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LEADERSHIP TEAM**

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IAS PLUS WEB SITE

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

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IASB NEWS

Improved IASs are issued. The IASB has published 13 revised IASs reflecting changes made in the Improvements Project: IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 33, and 40. Also IAS 15 was withdrawn. Pages 3 and 12.

Financial instruments standards revised. The Board published revised versions of IAS 32 and IAS 39. IAS 39 will be further revised in the first quarter of 2004 to reflect the Board's decisions on macro hedging. Page 3.

Remaining standards for 2005 adoption. Share-based payment; business combinations (revisions to IAS 22, 36, and 38); insurance contracts; macro hedging amendments to IAS 39; asset disposals and discontinued operations (including replacement of IAS 35); and extractive industries. Page 3.

Deloitte letters of comment. The Deloitte positions on the following proposals are summarised: Macro hedging (page 4). Insurance contracts phase I (page 5). Asset disposals and discontinued operations (page 5). Decommissioning liabilities (page 5).

Agenda project updates.

- Extractive Industries: page 6.
- Consolidation, Including SPEs: page 7.
- Share-Based Payment: page 7.
- Business Combinations – Phases I and II: page 8.
- Concepts: Revenue and Liabilities: page 9.
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- Standards for Small and Medium-Sized Entities: page 13.
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- IFRIC update: page 15.

News from IASC Foundation. Constitutional review is begun (page 17).

News from IFAC. Review of IFAC Public Sector Committee (page 17). IAASB EDs on auditor's port and group audits (page 17).

Upcoming meeting dates. Page 18.

IFRS-related news from the United States. SEC staff comments on international convergence (page 19). FASB publishes four convergence EDs (page 19). FASB agrees on expensing stock options (page 19). FASB chairman speaks on convergence (page 20). FASAC on convergence (page 20).

News about IFRS in Europe. Final CESR recommendations on transition to IFRS (page 21). IFRS acceptable to UK tax authorities (page 21). EC comments on IAS regulation and directives (page 21). Proposal to enhance EFRAG (page 22). EU translations of IFRS (page 22).

Rest of the world. Hong Kong (page 22) and Nicaragua (page 22).

New publications from Deloitte Touche Tohmatsu. Special IASPlus newsletter: Year 2003 in Review (page 23). And others (page 23).

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TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS

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

*You can always find an up-to-date timetable at:
[www.iasplus.com/](http://www.iasplus.com/agenda/timetabl.htm)
[agenda/timetabl.htm](http://www.iasplus.com/agenda/timetabl.htm).*

TIMETABLE FOR IASB PROJECTS

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

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

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

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

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

WHAT'S LEFT TO DO FOR 2005?

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

The following new or revised standards that will be effective in 2005 still remain to be issued, with publication most likely in March 2004:

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

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

You can download the full text of our letters of comment at: www.iasplus.com/links/comment.htm

DELOITTE COMMENTS ON MACRO HEDGING ED

Deloitte's letter of comment was generally supportive of the IASB's proposed macro hedging amendments to IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). Those amendments are set out in the IASB's exposure draft, Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk.

We commended the Board for attempting to retain the integrity of hedge accounting as set forth in IAS 39 while accommodating portfolio hedges of interest rate risk. Our letter set out the criteria by which we judged the ED:

1. Will the recommended approach enable users of financial statements to identify successful and unsuccessful hedging strategies?
2. Does the recommended approach satisfy the three principles most relevant to fair value hedging as discussed in paragraph 3 of the ED?
3. Does the recommended approach simplify the application of hedge accounting in an operationally feasible way?

Our letter noted that one of the key principles cited by the Board is that deferred gains and losses represent neither assets nor liabilities and thus do not warrant balance sheet recognition. On balance we felt that the approach proposed in the ED adheres to this principle more than the other approaches noted in the ED.

We expressed some concerns about whether the proposed approach can be made operational, and we suggested an alternative if that prove to be the case.

We noted that the Board's conclusion to restrict the ability to designate demand deposits as a hedged item in a portfolio fair value hedge of interest rate risk beyond their contractual maturity date is a source of very considerable consternation in the banking community. We expressed concern, that the credibility of the standard could be undermined if, in practice, it led to the enormous volatility in reported results for banks that does not reflect the true underlying economics that has been predicted by some industry commentators. Therefore, we urged the Board to give serious consideration to any empirical evidence (based on historical results rather than theoretical scenarios) that may be offered by the banking industry. In the absence of such evidence, we recognise that the ED has made considerable progress in the area of portfolio hedging and should be allowed to proceed accordingly.

You can download the full text of our letters of comment at: www.iasplus.com/links/comment.htm

DELOITTE COMMENTS ON INSURANCE CONTRACTS PHASE I ED

The Deloitte letter of comment on IASB exposure draft ED 5, Insurance Contracts, questions the approach of adopting an 'interim standard' that exempts entities within the scope of the draft standard from complying with certain parts of the IASB Framework and defers addressing recognition and measurement principles until a later date. Instead, we told the Board that we prefer that the IASB address these issues in a comprehensive project to establish proper recognition and measurement principles for insurance contracts.

We also disagreed with the insertion of a 'sunset clause' in relation to this exemption. In addition, without adequate guidance on how to determine the fair value of insurance contracts, we suggested the Board reconsider the usefulness of the fair value disclosures proposed.

DELOITTE COMMENTS ON ASSET DISPOSALS AND DISCONTINUED OPERATIONS EXPOSURE DRAFT

During the fourth quarter of 2003, we submitted our comments on IASB ED 4, Disposal of Non-Current Assets and Reporting of Discontinued Operations.

Overall, we supported the proposals in the exposure draft and commended the Board for its efforts to converge standards globally. We concluded that ED 4 is consistent with the Board's objective to converge topics around high quality solutions. We expressed support the smaller size for separate disclosure of discontinued operations and the additional information provided. We felt that the proposals are an improvement over the existing requirements in IAS 35, Discontinuing Operations.

We noted that the revised measurement principles in IAS 16, Property, Plant and Equipment, and IAS 36, Impairment of Assets, would lead to essentially the same measurement for non-current assets held for sale as that proposed under the exposure draft. As a result, we suggested the Board revisit the need to introduce new measurement principles for non-current assets classified as held for sale.

WE EXPRESS CONCERNS ABOUT IFRIC D2 ON DECOMMISSIONING LIABILITIES

The Deloitte letter of comment on IFRIC Draft Interpretation D2, Changes in Decommissioning, Restoration and Similar Liabilities, agrees that guidance is needed but concludes that the proposal is not the most appropriate interpretation of IFRS. In our view, IFRS should be interpreted differently to achieve a conceptually better and more operable approach that at the same time converges with US GAAP.

[Our summary of the IFRIC meeting of 2-3 December 2003 on pages 15-16 of this newsletter indicates that the IFRIC has decided to change from the retrospective approach proposed in D2 to a prospective approach.]

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

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.

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

IOSCO STATEMENT ON CONVERGENCE OF GLOBAL GAAPs

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

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

IASB AGENDA PROJECT UPDATES

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

PROJECT UPDATE: EXTRACTIVE INDUSTRIES

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

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

Discussions during fourth quarter 2003. In December, the Board concluded that the guidance in the proposed exposure draft was incomplete because it addressed only those expenditures that could be included in the exploration and evaluation asset and did not address those expenditures that could not be included. The Board agreed to include guidance on initial and subsequent measurement.

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

Below we present some key examples of changes to IASs that were made by the Improvements Project.

PROJECT UPDATE: IMPROVEMENTS TO IFRS

Status: Essentially completed. 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. Final standards were issued on 18 December 2003.

EXAMPLES OF THE CHANGES MADE BY THE IMPROVEMENTS PROJECT

REMOVAL OF OPTIONS

- ❑ LIFO (last in, first out) – an inventory valuation method sometimes used in the US and elsewhere – has been eliminated. (IAS 2)
- ❑ Exchange differences resulting from severe devaluation or depreciation of a currency against which there is no means of hedging can no longer be capitalised. (IAS 21)
- ❑ Initial direct costs of finance lessors can no longer be charged as expenses as incurred. Instead, they are included in the carrying amount of the leased asset and charged to an expense over the lease term. Manufacturer-dealer lessors recognise the expense when the selling profit is recognised. (IAS 17)
- ❑ Entities are required to present minority interests in the consolidated balance sheet within equity, separately from the parent shareholders' equity. (IAS 27)
- ❑ IAS 8 now requires retrospective application of voluntary changes in accounting policies and retrospective restatement to correct all material prior period errors. Previously IAS 8 contained an alternative, for both situations, of including the effects in the profit or loss for the current period rather than amending comparative information. Under the improved standard comparatives are restated. (IAS 8)

CONVERGENCE

- ❑ The definition of related parties and the disclosure requirement for related parties have both been expanded by adding parties (such as joint ventures and post-employment benefit plans) and by requiring disclosure of transactions, balances, terms and conditions, details of guarantees. (IAS 24)
- ❑ It has been clarified that land and buildings elements of a lease of land and buildings need to be considered separately. The land element is normally an operating lease unless title passes to the lessee at the end of the lease term. The buildings element is classified as an operating or finance lease by applying the classification criteria. (IAS 17)
- ❑ When financial statements of an associate used in applying the equity method are prepared as of a reporting date that is different from that of the investor, the difference must be no greater than three months. (IAS 28)
- ❑ Investors must consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognising its share of losses of the associate. (IAS 28)

OTHER SIGNIFICANT CHANGES

- ❑ Disclosure is required of critical judgements made by management in applying accounting policies. (IAS 1)
- ❑ Disclosure is required of those assumptions made by management that are important in determining accounting estimates and could cause material adjustment to the carrying amounts of assets and liabilities. (IAS 1)
- ❑ Consolidation, if required, is regardless of the nature of the parent entity. Thus the requirement to consolidate controlled subsidiaries applies to parent entities that are venture capital organisations, mutual funds, and unit trusts. (IAS 27)
- ❑ Entities are required to disclose the compensation of key management personnel. (IAS 24)
- ❑ An entity is required to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless the exchange transaction lacks commercial substance. (IAS 16)
- ❑ Entities are permitted to account for a property interest held under an operating lease as investment property if certain criteria are met and the lessee accounts for the lease as if it were a finance lease and measures the resulting lease asset at fair value. (IAS 40)
- ❑ Investments in subsidiaries, jointly controlled entities, and associates, when an entity elects to present separate financial statements, are to be accounted for at cost or in accordance with IAS 39. (IAS 27)
- ❑ Additional guidance and illustrative examples have been provided on a number of complex matters related to earnings per share (IAS 33).

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

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

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

CONSOLIDATION, INCLUDING SPECIAL PURPOSE ENTITIES

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

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

Deliberations during fourth quarter of 2003. The Board discussed how the foregoing definition of control would apply in the case of a special purpose entity where the policies and significant decisions are predetermined, and the predetermination is effectively unchangeable.

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

PROJECT UPDATE: SHARE-BASED PAYMENT

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

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

Deliberations during fourth quarter of 2003. The main area of discussions related to accounting for a tax deduction that an employer gets when shares or share options are granted to employees. The Board debated various methods to allocate the tax effects between the income statement and equity, and tentatively concluded that:

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

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

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

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

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE 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. 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.

Deliberations during fourth quarter of 2003. The Board did not change any of the foregoing key proposals. It has made some changes with respect to subsequent measurement of contingent liabilities, measuring value in use, treatment of forward contracts, and definition of an "operation".

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

PROJECT UPDATE: BUSINESS COMBINATIONS – PHASE II

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

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

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

Deliberations during fourth quarter of 2003. Previously, the Board had concluded that if less than a 100% interest is acquired, the acquirer should recognise all of the goodwill of the acquiree, not just the acquirer's share. This is called the 'full goodwill method'. During the fourth quarter the IASB met with the FASB to review each board's tentative decisions in the project and to identify ways to resolve differences. The main areas of difference relate to determining which assets and liabilities should be included in the business combination accounting (versus post-combination).

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

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

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

PROJECT UPDATE: CONCEPTS OF REVENUE AND LIABILITIES

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

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

Deliberations during fourth quarter of 2003. Among the issues discussed was how conditional and unconditional contractual rights should affect the recognition of revenue and liabilities.

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

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

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

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

Board deliberations on macro hedging in December 2003. The Board considered an initial analysis of the comment letters received. It was noted that commentators in general were supportive of the Board addressing the issue. However, many believed the Board had not gone far enough in the proposals, particularly because a financial liability that the counterparty can redeem on demand (most notably bank core deposits) cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the counterparty can demand payment.

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

IAS 30 applies to banks and other financial institutions. Initially, the goal of this project was to revise IAS 30. 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.

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

PROJECT UPDATE: DISCLOSURE OF FINANCIAL RISKS

Status. The Board has agreed that entities should disclose qualitative and quantitative information about financial risks. The Board has adopted the following disclosure principle for this standard:

An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of the risks arising from financial instruments that it was exposed to during the reporting period and at the reporting date.

The Board agreed that, to implement that principle, the standard should require both qualitative and quantitative disclosures about each financial risk. The risks for which disclosure would be required would include credit risk (including credit quality of assets, collateral, and credit enhancements), liquidity risk, and market risk. Also a capital disclosure requirement would be added to IAS 1.

Deliberations during fourth quarter of 2003. None.

What's next? The Board plans to issue one or more exposure drafts in 2004. Timetable for the final standard(s) is not yet announced. Until the final standards are effective, IAS 30 and 32 will still apply to capital risk disclosures.

PROJECT UPDATE: REPORTING COMPREHENSIVE INCOME (PERFORMANCE REPORTING)

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

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

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

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

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

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

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

PROJECT UPDATE: CONVERGENCE – SHORT-TERM ISSUES: IFRS AND US GAAP

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

Phase I

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

Phase II

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

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

Deliberations during fourth quarter of 2003. During the fourth quarter of 2003, the Board began its deliberations on comments received on ED 4.

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

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

PROJECT UPDATE: STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES

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

Deliberations during fourth quarter of 2003. A principle of “no public accountability” should be the overriding characteristic to identify those business entities for which IASB SME standards would be intended. The Board agreed to adopt presumptive indicators of public accountability. A business entity would be regarded as having public accountability if it meets any one of the following criteria:

- ❑ It has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
- ❑ It holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities brokerage, pension fund, mutual fund, or investment banking entity.

Continued...

PROJECT UPDATE: STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES, continued

- ❑ It is a public utility or similar entity that provides an essential public service.
- ❑ It is of economic significance in the jurisdiction in which it is domiciled.
- ❑ One or more of its owners has expressed objection to the entity's decision to use SME standards rather than full IFRSs (all owners, including those not otherwise entitled to vote, having been informed of that decision).

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

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

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE I

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

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

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

Deliberations during fourth quarter 2003. The Board began considering comments on ED 5 at its November and December 2003 meetings. Among the decisions:

- ❑ Many commentators expressed concern about a “mismatch” between the measurement of an insurer's assets and the measurement of its liabilities. To mitigate this problem, the Board is leaning toward adjusting the measurement of interest-sensitive insurance liabilities to reflect changes in interest rates that also have a corresponding effect on the fair value of fixed-maturity financial assets that are designated as backing those liabilities (and are carried at fair value and meet various restrictions to be determined).

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE I, continued

- In adopting IFRS, an insurer may (but is not required to) change its accounting policies so that a recognised but unrealised gain or loss on an asset affects the measurement of related insurance liabilities (and deferred acquisition costs) in the same way that a realised gain or loss does. If the unrealised gains or losses are recognised directly in equity, the related adjustment to the insurance liability or deferred acquisition costs should also be recognised in equity. This is not the same thing as fair value hedge accounting and will not usually have the same effect.

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

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE II

Status. This longer-term project will develop a comprehensive standard on accounting for insurance contracts. Recently, the IASB has concentrated on completing the exposure draft on Phase I of this project (story immediately above).

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 before the end of 2004. Timetable for the final IFRS is not yet announced. It would be effective after 2005.

IFRIC news on our web site:

[Summaries of Interpretations:
www.iasplus.com/
interps/interps.htm](http://www.iasplus.com/interps/interps.htm)

[IFRIC projects by topic:
www.iasplus.com/
ifric/ifricissues.htm](http://www.iasplus.com/ifric/ifricissues.htm)

[Topics not added to IFRIC's
agenda:
www.iasplus.com/
ifric/notadded.htm](http://www.iasplus.com/ifric/notadded.htm)

IFRIC UPDATE

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

Rights of Use

The Draft Interpretation was reviewed by the Board, and Board members' comments have been reflected in a revised draft. Some IFRIC members expressed concerns that the draft is still unclear as to whether the asset being accounted for is a right of use or the underlying asset. The staff was asked to redraft the Interpretation to address those concerns.

Emission Rights (Draft Interpretation D1)

The staff proposed that IFRIC create a new category of intangible asset – intangible assets that will be used to extinguish a liability – to be accounted for at fair value if there is an active market. Though some members expressed concerns, IFRIC generally agreed with the proposal because it solves a part of the mismatch problem (change in liability to income and change in asset to equity under current IAS 38). Two members still support the net approach; however the majority view supports the gross approach. If the IASB agrees to amend IAS 38, this would require re-exposure and, therefore, this Interpretation may not be part of the 2005 “stable platform”.

IFRIC agreed that the final Interpretation should not address whether emission right payments should be a component of the cost of inventory. However, there was general agreement that emission payments should not be considered a penalty (and therefore prohibited from inclusion in the cost of inventory). Also, no additional guidance will be given on how to calculate the fair value of emission rights when there is no active market.

Some members asked the staff to redraft the scope of the Interpretation to clarify that it would not apply to potential new emission rights schemes that are not consistent with a cap and trade scheme.

Concessions

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

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

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

Onerous Contracts: Operating Leases and Other Executory Contracts

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

Summaries of Interpretations:

[www.iasplus.com/
interps/interps.htm](http://www.iasplus.com/interps/interps.htm)

IFRIC projects by topic:

[www.iasplus.com/
ifric/ifricissues.htm](http://www.iasplus.com/ifric/ifricissues.htm)

Topics not added to IFRIC's agenda:

[www.iasplus.com/
ifric/notadded.htm](http://www.iasplus.com/ifric/notadded.htm)

IFRIC UPDATE, continued

IAS 29, Financial Reporting in Hyperinflationary Economies

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

Allocation of Pension Benefits to Periods of Service

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

Differences between Voluntary Redundancy Benefits and Early Retirement Benefits

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

Multi-employer Plans

The IFRIC discussed a draft interpretation on when the exception from defined benefit accounting (and therefore the application of defined contribution accounting) can be used for multi-employer plans that meet the definition of a defined benefit plan. The IFRIC decided to issue the current draft (with minor amendments and clarifications) for exposure.

Recognition and Measurement of Biological Assets

This interpretation will address two matters relating to IAS 41:

- Clarify that fair value measurement requires that the potential (risk adjusted) growth be considered.
- Whether and when obligations to replant or restore land (for instance after deforestation) should be included in the cost of the assets produced today in accordance with paragraph 22 of IAS 41. This issue will be discussed at a future meeting.

Plans with a Guaranteed Minimum Return on Contributions

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

Changes in Decommissioning, Restoration and Similar Liabilities

The IFRIC discussed the comment letters received on Exposure Draft D2, Changes in Decommissioning, Restoration and Similar Liabilities. Based on the overwhelming support for a prospective approach (as opposed to the retrospective approach proposed in D2), the IFRIC agreed to change the position. The effects of this decision will be explored at future IFRIC meetings.

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

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

IASC FOUNDATION BEGINS A COMPREHENSIVE REVIEW OF IASB'S CONSTITUTION

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

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

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

ADVISORY COUNCIL MET IN NOVEMBER

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

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

IFAC's website: www.ifac.org

IFRS-RELATED NEWS FROM IFAC

IFAC BEGINS A REVIEW OF ITS PUBLIC SECTOR COMMITTEE

In January 2004, the International Federation of Accountants (IFAC) began a review of the operation of its Public Sector Committee (PSC). The PSC focuses on the accounting, auditing, and financial reporting needs of national, regional, and local governments and related governmental agencies. Its International Public Sector Accounting Standards are based ("to the extent appropriate") on International Financial Reporting Standards.

IAASB's website: www.ifac.org/IAASB/

IAASB EDs ON AUDITOR'S REPORT AND GROUP AUDITS

In December 2003, the International Auditing and Assurance Standards Board (IAASB) issued the following new exposure drafts addressing issues pertaining to the auditor's report and group audits:

- Proposed Revised International Standard on Auditing (ISA) 700, The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements.
- Proposed Revised ISA 600, The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements.
- Proposed new International Auditing Practice Statement (IAPS), The Audit of Group Financial Statements.

Comments are requested by 31 March 2004.

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

UPCOMING MEETINGS

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

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

IFRS-RELATED NEWS FROM THE UNITED STATES

SEC website:
www.sec.gov

SEC STAFF COMMENTS ON INTERNATIONAL CONVERGENCE

Scott A. Taub, Deputy Chief Accountant, US Securities and Exchange Commission, spoke about international convergence at the December 2003 AICPA conference on current SEC developments. An excerpt:

We are preparing for a time when IFRS financial statements can be accepted without reconciliation to US GAAP. I absolutely believe that, if things continue as they have been going – if the IASB continues as a strong independent standard-setter in the manner that it has been, if the commitment to quality application of IFRS remains, etc. – we will at some point eliminate the reconciliation. The trickier bit is when. And I'll be honest – I don't know.

The four EDs can be downloaded from FASB's website:
www.fasb.org

FASB PUBLISHES FOUR "CONVERGENCE" EDs

The US Financial Accounting Standards Board has published four exposure drafts that would result in US accounting standards converging to existing International Financial Reporting Standards. Under the four EDs:

- ❑ Voluntary changes in accounting policies would be required to be applied retrospectively rather than by cumulative effect adjustment as currently required.
- ❑ Three changes are proposed for calculating earnings per share.
- ❑ A gain or loss would be recognised on the exchange of similar productive assets based on the fair value of the exchange unless the exchange lacks commercial substance.
- ❑ Abnormal amounts of idle capacity and spoilage costs would be excluded from the cost of inventory and expensed as incurred.

FASB: www.fasb.org

FASB AGREES TO PROPOSE EXPENSING STOCK OPTIONS

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

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

The full text of Mr. Herz's remarks is available in PDF format at:
[www.fasb.org/
herz_aicpa_12-12-03.pdf](http://www.fasb.org/herz_aicpa_12-12-03.pdf)

FASB CHAIRMAN SPEAKS OUT ON CONVERGENCE

Convergence of IFRS and US GAAP was one of the major themes in a presentation by FASB Chairman Robert H. Herz at the December 2003 AICPA Conference on Current SEC Developments. Another major theme was undue political pressure on controversial topics such as accounting for stock options. Below is an excerpt from Mr. Herz's comments:

While getting the [IASB and the FASB] to agree on a common answer to particular issues can be quite challenging, that is not, in my view, the greatest hurdle facing international convergence. Rather, the biggest challenge and potential obstacle thus far has seemed to come from particular constituent groups who have lobbied heavily against particular proposals from either the FASB or the IASB that would move our standards closer together. We have seen this here with the campaign in Congress and elsewhere by the hi-tech lobby against expensing stock options and in Europe with certain financial institutions who have lobbied the European Commission and national governments against the introduction in Europe of international standards on the accounting for financial instruments that are in many respects similar to those in U.S. GAAP. Let's be clear, convergence is a two-way street. If you are truly in favor of international convergence, then inevitably there will be changes on both sides. Convergence does not mean convergence to my way, rather it must mean convergence to the better approach. And while U.S. GAAP may be more highly developed and tested than international standards, we don't have a monopoly on all the right answers. Indeed in some cases, the international folks have addressed a subject more recently than we have and may have come up with a higher quality approach. And in some cases (like revenue recognition), neither U.S. GAAP nor international standards are particularly good in my view and thus we need to work together to find a better approach.

So can we get to convergence? I believe so but it will take time, a lot of hard work, and a relentless determination. And, as I just suggested, the biggest potential obstacle I see is the political one. That is whether the politicians on either side of the Atlantic will have the vision and political will to restrain themselves from intervening into what are supposed to be the independent and objective processes of either the FASB or the IASB each time a powerful lobbying group asks them to block a particular proposal they don't like.

The results of the FASAC 2003 survey can be found here:
[www.fasb.org/fasac/
resultspg2003.shtml](http://www.fasb.org/fasac/resultspg2003.shtml)

CONVERGENCE IS HIGH ON FASAC'S TO DO LIST

Most members of FASB's Financial Accounting Standards Advisory Council (FASAC) feel that international convergence should be high among FASB's priorities. That is one of the findings of the 2003 annual survey of FASAC members. Typical of the FASAC members' comments is this one:

As multinational companies operate in many markets, the accounting standards need to be consistent. The United States is one of the few major exchanges in the world that does not already accept International Financial Reporting Standards. Convergence should not only be the goal for pronouncements already issued, but should continue to be a factor for consideration in the current development of new GAAP.

NEWS ABOUT IFRS IN EUROPE

More information:
www.europefesco.org/

FINAL CESR RECOMMENDATIONS ON TRANSITION TO IFRS

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

- ❑ **Publication of the 2003 annual report (including the 2003 financial statements).** Companies should explain (a) how they intend to carry out the transition to IAS/IFRS (plans and degree of achievement for the transition) and (b) the key differences between their present accounting policies and the ones they know with sufficient certainty they will have to apply under IAS/IFRS.
- ❑ **Publication of the 2004 annual report (including the 2004 financial statements).** As soon as a company can quantify the impact of the change to IAS/IFRS on its 2004 financial statements in a sufficiently reliable manner, it should disclose the relevant quantified information.
- ❑ **2005 interim financial reports (half-yearly and quarterly financial reports).** In interim financial reports for 2005, listed companies should start applying as of 1 January 2005 either IAS 34, Interim Financial Reporting, or, if this is not possible, at least the IAS/IFRS recognition and measurement principles that will be applicable at year end.
- ❑ **2005 annual financial statements.** For most listed companies in Europe, these will be the first complete set of financial statements presented under IAS/IFRS. CESR does not propose a requirement for more than one year of comparatives (2004) under IAS/IFRS. But if, because of national regulation or choice, a company presents three successive periods but has not restated under IAS/IFRS the earliest period presented (2003), CESR proposes a format (“the bridge approach”) for presenting comparative figures (2004 and 2003).

IFRS WILL BE ACCEPTABLE TO TAX AUTHORITIES IN BRITAIN

In his Annual Pre-Budget Report to the House of Commons, the UK Chancellor of the Exchequer Gordon Brown announced the following “deregulations”:

Firms applying international accounting standards will not have to submit a second and separate set of accounts to the Inland Revenue. For firms with turnovers below £5.6 million there will now be no independent audit requirement.”

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

EC COMMENTS ON IAS REGULATION AND DIRECTIVES

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

More information:
www.efrag.org

PROPOSAL TO ENHANCE EFRAG'S ROLE AND PROCESSES

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

Key proposals include:

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

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

The Official Journal of the EC can be found here:
www.europa.eu.int/eur-lex/en/archive/2003/l_26120031013en.html

ENDORSED IFRS PUBLISHED IN ALL OFFICIAL LANGUAGES

The complete endorsed IFRS have been published in each of the official languages of the European Community in the Official Journal of the European Communities on October 13, 2003. All existing IAS and SIC are included, except for the financial instruments standards (IAS 32 and 39) and their related interpretations (SIC 5, 16 and 17).

Hong Kong Society of Accountants:
www.hksa.org.hk

USE OF IFRS ELSEWHERE IN THE WORLD

HONG KONG INTENDS TO ADOPT REVISED IAS 32 AND 39

The Financial Accounting Standards Committee of the Hong Kong Society of Accountants (HKSA) has announced that it intends to seek approval of the HKSA's Council to adopt the IASB's newly revised standards on financial instruments – IAS 32 and IAS 39 – in full as Hong Kong Statements of Standard Accounting Practice (SSAPs). The HKSA's goal is to have the final SSAPs approved in January. They had previously been exposed for comment in Hong Kong.

The HKSA stated: "These two accounting standards provide comprehensive guidance on the accounting for financial instruments. The need for such guidance is crucial. Financial instruments are a large part of the assets and liabilities of virtually every company, in particular financial institutions. They also play a central role in the efficient operation of financial markets".

Accounting standard-setters in Australia, Canada, Germany, New Zealand, and United Kingdom all issued press releases commending the IASB for its new standards, as did the US Securities and Exchange Commission and the Australia Securities and Investments Commission.

IFRS REQUIRED IN NICARAGUA STARTING IN 2005

International Financial Reporting Standards will be required in Nicaragua for financial statements covering periods ending on or after 30 June 2005.

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

SPECIAL IASPlus NEWSLETTER: YEAR 2003 IN REVIEW

We have published a special edition of our IASPlus newsletter – IFRS: Year 2003 in Review. That edition includes:

- ❑ Month-by-month summary of the key international financial reporting events of 2003.
- ❑ List of Deloitte IFRS resources published during 2003.
- ❑ National adoptions of IFRS during 2003.
- ❑ Meeting dates for 2004 for the International Accounting Standard Board (IASB), the Standards Advisory Council (SAC), and the International Financial Reporting Interpretations Committee (IFRIC).

COMPARISON OF IFRS AND SOUTH AFRICAN GAAP

Deloitte South Africa has published a South Africa Supplement to our highly popular booklet, IFRS in your Pocket. The supplement summarises the differences between South African Statements of Generally Accepted Accounting Practice and IFRS. Following completion of the harmonisation process, those differences relate to the effective dates of the standards, additional disclosures required by South African GAAP, and elimination of certain alternatives allowed under IFRS.

IMPACT OF IFRS CONVERGENCE IN AUSTRALIA

The Australian Accounting Standards Board (AASB) has released Exposure Draft ED 129, Disclosing the Impact of Adopting AASB Equivalents to IASB Standards. A new Deloitte Australian Accounting Alert provides an overview of ED 129 (which would require disclosures starting June 2004) and analysis of the issues arising.

COMPARISON OF SINGAPORE GAAP AND IFRS

Deloitte & Touche (Singapore) has published an update of the New Financial Reporting Framework in Singapore, which includes a comparison of Singapore GAAP and IFRS.

In 2002, the Singapore government created the Council on Corporate Disclosure and Governance (CCDG) to replace the Institute of Certified Public Accountants of Singapore as the accounting standard setter in Singapore. The CCDG has now issued a set of accounting standards and interpretations that are almost identical to the current set of International Financial Reporting Standards, with the exception of effective dates, the inclusion of Singapore Financial Reporting Standard 25, Accounting for Investments, and the absence of an equivalent to IAS 40, Investment Property.

ACCOUNTING STANDARDS UPDATE IN THE ASIA-PACIFIC REGION

AUSTRALIA

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The Australian Accounting Standards Board (AASB) has approved five Pending Standards as part of Australia's convergence with International Financial Reporting Standards (IFRS). The Pending Standards are:

- ❑ Pending AASB 107, Cash Flow Statements
- ❑ Pending AASB 110, Events After the Balance Sheet Date
- ❑ Pending AASB 121, The Effects of Changes in Foreign Exchange Rates
- ❑ Pending AASB 123, Borrowing Costs
- ❑ Pending AASB 141, Agriculture.

The Pending Standards are largely consistent with the equivalent International Accounting Standards except Pending AASB 107 does not permit entities to present their statement of cash flows using the indirect method, as permitted under IAS 7, Cash Flow Statements. The Pending Standards will only be issued as AASB Standards when all IFRS converged Australian Standards expected to be applicable in 2005 are finalised. This is expected to occur in April/May 2004.

The following Exposure Drafts have also been issued by the AASB in line with the AASB's strategy of adoption of IFRS as equivalent AASB Standards:

- ❑ ED 124, Request for Comment on:
 - The Definition of Reporting Entity
 - IASB Framework for the Preparation and Presentation of Financial Statements
 - IAS 18, Revenue
 - IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
- ❑ ED 126, Request for Comment on IAS 34, Interim Financial Reporting
- ❑ ED 127, Request for Comment on IAS 37, Provisions, Contingent Liabilities and Contingent Assets
- ❑ ED 128, Request for Comment on IAS 12, Income Taxes.

The AASB has also released:

- ❑ ED 125 Financial Reporting by Local Governments
- ❑ ED 129 Disclosing the Impact of Adopting AASB Equivalents to IASB Standards. The AASB has decided to fast-track this ED so that entities will be required to disclose the impact of adopting IFRS converged AASB Standards in annual and half-year financial reports ending on or after 30 June 2004.

The Urgent Issues Group, a sub-committee of the AASB, issues Abstracts that give interpretations of existing AASB Standards. The UIG has approved a revised version of Abstract 52, Income Tax Accounting under the Tax Consolidation System. This is currently subject to AASB veto.

CHINA

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Following is a summary of financial reporting events in China during the second half of 2003.

- ❑ The Ministry of Finance issued a third set of Q&A on the Accounting System for Business Enterprises.
- ❑ MOF is developing additional accounting guidance for specific classes of financial institutions:
 - Brokerages: Issued August 2003.
 - Banks: Expected 2004.

These financial institutions would follow both the existing Accounting System for Financial Institutions and the guidance for their specific type of financial institution.

CHINA, continued

- The Technical Expert Team of the Chinese Institute of CPAs, has issued two Guidance Bulletins:

Bulletin #6 (4 August 2003) addresses:

- Debt-equity conversions.
- Accounting for tree planting.
- Costs of issuing convertible bonds – property development industry.
- Auditing of shipping companies that own foreign-registered ships.
- Expenses of debt restructurings.

Bulletin #7 (5 December 2003) addresses:

- Income tax relating to ownership change.
- Definition of cash and cash equivalents.
- Classification of rights to collect highway tolls.
- Land transfer taxes – capital verification of land use rights and cash.
- Accounting for investments in schools.
- Net asset certificates for private schools.
- Whether to recognise gain on 'asset swaps' of an entire business.

- Outstanding Exposure Drafts:

- Presentation of financial statements
- Earnings per share
- Discontinuing operations
- Government grants and assistance
- Foreign currency translation
- Segment reporting

- The China Securities Regulatory Commission has adopted a new auditor rotation requirement. After five years, an individual CPA who signs an audit report and the person in charge of the audit must rotate off audit of a listed company. The rule is effective 2004. For companies with listed A-shares, for which two CPAs sign the audit report, if in 2004 if both already have more than five years on the engagement, only one must rotate off. The other has one extra year. For an IPO company, those persons must rotate off in the third year after the IPO. These are requirements for rotation of people, not firms.

HONG KONG

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The Hong Kong Society of Accountants has announced its intention to issue the recently finalised revised IASs resulting from IASB's Improvements Project as Hong Kong standards. A document outlining the significant differences is being developed. Several – including reversion to proportionate consolidation for joint ventures, which is currently prohibited in Hong Kong – may have to be exposed for public comment. Certain IASB Interpretations that previously had been incorporated directly into Hong Kong standards will be extracted and issued as Hong Kong interpretations. The HKSA also intends to renumber its existing Statements of Standard Accounting Practice to conform the numbering to the IAS numbers.

Hong Kong also intends to adopt the revised IAS 32 and IAS 39 (see story on page 22 of this newsletter).

INDIA

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The Institute of Chartered Accountants of India (ICAI) has issued the following Accounting Standard:

Accounting Standard 29 on Provisions, Contingent Liabilities and Contingent Assets

The objective of the Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable the users to understand their nature, timing and amount. Further, the Standard seeks to lay down appropriate accounting principles for contingent assets.

Under AS 29, a provision should be recognised when:

- ❑ an enterprise has a present obligation as a result of a past event;
- ❑ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- ❑ a reliable estimate can be made of the amount of the obligation.

If those conditions are not met, a provision should not be recognised. Further, an enterprise should not recognise a contingent liability or a contingent assets. AS 29 is effective for accounting periods commencing on or after 1 April 2004 for specified categories of enterprises.

Applicability of Accounting Standards

The Council of the Institute of Chartered Accountants of India has decided the following scheme for applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs). This scheme comes into effect in respect of accounting periods commencing on or after 1 April 2004:

- ❑ For the purpose of applicability of Accounting Standards, enterprises are classified into three categories, viz., Level I, Level II and Level III. Level II and Level III enterprises are considered as SMEs.
- ❑ Level I enterprises are required to comply fully with all the accounting standards.
- ❑ Level II and Level III enterprises must follow the recognition and measurement principles in the individual Accounting Standards. Relaxations for SMEs are provided only with regard to disclosure requirements. Accordingly, Level II and Level III enterprises are fully exempted from certain accounting standards that are primarily disclosure Standards. The exemptions/relaxations are provided by modifying the applicability portion of the relevant existing Accounting Standards.
- ❑ Level I Enterprises are those which fall in any one or more of the following categories, at any time during the accounting period:
 - ❑ Enterprises whose equity or debt securities are listed whether in India or outside India.
 - ❑ Enterprises that are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution.
 - ❑ Banks including co-operative banks.
 - ❑ Financial institutions.
 - ❑ Enterprises carrying on insurance business.
 - ❑ All commercial, industrial, and business reporting enterprises whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 500 million.
 - ❑ All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 100 million at any time during the accounting period.
 - ❑ Holding and subsidiary enterprises of any one of the above at any time during the accounting period.
- ❑ Level II Enterprises are not Level I enterprises but those who fall in any one or more of the following categories:
 - ❑ All commercial, industrial, and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 4 million but does not exceed Rs. 500 million.
 - ❑ All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 million but not in excess of Rs. 100 million at any time during the accounting period.
 - ❑ Holding and subsidiary enterprises of any one of the above at any time during the accounting period.
- ❑ Level III Enterprises are those that are neither Level I nor Level II.

JAPAN

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The following accounting standards and related publications were issued in Japan during the fourth quarter of 2003:

Issued	Issuer*	Document Description
10/31/03	ASBJ	ASB Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets
10/31/03	BAC	BAC Statement of Opinion, Accounting for Business Combinations
*ASBJ = Accounting Standards Board of Japan BAC = Business Accounting Council		

ASB Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets

Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets, on 31 October 2003 with minor wording changes from the exposure draft announced on 1 August 2003. Business Accounting Council (BAC) had originally published a Statements of Opinion, Accounting for Impairment of Fixed Assets, in August 2002. This guidance prescribes in more detail the accounting treatment for impairment of fixed assets. It is expected to have a big impact on Japanese companies due to the significant decline in the fair value of land in recent years. The effective date of this guidance is in line with the original Statement of Opinion, that is, for financial years beginning on or after 1 April 2005, and early adoption is permitted for financial years ending on or after 31 March 2004.

BAC Statement of Opinion, Accounting for Business Combinations

The Business Accounting Council (BAC) issued a Statement of Opinion, Accounting for Business Combinations, on October 31, 2003 with minor terminological changes from the exposure draft announced on 1 August 2003. This statement requires entities to adopt the pooling of interests method of accounting if certain specific criteria are met, and thereby the business combination is regarded as a uniting of interests.

The specific criteria consist of three conditions:

- consideration for business combination is shares with voting rights,
- ratio of ownership by voting rights after business combination is nearly 50% / 50%, and
- there is no fact that indicates relationship of control other than by means of voting rights.

A business combination that does not meet the uniting-of-interests criteria is regarded as an acquisition, and the purchase method of accounting would be required. Also this statement establishes standards for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortised over 20 years or less and is also subject to an impairment test. The effective date of this statement is for fiscal years beginning on or after 1 April 2006.

PHILIPPINES

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The Accounting Standards Council issued two exposure drafts in the last quarter of 2003:

- ❑ Exposure Draft No. 59, Disclosures in the Financial Statements of Banks and Similar Financial Institutions (equivalent of IAS 30). Projected effectivity 2005.
- ❑ Exposure Draft No. 60, Agriculture (equivalent of IAS 41). Projected effectivity 2005.

Equivalents of all other existing IASs (prior to the recent improvements) have previously been adopted as Philippine Statements of Financial Accounting Standards.

SINGAPORE

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The Council on Corporate Governance and Disclosure (CCDG), the accounting standard-setter in Singapore, issued the following accounting standard during the fourth quarter of 2003:

- ❑ FRS 101 (IFRS 1), First Time Adoption of FRS, with effect for financial years beginning on or after 1 January 2004.

CCDG also issued the following exposure draft of a proposed interpretation:

- ❑ ED INT FRS Changes in Decommissioning, Restoration and Similar Liabilities (Draft IFRIC Interpretation D2).

CCDG also issued the following Practice Directions (PD):

- ❑ PD 2 on FRS 101, First Time Adoption of FRS states that for companies using Singapore Statements of Accounting Standards (SAS) previously, the switch to FRS does not represent a change in accounting standards; and
- ❑ PD 3 on FRS 39, Financial Instruments: Recognition and Measurement, states that FRS 39 is operative for financial statements covering financial years beginning on or after January 1, 2005. FRS 39 does not allow retrospective application and early application of FRS 39 is restricted to financial statements covering financial years commencing on or after January 1, 2003.

The following exposure drafts of proposed standards are still outstanding:

Issued in 2000

- ❑ ED/SAS 40, Investment Property (IAS 40).

Issued in 2002

- ❑ ED/SAS 47, Proposed Improvements to Statements of Accounting Standards.
- ❑ ED/SAS 48, Proposed Amendments to SAS 32 (IAS 32) Financial Instruments: Disclosure and Presentation, and SAS 33 (IAS 39) Financial Instruments: Recognition and Measurement.
- ❑ ED/FRS, Share-based Payment (ED/IFRS 2).
- ❑ ED/FRS, Business Combinations (ED/IFRS 3).
- ❑ ED/FRS, Proposed Amendments to SAS 34 Intangible Assets and SAS 36 Impairment of Assets (ED Proposed Amendments to IAS 36 Impairment of Assets and IAS 38 Intangible Assets).

Issued in 2003

- ❑ ED/FRS, Disposal of Non-Current Assets and Presentation of Discontinued Operations (ED/IFRS 4).
- ❑ ED/FRS, Insurance Contracts (ED/IFRS 5).
- ❑ ED Proposed Amendments to FRS 39 (IAS 39), Financial Instruments: Recognition and Measurement – Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk.

The following proposed interpretation issued in 2003 is still outstanding:

- ❑ ED INT FRS, Emission Rights (Draft IFRIC Interpretation DI).

TAIWAN

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On 25 December 2003, the Accounting Research and Development Foundation of the Republic of China issued Statement of Financial Accounting Standards (SFAS) No. 34, Accounting for Financial Instruments, which will take effect on January 1, 2006. SFAS No. 34 defines the standards for recognising and measuring financial instruments and disclosing related information in the financial statements. Those standards are in line with IAS 39 as well as a small portion of the proposed amendments to IAS 32 and 39. When those proposed amendments to IAS 32 and 39 are revised and approved, SFAS No. 34 will be changed accordingly.

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