



Organisation internationale des commissions de valeurs

International Organization of Securities Commissions

Organización internacional de comisiones de valores

Organização internacional das comissões de valores

ICV / IOSCO

June 17, 1994

Mr. Eiichi Shiratori, Chairman
International Accounting Standards
Committee
167 Fleet Street
London EC4A 2ES, England

Dear Mr. Shiratori:

In pursuing its Plan of Work (see attachment to the August 16, 1993 letter concerning core standards), the International Organization of Securities Commissions (IOSCO) Working Party No. 1 on Multinational Disclosures and Accounting and its Accounting and Auditing Subcommittee (the Working Party hereinafter) has considered the acceptability of certain IASC standards for purposes of cross-border filings and offerings. Consolidated financial statements prepared in this manner would be one alternative to the use of a regulator's domestic standards that the regulator could accept for foreign enterprises entering the regulator's domestic market. The standards considered were those that the Working Party has determined should be components of a reasonably complete set of accounting standards (core standards) that would comprise a comprehensive body of principles for enterprises undertaking cross-border offerings and filings and that were not revised ("improved") recently by the IASC in the Comparability/Improvements project. These are listed as headings in the Appendices. Additional accounting guidance that may be necessary for certain specialized industries will be considered by the Working Party at a later date. IAS 7 (revised 1992), Cash Flow Statements, was endorsed by IOSCO in October 1993.

Attached as Appendices 1 and 2 are the recommendations that emerged from the Working Party's deliberations of the myriad accounting issues that may affect multinational enterprises. With respect to each standard considered, certain essential issues identified to date (Appendix 1) have been noted. The Working Party believes these issues should be reviewed in the near-term since consideration of the issues is deemed critical to recommending acceptance of IASC standards by some countries.

As indicated in Appendix 1, the Working Party has concluded that IAS 24 concerning related party disclosures and IAS 29 concerning hyperinflationary economies are sufficiently complete for use by multinational enterprises in cross-border offerings and filings. Final endorsement is dependent on development of a reasonably complete set of core standards.

In addition, no essential issues have been identified for IAS 27 concerning consolidations or IAS 28 concerning accounting for investments in associates. It should be noted, however, that the Working Party may make recommendations regarding IAS 27 concerning evidential matter and a presumption when a majority of voting shares is not owned, if the IASC does not provide further guidance. See issues I.1.f. and g. in Appendix 2. In addition, the Working Party may make recommendations regarding IAS 28 concerning how the 20% presumptive test would be applied. See issue J.1.e. in Appendix 2.

As also is indicated in Appendix 1, no essential issues have been identified for IAS 20 concerning government grants and IAS 31 concerning joint ventures. With respect to IAS 20, it should be noted that the Working Party may recommend that member bodies accept an alternative accounting treatment for long-term development grants. One IOSCO member country is not satisfied with the Working Party's view on IAS 20 and IAS 31, but nevertheless consented to the issuance of this letter by the Working Party. That country believes that an accounting for government grants related to assets as income when received is better than the treatment set out in IAS 20.

In considering the various standards, the Working Party also has designated certain accounting issues as being in suspense (Appendix 2). In the Working Party's view, these suspense issues, would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. Accounting determinations for certain of these suspense issues often are dependent upon the specific facts in a given circumstance and consideration of the accounting treatment for these issues would delay unduly the development of a set of core standards. It is expected that many of these suspense issues will be encountered infrequently by multinational enterprises and, in any event, the host country's treatment of these issues could be provided as supplemental information to the section of the financial statements dealing with international standards. When the IASC addresses these suspense issues, the Working Party will consider their acceptability and redesignation as a part of the core standards.

Therefore, host countries for securities activities may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues that represent reservations of certain member countries on the necessity of full application of international standards. The IOSCO Working Party will review these suspense issues to consider whether it can recommend an interim method of dealing with the issues.

The Working Party also has identified other issues and potential long-term projects (Appendix 2) that should be considered by the IASC. In addressing essential issues, the IASC's consideration of these other related issues would enhance overall comparability and transparency of financial statements.

The Working Party also considered the IASC's current agenda and potential projects to assist in identifying those projects that are of primary importance in the context of cross-border securities activities. The IASC is currently working on revisions to IAS 12 concerning income taxes. The Working Party concurs that further improvements are required to this standard. As part of this process, one IOSCO member country would like the IASC to consider exemptions for enterprises in countries in which the authorities do not allow deferred tax accounting. The IASC is currently considering Draft Statements of Principles concerning presentation of financial statements and segment reporting. The Working Party concurs with these reviews.

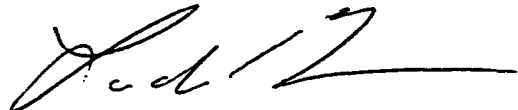
With respect to the letter of August 16, 1993, which describes the necessary components of a core set of standards, it is evident that the core includes certain elements that are not covered by existing IASC standards. These elements include most financial instruments, intangible assets, earnings per share, employee benefits, and interim reporting. With respect to the potential project on employee benefits, the Working Party believes postretirement benefits, postemployment benefits, compensated absences, bonus plans, and deferred compensation are essential issues whereas stock compensation could be considered an issue in suspense.

In addition, recognition and measurement issues for discontinued operations and hedging for commodities have not been addressed in a comprehensive manner in any existing standard.

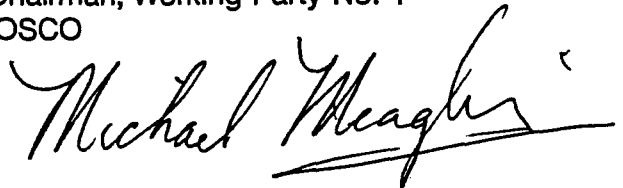
Finally, due to the numerous implicit and explicit alternatives for identifying and measuring impairment of the cost or carrying amount of long-lived assets, identifiable intangibles, and goodwill, a project to review those alternatives is considered important.

We trust our respective organizations can maintain a close and communicative relationship as we pursue our mutual goal of facilitating the process of raising capital in the most cost effective and efficient manner and obtaining convergence of high-quality accounting standards throughout the world.

Sincerely,



Linda C. Quinn
Chairman, Working Party No. 1
IOSCO



Michael Meagher
Chairman, Accounting and Auditing
Subcommittee
IOSCO

Enclosures

cc: David Cairns, Secretary General
International Accounting Standards Committee

ESSENTIAL ISSUES¹ TO CONSIDER FOR
IMPROVEMENT OF IASC STANDARDS NOT REVISED IN THE
COMPARABILITY/IMPROVEMENTS PROJECT

A. IAS 1, 5, and 13 - Presentation of Financial Statements

1. We support the efforts presently in process to improve the standards and will consider the Draft Statement of Principles when issued.

B. IAS 10 - Contingencies and Events Occurring after the Balance Sheet Date

1. Consider reviewing the alternatives in the third sentence of paragraph 9 since under the circumstances described, the minimum amount, the midpoint, the maximum amount, or any amount in the range could be recognized, which would lead to substantial non-comparability. Suspense issue noted.²

C. IAS 12 - Accounting for Taxes on Income

1. We support the efforts presently in process to improve the standard and will consider the exposure draft when issued.

D. IAS 14 - Reporting Financial Information by Segment

1. We support the efforts presently in process to improve the standard and will consider the Draft Statement of Principles when issued.

E. IAS 17 - Accounting for Leases

1. Consider enhanced disclosures for lessees, e.g., rental expenses, sublease rentals, and a description of general leasing arrangements.

¹ Essential issues are matters that certain IOSCO members believe need to be dealt with by the IASC to obtain a reasonably comprehensive set of international accounting standards.

² Suspense issues include items that generally are encountered infrequently, often are complex, and would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. In such cases, IOSCO members may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues, that represent reservations of certain member countries on the necessity of full application of international standards.

2. Consider enhanced disclosures for lessors, e.g., information concerning future minimum rentals and the amounts of contingent rentals included in income.
 3. Consider specifying the circumstances in which the net investment method and the net cash investment method are appropriate.
 4. Suspense issues noted.
- F. IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance
1. Essential Issues - none, i.e., the standard is acceptable; suspense issue noted.
- G. IAS 24 - Related Party Disclosures
1. Essential Issues - none, i.e., the standard is acceptable; suspense issue noted.
- H. IAS 25 - Accounting for Investments
1. We await the reconsideration of IAS 25 when E48, Financial Instruments, is completed.
- I. IAS 27 - Consolidated Financial Statements and Accounting for Investments in Subsidiaries
1. Essential Issues - none, i.e., the standard is acceptable; suspense issues noted.
- J. IAS 28 - Accounting for Investments in Associates
1. Essential Issues - none, i.e., the standard is acceptable; suspense issues noted.
- K. IAS 29 - Financial Reporting in Hyperinflationary Economies
1. Essential Issues - none, i.e., the standard is acceptable.
- L. IAS 31 - Financial Reporting of Interests in Joint Ventures
1. Essential Issues - none, i.e., the standard is acceptable; suspense issues noted.

APPENDIX 2

SUSPENSE ISSUES.1/ OTHER ISSUES.2/ AND LONG-TERM POTENTIAL
PROJECTS2/ TO CONSIDER FOR IMPROVEMENT OF IASC STANDARDS
NOT REVISED IN THE COMPARABILITY/IMPROVEMENTS PROJECT

A. IAS 1, 5, and 13 - Presentation of Financial Statements

1. Other Issues

- a. Consider enhanced guidance for disclosure of changes in equity accounts and related recognition and measurement issues (e.g., stock dividends, stock splits, dividends in kind, increasing rate preference shares, and treasury stock acquisitions, reissuances, and dividends). Consider the legal frameworks of countries in specifying the accounting for equity accounts.
- b. Consider disclosures where there are doubts as to an entity's ability to continue as a going concern.
- c. Consider disclosures related to defaults under credit agreements.
- d. Consider classification issues relating to liabilities when loan covenants are violated and when loan covenant violations are waived.
- e. Reconsider the classification of loans payable upon demand with a specified repayment schedule or the need for disclosure in such circumstances.
- f. Consider disclosure of reclassifications of prior period financial statement amounts.

1/ Suspense issues include items that generally are encountered infrequently, often are complex, and would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. In such cases, IOSCO members may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues that represent reservations of certain member countries on the necessity of full application of international standards.

2/ Other issues and potential long-term projects are other matters that eventually should be considered by the IASC to enhance overall comparability and transparency of financial statements.

- g. Consider clarifying that short-term obligations (as well as the current portion of long-term obligations) expected to be refinanced that meet certain criteria can be reclassified as long-term.
- h. Consider disclosure of dividends per share and guidance as to its calculation.
- i. Consider designation of additional required financial statement line items such as the allowance for doubtful accounts, accumulated depreciation/amortization of intangible assets, deferred income tax assets, selling, general, and administrative expenses, bad debt expense, gains/losses on disposals of assets, businesses, or financial instruments, and cumulative effect of accounting changes. Also consider the general order of financial statement presentation.
- j. Consider disclosure of costs related to major revenues, e.g., cost of tangible goods sold and cost of services.
- k. Consider classification of stock subscriptions receivable and similar items.
- l. Consider addressing presentation issues for partnerships, e.g., separate presentation of equity accounts and net income attributable to general partners and classes of limited partners.

B. IAS 10 - Contingencies and Events Occurring after the Balance Sheet Date

1. Suspense Issue

- a. Consider deleting the last sentence of paragraph 14 concerning recognition of "virtually certain" gains since the guidance is too general and the issues are or should be covered in other IASC standards on revenue and gain recognition.

2. Other Issues

- a. Consider the propriety of offsetting, in the balance sheet, probable losses with probable recoveries, e.g., insurance coverage, given the proposed offsetting criteria in E48. See paragraph 11 of IAS 10.
- b. Consider the need for consequential amendment if E48 proposals requiring impairment of financial instruments based on discounted cash flows are finalized.
- c. Consider providing more guidance on or examples of contingencies to define more clearly their nature.

3. Long-Term Potential Projects

- a. Consider the use of and guidance for discounting in financial statements generally.
- b. Consider more definitive guidance in applying a probability notion.

C. IAS 12 - Accounting for Taxes on Income

1. Other Issues 3/

D. IAS 14 - Reporting Financial Information by Segment

1. Other Issues

- a. Consider more definitive guidelines for determining reportable business and geographic segments.
- b. Consider required allocations of the cost of assets used by more than one segment and allocation of income and expenses identifiable with segments.
- c. Consider more definitive guidance on the measure of segment profitability.
- d. Some member countries wish there to be consideration of exempting disclosures when they would be detrimental to the competitive interests of the enterprises.
- e. One member country wishes there to be consideration for exempting disclosures when the cost of preparing the information is prohibitively expensive..
- f. Consider guidance on restatement of segment information.
- g. Consider disclosures related to vertically integrated equity investees.
- h. Consider disclosures of depreciation, depletion, amortization, and capital expenditures by segment.
- i. Consider guidance on the exclusion or inclusion of intersegment loans and advances, intersegment investments, and valuation allowances in segment asset totals.
- j. Consider disclosures related to infrequently occurring items by segment.

3/ IOSCO and/or individual IOSCO member bodies will consider and possibly comment on the exposure draft expected to be issued shortly.

- k. Consider disclosure of sales to major customers, but without identity of customer.
- l. Consider treatment of sales by source or destination.
- m. Consider disclosure of foreign currency risks in geographical segments.

E. IAS 17 - Accounting for Leases

1. Suspense Issues

- a. When local law prohibits lease capitalization, consider disclosures that should be provided in the notes.
- b. The Japanese MOF would like the IASB to consider that finance leases be allowed to be accounted for in a manner equivalent to operating leases with disclosure of the capitalization information in a note to the financial statements.

2. Other Issues

- a. Consider more definitive guidance to identify finance leases of lessees and lessors.
- b. Consider guidance on the treatment of changes in lease provisions.
- c. Consider additional guidance on real estate leases.
- d. Consider guidance on impairment of lessee and lessor assets.

3. Long-Term Potential Project

- a. Consider new approaches for lease capitalization by lessees, e.g., all leases with a term over one year or by recording all executory contracts.

F. IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance

1. Suspense Issue

- a. Consider providing accounting guidance for long-term development grants (as opposed to grants for specific purposes) such as those presently being made in Italy and the former East Germany. If these types of grants were not specifically considered in the development of IAS 20, IOSCO Working Party No. 1 may recommend that member bodies not consider these long-term grants to be in the scope of IAS 20 and thus treatment as an increase in equity be considered acceptable.

G. IAS 24 - Related Party Disclosures

1. Suspense Issue

- a. Consider clarification of the scope exclusions in paragraph 3 of IAS 24, i.e., the exclusions should not apply to securities offerings or filings by a subsidiary, to segment disclosures required by IAS 14, or to privatizations or other securities offerings or filings by state-controlled enterprises.

2. Other Issues

- a. Consider disclosures related to tax allocation agreements.
- b. Consider enhanced disclosures or accounting for expenses and liabilities paid by a principal shareholder or stock plans established by a principal shareholder for the enterprise's benefit.

H. IAS 25 - Accounting for Investments

- 1. There are no other issues at this time.

I. IAS 27 -Consolidated Financial Statements and Accounting for Investments in Subsidiaries

1. Suspense Issues

- a. Consider accounting for changes in the reporting entity, e.g., spin-offs, carve-outs, and common control transactions (including simultaneous transactions and downstream mergers).
- b. Consider guidance for transactions involving special purpose entities.
- c. Consider accounting for capital transactions by subsidiaries.
- d. Consider clarification that the exemption from consolidated financial statement requirements, in paragraph 27 of IAS 27, does not apply in the case of a securities offering or filing by a second tier parent.
- e. When consolidation of dissimilar activities would be incompatible with a true and fair view, some IOSCO member countries will accept disclosure of sub-consolidated accounts in the notes.
- f. Consider providing guidance as to the type of evidence that would be necessary to objectively apply the control criteria in paragraph 10(c) and (d). If the IASC does not address this concern, IOSCO Working Party No. 1 may recommend that member bodies interpret the necessary evidence required as being an irrevocable written agreement.

- g. Consider providing guidance that a presumption (similar to IAS 28 for significant influence) also exists when majority ownership is lacking. That is, if less than a majority of voting share ownership exists, it is presumed that control does not exist as a corollary to the presumption in paragraph 10 that control exists when a majority of voting power is owned. If the IASC does not address this concern, IOSCO Working Party No. 1 may recommend that member bodies interpret IAS 27 to require clear demonstration and evidence by means of situations (a) through (d) of paragraph 10 that this presumption has been overcome.

2. Other Issues

- a. Amend IAS 25 after E48 is completed to limit the various treatments presently allowed by paragraphs 29 and 34 of IAS 27.
- b. Consider addressing effective control and thus potential consolidation when stock options or other convertible securities are held and exercise is discretionary.
- c. Consider delimiting the "if practicable" exception for the application of uniform accounting policies to, in any event, require the use of acceptable international standards.
- d. Consider addressing how a position as general partner of a partnership is interpreted with regard to effective control and, thus, potential consolidation.
- e. Consider requiring disclosure of summarized financial information for subsidiaries not consolidated that are material individually or in the aggregate.

J. IAS 28 - Accounting for Investments in Associates

1. Suspense Issues

- a. Consider accounting for capital transactions by associates.
- b. Consider eliminating alternatives to the equity method for investors that do not issue consolidated financial statements in paragraph 27 of IAS 28, at least with respect to securities offerings and filings.
- c. Consider providing guidance on the elimination of intercompany profits and losses on upstream and downstream transactions.
- d. Consider disclosure of summarized financial information for material equity investees.

- e. Consider providing guidance that it would be a rare or exceptional case where significant influence could be demonstrated below the 20% presumptive level without representation on the board of directors or equivalent governing body, factor (a) in paragraph 5. If the IASC does not address this concern, IOSCO Working Party No. 1 may recommend that members bodies interpret IAS 28 accordingly.

2. Other Issues

- a. Consider delimiting the "if practicable" exception for the application of uniform accounting policies to, in any event, require the use of acceptable international standards.
- b. Consider providing guidance for how the 20% presumption may be overcome and disclosures when the presumption is overcome.
- c. Consider exclusion of entities that carry all investments at fair value from the scope of the standard, e.g., investment companies.
- d. Consider providing guidance as to whether potential voting interests should be considered in the 20% presumptive test.
- e. Consider disclosures relating to potential material effects of possible conversions, exercises, or other contingent issuances.
- f. Consider disclosure of retained earnings attributable to equity investees.
- g. Consider clarifying the application of equity accounting to investments in partnerships and unincorporated entities.
- h. Consider disclosure of available market values for equity investee securities owned.

K. IAS 29 - Financial Reporting in Hyperinflationary

Economies

- 1. Other Issues - none, i.e., the standard is acceptable.

L. IAS 31 - Financial Reporting of Interests in Joint Ventures

1. Suspense Issues

- a. Consider more definitive criteria for determination of gain or loss recognition for transactions between a venturer and a joint venture.

- b. Consider criteria for recognition of a new basis by the venture itself for net assets sold or contributed to a joint venture.
- c. Consider eliminating the alternative in paragraph 53 of IAS 31 of allowing disclosure in lieu of joint venture accounting for entities without subsidiaries, at least with respect to securities offerings and filings.

2. Other Issues

- a. Consider amendment of IAS 25 after E48 is completed to limit the various treatments presently allowed by paragraphs 43 and 48 of IAS 31 that refer to IAS 25.

- End -