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5th Edition - Ocober 2008

Audit - Technical (External)

TechnicallySpeaking

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Word of welcome

Dear Reader,

Welcome to our fifth external edition of "Technically Speaking".

This quarterly publication aims to provide insights, guidance and summaries of issues that are affecting the accounting, auditing and regulatory environment as well as other matters of general interest.

This edition features the Companies Bill, Consumer Protection Bill, a further article in the series on IFRS 7, focus on IFRS including the improvements project as well as the impact of the 2010 year-end IFRS effective dates and developments within XBRL.

We welcome your comments on the publication and ask that you contact our editor Nicolette Meadows (nmeadows@deloitte.co.za) if you have any questions or suggestions for future issues.

Kind regards

Graeme Berry

Graeme Berry,
Business Unit Leader: A&A

Consumer Protection Bill, 2008

By Johan Erasmus

The Consumer Protection Bill, which has been under discussion since 2003, has been introduced in Parliament and is currently being discussed in the National Council of Provinces. It is foreseen that the Bill will be passed by Parliament towards the end of 2008.

The Bill constitutes an overarching framework for consumer protection in South Africa, and proposes the establishment of an equitable balance of protection between consumers and suppliers of goods and/or services. Although there are many different pieces of legislation which provide for consumer protection in various sectors or industries, this Bill sets the minimum requirements for protection afforded to consumers when interacting with manufacturers, distributors, importers or suppliers of goods or services.

It creates a legal framework and infrastructure to ensure the effective regulation of the market for goods and services, and codifies a number of consumer rights. It further provides for the creation of the necessary regulatory institutions to ensure effective enforcement of the provisions of the Bill.

The Bill codifies a number of consumer rights, including the right to:

- equal access to the consumer market
- privacy
- choice
- disclosure and information
- fair and responsible marketing
- honest and fair dealing
- fair, just and reasonable terms and conditions
- fair value, good quality and safety

The Bill provides for various avenues of redress, including complaints to the National Consumer Commission, National Consumer Tribunal, industry ombuds, alternative dispute resolution mechanisms, and of course direct access to the courts.

Once the Bill becomes law there will be an 18 month period before the date of commencement of the law, during which time affected parties should take steps to identify any business practices which require improved documentation or systems changes and implement such changes in order to achieve compliance at the commencement of the law.

For more information, please contact your client service partner.

Financial instruments with Characteristics of Equity

By Obrey Nekhavhambe

The International Accounting Standards Board (IASB) released a discussion paper (DP) in February 2008, Financial Instruments with Characteristics of Equity for public comments to be provided by 5 September 2008. The DP seeks to define what an equity instrument is.

International Accounting Standard (IAS) 32 has been criticised for its definition of equity as its definition depends on the definitions of a financial asset and a financial liability and thus unable to stand alone.

The DP has three approaches for distinguishing equity instruments from non-equity instruments; namely basic ownership, net settlement and reassessed expected outcome ("REO"). The United States Financial Accounting Standards Board (FASB) currently supports the basic ownership approach for determining equity financial instruments. A basic ownership instrument has the following characteristics:

- Entitles the holder to a claim on residual assets that is **subordinate to all other claims**, and
- Entitles the holder to a percentage of remaining assets after settling all liabilities.

The net settlement and REO approaches build on this definition and allow for additional instruments to be classified as equity. The basic ownership approach has the effect of limiting the number of financial "credit" instruments being classified as equity. All other "credit" instruments are classified as liabilities.

The potential consequences of the DP on entity's financial performance and position are the following:

- Structured instruments may not qualify as equity;
- Ordinary share class distinctions (e.g. N shares) may result in a liability/ equity split;
- Possible deterioration of Return On Equity and Debt /Equity ratios as equity decreases;
- Dividends on non-equity instruments charged to the Income Statement; and
- In regulated industries, e.g. banks, a possible disconnect between accounting and regulatory definitions of equity.

For more information, please contact your client service partner.

IASB – What's new?

By Riana Wiesner

Amendments and new interpretations

The IASB has recently issued a number of amendments to existing standards, in addition to the first annual improvements project that was recently completed. In line with their previous commitment, these amendments will only be effective for annual periods beginning on or after 1 January 2009. The International Financial Reporting Interpretations Committee (IFRIC) however, has issued two new interpretations, one of which will be effective from 1 October 2008.

The following recent amendments and new interpretations have been issued:

Standard	Effective for annual periods beginning on or after
IFRS 1: First-time adoption of IFRS - Amendment relating to the cost of an investment on the first-time adoption of IFRS	1 January 2009
IFRS 2: Share-based payments – Amendment relating to vesting conditions and cancellations	1 January 2009
IAS 1: Presentation of Financial Statements – Amendment relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
IAS 27: Consolidated and Separate financial statements – Amendment relating to cost of an investment on first-time adoption	1 January 2009
IAS 32: Financial Instruments – Disclosure – Amendments relating to puttable instruments and obligations arising on liquidation	1 January 2009
IFRIC 15 – Agreements for the construction of Real Estate	1 January 2009
IFRIC 16 – Hedges of net investments in a foreign operation	1 October 2008

As part of the first Annual Improvements Project, the IASB has made minor amendments to 15 other standards, the majority of which will be effective for annual periods beginning on or after 1 January 2009.

For more information, please contact your client service partner.

IFRS 7 and its liquidity risk disclosure requirements: *Part 3*

Liquidity risk is defined in IFRS 7, Financial Instruments: Disclosures (IFRS 7) as, 'the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities'.

The main text of IFRS 7 contains a single paragraph that addresses the specific disclosure requirements for liquidity risk. The application thereof requires guidance. The liquidity disclosure requirements pose a number of interesting considerations. The articles contained in our previous editions of Technically Speaking (1) introduced the list of these interesting considerations and (2) covered the first two considerations (Demand based liabilities and Floating rate liabilities). This article is going to cover the next two considerations.

Foreign denominated financial liabilities

Financial liabilities may be denominated in a currency different to presentation or functional currency. A liquidity analysis can be presented as (1) a separate liquidity analyses for each of the different functional currencies of the entities within a group or (2) a single liquidity analysis. If an entity chooses to disclose a single currency liquidity analysis, it is important to remember to translate the amounts at the appropriate spot (for those on demand) or forward rate (for those cash flows expected in the future).

Off balance sheet financial liabilities

Loan commitments are not recorded on balance sheet until such time as they are drawn down by the recipient. Financial guarantees are recorded on balance sheet either in accordance with the requirements of IAS 39, Financial Instruments: Recognition and Measurement (IAS 39) or IFRS 4: Insurance Contracts (IFRS 4). Under both IAS 39 and IFRS 4, the amount recognised is usually nominal in relation to the amount that could be called upon to be paid.

Both loan commitments and financial guarantees meet the definition of financial liabilities in that they are 'contractual obligations to deliver cash or another financial asset to another entity'. As financial liabilities, the contractual undiscounted amounts should be disclosed in the liquidity analysis. The specific terms of the loan commitments and financial guarantees will dictate whether such cash flows are repayable on demand or at other specific intervals.

In the forthcoming editions of Technically Speaking, we will be discussing the remaining 2 considerations of: Derivative financial instruments and Time periods used for liquidity analysis.

For more information regarding Financial Instrument disclosures, please contact your client service partner.

Annual Improvements to IFRS

By Riana Wiesner

The first standard under the IASB's Annual Improvements Project, clarifying various accounting issues where treatment in practice has been varied, was issued on 22 May 2008. Many of the amendments made to various standards are only matters of detail and/or terminology or editorial changes. Given the right circumstances, the following 5 amendments are likely to have a significant impact on financial statements:

Standard	Detail of amendment	Effective date of transition
IFRS5:Non-current assets held for sale and discontinued operations	When a parent entity is committed to a plan involving the loss of control over a subsidiary, the assets and liabilities of that subsidiary should be classified as held for sale in the consolidated financial statements, even if the parent will retain a non-controlling interest after the event.	1 July 2009 Prospective
IAS16:Property, plant and equipment	Items of property, plant and equipment that were previously held for rental to others and which are routinely being sold when they cease to be rented, should be transferred to inventory at their carrying amount as opposed to being classified as non-current assets held for sale in terms of IFRS 5. This amendment will cause profits made on these transactions to be included in HEPS.	1 January 2009 Retrospective
IAS 20: Accounting for Government Grants and Disclosure of Government Assistance	The benefit of receiving a government loan at a below-market rate of interest should be accounted for as a government grant, measured as the difference between the initial carrying amount of the loan determined in accordance with IAS 39 and the proceeds of the loan received.	1 January 2009 Prospective

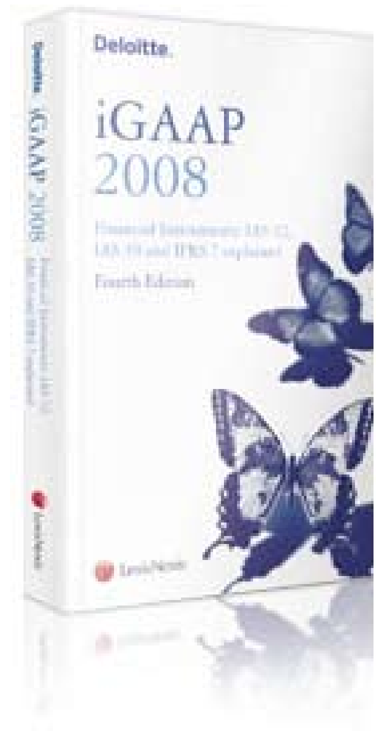
IAS 38: Intangible Assets	A prepayment made for advertising and/or promotional expenditure can be recognised as an asset only until such time that the entity has the right to access the advertising or promotional goods or services being purchased.	1 January 2009 Retrospective
IAS 40: Investment Property	The requirement to account for property under construction and/ or development for future use as investment property, in accordance with IAS 16 has been removed. Such property should now be accounted for as investment property in accordance with IAS 40.	1 January 2009 Prospective

For more information, please contact your client service partner.

Deloitte IFRS Publications

iGAAP 2008 Financial Instruments

Deloitte United Kingdom has developed iGAAP 2008 Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained (Fourth Edition) http://www.iasplus.com/dttpubs/pubs.htm#jun2008 which has been published by LexisNexis. This publication is the authoritative guide for financial instruments accounting under IFRSs. The 2008 edition expands last year's edition with further interpretations, examples, discussions from the IASB and the IFRIC, and updates on comparisons of IFRSs with US GAAP for financial instruments. It also includes extracts from 2007 annual reports illustrating IFRS 7 Financial Instruments Disclosures.



IFRSs in your Pocket 2008

Now in its seventh edition, IFRSs in Your Pocket 2008 is a 112-page guide that includes information about IASB structure and contact details; IASB due process; use of IFRSs around the world, including updates on Europe, Asia, US, and Canada; summaries of each IASB Standard (through IFRS 8 and the amendment to IAS 27) and Interpretation (through IFRIC 14), as well as the framework and the preface to IFRSs; background and current status of all current IASB projects; an update on IFRS-US GAAP convergence and other useful IASB-related information.

Guide to IFRS 5

Published in March 2008, Guide to IFRS 5 Assets Held for Sale and Discontinued Operations contains a detailed summary and explanation of the requirements of IFRS 5, including supplementary guidance and examples.

IFRS eLearning modules

New Deloitte IFRS e-Learning modules on IFRIC 12 Service Concession Arrangements and IFRS 8 Operating Segments have been released. In addition, Deloitte have been undertaking a comprehensive revision of existing IFRS e-Learning modules in light of recent standards. Click on the link below to register for IFRS e-learning. By registering you will have access to the IFRS e-learning material contained within this site.

IFRS e-learning

For more information on the above literature, please contact your client service partner.

Practical application issues of IFRS 5

By Anneke Erasmus

IFRS 5 was issued by the International Accounting Standards Board (IASB) in March 2004. Since then preparers and users of financial statements have discovered that the Standard presents more challenges than had been anticipated. A number of practical issues have arisen in the application of IFRS 5.

The following two case studies illustrate some of these practical issues:

Example 1

A holding company (H) announces the sale of a portion of its interest in a subsidiary (S). As a result of this transaction, H's percentage interest in S will reduce from 51% (subsidiary) to 45% (associate).

IFRS 5 was silent as to whether the assets and liabilities of a subsidiary should be classified as held for sale where the parent commits to selling part of its interest in the subsidiary and the sale will result in a loss of control over that subsidiary. Deloitte's view was that because the assets and liabilities of the subsidiary would be derecognised from the consolidated balance sheet and this would be the result of a sale transaction, the entire net assets of the subsidiary should be classified as available for sale. This is so, even though, as in the case referred to above, only a relatively small portion of the interest in the subsidiary is being sold.

This issue was taken up by the IASB and has been addressed in the Improvements to International Financial Reporting Standards 2008, which was issued by the IASB on 22 May 2008. The new or revised requirement confirms that all the assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity retain a non-controlling interest after the sale.

The impact of this accounting treatment on the balance sheet is that the assets of the subsidiary and the liabilities of the subsidiary are presented on single lines in the balance sheet. More significantly, if the subsidiary meets the additional criteria to be classified as a discontinued operation (refer IFRS 5.32), all of the earnings of the subsidiary should be disclosed as discontinued. This may be somewhat anomalous if the investor will retain an equity accounted interest, because, in that case, some of the earnings will continue to be included in future. Entities should consider additional disclosure in these circumstances.

Example 2

B decides to unbundle its holding in M, a subsidiary. The intended distribution was approved by the appropriate level of management and M meets the definition of a disposal group and is sufficiently significant to qualify as a discontinued operation.

Can the holding in M, which is going to be unbundled, qualify as held for sale in accordance with IFRS 5?

An entity can only classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In this example no sale will take place, therefore, M does not qualify as "held for sale" and the assets and liabilities are therefore not reclassified as such in the balance sheet. However, at the date of the unbundling, M qualifies as a discontinued operation and its results should be disclosed as such in the income statement, with similar disclosure for prior periods.

This situation has however been addressed in the IFRIC draft interpretation D23 Distributions of Non-cash Assets to Owners, where the IFRIC proposed that the requirements in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations should be applied to non-current assets held for distribution to owners as well as to non-current assets held for sale.

For more information, please contact your client service partner.

The Companies Bill, 2008

By Johan Erasmus

The Companies Bill, 2008 (the Bill) was introduced in Parliament in June 2008. The Bill will replace the current Companies Act, 1973 and amend the Close Corporation Act, 1984. The Bill will now commence passage into law, which will include a process of public consultation and debate. It is foreseen that the Bill will become effective in the beginning of 2010 at the earliest.

It should be noted at the outset that the Bill, as introduced in Parliament, no longer categorises companies as closely held, widely held or public interest companies, as was the case in the draft Bill published in 2007. Rather, the Bill utilises more familiar terminology for the categorisation. Companies are classified into either profit companies or non profit companies. Profit companies are further categorised as either (1) private companies, (2) personal liability companies, (3) state owned enterprises or (4) public companies. The Bill provides for strict transparency and accountability requirements for public companies and state owned enterprises (and certain private companies, depending on size and the nature of its activities). These companies are required to (1) prepare audited financial statements, and (2) appoint a company secretary, (3) an audit committee and (4) an auditor. Where companies prepare financial statements, the Bill requires those statements to be consistent with International Financial Reporting Standards.

The Bill regulates all aspects of corporate life, including the formation and incorporation of companies and the winding up of companies. In this regard, the Bill introduces a range of new measures to simplify the process to form and incorporate companies. The Bill further regulates fundamental transactions (such as mergers or amalgamations) and provides for a completely new procedure to rescue companies in financial distress. The Bill proposes the replacement of the existing regime of judicial administration with a modern business rescue regime. This new regime is largely self-administered by the company, under independent supervision within constraints set out in the Bill, and subject to court intervention, at any time, on application by any of the stakeholders.

A new capital adequacy regime has been incorporated in the Bill. In this regard, a solvency and liquidity test has been incorporated. In terms of this test the company's total assets fairly valued should equal or exceed its total liabilities fairly valued and it should be clear that the company will be able to pay its debts as they become due in the course of business for a period of 12 months. Where a company is a member of a group of companies, the consolidated assets and liabilities of the company should be taken into account when applying the solvency and liquidity test.

The Bill deals comprehensively with a range of corporate governance issues, and consolidates all these issues in a single Chapter in the Bill. A range of matters are dealt with, including a shareholder's right to be represented by proxy, notice for and conduct at meetings, election of directors, disqualification of persons to be directors, removal of directors, board committees and board meetings, director's personal financial interests, standards of directors' conduct, liability of directors and prescribed officers, and the indemnification of directors. The Bill codifies the requirements for determining whether or not a director complied with his fiduciary duty and his duty of reasonable care. The provisions governing directors' duties are supplemented by new provisions addressing conflict of interest, directors' liability, and indemnities and insurance.

Provision is also made for the establishment of a number of regulatory agencies to enforce the provisions of the Bill, including the Companies and Intellectual Property Commission, the Companies Ombud, the Financial Reporting Standards Council and the Takeover Regulation Panel.

For more information, please contact your client service partner.

XBRL — Evolution in Business Reporting

By Theodore de Jager

The previous article in the 4th edition of Technically Speaking gave a high-level overview of what eXtensible Business Reporting Language (XBRL) is, what benefits it will bring and where South Africa (SA) currently stands on XBRL. In this article we list the latest developments in XBRL around the world and the impact on SA entities.

XBRL around the world

On 14 May 2008 the United States ("US") Securities and Exchange Commission ("SEC") issued a rule proposal that will require domestic and foreign issuers to submit their primary financial statements, notes and schedules in XBRL format to "Electronic Data Gathering, Analysis, and Retrieval" (EDGAR). This rule will be phased in over a 3 year period.

On 24 June 2008 the International Accounting Standards Committee (IASC) released the International Financial Reporting Standards (IFRS) Taxonomy 2008, which is a complete translation of IFRS's as published in the IFRS Bound Volume 2008 into XBRL. The taxonomy is published in the same languages as the Bound Volume.

In Japan, companies whose business year starts in April 2008 will file the headline figures of their preliminary quarterly earnings reports through the Tokyo Stock Exchange's disclosure system in XBRL. That will be followed in August 2008 when some 8 000 companies and funds begin providing the core part of their financial statements to the Financial Services Agency ("FSA"), in XBRL.

Impact on South Africa

As a result of the SEC rule proposal, SA dual-listed entities will have to mark-up their financial information in XBRL, as follows:

- US GAAP domestic and foreign filers with worldwide equity of above US$5billion – for periods ending on or after 15 December 2008;
- All other large US GAAP filers – for periods ending on or after 15 December 2009; and
- All remaining US GAAP filers and Foreign Private Issuers using IFRS – for periods ending on or after 15 December 2010.

For more information, please contact your client service partner.

Theodore de Jager,
Manager, A&A Audit & Regulatory

In Closing

Dear Reader

Thank you for reading the fifth edition of our externally focused technical publication "Technically Speaking", which we hope you enjoyed. You can subscribe to receive a copy of our quarterly publication on the website www.Deloitte.com. You will receive automatic email alert whenever a new issue is published:

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We welcome your comments and suggestions, which can be e-mailed to technicallyspeaking@deloitte.co.za.

Kind regards

Nicki

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Designed and produced by the Studio at Deloitte, Johannesburg. (9288/lie)

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