since (a) it is not a priority issue, (b) IAS 19 appears clear enough to interpret, and (c) any proposed interpretation by IFRIC would require an amendment to IAS 19 which would not happen on a timely basis.

Differences between voluntary redundancy benefits and early retirement benefits

IFRIC asked its agenda committee to develop the issues and scope of a new project on the accounting distinction between voluntary redundancy benefits and early retirement benefits. Different measurements result depending on whether the IAS 19 or the IAS 37 model is used.

Plans with a guaranteed minimum return on contributions

The draft interpretation addresses the accounting for both variable and fixed guaranteed minimum returns on pension contributions. Some members believe such plans should be viewed as defined contribution plans with an embedded derivative. But the IFRIC concluded that IAS 19 could not be interpreted as such. The IFRIC voted to submit the exposure draft to the IASB for approval to be issued.

Changes in decommissioning, restoration and similar liabilities

The IFRIC discussed the comment letters received on Exposure Draft D2, Changes in Decommissioning, Restoration and Similar Liabilities. Based on the overwhelming support for a prospective approach (as opposed to the retrospective approach proposed in D2), the IFRIC agreed to change the position. The IFRIC concluded to add to the scope of the Interpretation DRoSL recognised as part of the cost of mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

The IFRIC retained its position that changes in the discount rate should be accounted for similarly to changes in cash flows. However, this would now also be on a fully prospective basis.

For a list of the SAC members go to:
www.iasplus.com/restruct/advisory.htm

Advisory Council met in November

Matters discussed that the November 2003 meeting of the IASB's Advisory Council included the following:

- IASB Priorities.
- Reporting Comprehensive Income (Performance Reporting).
- Transition to IFRSs.
- Share-based Payment.
- Business Combinations Phase I.
- Business Combinations Phase II – full goodwill measurement issues.
- Insurance Contracts Phases I and II.
- Financial Reporting by Small and Medium-Sized Entities.
- Measurement.
- Education Update.
- IASC Foundation Constitutional Review.

Except for administrative and personnel matters, all of these meetings are open to public observation. Registration forms are on IASB's web site.

Upcoming Meetings

IASB and SAC meetings 2004

London, UK	18-20 February 2004
	23-24 February 2004 Meeting with Standards Advisory Council
London, UK	17-19 March 2004
London, UK	21-23 April 2004
	26-27 April 2004 Meeting with chairs of Partner National Standard Setters
London, UK	19-21 May 2004
Oslo, Norway	21-23 June 2004
	24-25 June 2004 Meeting with Standards Advisory Council
London, UK	21-23 July 2004
London, UK	22-24 September 2004
	27 September 2004 Meeting with World Standard Setters
	28 September 2004 Meeting with chairs of Partner National Standard Setters
Norwalk, Connecticut USA	20-22 October 2004
London, UK	15-17 November 2004
	18-19 November 2004 Meeting with Standards Advisory Council
London, UK	15-17 December 2004

IFRIC meetings 2004

London, UK	23-24 March 2004
London, UK	4-5 May 2004
London, UK	3-4 June 2004
London, UK	29-30 July 2004
London, UK	7-8 October 2004
London, UK	2-3 December 2004

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