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IAS PLUS WEB SITE

Over 250,000 people visited our www.iasplus.com web site in 2002 (compared to 90,000 in 2001). Our goal is to be the most comprehensive source of news about IFRS on the Internet. Please check in regularly during 2003.

IFRS: YEAR 2002 IN REVIEW

In a stormy year for the accounting profession globally, the International Accounting Standards Board maintained a steady course toward the three objectives stated in its constitution. A few of the Board's key achievements:

OBJECTIVE: DEVELOP HIGH QUALITY STANDARDS

Final Standards Published

- Preface to International Financial Reporting Standards (2002), replaced Preface to Statements of International Accounting Standards (1982)
- IAS 19 Amendment: Employee Benefits: The Asset Ceiling

Exposure Drafts Published

- Exposure Draft: Amendment to IAS 19, Employee Benefits: The Asset Ceiling
- Exposure Draft: Improvements to International Accounting Standards
- Exposure Draft: Amendments to IAS 32 and IAS 39
- Exposure Draft ED 1: First-Time Application of International Financial Reporting Standards
- Exposure Draft ED 2: Share-Based Payment
- Exposure Draft ED 3: Business Combinations
- Exposure Draft: Amendments to IAS 36 and IAS 38

Final Interpretations Published

- SIC 32, Intangible Assets - Web Site Costs

New Agenda Projects (added to the original nine)

- Business Combinations – Phase II
- Convergence Topics
- Consolidation, Including Special Purpose Entities
- Insurance Contracts – Application of Existing IAS
- Liabilities and Revenue Recognition

OBJECTIVE: PROMOTE THE USE OF IFRS GLOBALLY

Legislation in Europe. 2002 saw passage of a European law that will require virtually all listed European companies to adopt IFRS starting in 2005.

Other important adoptions. Australia, New Zealand, and a number of other important countries took steps toward using IFRS as their national GAAP, at least for listed companies.

OBJECTIVE: WORK TOWARD CONVERGENCE

Historic agreement with FASB. IASB and FASB issued a joint memorandum of understanding, formalising their commitment to the convergence of US and international accounting standards. Both Boards added convergence projects to their agenda. The Sarbanes-Oxley Act also requires FASB to consider convergence as a condition for SEC recognition.

2002 CHRONOLOGY

On the next five pages we present a chronology of these and other milestones of the IASB in 2002.

JANUARY 2002

EFRAG report on IAS. European Financial Reporting Advisory Group report to the European Commission, finds “no actual inconsistencies between IAS 1 to 41 (and related SIC) and the [modernised] 4th and 7th Directives”.

FEBRUARY 2002

New Interpretation. SIC approves a final Interpretation, SIC 32, Intangible Assets – Web Site Costs.

Asset ceiling exposure draft. IASB proposes Amendment to IAS 19: Employee Benefits: The Asset Ceiling.

US should follow the IAS approach to standards. In an interview with the Financial Times, Frits Bolkestein, European internal market commissioner, urges the US SEC to replace the ‘cookery book’ approach of US GAAP with the more ‘substance over form’ approach of IAS.

Testimony on IAS at US Senate. IASB Chairman Sir David Tweedie and IASC Foundation Chairman Paul Volcker testify at a US Senate hearing on “Accounting and Investor Protection Issues Raised by Enron and Other Public Companies: International Accounting Standards and Necessary Reforms to Improve Financial Reporting”.

Insurance. IASB releases chapters 8 to 12 of its Draft Statement of Principles on Insurance Contracts.

MARCH 2002

Interpretations. IASB announces that it will no longer issue printed copies of IFRIC drafts and Interpretations.

Structure of IASB standards. IASB indicates that IFRS and EDs will be published in three parts: the standards themselves, implementation guidance, and basis for conclusions.

IAS in Europe. European Parliament endorses the EC proposal that virtually all EU listed companies must follow IASB standards starting no later than 2005 in their consolidated financial statements. Member States may extend the requirement to non-listed companies and to individual companies statements..

IAS critical for stability. Andrew Crockett, General Manager of the Bank for International Settlements, calls global financial reporting standards “a critical pillar in the international financial architecture”.

IAS in China. The China Securities Regulatory Commission rescinds its December 2001 regulation requiring IAS financial statements for all initial and secondary public offerings of shares that can be purchased by Chinese investors,

Revisions to constitution for IFRIC. IASC Foundation trustees revise the constitution to:

- ❑ Name the interpretations committee the International Financial Reporting Interpretations Committee (IFRIC).
- ❑ Broaden the committee’s mandate so it can address issues not specifically covered in an existing IFRS.
- ❑ Create the position of a non-voting chair of IFRIC, that position to be filled by one of the members of the IASB, the Director of Technical Activities, or a member of the IASB’s senior technical staff. IASB indicates that it will appoint Kevin Stevenson, Director of Technical Activities, as chair of IFRIC.

APRIL 2002

IASB adds two new agenda projects:

- ❑ Business Combinations Phase II: Application of the Purchase Method of Accounting.
- ❑ Consolidation, Including Special Purpose Entities.

Enforcement of IFRS in Europe: The European Federation of Accountants (FEE) publishes a discussion paper on how IFRS should be enforced in order to ensure the consistent and rigorous application of financial reporting standards throughout Europe by 2005.

IASB member selected as FASB chairman. IASB member Robert Herz is appointed as new FASB chairman effective 1 July 2002.

Certification programmes. IASC Foundation announces that it is planning certification programmes in IAS/IFRS.

MAY 2002

Asset ceiling amendments to IAS 19. IASB publishes a final amendment to IAS 19, Employee Benefits. The amendment fixes a perceived problem caused by the interaction of two aspects of IAS 19 – the option to defer actuarial gains and losses and the limit on the amount that can be recognised as an asset (the ‘asset ceiling’). The Board concluded that IAS 19 was causing counter-intuitive results because an actuarial loss in the pension plan could result in a reported gain in the entity’s financial statements and an actuarial gain in the pension plan could give rise to a reported loss. The amendment prohibits gain or loss recognition in these circumstances.

New preface to IFRS. IASB publishes final Preface to International Financial Reporting Standards. The Preface addresses IASB’s objectives, the scope of IFRS, the due process of IASB and IFRIC, equal authoritativeness of both bold and normal type, and policies on effective dates and language.

Improvements exposure draft. IASB publishes Exposure Draft on Improvements to IAS. The ED proposes significant revisions to 12 of the 34 International Accounting Standards currently in force, plus consequential amendments to many others.

Insurance project split into two phases. IASB splits its insurance contracts project into two phases, so that some components of the project can be put in place by 2005. The new first phase will address the application of existing IFRSs to companies that issue insurance contracts. Phase II (essentially continuation of the old IASC project) is a comprehensive project on accounting for insurance contracts addressing all issues de novo.

JUNE 2002

New agenda project on liabilities and revenue recognition. IASB adds to its agenda a project on liabilities and revenue recognition.

EFRAG endorsement of IAS and SIC. EFRAG reviews IAS 1-41 and all extant SICs and recommends that the EC should endorse them in their entirety for use in Europe.

Major amendments proposed to IAS 32 and 39. IASB publishes proposed amendments to IAS 32 and IAS 39 that would:

- Allow an entity to designate any financial instrument (including its own outstanding debt) irrevocably at initial recognition as an instrument that is measured at fair value with changes in fair value recognised in profit or loss.
- Require that all fair value changes for available-for-sale financial instruments be recognised as a separate component of equity, with ‘recycling’ through net profit or loss when the financial asset is sold or liability discharged (the option to recognise such fair value changes immediately in net profit or loss would be eliminated).
- Add guidance for recognising impairment losses in groups of loans or other financial assets.
- Prohibit reversal of impairment losses previously recognised for available-for-sale financial assets.
- Treat hedges of firm commitments as fair value hedges rather than as cash flow hedges.
- Prohibit ‘basis adjustment’ for hedges of forecasted transactions, though continue to require basis adjustment for fair value hedges.
- Establish the principle of ‘no continuing involvement’ for deciding whether a financial asset should be derecognised. An entity would not be permitted to derecognise assets to the extent that it could, or could be required to, reacquire control of the transferred asset, or could receive or be required to pay compensation based on the performance of the asset

Insurance project. Life insurance trade associations in Germany, Japan, and the United States write to IASB expressing strong reservations about the approach being taken in IASB’s Insurance Project, particularly “immediate recognition of the fair value of the estimated future profitability associated with insurance contracts, especially long term contracts, sold during the reporting period”.

IFRS in Europe. The Council of the European Union adopts an IAS Regulation requiring listed companies, including banks and insurance companies, to prepare their consolidated accounts in accordance with International Accounting Standards (IAS) from 2005 onwards. Member States may defer application until 2007 for those companies that are listed both in the EU and elsewhere and that currently use US GAAP (or other GAAP) as their primary basis of accounting, as well as for companies that have only publicly traded debt securities.

JULY 2002

First-time application of IFRS. IASB issues an exposure draft on First-time Application of IFRS. The proposals would allow a first-time adopter to restate information by applying either:

- ❑ the existing SIC 8 approach (that is, retrospective restatement using the Standards applicable at the date of transactions and their subsequent revisions and transitional provisions if applicable), except that the exception to restatement because “the amount cannot be reasonably determined” will not be available; or
- ❑ an “opening balance sheet approach”. Under this approach, an entity is required to use every IFRS current at the end of the reporting period in which it first adopts IFRS. At least one year of comparative information prepared using those same IFRSs is required.

First-time adopters of IFRSs must disclose how the transition to IFRS affected the entity’s financial position, performance, and cash flows.

Accounting reform in US. US Public Company Accounting Reform and Investor Protection Act of 2002 (the Sarbanes-Oxley Act) is enacted. A foreign public accounting firm that prepares an audit report with respect to any SEC registrant is subject to the Act and to the rules of the new Public Company Accounting Oversight Board. The Act also requires FASB to consider international convergence in adopting US GAAP.

Performance reporting project. IASB decides that Performance Reporting project will start with an exposure draft. A discussion paper will not be published.

Financial analysts support accrual of share-based payments. The Association for Investment Management and Research asks FASB to follow IASB’s plan to require companies to recognise the fair value of stock options given to employees as compensation expense.

Worldwide support for a single set of global accounting standards. A survey by McKinsey & Company of over 200 institutional investors in 31 countries finds that over 90% of them want a single unified set of global accounting standards. However they are split over which standards, with investors from Western Europe, Eastern Europe, Africa, and Asia favouring IAS and those from North America and Latin America favouring US GAAP.

IFRS in Australia. Australia proposes to require all companies to follow IFRS starting 2005.

AUGUST 2002

CEO/CFO certification of financial statements. SEC requires CEOs and CFOs of all registered companies, including non-US companies, to personally certify that their companies’ annual and quarterly financial statements do not contain any untrue statement of a material fact, do not omit a material fact, and fairly present in all material respects the financial condition and results of operations of the issuer.

IFRS vs. IAS. Deloitte Touche Tohmatsu recommends that its clients’ financial statements indicate, in the “basis of preparation” note, that the financial statements are prepared on the basis of IFRS, rather than IAS. In that case, the Firm’s audit report will also refer to IFRS. Because no final IFRS has actually yet been issued by IASB, DTT will not yet insist that its clients refer to IFRS. If a client chooses to continue to refer to IAS, the Firm’s audit report will be consistent with the client’s terminology. However, as soon as the first new IFRS is issued and effective, both the client’s financial statements and the Firm’s audit report must adopt the IFRS terminology.

Single prospectus in Europe. The European Commission submits a proposed Directive on a uniform prospectus for Europe to the European Parliament.

SEPTEMBER 2002

French bankers’ concerns about IAS. The French Banking Federation issues a public statement expressing serious concerns about the suitability of IAS/IFRS for banks and other enterprises in Europe.

New IASB member. John T. Smith, Partner, Deloitte & Touche (USA), is appointed as a part-time member of the International Accounting Standards Board beginning on 1 October 2002. Mr. Smith fills the vacancy left by Robert H. Herz, who became chairman of the US Financial Accounting Standards Board.

New IASCF trustee. Toru Hashimoto, former chairman of Fuji Bank of Japan, is appointed Trustee of the IASC Foundation, replacing Toshikatsu Fukuma.

New IASB agenda project on convergence. IASB adds to its agenda a project on Convergence of IFRS and Other National Accounting Standards.

OCTOBER 2002

Principles-based standards in the United States. FASB invites comment on a “principles-based approach” to setting accounting standards.

IASB-FASB convergence agreement. IASB and FASB jointly issued a memorandum of understanding, formalising their commitment to the convergence of US and international accounting standards. The two boards presented the agreement to the chairs of leading national standard setters at a two-day meeting in London.

FASB convergence projects. FASB adds to its agenda a short-term convergence project to be conducted jointly with IASB. The FASB also authorises its staff to expand its research project on international convergence. For the short-term project, FASB’s goal is to issue a final Statement by the end of 2003 that would “eliminate or reduce many, if not all, of the differences to be addressed in that project”.

IFAC task force on financial reporting credibility. IFAC appoints a Task Force on Rebuilding Public Confidence in Financial Reporting

IOSCO principles. Technical Committee of the International Organization of Securities Commissions (IOSCO) issues statements of principles to guide securities regulators in developing regulatory systems requiring transparency and disclosure by listed entities; the independence of external auditors; and the need for public oversight of the audit function.

NOVEMBER 2002

IASB exposure draft. IASB issues ED 2, Share-Based Payment:

- When goods or other services are received in exchange for a share-based payment, an expense should be recognised.
- Recognition of the expense should be over the period in which the services involved are rendered or as the goods involved are received.
- Measurement of the expense should be made by reference to fair value.

Auditing compliance with IFRS. International Auditing and Assurance Standards Board (IAASB) issues an exposure draft of International Auditing Practice Statement (IAPS), Reporting on Compliance with International Financial Reporting Standards, to clarify that when an entity references compliance with IFRSs, auditors should issue an audit report with an unqualified opinion only if the entity complies fully with all applicable IFRSs.

Other IAASB proposals. IAASB proposes new terms of reference, operating policies, and a restructuring of its standards into four separate sections on quality control, audits and reviews, other assurance engagements, and related services.

Conforming the European Directives to IAS. The European Commission’s High-Level Group of Company Law Experts issues its final report:

- The costs of all share incentive schemes should be properly reflected in the annual accounts, and this accounting principle should be recognised in a European framework rule.
- The Commission should review the Seventh Company Law Directive’s provisions in the light of the need for better financial disclosure, and consider whether improvements can be made consistent with International Accounting Standards.

Single prospectus in Europe. The Council of Finance Ministers from the 15 European member states approves a Directive that would create a single prospectus to be used throughout Europe.

World Congress of Accountants. IASB Chairman Sir David Tweedie and IASC Foundation Chairman Paul A. Volcker address the first plenary session of the 16th World Congress of Accountants in Hong Kong.

FASB convergence issues. FASB identifies 14 “convergence issues” – potential amendments of US GAAP to converge with IFRS.

XBRL and IFRS. The XBRL organisation publishes an XBRL taxonomy for IAS primary financial statements.

DECEMBER 2002

Business combinations exposure drafts. IASB issues two exposure drafts as part of Phase I of its Business Combinations project: Exposure Draft ED 3: Business Combinations, and Exposure Draft: Amendments to IAS 36 and IAS 38. Key Proposals:

- ❑ All business combinations covered by the revised standard must use the purchase method. Uniting (pooling) of interests would no longer be permitted. Therefore, an acquirer must be identified for every business combination within the scope of ED 3. The acquirer is the entity that obtains control of the other combining entities or operations.
- ❑ Goodwill and other intangible assets with indefinite useful lives would not be amortised, but tested for impairment annually (or more frequently if there is an indication of impairment). Reversals of impairment losses with respect to goodwill are prohibited.
- ❑ For finite-lived intangible assets, amortisation continues, plus an impairment test. However, IAS 38's rebuttable presumption of a maximum 20-year life is dropped.
- ❑ Any negative goodwill remaining after a reassessment of the identification and measurement of the identifiable net assets acquired should be recognised immediately in the income statement as a gain. This includes negative goodwill implicit in the carrying amount of an equity method investment.
- ❑ Costs expected to be incurred as a result of a business combination to restructure the acquired entity's (or acquirer's) activities would be treated as post-combination expenses, unless at the acquisition date, the acquired entity has an existing liability in accordance with IAS 37.
- ❑ The consideration paid for an entity is measured at the date control passes to the acquirer (or, if control is acquired in stages, at the various earlier dates of exchange).

New IFRIC member. Ken Wild, Global IAS Leader for Deloitte Touche Tohmatsu and a partner in Deloitte & Touche (United Kingdom), is appointed to the International Financial Reporting Interpretations Committee (IFRIC), replacing John T. Smith of Deloitte & Touche (USA), who recently became a member of the IASB.

New IASCF trustees. Two new IASB Foundation Trustees are appointed: Max Kley, Deputy Chairman, BASF AG, and Dennis Weatherstone, former Chairman, J.P. Morgan & Co. They fill the vacancies left by the departures of Hilmar Kopper and William Steere, respectively.

Amendments to IAS 32 and 39. IASB decides to hold public forums on its proposed amendments to IAS 32 and IAS 39 because the comments received "have represented a wide range of opinion and raised numerous questions".

IFRS in New Zealand. New Zealand proposes to require IFRS for all listed companies by 2007.

Transition to IFRS in Europe. Euronext (the pan-Europe stock exchange combining the exchanges in Amsterdam, Brussels, Lisbon, and Paris) requires all companies listed in its Next Prime and Next Economy markets that have not yet adopted IFRS as of the start of 2004 or earlier to disclose, in their second quarter 2004 financial statements, at the latest, information on the effects of applying IFRS on their opening balance sheet for 2004 and on their performance

DTT IFRS RESOURCES PUBLISHED DURING 2002

Our web site, www.iasplus.com, has links for obtaining copies of the following resources:

- ❑ IAS Plus Newsletters: Asia-Pacific, Europe-Africa, and Americas editions, published quarterly.
- ❑ Accounting Roundup (Deloitte & Touche USA).
- ❑ IAS Model Financial Statements
- ❑ IAS Disclosure and Presentation Checklist
- ❑ International Accounting Standards: A Guide to Preparing Accounts, written by Deloitte & Touche (UK) and published by ABG Professional Information, London.
- ❑ International Financial Reporting Standards: A Practical Guide, third edition.
- ❑ IAS in your Pocket, second edition.
- ❑ GAAP Differences in your Pocket: IAS and US GAAP.
- ❑ GAAP Differences in your Pocket: IAS and GAAP in the People's Republic of China. Both English and Chinese versions.
- ❑ Standards Compared: Differences between IAS, Netherlands GAAP and US GAAP.
- ❑ Comparison of IAS with generally accepted accounting practice in Albania, Bulgaria, Belarus, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Republic of Macedonia, Romania, Slovakia, and Slovenia. CD-ROM.
- ❑ Introduction to International Accounting Standards in Danish.
- ❑ Future International Accounting Standard on Insurance Contracts: Analysis.
- ❑ Quality of Financial Position: The Balance Sheet and Beyond.

MEETING DATES SET FOR 2003

International Accounting Standards Board

- 22-24 January, London
- 19-25 February (24-25 February: Meeting with the Standards Advisory Council), London
- 19-21 March, London
- 24 April-2 May (24-25 April: Meeting with National Chairs), London
- 21-23 May, London
- 16-20 June (19-20 June: Meeting with the Standards Advisory Council), Rome
- 23-25 July, London
- 17-23 September (22-23 September: Meeting with National Chairs), London
- 22-24 October, Toronto
- 17-21 November, (20-21 November: Meeting with the Standards Advisory Council), London
- 17-19 December, London

Standards Advisory Council

- 24-25 February 2002, London
- 19-20 June, Rome
- 20-21 November, London

International Financial Reporting Interpretations Committee

- 4-5 February, London
- 1-2 April, London
- 1-2 July, London
- 30-31 July, London
- 30 September-1 October, London
- 2-3 December, London

NATIONAL ADOPTIONS OF IFRS DURING 2002

Europe starting in 2005*

- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece (2003)
- Ireland
- Italy
- Luxembourg
- Portugal
- Spain
- Netherlands
- Sweden
- United Kingdom

Other Countries

- Australia – 2005 for all companies
- Canada – proposed to be allowed for foreign listed companies
- Estonia – allowed starting 2003 for domestic companies
- Jamaica – 2002 for all companies
- Kyrgyzstan (phased in for all companies by 2006)
- New Zealand – 2007 for listed companies
- Russia – 2004
- Tajikistan – 2003 for all companies
- Tanzania – 2004 for listed companies
- Ukraine – 2003 for all companies

* In consolidated financial statements of listed European companies (excludes non-European companies listed on a European exchange). 2007, at national option, for companies whose current primary reporting basis is US GAAP and for companies whose only listed securities are debt securities. Member states can extend IFRS to individual company financial statements or to non-listed companies.

Deloitte Touche Tohmatsu is one of the world's leading professional services organisations. The member firms of Deloitte Touche Tohmatsu deliver world-class assurance and advisory, tax and consulting services. With more than 100,000 people in over 140 countries, the member firms serve over one-half of the world's largest companies, as well as large national enterprises, public institutions, and successful, fast-growing global growth companies. Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate. Our mission is to help our clients and our people excel.

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