Deloitte Touche Tohmatsu

IAS PLUS

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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.

Preparation for IAS implementation in the UK continues to build momentum. Many companies are now well into Phase I of implementation projects – scoping the extent to which IAS will affect them, both in treasury and elsewhere. Others have moved into second and third phases.

In the light of such activity, concerns remain that IAS is itself a moving target. The length of this IAS newsletter might be taken as an indication of continued flux – however it is more probably a measure of the continuing and constructive clarification rather than further significant change. However, there are two matters to highlight:

EU adoption of IAS – impact on IAS 32 and 39

The EU has now formally adopted all of the existing IAS, other than IAS 32/39, and IFRS 1, which are still to be adopted. In addition, there are the current exposure drafts, for example share-based payments and business combinations, and improvements of a number of other standards that still require adoption when they are approved by the IASB.

With regards to IAS 32/39, there has been widespread confusion after the Accounting Regulatory Committee ('ARC') did not adopt IAS 32/39 at its July meeting in Brussels. In some areas, this has been misread as the demise of IAS 32/39. The first point to note is that these standards were not under consideration by the ARC as the IASB's considerations of the revisions to them were not substantially complete. Their adoption will only be considered when the IASB has completed its work on them. In our view, it is more likely than not that the IAS 32/39 amendments will be finalised by end March 2004, with the ARC considering them shortly thereafter. There are currently some European countries opposed to the adoption of these standards, but the ARC has given no indication that these standards will not be adopted.

There is, of course, a small chance that the ARC may take the decision not to endorse these standards. The impact of this would be that companies in Europe would be complying with 'Adopted IAS' and not IAS as approved by the IASB and could not, therefore, claim full compliance with IAS. This would mean that very useful remedies in IFRS 1 would not be available to European companies when the bulk of IAS is adopted in 2005, thus increasing the pressure for timely adoption of all IAS standards. We would suggest that companies aiming at complying with IAS in 2005 should continue with their implementation plans including IAS 32/39.

In a further development, at its July meeting the IASB took the tentative decision not to require companies to present comparative information in respect of IAS 39 in their first set of IAS financial statements. This can be effected only by an amendment to IFRS 1.

UK implementation

The UK DTI has announced that, from 2005, companies will have the choice of implementing IFRSs or remaining with UK GAAP. This decision must be taken consistently across the whole UK group. It is not yet clear whether a decision to adopt IFRS could be reversed at a later date. This development will clearly have interesting tax and (for relevant companies) regulatory implications.

If you would like further clarification on current developments, would like to discuss how they affect your implementation project or have any questions on IAS and your business, please do not hesitate to get in touch:
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IASB NEWS

Two EDs issued in July. One on Insurance Contracts – Phase I and the other on Disposal of Non-current Assets and Presentation of Discontinued Operations. See timetable on page 3.

IFRS 1, First-time Adoption. A detailed summary of the IASB's first IFRS is presented on page 5.

G8 finance ministers support global standards. They see international accounting standards as a means to bolster investor confidence. Page 6.

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IFRS-related news from the United States. Non-GAAP financial measures (page 18). Reports on internal control (page 18). PCAOB auditor registration (page 18).

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TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS

Business Combinations – Phase 1	• Exposure Drafts were issued December 2002 • Final Standards in 1st quarter 2004 • Expected effective date 2005 year ends
Business Combinations – Phase II: Application of the Purchase Method	• Two Exposure Drafts in 3rd quarter 2003 (one on the purchase method and the other on minority interest) • Final Standards in 2004 • Expected effective date 1 January 2006
Consolidation (Including Special Purpose Entities)	• Timetable not yet established
Convergence – Short-term Issues, IFRS and US GAAP. Includes: **– Joint Project with FASB** **– Employee Benefits** **– Replacement of IAS 20**	• Exposure Drafts in 3rd and 4th quarters 2003 (including ED 4 on Disposal of Non-current Assets and Presentation of Discontinued Operations issued in July 2003) • Final Standards in 2004 • Expected effective date 2005 year ends except IAS 14 andIAS 19 issues
Disclosure of 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
First-Time Adoption of IFRS	• Exposure Draft was issued July 2002 • Final Standard was issued 19 June 2003
IAS 32 and IAS 39 Amendments	• Exposure Draft was issued June 2002 • Re-exposure of 1 or 2 issues 3rd quarter 2003 • Final Standards in 3rd quarter 2003 and (for re-exposed items) 1st quarter 2004 • Expected effective date 2005 year ends
Improvements to International Accounting Standards	• Exposure Draft was issued in May 2002 • Final Standards in 3rd quarter 2003 • Expected effective date 2005 year ends
Insurance Contracts – Phase I	• Exposure Draft issued in July 2003 • Final Standard in 2004 • Expected effective date 2005 year ends
Insurance contracts – Phase II	• Exposure draft 2004 • Final Standard timetable not yet established
Performance Reporting	• Exposure Draft in 4th quarter 2003 • Final Standard in 2004 • Expected effective date after 2005 year ends
Revenue Recognition, Liabilities and Equity: Concepts	• Exposure Draft in 1st quarter 2004 • Final Standard in 2004 • Expected effective date after 2005 year ends
Share-Based Payment	• Exposure Draft was issued in November 2002 • Final Standard in 4th quarter 2003 • Expected effective date 2005 year ends

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

TIMETABLE FOR IASB PROJECTS

During the second quarter of 2003, the IASB published one final standard, IFRS 1, First-time Adoption of International Financial Reporting Standards. Also, IFRIC published its first Draft Interpretation, D1, Emission Rights.

The IASB did make some changes in its project timetables, delaying several EDs or final standards and announcing timetables for several projects not previously scheduled:

PROJECTS FOR WHICH A TIMETABLE HAD NOT PREVIOUSLY BEEN ANNOUNCED
Convergence Project:

- Exposure Drafts:
  - Joint Project with FASB: EDs in 3rd and 4th quarters 2003 (including one exposure draft – ED 4 – issued in July 2003 on asset disposals and discontinued operations).
  - Employee Benefits: ED 4th quarter 2003.
  - Replacement of IAS 20: ED 4th quarter 2003.
- Final Standards:
  - Joint Project with FASB: Final Standards 2004.
  - Employee Benefits: Final Standards 2004 after 1st quarter.
  - Replacement of IAS 20: Final Standards 2004 after 1st quarter.

Insurance Contracts Phase II: ED in 2004.

CHANGES OF TIMETABLE
Insurance Contracts – Phase I: ED now 3rd quarter 2003.

Improvements to IFRS: Final IFRS now 3rd quarter 2003.

Financial Activities: ED now 2004 later than 1st quarter.

Business Combinations – Phase I: Final IFRS now 1st quarter 2004.

Business Combinations – Phase II: EDs now 3rd quarter 2003 and Final IFRS now 2004 later than 1st quarter. The Board will issue separate EDs on the application of the purchase method and on minority interest.

Amendments to IAS 32 and IAS 39: The Board decided that the final amendments to IAS 32 and IAS 39 should be issued in two stages. The first versions of IAS 32 and 39 will be those that include all decisions that are not being re-exposed. The second and final versions will include the decisions from issues re-exposed. The Board is taking this approach to try to ensure that users in countries adopting IFRS in 2005 have as much of the final standard as possible in hand when preparing for 2005. Currently, there is one issue the Board has determined requires re-exposure (macro hedging).

TIMETABLE
Presented on the facing page is a summary of the timetable for the IASB's active agenda projects.

IFRS 1, FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Who is a first-time adopter?
A first-time adopter is an entity that, for the first time, makes an explicit and unreserved statement that its general purpose financial statements comply with IFRS.

If IFRS are adopted for the first time at 31 December 2005, what must an entity do?
Accounting policies. The entity should select its policies based on IFRS in force at 31 December 2005.

IFRS reporting periods. The entity should prepare at least 2005 and 2004 financial statements and restate retrospectively the opening balance sheet (beginning of the first period for which full comparative financial statements are presented) by applying the IFRS in force at 31 December 2005.

What adjustments are required to move from previous GAAP to IFRS?
1. *Derecognition of some old assets and liabilities.* The entity should eliminate previous-GAAP assets and liabilities from the opening balance sheet if they do not qualify for recognition under IFRS. Examples include intangibles not allowed as assets under IAS 38 and provisions not allowed under IAS 37.
2. *Recognition of some new assets and liabilities.* Conversely, the entity should recognise all assets and liabilities required by IFRS even if they were never recognised under previous GAAP. For example, recognise all derivatives, including embedded derivatives, under IAS 39; employee benefit obligations under IAS 19; and deferred tax assets and liabilities under IAS 12.
3. *Reclassification.* Reclassify previous-GAAP opening balance sheet items into the appropriate IFRS classification. For example, dividends declared after the balance sheet are reported in equity, not as a liability; treasury stock is an equity reduction, not an asset; and certain assets recognised under past business combinations may have to be reclassified into or out of goodwill. Also, reportable segments (IAS 14) may change and the scope of consolidation could also change.
4. *Measurement.* The general measurement principle – there are several significant exceptions noted below – is to apply IFRS in measuring all recognised assets and liabilities. Therefore, if an entity adopts IFRS for the first time in its annual financial statements for the year ended 31 December 2005, in general it would use the measurement principles in IFRS in force at 31 December 2005.
5. *Adjustments required to move from previous GAAP to IFRS at the time of first-time adoption.* Recognise these directly in retained earnings or other appropriate category of equity.

What are the exceptions to the basic measurement principle in IFRS 1?
1. *Optional exceptions.* IFRS 1 provides exceptions to the general restatement requirements in the following areas, which can be chosen individually or as a package, including the following:
   - Business combinations that occurred before opening balance sheet date
   - Property, plant, and equipment, intangible assets, and investment property carried under the cost model: exceptions relate to previous revaluations and absence of cost records.
   - IAS 19 – Employee benefits: recognising cumulative actuarial gains and losses
   - IAS 21 – Writing off pre-IFRS 1 accumulated translation reserves
2. *Mandatory exceptions.* There are three mandatory exceptions to the general restatement and measurement principles:
   - IAS 39 – Financial instruments that were derecognised prior to 2001 cannot now be re-recognised even if they meet the IAS 39 recognition criteria.
   - IAS 39 – Hedge accounting practices that were used before the opening IFRS balance sheet may not be retrospectively changed.
   - In preparing IFRS estimates retrospectively, use only information that was available at the time of original accounting under previous GAAP, except to correct an error.

Financial information for periods before the first IFRS balance sheet
Earlier financial information may be presented based on the entity's previous GAAP rather than IFRS, appropriately labelled and explained.

Disclosures a first-time adopter must include:
1. Reconciliations of income and equity reported under previous GAAP to amounts under IFRS.
2. Explanation of material adjustments to the balance sheet, income statement, and cash flow statement (including error corrections and impairment losses) that were made in adopting IFRS for the first time.
3. Appropriate explanations if the entity has applied any of the specific recognition and measurement exemptions permitted under IFRS 1 – for instance, if it used fair values as deemed cost.

Virtually all 7,000 listed companies in Europe will be required to adopt IFRS in 2005. Standards mandatory for 2005 will, therefore, be part of the first-time IFRS adoption process.

The G8 countries are: Canada, France, Germany, Italy, Japan, Russia, United Kingdom, and United States.

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.

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

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**

IFRS 1 ON FIRST-TIME ADOPTION IS ISSUED

On 19 June 2003, the IASB issued IFRS 1, First-time Adoption of International Financial Reporting Standards. IFRS 1 sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. IFRS 1 applies if an entity's first IFRS financial statements are for a period beginning on or after 1 January 2004. Earlier application is encouraged.

The table on the previous page summarises the key features of IFRS 1.

G8 FINANCE MINISTERS SUPPORT INTERNATIONAL FINANCIAL REPORTING STANDARDS

Finance ministers from the Group of Eight large developed nations met in Deauville, France, on 17 May 2003 to discuss the challenges to their own economies and, more broadly, global economic growth. The meeting resulted in a statement backing, among other things, the development of international accounting standards as a means to bolster investor confidence:

We favour the emergence, through open and public processes involving the private sector, of high-quality internationally recognized accounting standards that are applied, interpreted and enforced, with due regard to financial stability concerns.

IASB AGENDA PROJECT UPDATES

On the next several pages, we note some of the key decisions made by the Board in the first quarter of 2003 on its agenda projects. More detailed project information can be found on our web site and on the IASB's web site.

PROJECT UPDATE: SHARE-BASED PAYMENT

Status. Exposure Draft 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.

IASB consideration of comments on ED 2. The IASB has decided to replace the "units of service" measurement approach in ED 2 with the measurement approach in FASB Statement 123. Under SFAS 123, grant date measurement includes an estimate of performance and vesting conditions with subsequent adjustment for changes in estimates.

FASB action. FASB invited comments on ED 2, as did many of the world's major national standard setters. As a result of the comments received, FASB has added accounting for stock options to its agenda.

What's next? Final standard in fourth quarter of 2003, expected to be effective for 2005.

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE I

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. The comment deadline ended 4 April 2003. 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.

*****HEADLINE NEWS***** At its July meeting, the IASB decided not to implement the two-step impairment test proposed in ED 3. Instead the one-step approach of the current IAS 36 would be retained.

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

FASB is taking the lead on the "application of the purchase method" project. 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:

- Issues related to the application of the purchase method.
- 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".
- 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.

Key decisions re application of the purchase method. New decisions in the 2nd quarter 2003 are shown in italics:

- 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.
- Minority interests in the net assets of a subsidiary should be presented in the consolidated balance sheet within equity separate from the parent shareholders' equity.
- *IAS 1.86 will require a reconciliation for minority interest in the statement of changes in equity, most likely as an addition of one column in the statement.*
- In the income statement, both net profit or loss attributable to minority interests and net profit or loss attributable to the controlling interest should be presented on the face of the consolidated income statement, in addition to presenting consolidated net profit or loss.
- *Losses should be allocated between controlling and minority interests based on ownership interests, without regard to any guarantees or similar arrangements.*
- If a business combination is achieved by a series of share purchases (a step acquisition), at the time control is obtained the carrying amount of the acquirer's previous investment should be increased to its fair value on that date, with gain or loss recognised.
- Subsequent increases or decreases in ownership interests in a subsidiary without loss of control should be accounted for as equity transactions (no gain or loss recognised).
- If a parent loses control of a subsidiary, either by selling its investment or by the subsidiary selling shares to third parties, a gain or loss should be recognised.
- Costs directly attributable to a business combination are not part of the fair value of the exchange transaction and, therefore, should be excluded from the cost of the business combination.
- Equity instruments issued in a business combination should be measured at acquisition date (date control passes), not at agreement date.
- *Prior to June 2003, the tentative fair value measurement hierarchy was as follows:*
  - *Level 1: Observable market price for an identical item at or near the measurement date.*
  - *Level 2: Observable market prices for similar items, appropriately adjusted.*
  - *Level 3: Other valuation techniques that incorporate assumptions that marketplace participants would use or, if that information is not available, the entity's assumptions.*

  At its June 2003 meeting, the Board removed the second level of the hierarchy, so that when an active market does not exist, a valuation technique should be used. One input to the valuation technique may be recent market transactions for similar items.
- Fair value of liabilities assumed should reflect the credit risk of the combined entity only to the extent that marketplace participants believe the fair value has been altered by the business combination.
- Fair value of post-employment benefit obligations assumed should be based on the actuarial assumptions of the acquirer.

Convergence with US GAAP: While purchase method procedures is a joint project with FASB, there remains a potential difference with US GAAP regarding whether assets and liabilities that arise as a result of acquisition (such as new pension obligations and golden parachute obligations) should be recognised. The IASB has re-affirmed that all assets and liabilities should be recognised including those that arise at the date of acquisition. US GAAP would not recognise these.

What's next? The Board will issue two exposure drafts in this project during the 3rd quarter of 2003 – one related to business combinations and one related to minority interests (amendment of IAS 27). Both EDs will be issued together and will have a 90-day comment period. The proposed effective date will be 1 January 2006 for both standards. Earlier application will be 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.

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

PROJECT UPDATE: REVENUE, LIABILITIES, AND EQUITY

Status. This project addresses three interrelated issues:
- Distinction between liabilities and equity.
- Definition of and recognition criteria for liabilities.
- General principles for recognising revenue.

The IASB is focusing first on the revenue recognition component in a joint project with the FASB. The primary objective is to develop a comprehensive set of principles for revenue recognition that will eliminate the inconsistencies in the existing authoritative literature and accepted practices.

At its June 2003 meeting, the Board discussed the types of contractual rights and obligations that could give rise to revenue. The Board concluded that conditional rights (performance has not occurred) should not give rise to revenue. The Board also decided that pre-performance assets and liabilities should be carried at fair value at initial recognition and subsequent remeasurement. Post-performance assets and liabilities would be subject to another standard. The Board will continue consideration of this model in co-operation with the FASB.

What's next? The project is likely to lead to revisions of both the IASB Framework and IAS 18, Revenue, with an exposure draft in 2003 and final IFRS in 2004, but not effective until after 2005.

The amendments proposed to IAS 39 are significant and generally will result in greater recognition of fair values and fair value changes for financial instruments.

The IASB has tentatively agreed to make a number of changes to the proposals in its exposure draft as a result of comments received. Those changes relate to (among other issues):
- Derecognition
- Reversal of impairment losses
- Hedging with internal contracts
- Macro hedging
- Basis adjustment

PROJECT UPDATE: AMENDMENTS TO IAS 32 AND IAS 39, FINANCIAL INSTRUMENTS

Status. Exposure draft issued in July 2002 proposing some major amendments to IAS 32 and IAS 39 on financial instruments.

Key proposed amendments to IAS 39
- Allow an entity to designate any financial instrument (including its own outstanding debt) irrevocably at initial recognition as an instrument to be measured at fair value, with changes in fair value recognised in profit or loss.
- Allow an entity to designate any originated loans and receivables as available for sale, resulting in measuring them at fair value in the balance sheet.
- 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.
- Add guidance for recognising impairment losses in groups of loans.
- Prohibit reversal of impairment losses previously recognised for available-for-sale financial assets.*
- Treat hedges of firm commitments as fair value hedges, not 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. Derecognition would not be permitted to the extent that the entity 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.*

** The Board has tentatively decided to modify these proposals as detailed opposite.*

IASB reconsideration of proposed changes to IAS 39: tentative decisions

*****HEADLINE NEWS*** – transitional arrangements:**

- Entities adopting IFRSs for the first time in 2005 would not be required to restate comparative amounts for IAS 39. However, a reconciliation between amounts recognised at the end of the comparative period and those recognised at the beginning of the current period would be required.
- Any first-time adopter who had derecognised financial assets or financial liabilities under its previous GAAP before 1 January 2004 would not be required to recognise those assets and liabilities under IFRSs, unless they qualify for recognition as a result of a later transaction or event (at present, IFRS 1 requires recognition of financial assets and financial liabilities derecognised under previous GAAP after 1 January 2001).

Initial measurement of financial instruments. It should be clarified that initial measurement is at fair value (plus transaction costs where appropriate), even in the rare event that fair value differs from the amount of cash paid or received.

Purchased loans. If an entity buys a loan that meets the definition of a loan originated by the entity (apart from the fact it has been purchased), it may be classified as an originated loan.

Transaction costs. The definition of transaction costs included in the current version of IAS 39 should be retained (ie internal costs can qualify).

Loan commitments. The Board tentatively decided to proceed with the proposal to exclude from IAS 39 loan commitments that cannot be settled net. However, a commitment to extend a loan at a below-market interest rate would be measured at the higher of initial fair value and the amount determined under IAS 37.

Financial guarantees. Financial guarantees should be measured at the higher of initial fair value and the amount determined under IAS 37, until the guarantee is discharged or cancelled, or expires.

Fair value measurement option. The Board agreed to retai0n the fair value measurement option for all financial instruments as proposed in the Exposure Draft; to clarify that the election of fair value is irrevocable; to clarify that demand deposits may be recognised at fair value, which is the amount payable on demand today; not to permit exclusion of the effects of an entity's own credit risk in measuring fair value; and not to require separate disclosure of the fair value effect of an entity's own credit risk.

Fair value measurement guidance. The fair value hierarchy will be as follows:

- If an active market exists, use quoted market price in that market. Bid-asked prices should be used in determining fair value (and adjusted for counterparty credit risk). Mid-market prices should not be used since they may result in immediate gains. When more than one active market exists in which an asset or liability can be disposed of immediately without cost or risk (that is without bundling or any modification), the most advantageous market price should be used. The most advantageous market price is the one that results in the highest price. Blockage factors should not be considered, as it is uncertain whether they exist and, even if they exist, whether their value could be determined reliably. However, the quoted market price may be adjusted for changes in factors that affect the price of the instrument at the balance sheet date.
- If an active market does not exist, a valuation technique should be used. One input to the valuation technique may be recent market transactions for similar items.

Effective interest rate calculations. The definition of effective interest rate should be clarified to be consistent with IAS 18 on fee recognition. When a fee is not an integral part of the effective yield, the requirements in IAS 18 should apply.

Reversal of an impairment loss on available-for-sale financial assets. The ED had proposed to prohibit all reversals of impairment losses on AFS financial assets. Based on comments on the ED, the Board has decided to revert to the existing IAS 39 requirement that an impairment loss on an AFS *debt* instruments should be reversed if the impairment event reverses.

Derecognition of financial assets. The Board decided not to pursue the continuing involvement model proposed in the Exposure Draft but, rather, to retain an approach largely consistent with the current IAS 39, with some modification and clarification. The revised derecognition principles would be as follows:

1. If substantially all of the benefits and risks are transferred, then derecognise the assets. A sale with a repurchase option at fair value would not disqualify derecognition.
2. If substantially all of the benefits and risks have been retained (based on assessment of the variation in the present value of net cash flows), no derecognition is allowed.
3. If neither 1 nor 2 above is the case, then assess whether the transferor has retained control over the assets transferred. The entity would continue to recognise the transferred assets to the extent it could be forced to reacquire them.

Pass-through arrangements. If the entity has assumed responsibility to pass through all or a proportion of the cash flows from the asset (with no obligation to pay unless collected and no right to sell or pledge the asset), then derecognise all or the proportion sold.

Hedge accounting. Hedges of firm commitments are fair value hedges, not cash flow hedges, even for a foreign currency firm commitment. Hedges of forecasted transactions are cash flow hedges.

Prospective effectiveness testing. To qualify for hedge accounting, prospective effectiveness should be within the range of 80-125 per cent, as opposed to the existing requirement of "almost fully offset". At present, the 80%-125% guideline may be used for retrospective assessment of effectiveness, but not for prospective testing.

Hedging with internal contracts.

- *Interest rate risk.* Internal transactions (transactions within the same reporting entity or group) can be designated as hedging instruments or hedged items under IAS 39. However, these contracts would be eliminated in the normal consolidation procedures.
- *Foreign currency risk.* The Board agreed not to change the IAS 39 hedge accounting for foreign currency risk. This will continue a difference with US GAAP.
- *Intracompany items.* Receivables/payables between group entities can be classified as hedged items.
- *Segment reporting.* Segment results should report the gains or losses from the internal contracts, even if those contracts are eliminated in consolidation.

Macro hedging. The Board agreed to permit an entity to use fair value hedge accounting for a portfolio hedge of interest rate risk under certain defined conditions. The Board decided that this issue must be re-exposed. The treatment of demand deposits and similar items with a demand feature received particular attention – the Board determined that such items should not be designated as the hedged item beyond the shortest period in which the counterparty can demand repayment.

Basis adjustments for non-financial assets and liabilities. Where a forecast transaction will result in the recognition of non-financial assets or liabilities, hedging gains and losses may be reflected in the carrying amount of those assets/liabilities ("basis adjustment").

Sensitivity disclosures. Sensitivity disclosures should be provided for fair values estimated using a valuation technique for each valuation assumption not supported by observable market prices.

Recent decisions re IAS 32.

- *Puttable instruments.* Classified as liabilities, whether the put is conditional or not.
- *Treasury shares.* A commitment to repurchase an entity's own shares is a liability other than in agency transactions for clients.
- *Separating the liability and equity components of compound instruments.* The method of separation will not be prescribed.
- *Risk disclosures.* The proposed disclosures in ED paragraphs 77B(a), (b), (c), and (e) will be retained. The Board will consider further the sensitivity disclosure proposed in ED paragraph 77B(d).
- *Economic compulsion.* The example will be eliminated from existing IAS 32.22 that an instrument is automatically a liability if the issuer is economically compelled to redeem it because of a contractually accelerating dividend. However, the general notion will be retained that an instrument that does not establish a contractual obligation explicitly may establish it indirectly through its terms and conditions.
- *Contingent settlement provisions.* The ED proposed to require liability classification, without exception, for any financial instrument that could require the issuer to pay cash or other financial assets, without regard to probability. The Board is reviewing that conclusion with respect to contingencies that do not have a realistic possibility of occurring.
- *Parent guarantees of distributions.* Additional terms (such as a guarantee of payments or redemption) agreed directly by a parent entity with the holders of its subsidiary's equity instruments should result in a liability classification of those instruments in the consolidated financial statements to the extent of the amount of the guarantee.
- *Derivatives on interests in subsidiaries, associates, and joint ventures.* Clarify that these are within the scope of IAS 32 and IAS 39.
- *Offsetting.* Management intention should be a factor in offsetting financial assets and liabilities (i.e. no amendment to the existing IAS).

What's next? The final amendments to IAS 32 and IAS 39 will be issued in two stages. The first versions of IAS 32 and 39 will include all decisions that are not being re-exposed. The second and final versions will include the decisions from issues re-exposed. The Board is taking this approach to try to ensure users in countries adopting IFRS in 2005 have as much of the final standard as possible in hand when preparing for 2005.

The Board has begun using a new name for this project: Financial Risk and Other Amendments to Financial Instruments Disclosures

IAS 30 applies to banks and other financial institutions. Initially, the goal of this project was to revise IAS 30, and its scope was disclosures about financial activities rather than financial institutions. More recently, however, the Board has concluded that the proposed disclosures are relevant to all financial instruments. Hence the scope of the project has been amended to cover all entities that have financial instruments.

PROJECT UPDATE: DISCLOSURE OF FINANCIAL RISKS

Status. The Board has agreed that entities should disclose qualitative and quantitative information about financial risks. See the comment in the sidebar (left) about the expanded scope of this project.

Recent decisions. In May 2003, the Board discussed capital risk disclosures and agreed that the standard should not require disclosure of capital requirements imposed by external parties (regulators). However, entity-specific targets and industry standard targets should be disclosed. An entity should also disclose whether any breach has occurred during the reporting period and the quantitative steps taken to correct that breach. The entity should also disclose the existence of a forbearance, if one occurs.

What's next? The Board sees a need for a final standard by 2005 to simplify and improve the capital risk disclosures from those in IAS 30 and 32. The Board hopes to issue an ED in 2004, so that entities would be able to voluntarily adopt the final standard for 2005, though the effective date is likely to be delayed until after 2005. If the final standard is not completed by 2005, IAS 30 and 32 will still apply to capital risk disclosures.

The proposals emanating from this project would result in all items of income and expense being reported in a single statement of comprehensive income (with no recycling permitted). The statement would include categories for business (divided into operating, other business and financial), financing, tax, discontinuing activities and cash flow hedges. Remeasurements of assets and liabilities would be distinguished from other items of income and expense (in two columns).

PROJECT UPDATE: PERFORMANCE REPORTING

Status. The Board's deliberations on this project are ongoing.

Recent decisions. At its June and July meetings, the Board considered the results of recent field visits with preparers and users of financial statements and other interested parties. In the light of these visits the Board was asked to reconsider a number of key issues. The tentative conclusions reached are summarised below:

- The financing category should include interest arising on all liabilities, including the unwinding of discounted provisions.
- Additional subtotals and amounts per share should not be prohibited. However, they should not be given greater prominence than comprehensive income (per share) and the difference should be transparently reconcilable.
- A business profit subtotal should not be required.
- Entities should not be required to report by either nature (i.e. according to the type of item) or by function (i.e. according to the purpose of the item). A mixed presentation should not be prohibited.
- Presentation of all three columns (i.e. income before remeasurements, remeasurements and total) should be required on the face of the statement for the reporting period. For comparatives, only the total column should be required on the face of the statement – the other two could be presented in the notes.
- The 'other business' category should be retained as previously proposed.
- Inventory impairments should be reported as remeasurements.
- Write-downs of accounts receivable should be reported as remeasurements within operating profit (and not within financial income as previously suggested).
- Service costs, past service costs and interest costs relating to post-employment benefits should be reported as part of income before remeasurements. Actuarial gains and losses, settlements and curtailments are remeasurements.
- The initial recognition of a provision and the unwinding of any discount on provisions should be reported as part of income before remeasurements.
- Income from associates should be reported within financial income, net of the associate's own income tax.
- Tax should not be allocated between the two columns.

What's next? A number of significant issues, including reporting by financial institutions, segmental reporting and the cash flow statement, will be discussed at a later meeting. An exposure draft is planned for fourth quarter 2003. The Board has indicated, however, that it does not expect to make a final standard mandatory in time for 2005 financial reporting.

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.

Two aspects of this project have gone beyond convergence of IFRS and US GAAP. They are:

- 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.

What's next? Exposure drafts are expected the third and fourth quarters of 2003 (one was issued in July on asset disposals and discontinuing operations), with final standards in 2004, effective for 2005 except perhaps for IAS 14 and IAS 19 issues.

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 published on 31 July 2005.

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE I

Status. When the IASB took over from the IASC in April 2001, it inherited a comprehensive project on accounting for insurance contracts that IASC started in April 1997. The IASC had published an issues paper in November 1999.

The IASB continued the work that the IASC had begun but realised that it was not feasible to complete the comprehensive project in time for the adoption of IFRS by European listed companies in 2005. Nonetheless the IASB recognised that some guidance is needed before 2005 because accounting for insurance contracts under IFRS at the moment is diverse and quite unique relative to other industries. Also, the existing IFRS that are most relevant to accounting for insurance contracts (IAS 32, 37, 38, and 39) exclude insurance contracts from their scopes.

So in May 2002 the IASB split its insurance contracts project into two phases. Phase I will provide guidance in time for the 2005 changeover to IFRS in Europe. Phase II will be the comprehensive project.

Project proposals. An exposure draft of the proposed Phase I standard, ED 5, Insurance Contracts, was issued on 31 July 2003. Comments are requested by 31 October 2003. The table over the page summarises its key proposals.

What's next? It is proposed that the final standard would be effective for periods beginning on or after 1 January 2005, except the fair value disclosure requirement for assets and liabilities arising from insurance contracts would be deferred until 31 December 2006 (and comparative 31 December 2005 fair value disclosures would not be required).

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE II

Status. This longer-term project will develop a comprehensive standard on accounting for insurance contracts. Recently, the IASB's effort has been devoted to completing Phase I, so this phase has been on the back burner. However, the Board has discussed some of the issues and has indicated some tentative leanings.

The IASB's leanings in the Phase II project. The Board favours an asset and liability model that requires an entity to identify and measure directly individual assets and liabilities arising from insurance contracts, rather than creating deferrals of inflows and outflows. Under that model, assets and liabilities arising from insurance contracts would be measured at fair value (which involves discounting), except that:

- entity-specific assumptions and information may be used to determine fair value if market-based information is not available; and
- the estimated fair value of an insurance liability shall not be less, but may be more, than the entity would charge to accept new contracts with identical terms and remaining term from new policyholders.

What's next? The Board expects to issue an exposure draft in 2004. Timetable for the final IFRS is not yet announced.

INSURANCE CONTRACTS – PHASE I: SUMMARY OF ED 5 PROPOSALS

Definition of insurance contract
An insurance contract is a contract under which an insurer accepts significant insurance risk by agreeing to compensate the policyholder or other beneficiary for the adverse effect of a specified uncertain future event.

Scope of the project
All insurance contracts, including reinsurance contracts, but not other activities of insurance entities.

Recognition and measurement of insurance liabilities
Catastrophe and equalisation provisions. These would be prohibited because they do not reflect loss events that have already occurred and, therefore, are inconsistent with IAS 37.

Loss recognition testing. An insurer would be required to carry out a loss recognition test relating to losses already incurred at each balance sheet date. If the test shows that the measurement of its insurance liabilities (net of related deferred acquisition costs and intangible assets) is insufficient, adjustment of the liabilities is recognised in net profit or loss. The entity would be required to use current estimates of future cash flows in the loss recognition test, but the standard is not expected to specify which cash flows should be included and whether and how to discount them.

Applying IAS 39
- *Embedded derivatives.* IAS 39 applies to derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract. However, an insurer would not be required to separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount. That exception would not apply if the surrender value varies based on the change in an equity or commodity price or index.
- *Unbundling deposit components of insurance contracts.* 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. ED 5 clarifies that the measurement at fair value of a demand feature (such as a demand deposit) is no less than the amount payable on demand and that cash surrender and maturity values of many traditional insurance contracts would not generally be classified as a deposit component.
- *Derecognition.* Insurance liabilities cannot be removed from the entity's balance sheet until discharge, cancellation, or expiry.

Applying the requirements on offsetting in IAS 1 and IAS 32
- Assets under reinsurance contracts cannot be offset against related insurance liabilities.
- Income and expense from reinsurance contracts cannot be netted against related expense or income from the underlying insurance contracts.

Accounting policies: issues relating to IAS 8 (as proposed to be revised in the Improvements Project)
One purpose of the IFRS that will result from this project is to lay some groundwork that will help insurers in their future transition to a Phase II standard and, at the same time, discourage accounting changes that may need to be reversed when Phase II is completed.
Two ED 5 proposals reflect those objectives:
- To suspend until 2007 the hierarchy of authoritative guidance on IFRS that will be added to IAS 8. The reason for the suspension is that, given the weaknesses in existing accounting practices for insurance contacts and the inconsistency of those practices with accounting in other sectors, the Board feared that might impose unintended and potentially undesirable changes in insurance accounting before Phase II is finished.
- To prohibit changes in accounting policies for insurance contracts unless the change makes the financial statements more understandable, relevant, reliable, and comparable as judged by the criteria in IAS 8.

Other proposals
- Discounting is not required (and, where discounting is used, no discount rate is specified).
- The deferral of policy acquisition costs is not prohibited or required.
- All insurance subsidiaries of a single parent are not required to use the same accounting policies.

An insurer cannot change the measurement basis for its insurance liabilities simply by the purchase of reinsurance.

Disclosure
Many new disclosures are proposed, including fair values of insurance assets and insurance liabilities (to apply from 31 December 2006); amounts and other details of assets, liabilities, income, expense, and cash flows relating to insurance contracts; and information about insurance risk, interest risk, and credit risk.

If you want to download the April 2003 edition of the IAS newsletter, in which we summarise many changes to the Improvements proposals that the IASB has tentatively agreed to, please go to **www.iasplus.com/iasplus.htm**

PROJECT UPDATE: IMPROVEMENTS TO IFRS

Status: In May 2002, the IASB published an exposure draft of proposed amendments to 15 standards and consequential amendments to a number of other standards. The Board received over 150 letters of comment on its exposure draft. Its consideration of those comments is nearly finished. We reported many decisions in the April issue of this newsletter.

Recent decisions. During the second quarter of 2003, the Board discussed only one issue: how an entity should handle an asset's depreciation at the point at which the asset's carrying amount is found to be below the amount of the asset's reassessed residual value. The Board decided that, when residual value exceeds net carrying amount for an asset (cost less depreciation) the entity should cease to depreciate the asset, on the basis that an asset should only be depreciated when there is a depreciable amount.

What's next? Final standards in third quarter of 2003, effective for 2005.

IFRIC news on our web site:

Summaries of Interpretations: **www.iasplus.com/interps/interps.htm**

IFRIC projects chronologically: **www.iasplus.com/ifric/ifricagenda.htm**

IFRIC projects by topic: **www.iasplus.com/ifric/ifricissues.htm**

Topics not added to IFRIC's agenda: **www.iasplus.com/ifric/notadded.htm**

Emission Rights project: **www.iasplus.com/ifric/emission.htm**

IFRIC UPDATE

IFRIC ISSUES DRAFT INTERPRETATION ON EMISSIONS TRADING SCHEMES

The International Financial Reporting Interpretations Committee (IFRIC) has published for comment a draft Interpretation on accounting for transferable emissions (pollution) allowances. Draft Interpretation D1, Emission Rights, is IFRIC's first draft Interpretation. Comment deadline: 14 July 2003.

D1 would require companies to account for the emission allowances they receive from governments as intangible assets, recorded initially at fair value. Emissions of pollutant would then give rise to a liability for the obligation to deliver allowances to cover those emissions. Any excess of the fair value of the allowance over the amount paid to the government is to be considered a government grant and initially recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance period (as provided in IAS 20). The draft Interpretation can be downloaded without charge from IASB's website: www.iasb.org.uk.

In the Deloitte Touche Tohmatsu comment letter on the IFRIC proposal (available on our **www.iasplus.com** website), we agreed with the general conclusions in the draft Interpretation. However, as regards the accounting for government grants arising from emission trading schemes, we suggested that the Interpretation should simply require that the government grants be accounted for under IAS 20. D1 had proposed to eliminate certain options available under IAS 20 for this particular subset of government grants.

IFRIC'S JULY 2003 MEETING

The IFRIC met on 1 and 2 July and discussed the following topics:

- IAS 11 – Criteria for combining and segmenting construction contracts. This is a new IFRIC agenda topic.
- IAS 17 – Rights of use of assets. IFRIC agreed on the principles to be included in an Interpretation.
- IAS 19 – Multi-employer plan exemption. IFRIC is leaning toward treating such plans as defined benefit plans.
- IAS 19 – Money purchase plan with minimum guarantee. IFRIC is leaning toward treating such plans as defined benefit plans.
- IAS 19 – Allocation of benefits to periods of service. The IFRIC will suggest that IASB address this issue in IAS 19 improvements.
- IAS 37 – Decommissioning and environmental rehabilitation funds. An Interpretation would cover accounting by the contributor.
- IAS 37 – Changes in decommissioning, restoration, and similar liabilities. IFRIC agreed to issue a draft Interpretation on this topic.

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 OF IASB, SAC, AND IFRIC

International Accounting Standards Board

- 17-19 September 2003 (plus 22-23 September: Meeting with National Standard Setter Chairs), London
- 22-24 October 2003, Toronto
- 17-19 November 2003, (plus 20-21 November: Meeting with the Standards Advisory Council), London
- 17-19 December 2003, London

Standards Advisory Council

- 20-21 November 2003, London

International Financial Reporting Interpretations Committee

- 30 September-1 October 2003, London
- 2-3 December 2003, London

IASC Foundation Trustees

- 4 November 2003, Brussels

NEWS ABOUT IFRS IN EUROPE

DTI ANNOUNCEMENT ON APPLICATION OF IFRS TO UK COMPANIES

The UK DTI has announced that, from 2005, companies will be permitted, but not required, to adopt IFRSs. This choice will be available to all UK companies, including single listed companies that do not prepare consolidated accounts and small companies currently adopting the FRSSE.

The decision must be taken consistently across the whole UK group. The announcement did not make it clear whether a decision to adopt IFRS could be reversed at a later date. The statutory instrument that will be necessary in order to bring this proposal into law should clarify this point (at the time of writing, it was not known when this instrument might be issued).

The full survey report is available on the ICAEW's website: **www.icaew.co.uk**

UK SURVEY SHOWS NEED FOR MORE PREPARATION FOR TRANSITION TO IFRS

The Institute of Chartered Accountants in England and Wales has released results of a survey of its members (in both public practice and industry) to assess the level of awareness and preparation for the introduction of IFRS in 2005. Although the majority of members surveyed were aware of the move to IFRS, the survey showed that members generally were not aware of the extent of the impact that IFRS would have in the UK:

- A third of respondents had little or no awareness of the publication of the EU Regulation mandating the adoption of IFRS in 2005.
- Less than half of respondents felt they were aware of the effect IFRS would have on their company or financial statements.
- Two-thirds of survey participants were either "not very aware" or "not aware at all" of the IASB's timetable for issuing both new and improved standards.
- Only 70% of respondents who had stated that IFRS was applicable to them felt that they would definitely be prepared in time for 2005.
- Only one in seven respondents were aware that the British government has issued a consultation paper on whether IFRS should apply to unlisted companies in the United Kingdom.

COUNCIL OF MINISTERS APPROVES AMENDED ACCOUNTING DIRECTIVES

In early May 2003, the European Union's Council of Ministers approved the amended EU 4th and 7th Company Law Directives), bringing them into law. The European Parliament had approved the directives in January 2003.

The revised directives complement the IAS Regulation, adopted in June 2002, that requires all listed EU companies to use IFRS from 2005 onwards. The regulation allows member states to extend IFRS to all companies. If they choose not to do so the revised directives make improvements in EU financial reporting that could therefore affect up to five million non-listed companies. Among the changes:

- All inconsistencies of the old directives and IFRS have been removed.
- Companies' ability to keep liabilities off the balance sheet by using special purpose vehicles is restricted.
- Disclosures about risks and uncertainties are required in annual reports.
- Audit reports are made more consistent across the EU.

EC WILL SEEK MODIFICATIONS OF IAS FOR USE IN EUROPE

The European Commission has published its Internal Market Strategy 2003-2006, a ten-point plan to make the Internal Market work better. Point 6 – improving conditions for business – states that the European Commission will request "appropriate modifications" to certain existing IAS before they will be endorsed for use in Europe. An EC Accounting Regulatory Committee has been established for that purpose:

A recently adopted Regulation requires all EU-listed companies to prepare their consolidated accounts in accordance with International Accounting Standards (IAS) from 2005. This will bring transparency and greater comparability between the consolidated financial statements of EU listed companies, hence better capital allocation and possibly a reduction in the cost of capital. IAS are established by the International Accounting Standards Board, an independent international accounting standard-setting organisation. In order to ensure appropriate political oversight, the Regulation stipulates that IAS to be applied in the EU will also have to be endorsed into Community law. Existing IAS will be endorsed during 2003, provided that, for some of them, the appropriate modifications are made.

IAS ENDORSED FOR USE IN EUROPE – OTHER THAN 32/39

At its meeting on 16 July 2003, the Accounting Regulatory Committee (ARC) – which is charged under Europe's IAS Regulation with assessing the suitability of IFRS for use in Europe – voted unanimously to endorse all extant International Accounting Standards other than IAS 32 and IAS 39. Because the IASB is currently deliberating amendments to those two standards, the ARC wants to consider the revised standards for endorsement.

Prior to the ARC meeting, the EU Council of Finance Ministers (ECOFIN) discussed implementation measures for the IAS Regulation that was adopted by the European Union in June 2002. ECOFIN said that the discussion was at the request of the French delegation, which had circulated a paper setting out what it considers to be problematic issues with regard to IAS 32 and 39. Following the discussion, ECOFIN issued a public announcement suggesting that IAS 32 and IAS 39 might not be adopted immediately in Europe:

The Council asks the Commission to request the IASB to continue its dialogue with representatives of European industries in order to find a satisfactory and timely solution for the revised IAS 32 and 39 in view of their envisaged application. . . .

The Council agrees with the Commission regarding the importance of an immediate adoption of all existing IAS, with IAS 32 and 39 as soon as possible thereafter. The adoption of future standards must respect the quality criteria set out in the IAS Regulation and be conducive to the European public good.

In a follow-up announcement, the European Commission noted that:

IAS 32 and 39 are still being reviewed by the International Accounting Standards Board to ensure that they will provide a sufficiently rigorous solution for the accounting treatment of financial instruments for banks and insurance companies. IAS 32 and 39 can then be reconsidered when available.

IFRS-RELATED NEWS FROM THE UNITED STATES

The staff Q&A can be found here:
www.sec.gov/divisions/corpfin/faqs/nongaapfaq.htm

SEC STAFF GUIDANCE ON NON-GAAP FINANCIAL MEASURES

The SEC staff has responded to 33 questions on the disclosure of non-GAAP financial measures. Five of the Q&A are specifically intended for foreign private issuers, addressing issues such as income statement subtotals and earnings per share amounts that are expressly permitted or required by a foreign GAAP but that are not calculated consistently with those permitted or required by US GAAP. The Q&A are based on a rule on conditions for use of non-GAAP financial measures that the SEC adopted on 22 January 2003 pursuant to the Sarbanes-Oxley Act of 2002.

More information:
www.sec.gov/news/press/2003-66.htm

SEC REQUIRES REPORTS ON INTERNAL CONTROL WITH AUDITOR ATTESTATION

The US Securities and Exchange Commission has adopted new final rules on management's report on internal control over financial reporting. The effective date for large US issuers is financial years ending on or after 15 June 2004. Foreign private issuers and small US issuers have until years ending on or after 15 April 2005.

The rules require, among other things, that annual reports include a report by management on the effectiveness of the company's system of internal controls over financial reporting and a statement that its auditor has issued an attestation report on management's assessment. The rules also require that the CEO and CFO certifications of financial statements be identified as exhibits to periodic reports such as those on Form 10-K, 10-Q, and 20-F.

PCAOB website:
www.pcaobus.org/

FINAL PCAOB AUDITOR REGISTRATION RULES APPLY TO NON-US FIRMS

The US Public Company Accounting Oversight Board has adopted final auditor registration rules pursuant to the Sarbanes-Oxley Act of 2002. All public accounting firms must be registered with the PCAOB if they wish to prepare or issue audit reports on US public companies, or to play a substantial role in preparing or issuing such reports. Registration deadlines:

- US public accounting firms – 22 October 2003.
- Non-US public accounting firms – 19 April 2004.

Registration will be via an on-line form on the PCAOB's website. Applicants must pay a registration fee. Registered firms will be required to file annual reports with the PCAOB and perhaps other periodic reports.

All of the DTT publications mentioned on this page can be downloaded from our web site's publications page:
www.iasplus.com/dttpubs/pubs.htm

PUBLICATIONS FROM DELOITTE TOUCHE TOHMATSU

THIRD EDITION OF IFRS IN YOUR POCKET IS PUBLISHED

Deloitte Touche Tohmatsu has published the third edition of IFRS in your Pocket. This popular 80-page guide includes:

- IASB structure and contact details.
- IASC and IASB chronology.
- Use of IFRS Around the World (including updates on Europe and the US).
- Summaries of each IASB Standard and Interpretation, annotated to indicate key proposals for change in current IASB projects.
- Background and tentative decisions on all current IASB projects.
- Other useful IASB-related information.

You can download this and other Deloitte Touche Tohmatsu IFRS-related publications on the publications page of our www.iasplus.com website. We are pleased to grant permission for accounting educators and students to print copies for educational purposes.

Printed copies are available to accounting educators (while supplies last). Please email: info@iasplus.com

IAS Healthcheck 2003 can be downloaded from our web site's publications page:
www.iasplus.com/dttpubs/pubs.htm

IAS HEALTHCHECK 2003

Of the 7,000 listed companies in Europe that will be required to adopt IFRS in 2005, over 3,000 of them are in the United Kingdom. IAS Healthcheck 2003, prepared by Deloitte & Touche (United Kingdom) reviews the implications of changing to IFRS not only with respect to accounting systems and financial reporting but also to other management issues including treasury management; distributions; debt covenants and financing; mergers and acquisitions; management compensation; product development; management information; statutory accounts and taxes; human resources; IT systems; and investor relations. The 32-page guide, which is an updated version of Healthcheck 2002, sets out practical ideas for addressing these and other issues.

For more information on Deloitte Touche Tohmatsu please access our website at **www.deloitte.com**

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