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Assurance & Advisory

IAS Plus

July 2004 – Quarterly Edition

Published for our clients and staff in the Asia-Pacific region

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IAS Plus website

Over 480,000 people visited our **www.iasplus.com** web site in 2003 (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.

TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS	
Accounting Standards for Small and Medium-Sized Entities	▪ Discussion Paper was issued in June 2004 ▪ Exposure draft in 2005
Amendments to IAS 32 and IAS 39 2005	▪ Final standards issued December 2003 ▪ Revised IAS 39 reflecting macro hedging issued March 2004 ▪ Exposure drafts were issued on fair value option (April 2004) and other limited amendments (July 2004) ▪ Effective date December 2005 year ends
Business Combinations – Phase I 2005	▪ IFRS 3, IAS 36, and IAS 38 were issued in March 2004 ▪ Exposure draft of scope amendments issued April 2004 ▪ Effective dates December 2005 year ends
Business Combinations – Phase II — Application of the Purchase Method	▪ Exposure draft in 3rd quarter 2004 ▪ Final standards in 2005 ▪ Expected effective date after 2005 year ends
Consolidation (Including SPEs)	▪ Exposure draft in 4th quarter 2004
Convergence – Short-term Issues, IFRS and US GAAP. 2005	**Asset Disposals/Discontinued Operations** ▪ IFRS 5 was issued in March 2004. Effective date December 2005 year ends. **IAS 37 Provisions** ▪ Exposure draft on provisions expected 3rd quarter 2004 ▪ Final standard expected in 2005. Expected effective date after 2005 year ends. **IAS 19 Employee Benefits** ▪ Exposure draft of limited amendment was issued April 2004 ▪ Final standard in 2004 **IAS 20 Government Grants** ▪ Exposure draft on replacement of IAS 20 expected 3rd quarter 2004 ▪ Final standard 2004 or 2005
Disclosure Financial Risk and Other Disclosures about Activities of Financial Institutions	▪ Exposure draft ED 7 issued July 2004 ▪ Final standard in 2005 ▪ Expected effective date after 2005 year ends
Extractive Industries 2005	▪ Exposure draft ED 6 was issued in January 2004 ▪ Final standard in 4th quarter 2004 ▪ Expected effective date after 2005 year ends, but permitted for December 2005 year ends
Insurance Contracts – Phase I 2005	▪ IFRS 4 was issued in March 2004 ▪ Effective date December 2005 year ends
Insurance Contracts – Phase II	▪ Exposure draft 2005 ▪ Final standard timetable not yet established ▪ Expected effective date after 2005 year ends
Reporting Comprehensive Income (Performance Reporting)	▪ Joint ASB-FASB-IASB advisory group being formed ▪ Project timetable is not established ▪ Expected effective date after 2005 year ends
Revenue Recognition, Liabilities, and Equity: Concepts	▪ Exposure draft in 2004 ▪ Final standard timetable not yet established ▪ Expected effective date after 2005 year ends
Share-Based Payment 2005	▪ IFRS 2 was issued in February 2004 ▪ Effective date December 2005 year ends

All three EDs may be downloaded from the IASB's website: **www.iasb.org**

IASB Issues Three Exposure Drafts on IAS 39

In July 2004, the IASB published three short exposure drafts proposing limited amendments to IAS 39 Financial Instruments: Recognition and Measurement. Comment deadline on all is 8 October 2004.

Transition and Initial Recognition

The ED *Transition and Initial Recognition of Financial Assets and Financial Liabilities* proposes an amendment that would apply when entities first adopt IAS 39. It would give an entity a choice of applying the "day one gain and loss" recognition requirements either prospectively to transactions entered into after 25 October 2002 or retrospectively under IAS 39.104. "Day one gains and losses" arise when the transaction price differs from fair values calculated by using, for example, a valuation model. Proposed effective date: Annual periods beginning on or after 1 January 2005.

Cash Flow Hedges of Forecast Intragroup Transactions

The ED *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* addresses whether forecast intragroup transactions can be considered hedged items in cash flow hedges. Under IAS 39 prior to the December 2003 revisions, forecast intragroup transactions could be designated as a hedged item if the criteria in IGC 137-14 were met. That approach was consistent with US GAAP. However, IAS 39 as revised in December 2003 removed IGC 137-14 without including its guidance in the standard.

The exposure draft confirms that the forecast intragroup transactions cannot be considered hedged items. However, the ED provides guidance that in the consolidated accounts, a highly probable forecasted external transaction designated in the functional currency of the entity entering into the transaction can be designated as the hedged item provided that it gives rise to an exposure that will have an effect on consolidated profit or loss. To have an effect on profit or loss, the transaction must be designated in a currency other than the group's presentation currency. Proposed effective date: Annual periods beginning on or after 1 January 2006.

Guarantees and Credit Insurance

The ED *Financial Guarantee Contracts and Credit Insurance* proposes that the issuer of a financial guarantee contract should measure the contract initially at fair value. If the financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is likely to equal the premium received. The ED also addresses the subsequent measurement of those guarantees:

- A financial guarantee that meets the IFRS 4 definition of an insurance contract (guarantee against failure of a specific debtor to pay) would initially be measured at fair value and subsequently at the higher of (a) the amount initially recognised minus amortisation under IAS 18 and (b) IAS 37.
- A guarantee arising on derecognition would be accounted for under IAS 39's derecognition requirements, even if it is like an insurance contract.
- A guarantee that is indexed based on a credit index or other variable would be treated as a derivative under IAS 39 (mark to market through profit or loss).

Proposed effective date: Annual periods beginning on or after 1 January 2006.

The ED may be downloaded from the IASB's website: **www.iasb.org**

IASB Issues ED on Fair Value Option in IAS 39

In April 2004, the Board also issued an exposure draft proposing to limit the option in IAS 39 *Financial Instruments Recognition and Measurement* to measure individual financial assets and financial liabilities at fair value, with value changes through profit and loss. The option was added to IAS 39 when it was amended in December 2003. Following dialogue with banking supervisory authorities, who expressed concern that the fair value option might be used inappropriately, the IASB's latest exposure draft, *Amendments to IAS 39 Financial Instruments: Recognition and Measurement - The Fair Value Optio*n, proposes to limit the option's availability by:

- Limiting the types of financial assets and financial liabilities to which the option may be applied to the following five specified categories:
  - Financial assets and financial liabilities that contain embedded derivatives.
  - Financial liabilities whose cash flows are contractually linked to the performance of assets that are measured at fair value.
  - Cases when the exposure to changes in the fair value of the financial asset or financial liability is substantially offset by the exposure to the changes in the fair value of another financial asset or financial liability, including a derivative.
  - Financial assets other than loans and receivables.
  - Items that other Standards allow or require to be designated as at fair value through profit or loss.
- Requiring that the option may be applied only to financial assets and financial liabilities whose fair value is verifiable.

Limitation of the option to designate financial assets and financial liabilities at fair value does not affect the requirement that financial assets and financial liabilities classified as held for trading must be measured at fair value.

The ED may be downloaded from the IASB's website: **www.iasb.org**

IASB Proposes to Amend IFRS 3 Business Combinations

In April 2004 the IASB issued an exposure draft of *Proposed Amendments to IFRS 3 Business Combinations: Combinations by Contract Alone or Involving Mutual Entities*. The amendments would add to the scope IFRS 3:

- Combinations in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest; and
- Business combinations involving mutual entities.

Both were excluded from IFRS 3 when it was issued in March 2004. Including these transactions in IFRS 3 means that an acquirer must be identified and the acquirer must account for the combination using the purchase method. The exposure draft would not change the IFRS 3 scope exclusion for combinations involving entities under common control. If finalised, the proposal would be applied to business combinations agreed to on or after 31 March 2004 (same as IFRS 3). The IASB has asked for comments by 31 July 2004.

The ED may be downloaded from the IASB's website: **www.iasb.org**

IASB proposes to amend IAS 19 Employee Benefits

The exposure draft *Proposed Amendments to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures* would introduce an option for an entity to recognise actuarial gains and losses in full as they arise, outside profit or loss, in a statement of changes in equity titled "Statement of Recognised Income and Expense". The statement would show profit or loss for the period, items of income or expense recognised directly in equity, total income or expense, and the effect of changes in accounting policies and corrections of errors.. This proposal is similar to the requirements of UK GAAP. The exposure draft also would:

- Extend the application of multi-employer plan accounting to entities within a consolidated group that meet certain criteria; and
- Add disclosures to (a) provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost and (b) bring the disclosures in IAS 19 closer to those required by the US standard SFAS 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which was revised in December 2003.

The IASB seeks comments by 31 July 2004.

ED 7 may be downloaded from the IASB's website: **www.iasb.org**

IASB ED 7 on Financial Instruments Disclosures

On 22 July 2004, the IASB issued an exposure draft that would add certain new disclosures about financial instruments to those currently required by IAS 32, would replace the disclosures now required by IAS 30, and would put all of those financial instruments disclosures together in a new standard. IAS 32 would then deal only with financial instruments presentation matters. ED 7 *Financial Instruments: Disclosures* would require disclosures noted in the table below, among others:

KEY FEATURES OF IASB ED 7 ON FINANCIAL INSTRUMENTS DISCLOSURES
▪ Disclosure of the significance of financial instruments for an entity's financial position and performance (this would incorporate many of the requirements previously in IAS 32). ▪ Qualitative and quantitative disclosures about exposure to risks arising from financial instruments. The qualitative disclosures describe management's objectives, policies, and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create. ▪ Disclosures about credit risk, including credit enhancements and the fair value of and other information about collateral received. ▪ Disclosures about interest rate risk, which would include both cash flow interest rate risk and fair value interest rate risk. Sensitivity analyses for interest rate and foreign exchange rate risks would be required. ▪ Disclosures about market risk, including information about asset quality and the liquidity of the markets in which a financial asset might be disposed. ▪ Disclosures about other risks, sometimes called residual value risks, that underlie financial instruments and that are not captured by the other disclosures. ▪ Details about an entity's own equity; qualitative information about the entity's objectives, policies, and processes for managing capital; whether during the period it complied with any capital targets set by management and any externally imposed capital requirements; and if it has not complied, the consequences of such non-compliance. ▪ ED 7 would delete the current IAS 30 disclosures about contingencies, commitments, and general banking risks.

The Discussion Paper may be downloaded from the IASB's website:
www.iasb.org

IASB Issues Discussion Paper on SMEs

The IASB has published a discussion paper on the Board's *Preliminary Views on Accounting Standards for Small and Medium-sized Entities* (SMEs). The discussion paper focuses on issues relating to the Board's approach to the project. It does not include proposals for specific financial reporting standards for SMEs. That will come later. An electronic version of the discussion paper may be downloaded from www.iasb.org without charge. Comment deadline is 24 September 2004. The key issues addressed in the Discussion Paper are noted in the table below:

ISSUES RAISED IN THE IASB'S DISCUSSION PAPER ON STANDARDS FOR SMEs
▪ Should the IASB develop special financial reporting standards for SMEs?
▪ What should be the objectives of a set of financial reporting standards for SMEs?
▪ For which entities would IASB Standards for SMEs be intended?
▪ If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?
▪ May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?
▪ How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?
▪ If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?
▪ In what format should IASB Standards for SMEs be published?

Purchasing information may be found at the IASCF Shop section of the IASB's website:
www.iasb.org

2004 Bound Volume of IFRSs Now Available

The 2004 Bound Volume of International Financial Reporting Standards is now available for purchase from the IASB. BV 2004 includes all of the Improved IASs published by the Board in December 2003, IFRSs 1 to 5 and related amendments to IAS 36 and IAS 38, and the macro hedging amendments to IAS 39. Interpretations and IASB-issued supporting documentation (Bases for Conclusions, Implementation Guidance, and Illustrative Examples) are also included. The price of the printed bound volume is £54. Editorial updates will be posted periodically to the IASB's website. A CD-ROM version may be purchased for £120 per user, including updates during the year.

The Comprehensive Income project has also been known as Reporting Financial Performance.

IASB-ASB-FASB Jointly Study Comprehensive Income

Three accounting standards setting bodies are jointly forming an advisory group to assist in their project on Reporting Comprehensive Income – also known as performance reporting. The three are the International Accounting Standards Board, the United Kingdom Accounting Standards Board, and the United States Financial Accounting Standards Board. The advisory group will have about 20 members, most of whom will be professionals with significant experience and responsibility for preparing, analysing, auditing, or regulating financial statements.

IASB subscribers may download IFRIC 1 from the IASB's website: **www.iasb.org**

IFRIC Issues its First Interpretation

In May 2004, the International Financial Reporting Interpretations Committee (IFRIC) published its first interpretation. IFRIC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* contains guidance on accounting for changes in decommissioning, restoration, and similar liabilities that have previously been recognised both as part of the cost of an item of property, plant, and equipment and as a provision (liability). An example would be a liability that was recognised by the operator of a nuclear power plant for costs that it expects to incur in the future when the plant is shut down (decommissioned). The interpretation addresses subsequent changes to the amount of the liability that may arise from (a) a revision in the timing or amount of the estimated decommissioning or restoration costs or from (b) a change in the current market-based discount rate.

Draft interpretations are available without charge from the IASB's website: **www.iasb.org**

IFRIC D6 on Multi-Employer Pension Plans

The IFRIC has published Draft Interpretation D6 *Multi-employer Plans*, which proposes guidance on when a pension plan meets the definition of a multi-employer plan, how defined benefit accounting should be applied to such plans, and what to do when the necessary information might not be available. D6 requires an entity to make "every practicable effort to apply defined benefit accounting to multi-employer plans in which it participates." Comment deadline is 9 July 2004.

Draft interpretations are available without charge from the IASB's website: **www.iasb.org**

IFRIC issues D7 to modify the scope of SIC 12

The IFRIC has issued for comment a draft amendment draft amendment D7, proposing an amendment to the scope of Interpretation SIC 12 *Consolidation—Special Purpose Entities*. The draft amendment proposes to remove the scope exclusion in SIC 12 for equity compensation plans. Hence, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement would be required to consolidate that trust.

Post-employment benefit plans would continue to be excluded from SIC 12; however, D7 proposes to amend that scope exclusion to include other long-term employee benefit plans, to ensure consistency with the requirements of IAS 19 Employee Benefits. At present, SIC-12 does not exclude other long-term employee benefit plans from its scope. However, IAS 19 requires those plans to be accounted for in a manner similar to that for post-employment benefit plans. Comment deadline is 13 September 2004.

Draft interpretations are available without charge from the IASB's website: **www.iasb.org**

IFRIC issues D8 on members' shares in a co-operative

In June 2004, the IFRIC issued for comment draft interpretation D8 *Members' Shares in Co-operative Entities*. D8 addresses how the principles in IAS 32 for classifying financial instruments as liabilities or equity apply to instruments issued by co-operatives and other entities that give the holder the right to request redemption. D8 proposes that if members' shares would be classified as equity in the absence of the members' right to request redemption, then such shares are equity if either of the following conditions is met:

- The entity has an unconditional right to refuse redemption of the members' shares.
- Local law, regulation, or the entity's governing charter unconditionally prohibits the redemption of members' shares.

However, if neither of those conditions is met, the shares are reported as financial liabilities. D8 further proposes that members' shares classified as financial liabilities that are redeemable on demand should be measured at the maximum amount that might become payable under the redemption provisions of the entity's governing charter or applicable law. Comment deadline is 13 September 2004.

Draft interpretations are available without charge from the IASB's website:
www.iasb.org

IFRIC D9 on Cash Balance Benefit Plans

In July 2004, the IFRIC published for comment a draft interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions* giving guidance on the accounting for cash balance plans. These are employee benefit plans with benefits that depend on future returns on assets. Comments are due 21 September 2004.

D9 proposes guidance on how IAS 19 *Employee Benefits* should be applied to employee benefit plans with a promised return on actual or notional contributions. Examples of such plans are:

- a plan in which a contribution is made each year based on the employee's current salary and the employee receives a benefit (a lump sum or an annuity) equal to the contributions plus the higher of (i) the actual return generated on the contributions and (ii) a minimum fixed return on the contributions over the period to when the benefit is paid; and
- a plan in which the promised benefit is a notional contribution each year plus a return on the notional contribution that is the higher of (i) the return based on specified assets, for example the return on quoted bonds, and (ii) a fixed return, for example 4%. The plan may or may not hold assets.

D9 argues that such plans are defined benefit plans and proposes guidance on the treatment of the following benefits:

- a guarantee of a fixed return,
- a benefit that depends on future asset returns, and
- a combination of these two provisions.

D9 proposes that the liability for a benefit of a guarantee of a fixed return should be determined by projecting forward the contributions at the guaranteed fixed return to estimate the amount that will ultimately be paid. That amount should be discounted back to a present value using the high-quality corporate bond rate required by IAS 19. In contrast, for benefits that depend on future asset returns, D9 proposes that an estimate of the amount that will ultimately be paid should not be made. Instead, the liability should be determined by the value of the assets at the balance sheet date. Lastly, D9 proposes that the liability for a benefit that combines a guaranteed fixed return and the returns on future assets should be the higher of the liabilities for each separate element.

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

Deloitte Comment Letters

Strengthening IASB's Deliberative Processes

We have commented on the IASB's paper *Strengthening the IASB's Deliberative Processes* dated 24 March 2004. The IASB issued that paper as part of its internal review of its procedures for developing standards. An excerpt from our comments:

> *We strongly encourage the use and enhancement of the due process mechanisms suggested in the paper, and we have attached our specific comments on each mechanism in the Appendix to this letter. We believe that the due process mechanisms mentioned in the paper should be, and in many cases are, inherent in the operations of the IASB. However, we do believe that these mechanisms have not been used to their fullest potential. We believe it is important that this review of due process is undertaken so as to ensure that the IASB gains the most benefit out of future due process activities; that is they are able to use the inputs gained from constituents to ensure the development of the highest quality standards.*

IFRIC D5

We have submitted a letter of comment on IFRIC D5 *Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the First Time*. We concur with the consensus reached on the three issues dealt with by the Draft Interpretation. Regarding the issue of how an entity should account for opening deferred tax, we believe IFRIC should consider whether a portion of the restatement of a comparative period should be reflected as part of the net monetary adjustment as opposed to the tax line.

IFRIC D6

Deloitte has submitted a comment letter on IFRIC D6 *Multi-employer Plans.* Our view:

> *We believe that the current requirements in IAS 19.29-35 are appropriate in accounting for multi-employer plans. Whilst implementation of these requirements often involves judgement, such requirements are sufficiently clear. As a result, we question the need for the draft Interpretation and suggest that IFRIC reconsider the status of any final document that may be issued. In addition, we have concerns about certain aspects of the guidance provided in D6. In particular, we believe that whilst some of the guidance provided may be useful, other guidance proposed may bring more confusion than clarity.*

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

Deloitte Comments on IASB Exposure Draft 6

Here is an excerpt from our comments on IASB ED 6 *Exploration for and Evaluation of Mineral Resources*:

> *While we applaud the IASB for its efforts to address accounting for the exploration for and evaluation of mineral resources, we question the approach taken in ED 6. That is, to develop an "interim standard" that exempts entities within the scope of the draft standard from complying with certain parts of the Framework and defers addressing recognition and measurement principles until a later date. We do not believe this approach should be precedent for future projects. In contrast, we would prefer that the IASB address these issues as part of a comprehensive project involving the development of proper recognition and measurement principles for the extractive industries.*

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

IASB Exposure Draft on IFRS 3 Scope Amendments

Deloitte has submitted a letter of comment on the IASB's exposure draft of *Proposed Amendments to IFRS 3 – Combinations by Contract Alone or Involving Mutual Entities*. Our view:

> *We strongly disagree with the proposed amendments and the issuance of any standard arising from this Exposure Draft. The proposed amendments create an additional form of purchase accounting with different rules than those for other business combinations. We believe the proposals constitute an unsuitable short-term solution and believe it would be more appropriate to leave the standard unchanged until such time as adequate research into, and resolution of, the accounting issues created by such transactions is completed. We urge the Board to proceed with its project on 'fresh start accounting' as we consider exploration of this possibility may assist in the identification of conceptually robust solutions to this issue.*

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

IASB Exposure Draft on IAS 39 Fair Value Option

Here is an excerpt from Deloitte's letter of comment on the IASB's exposure draft of *Proposed Amendments to IAS 39 – The Fair Value Option*:

> *We believe the Proposed Amendment diverges from a principle-based approach to a set of arbitrary rules. In addition, the basis for the proposed rules is unclear, which creates the potential for differing interpretations that are not consistent with the Board's intent. We also believe the introduction of a new "verifiability" measurement standard as a condition for using the fair value option will raise numerous implementation issues. We do not believe the Proposed Amendment is an ideal or workable solution.*
>
> *The worldwide system of reporting should be based on open and transparent accounting, free from national distortions and pressures. We believe political involvement in the standard setting process hinders the movement towards a single set of high quality, globally accepted accounting standards. We note that there has been much debate surrounding the use of fair value as a measurement basis for financial assets (and liabilities). We do not believe the proposals represent a high quality solution and, accordingly, we question whether the Proposed Amendment would be accepted by other standard-setters in the quest for convergence around high quality solutions.*

IASC Foundation News

You will find brief biographies of the members of the IASB here:
www.iasplus.com/restruct/iasbbios.htm

Jan Engstrom Is Appointed to the IASB

The Trustees of the IASC Foundation have appointed Jan Engstrom to membership on the IASB, effective 1 May 2004. Mr Engstrom, formerly the CFO of Volvo Group and a native of Sweden, will fill the vacancy for a full-time preparer position created by the retirement of Harry Schmid. Mr Engstrom's term will expire on 30 June 2009.

Four IASB Board Members Are Reappointed

The Trustees of the IASC Foundation have reappointed four members of the Board with effect from 1 July 2004. Thomas E. Jones (who is the Board's vice-chairman) and Mary E. Barth will each serve a further term of five years, expiring on 30 June 2009, and Anthony T. Cope and Patricia L. O'Malley will each serve a second three-year term, expiring on 30 June 2007.

Details may be found on the IASB's website:
www.iasb.org

IASC Foundation Seeks Trustee from Asia-Pacific Area

The IASC Foundation is seeking to appoint a Trustee resident in the Asia-Pacific region with senior experience in the field of accounting.

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

Progress on IASCF Constitution Review

The Constitution Review Committee of the IASC Foundation (IASCF) Trustees held three hearings – 3 June 2004 in New York, 29 June 2004 in London, and 13 July 2004 in Tokyo – as part of their review of the IASB's constitution. Deloitte Chief Executive Officer Bill Parrett and Deloitte Global IAS Leader Ken Wild presented our firm's views.

The committee also met on 2 June 2004 with the Constitution Committee of the Standards Advisory Council. The discussions focused both on the overall issues that the IASCF has identified for in-depth consideration and on the terms of reference for the SAC. The committee of the SAC presented draft recommendations to the trustees on how to improve the operation of the SAC. They expressed general concern that SAC was not operating effectively, and therefore as a result, the IASB was not receiving advice in a useable manner. The reasons for this include the size of SAC and the chairmanship of SAC. The SAC plans to develop a charter that would govern its activities and submit that charter to the trustees for approval.

For a complete list of IFRIC members go to:
www.iasplus.com/restruct/ifric.htm

Four IFRIC Members Reappointed

The Trustees of the IASC Foundation have reappointed four members of the International Financial Reporting Interpretations Committee (IFRIC) for three-year terms expiring 30 June 2007. The four are Jeannot Blanchet, Morgan Stanley Europe; Domingo Mario Marchese, Marchese, Grandi, Mesón & Asociados, Argentina; Mary Tokar, KPMG International Financial Reporting Group; and Ian Wright, PricewaterhouseCoopers. Two other members of the IFRIC will be leaving a year before their terms expire — Clement Kwok, Hong Kong and Shanghai Hotels Limited, and Wayne Lonergan, Lonergan Edwards & Associates Limited. A search is underway for their replacements.

News from IFAC

www.ifac.org

IFAC Defines Member Bodies' Obligations on IFRSs

The Board of the International Federation of Accountants (IFAC) has approved seven Statements of Membership Obligations (SMOs) designed to assist and direct IFAC's 158 member organisations and potential members in ensuring high quality performance by professional accountants. The SMOs will be presented to IFAC's Council for ratification in November. Proposed effective date is 31 December 2004.

SMO No. 7 International Financial Reporting Standards requires IFAC's member organisations to (among other things):

- Support the work of the IASB by notifying their members of every IFRS.
- Encourage their members to comment on IASB proposals.
- Use their best endeavours to incorporate the requirements of IFRSs in their national accounting requirements, or where the responsibility for the development of national accounting standards lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements should comply with IFRSs, or with local accounting standards that are converged with IFRS, and disclose the fact of such compliance
- Assist with the implementation of IFRSs, or national accounting standards that incorporate IFRSs.

Individuals who would like to provide input should send an email to **implementationstandards@ifac.org.**

IFAC Is Studying IFRS Implementation Issues

The IFAC Board has begun a project to obtain the views of individuals and groups of professional accountants and other stakeholders on the extent to which they have seen challenges and successes in implementing IFRSs and International Standards on Auditing. The project includes a series of focus groups and interviews with members of regional accountancy organisations and with professional accountants from different backgrounds (large firms, medium-sized firms, small firms, members in business, and national accounting and auditing standard setters), regulators, users, and other interested parties.

www.ifac.org

IFAC Adopts Mandatory Continuing Education Standards

IFAC has issued a new International Education Standard that would require every member of an IFAC member body to complete continuing professional development activities relevant to their work on an ongoing basis. The continuing education requirement would apply not only to accounting professionals who work in public practice but also those working in commercial, governmental, academic, and not-for-profit entities, and those who no longer work in traditional accounting roles. The standard does not specify subject areas in which professional accountants must maintain competence, as these will vary depending on the accountant's role and area of employment and focus. All IFAC member bodies are expected to comply starting 1 January 2006.

Other News

The International Organization of Securities Commissions (IOSCO) is the worldwide association of national securities regulatory commissions, such as the Securities and Exchange Commission in the United States, the Financial Services Authority in the United Kingdom, and about 100 other similar bodies.

www.iosco.org

IOSCO Is Addressing Several IFRS Matters

The Final Communiqué of the XXIXth Annual Conference of the International Organization of Securities Commissions (IOSCO) addresses a number of accounting and auditing standards issues from the perspective of the world's securities and futures regulators. Several relate directly to IFRSs, including the following:

- *The [IOSCO] Technical Committee has initiated a project on Regulatory Interpretations of International Financial Reporting Standards to address communications among IOSCO members to promote the consistent application and enforcement of IFRSs. The major outputs of this project are expected to be a central database of regulatory decisions and a process for facilitating communications and cooperation among regulators and other enforcers relating to IFRSs. The Technical Committee also will seek to coordinate its work on this project with a comparable project being undertaken by CESRFIN [the Standing Committee on Financial Reporting of the Committee of European Securities Regulators].*

- *The Technical Committee also will undertake another initiative on Review and Enforcement of Application of Financial Reporting Standards focusing on the range of activities and powers that relate to reviews of public company financial statements by securities regulators and others. This project will focus on the powers and activities of a review process, and criteria and actions needed, regardless of the accounting standards in use. The major output of this project is expected to be an IOSCO statement of principles, best practices, and/or descriptions of effective models in use for such review functions. This project should conclude in 2005.*

www.oecd.org

OECD Corporate Governance Standards Address Accounting

The governments of the 30 OECD countries have approved a revised version of the OECD's *Principles of Corporate Governance*, adding new recommendations that respond to issues that have undermined the confidence of investors in company management in recent years. They call on governments to ensure genuinely effective regulatory frameworks and on companies themselves to be truly accountable. Those principles support the adoption of either internationally recognised accounting standards or domestic accounting standards that are consistent with international standards.

www.bis.org/bcbs/index.htm

Basel Committee Release on IAS 39 and Regulatory Capital

The Basel Committee has recommended to national bank regulators that two amounts that are reported in equity under IAS 39 not be considered part of a bank's Tier I or Tier II capital for regulatory purposes:

- The cumulative fair value gains and losses on cash flow hedges of financial instruments measured at amortised cost

- Gains and losses arising from changes in an institution's own credit risk as a result of applying the IAS 39 fair value option to its liabilities.

The announcement also says that "application of the fair value option may raise other, additional supervisory concerns with respect to regulatory capital."

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

Upcoming Meetings

IASB and SAC MEETINGS 2004-2005	
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, CT, USA	18-22 October 2004
London, UK	15-17 November 2004 (and 18-19 November 2004 with the Standards Advisory Council)
London, UK	15-17 December 2004
London, UK	17-21 January 2005
London, UK	14-18 February 2005 (and 10-11 February 2005 with the Standards Advisory Council)
London, UK	14-18 March 2005
London, UK	18-22 April 2005
London, UK	16-20 May 2005
London, UK	20-24 June 2005 (and 27-28 June 2005 with the Standards Advisory Council)
London, UK	18-22 July 2005
London, UK	19-23 September 2005
Norwalk, CT, USA	17-21 October 2005
London, UK	14-18 November 2005 (and 10-11 November 2005 with the Standards Advisory Council)
London, UK	12-16 December 2005

IFRIC MEETINGS 2004-2005	
London, UK	2-3 September 2004
London, UK	7-8 October 2004
London, UK	4-5 November 2004
London, UK	2-3 December 2004
London, UK	3-4 February 2005
London, UK	31 March - 1 April 2005
London, UK	2-3 June 2005
London, UK	28-29 July 2005
London, UK	1-2 September 2005
London, UK	3-4 November 2005
London, UK	1-2 December 2005
London, UK	3-4 February 2005

IASC FOUNDATION TRUSTEES MEETING 2004	
London, UK	4-5 November 2004

IFRS-Related News from the United States

Support for IFRSs and Convergence at EU-US Summit Meeting

An EU-US summit meeting, known as the Trans-Atlantic Business Dialogue (TABD), was held on 25 and 26 June 2004 at Dromoland Castle in Ireland. Participants included the President of the European Commission, Romano Prodi, together with the President-in-office of the European Council, Taoiseach Bertie Ahern, and US President George W. Bush. A number of EU Commissioners also participated as did the US Secretaries of State and Commerce. The goal of the TABD is to promote closer transatlantic ties and eliminate barriers in the transatlantic market. The TABD agreed to make recommendations to governments on four priority areas, one of which involves IFRSs. The priority areas are (1) open trade and security, (2) intellectual property rights and the fight against counterfeiting, (3) capital markets and International Accounting Standards, and (4) the World Trade Organisation and the Doha Development Round.

Further, following discussions on 25-26 June 2004, the participants in the US-EU Financial Markets Regulatory Dialogue have agreed to "promote international convergence of accounting standards, including their consistent application, implementation, and enforcement". Dialogue participants are the European Commission and the United States Treasury, Securities Exchange Commission, and Federal Reserve Board.

IASC Foundation Chairman Paul Volcker has urged the Senate committee responsible for the legislation to reject it because of the threat to independent standard setting.

Stock Options Accounting Legislation Passes the US House

By vote of 312 to 111, the United States House of Representatives has approved legislation that would restrict the SEC from recognising a FASB standard on expensing stock options to options granted to the top five officers of a company, would exclude volatility from the calculation of fair value for those options, and would delay implementation for at least a year pending completion of a joint study by the Secretaries of Commerce and of Labor of the economic impact of the mandatory expensing of employee stock options. The bill would not prohibit voluntary expensing of stock options by SEC registrants. The Senate must also pass the same legislation before the bill becomes law. The FASB has issued an exposure draft proposing that the fair value of all share-based payment, including stock options, be recognised as an expense. The FASB proposal is very similar to IFRS 2 *Share-based Payment*.

www.fasb.org

FASB May Delay Expensing Stock Options

Robert Herz, chairman of the US Financial Accounting Standards Board, has said that FASB is considering delaying the effective date of its proposed standard on share-based payment until 2006, because companies are facing more immediate deadlines on financial reporting changes, including some imposed by the Sarbanes-Oxley Act. FASB's proposal would require expensing of all stock options and is essentially the same as IFRS 2 *Share-based Payment*, which goes into effect in 2005. The Chief Accountant of the SEC is reported to favour delaying the FASB standard until 2006.

www.pcaobus.org

PCAOB Adopts Rules for Oversight of Non-US Firms

The US Public Company Accounting Oversight Board (PCAOB) has adopted rules relating to oversight of non-US public accounting firms that audit companies registered with the US SEC. The rules set out a framework under which, with respect to non-US audit firms, the PCAOB could implement the provisions of the Sarbanes-Oxley Act by relying, to an appropriate degree, on a non-US oversight system.

www.federalreserve.gov

US Federal Reserve Board Governor supports IFRSs

In her Testimony in May 2004 before the US House of Representatives Financial Services Committee, Federal Reserve Board Governor Susan Schmidt Bies expressed strong support for the use of International Financial Reporting Standards by global banking organisations. Among other things, she praised the IASB's standards on financial instruments:

> *The IASB is now independent of the international accounting profession and independently funded. It has adopted many of the structural elements of the FASB in the United States, which are intended to promote an independent, objective standards-setting environment. Many senior American accounting experts serve on the IASB and its staff. IASB GAAP has many similarities with U.S. GAAP and the IASB issued extensive enhancements to its standards last year and this year, with additional improvements also issued as a proposal this year. For example, in recent months the IASB issued major revisions to its standards for financial instruments, which are similar to U.S. GAAP and cover many areas of banking activities.*
>
> *One aspect of these revisions by the IASB significantly improved the guidance on loan loss allowances in ways that could lead to better bank reserving practices around the world.*

www.sec.gov

and

www.cesr-eu.org

Cooperation Between SEC and CESR

The US Securities and Exchange Commission and the Committee of European Securities Regulators have reached agreement for enhanced cooperation and collaboration on cross-border securities regulatory matters. In a press conference held in Amsterdam in June 2004, SEC Commissioner Roel C. Campos and CESR Chairman Arthur Docters van Leeuwen presented the terms of reference establishing the structure of this enhanced dialogue, and set out four key issues that will dominate the agenda during 2004 and 2005, one of which is "development of an effective infrastructure to support the use of International Financial Reporting Standards, in particular with respect to consistent application, interpretation and enforcement of these standards with the final objective of avoiding reconciliation with local GAAPs."

www.fasb.org

FASB May Adopt IASB's Black-Letter/Grey-Letter

In a submission to the US Securities and Exchange Commission on a principles-based accounting system, FASB has indicated that it "is considering using the black letter/grey letter style of the International Accounting Standards Board (IASB) and will use that style in its business combinations Exposure Draft. The Board intends to request constituent input on that style and will address the advantages and disadvantages of using that style in all FASB standards at a later date."

News about IFRSs in Europe

The EC's accounting website: **europa.eu.int/comm/internal_market/accounting/**

Endorsement of IAS 32 and IAS 39 in Europe

The European Commission has, to date, endorsed the IASs and SIC Interpretations existing in July 2003 for use in Europe – with the important exceptions of IAS 32 and IAS 39 on financial instruments. IFRS 1 on first-time adoption of IFRSs has also been endorsed.

Endorsement of IFRSs involves a vote of the 30-member European Commission (becomes 25 after 1 November 2004) after receiving advice from the Commission's Accounting Regulatory Committee (ARC) and the European Financial Reporting Advisory Group (EFRAG).

continued....

At its meeting in Brussels on 8 July 2004 the Technical Expert Group of EFRAG agreed to recommend that the European Commission endorse IAS 32 *Financial Instruments: Presentation and Disclosure* for use in Europe. However, EFRAG concluded not to make any recommendation on endorsement of IAS 39 *Financial Instruments: Recognition and Measurement*. EFRAG's letter to the Commission said:

> *Five members support endorsement of IAS 39 in its present form, but six members oppose endorsement. EFRAG cannot recommend non-endorsement of a standard unless there is a two-thirds majority vote against the standard, and EFRAG does not support endorsement unless there is majority in favour. Therefore, EFRAG does not issue any advice whether to endorse IAS 39 or not.*

The ARC met on 14 June 2004 and again on 9 July 2004 but decided to postpone its recommendation pending completion of the remaining amendments to IAS 39. At the June meeting, the governments of four European countries – Belgium, France, Italy, and Spain – objected to endorsing IAS 39 and six others, including Germany, abstained. Fifteen voted in favour.

A number of news services have reported that EU Financial Services Commissioner Frits Bolkestein recommended to the European Commission, at a meeting in Strasbourg, France, on 20 July 2004, that the European Union should 'carve out' 17 paragraphs from IAS 39 before endorsing that standard for use in Europe. The deleted paragraphs relate to derivatives and hedge accounting and the fair value option. Those paragraphs would not be endorsed pending the IASB's review of concerns that have been expressed by the EU about the effect of the IAS 39 hedging provisions and fair value option particularly on banks. The ARC will meet on 8 September 2004 to vote on whether to endorse IAS 39 minus the carved out parts. The Commission is expected to vote before the end of October 2004.

Deloitte has urged that the Commission adopt IAS 32 and IAS 39 for use in Europe starting in 2005. In a letter to EFRAG, we cited a number of "far reaching and damaging" consequences for the transition to IFRSs in Europe in 2005 if there is not a "fully endorsed and wholly supported standard on the recognition and measurement of financial instruments. Whilst IAS 39 is not perfect, there is much to be warmly welcomed. We believe the principles for hedge accounting established by IAS 39 are sound and will, if adopted, provide a model for recognition and measurement that, notwithstanding the shortcomings, will enhance the transparency and consistency of corporate reporting, including reporting by financial institutions, across the EU."

A report published by FEE, the Federation of European Accountants, in June 2004 warned that Europe's accounting standards would be regarded globally as inferior if some IFRSs (particularly IAS 39) are not endorsed for use in Europe. "We emphasise the need for 'endorsed IFRS' to be the same as 'IFRS'", said FEE President David Devlin. "The endorsement process should not be used as a means to create European standards. Only global standards will meet the wider objectives of financial stability, efficiency and transparency and provide the benefits of increasing confidence in financial markets, reducing the cost of capital and facilitating global investments." The report identifies the following "serious implications" of not endorsing all IFRSs:

- Extra disclosures to explain differences from IFRS, for reasons of transparency.
- Companies would no longer be able to claim that their financial statements were prepared under IFRS, with related consequences for the audit report.
- Related audit implications.
- The risk of setting a precedent.

continued...

- System changes implications of any unique European standards in any area, such as IAS 39.
- The risk that some financial institutions, banks or insurance undertakings that apply or want to apply IAS 39 will be seriously disadvantaged.
- Access to capital markets could be restricted or made more expensive.
- Loss of opportunity to converge IFRS and US GAAP and possible impact on other elements of transatlantic dialogue.

www.cesr-eu.org

EC begins study of equivalence of national GAAPs to IFRSs

The Accounting Regulation adopted by the European Union requires that European companies listed in a regulated European securities market must prepare their financial statements in conformity with International Financial Reporting Standards starting in 2005. Subsequent legislation provides that non-European companies whose securities are listed in a regulated European securities market must also follow IFRSs starting in 2007 unless the Commission has agreed, prior to 1 January 2007, to recognise financial statements prepared in accordance with "third country GAAP" (a non-European national GAAP) as being equivalent to those prepared in accordance with IFRSs.

The European Commission has asked the Committee of European Securities Regulators (CESR) to assess the IFRS-equivalence of the following GAAPs by June 2005: US-GAAP, Japanese GAAP, and Canadian GAAP. The mandate to CESR states that:

In giving its advice, CESR should take full account of the following key objectives:

- When assessing as to whether financial statements prepared under third country GAAP provide a true and fair view of the issuer's financial position and performance, the priority should lie on assuring the protection of investors;
- A global and holistic assessment of the quality of the financial information provided by the accounting system in question should be carried out from a technical point of view and independently from any international convergence project aiming at a single set of accounting standards, such as the project currently conducted by the International Accounting Standard Board and the US FASB.
- The global and holistic assessment should be based on the entirety of the third country GAAP in force as of 1 January 2005. The assessment should focus only on the significant differences between IAS/IFRS as endorsed at EU level and the third country GAAP in question.
- The assessment should not relate as to whether the third country GAAP in question might be conducive to the European public good. This is a criterion for endorsing IAS/IFRS at European level pursuant to Article 3(2) of the IAS Regulation, but not for assessing equivalence.
- The assessment should also be carried out independently of whether the third country concerned already recognises IAS/IFRS as equivalent to their domestic GAAP.

www.cesr-eu.org

CESR Seeks Comments on Enforcement of Standards

The Committee of European Securities Regulators (CESR) has invited comments on a proposed approach to implementing its Standard No. 2 *Coordination of Enforcement Activities*. Standard 2 is establishes principles for coordinating enforcement at a pan-European level. CESR's current proposal involves guidance for implementing those principles. Written comments are due by 6 September 2004 and can be posted directly on the CESR Website.

www.icaew.co.uk

ICAEW Warns Companies to Communicate Impact of IFRSs

A study by the Institute of Chartered Accountants in England and Wales has found that 27% of the UK listed companies surveyed expect that their key performance indicators will be negatively affected as a result of the introduction of International Financial Reporting Standards in 2005. Yet, only 17% of the listed companies surveyed have a plan in place for communicating the impact of IFRSs to financial analysts and investors. 13% of the companies anticipate a favourable impact.

You will find a summary of the Directive here: **www.iasplus.com/ restruct/euro2004.htm**

European Parliament and Council Adopts Transparency Directive

The European Parliament and the EU Council have approved a new Transparency Directive that will improve the information that investors receive, though not quite as far as had been proposed. The Directive now goes to the Council of Ministers for final approval. Among the provisions:

- All securities issuers will have to provide annual financial reports within four months after the end of their financial year.
- More detailed half-yearly financial reports by share issuers will be required, based on IAS 34.

The Parliament did not adopt the Commission's proposal for quarterly financial reports. Instead, the compromise Directive requires that share issuers publish interim management statements in between the annual financial report and the half-yearly financial report. These statements should include a narrative description of the financial position and of the impact of material events on that financial position. This would not apply to those share issuers who publish full quarterly financial reports.

A mechanism will be established for assessing at EU level the equivalence between international accounting standards and non-EU country accounting standards for the purpose of allowing companies from non-EU countries to submit their national GAAP financial statements rather than IFRS financial statements.

www.efrag.org

Enhancement of EFRAG’s Role and Operating Processes

The European Financial Reporting Advisory Group (EFRAG) has finalised its position paper on Enhancement of the Role and Working Process of EFRAG. Among the conclusions:

- Expand the role of the Supervisory Board.
- Require that EFRAG analyse the economic, legal, and practical implications when expressing views on major issues.
- Create an Advisory Forum.
- Change EFRAG’s voting procedures.
- Cooperate more closely with EU national accounting standard setters.
- Enhance EFRAG’s working relationship with the IASB.
- Increase EFRAG’s overall visibility and transparency.
- Seek formal recognition under the EU accounting regulation from the European Commission.
- Increase EFRAG’s funding.

EC Internal Market website:
www.europa.eu.int/comm/internal_market/auditing/

Surveys on Extended Use of IFRSs in the European Union

The European Union Accounting Regulation requires that European companies listed in a European securities market must use IFRSs to prepare their consolidated financial statements starting in 2005. EU countries have the option to:

- Require or permit IFRSs for unlisted companies.
- Require or permit IFRSs in parent company (unconsolidated) financial statements.
- Permit companies whose only listed securities are debt securities to delay IFRS adoption until 2007.
- Permit companies that are listed on exchanges outside of the EU and that currently prepare their primary financial statements using a non-EU GAAP (in most cases this would be US GAAP) to delay IFRS adoption until 2007.

The European Commission has surveyed the 15 pre-2004 EU member states, the 3 EEA member states, and the 10 additional countries that joined the EU as of 1 May 2004 on their plans regarding the four options above. Presented below is an overview of the findings:

SURVEYS ON EXTENDED USE OF IFRSs IN THE EUROPEAN UNION

18 Pre-2004 EU and EEA Members:

- Virtually all of the 18 member states are going to permit, though not require, IFRSs for the consolidated statements of unlisted companies.
- Only 4 will permit IFRS for the parent company separate statements, 11 will not permit, and 3 are undecided.
- Regarding the 2007 deferral for debt-only listed companies, 6 have decided to delay, 5 probably will delay, and 7 will not delay.
- Two countries will permit companies to delay IFRSs to 2007 if their current primary GAAP is a non-EU GAAP, and several other countries probably will do so.

10 New EU Members:

- Two of the 10 new EU members, Cyprus and Malta, already require IFRSs for all companies.
- Of the 8 other new members, 6 will either require or permit at least some unlisted companies to use IFRSs, and 5 will require or permit IFRSs in the parent company separate statements.

Use of IFRSs Elsewhere in the World

www.cinif.org.mx/

New Accounting Standard-Setter in Mexico

As of 1 June 2004, the Council for Research and Development of Financial Information Standards (Consejo Mexicano para la Investigacion y Desarrollo de Normas de Informacion Financiera, CINIF) took over the responsibility for setting accounting standards in Mexico from the Mexican Institute of Public Accountants (IMCP). The IMCP’s Accounting Principles Commission had been the standard setter since 1968. CINIF is an independent public-private sector partnership. All companies listed on the Mexican Stock Exchange (Bolsa Mexicana de Valores) are required to follow CINIF standards.

Venezuela Will Adopt IFRSs Starting in 2006

Venezuela will adopt IFRSs starting in 2006 for listed companies and in 2007 for all other companies. A special commission has been formed to provide guidance for the implementation process.

www.ccdg.gov.sg

Singapore Adopts Improved IASs and Revised IASs 32 and 39

The Singapore accounting standard-setter – the Council on Corporate Disclosure and Governance (CCDG) – has approved revised standards comparable to those issued under the IASB's Improvements Project, except for IAS 40 *Investment Property*. The CCDG has also approved revised standards comparable to the revised IAS 32 and IAS 39. The new standards issued by the CCDG contain a few departures from the equivalent revised IASs:

- FRS 16 *Property, Plant and Equipment* allows for one-off revaluations prior to 1996 to be carried as cost.
- FRS 17 *Leases* allows leasehold land to be classified as a finance lease if it meets the criteria in the standard.
- FRS 27 *Consolidated and Separate Financial Statements*, FRS 28 *Investments in Associates*, and FRS 31 *Interests in Joint Ventures* do not require that the parent must produce consolidated financial statements that comply with IFRSs in order to be exempt from consolidation or applying the equity method.

These improved FRSs will be effective for financial periods beginning on or after 1 January 2005.

Publications from Deloitte

Added IFRS e-Learning Modules Available Without Charge

In our April 2004 newsletter, we announced that Deloitte is making available, in the public interest and without charge, our e-learning training materials for IFRSs. Here is an updated list of the standards for which IFRS e-learning modules are now available: IAS 1, IAS 2, IAS 7, IAS 8, IAS 10, IAS 11, IAS 12, IAS 14, IAS 16, IAS 17, IAS 18, IAS 19, IAS 21, IAS 27, IAS 28, IAS 31, IAS 33, IAS 34, IAS 37, IAS 40, IAS 41, IFRS 1, and the IASB Framework. The modules reflect revisions to IASs resulting from the Improvements Project.

Modules on the remaining standards are currently being developed and will be released in phases throughout 2004.

The Deloitte IFRS e-Learning can be accessed via our website: **www.iasplus.com**.

Download link:
**www.iasplus.com//
iasplus/iasplus.htm**

Two Special IFRS Newsletters Are Available

We have posted on our IAS Plus website two special newsletters highlighting the following new or recently revised IASB standards:

- IFRS 3 *Business Combinations* and the related amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*.
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Download link:
**www.iasplus.com/
pubs/pubs.htm**

A Chinese translation is also available for downloading.

Key Differences Between IFRSs and US GAAP

Convergence of International Financial Reporting Standards and US GAAP is a goal of both the International Accounting Standards Board and the US Financial Accounting Standards Board. The two boards are working to achieve that goal, both in their individual standards setting activities and in short-term and longer-term convergence projects. Deloitte has published a booklet highlighting *Key Differences Between IFRSs and US GAAP* as of June 2004, with a brief note on what, if anything, is being done about each difference. The differences (or non-inclusion of what, until recently, was a difference) reflect all IFRSs issued and revised through mid-June 2004, including those that do not become mandatory until 2005.

AUSTRALIA
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On 30 June 2004, the Australian Accounting Standards Board (AASB) announced that it had finalised the Pending versions of all Standards and Interpretations that are equivalent to IFRS. The AASB intends to formally make the Standards at its next meeting on 15 July 2004. It is expected that 35 Australian equivalents to IFRS, 12 Australian equivalents to IASB Interpretations, an Australian equivalent to the IASB Framework, 4 revised AASB Standards and 1 new AASB Standard to facilitate Year 2005 implementation will be approved at this meeting.

This process completes the Financial Reporting Council's Year 2005 strategy which required those IASB Standards on issue at 31 March 2004 to be adopted in Australia from 1 January 2005. As a result, it is likely that the finalisation of exposure drafts subsequent to March will only be applicable from a later date, even if applicable from 1 January 2005 at an IASB level, but early adoption will be permitted in order for an Australian entity to be able to simultaneously claim compliance with both Australian GAAP and IFRS from 1 January 2005. The ability to early adopt is particularly relevant to any Standard resulting from ED 130 "Request for Comment on IASB ED 6 Exploration for and Evaluation of Mineral Resources" which is important for the mining industry in Australia.

The finalisation of all the Standards and Interpretations will assist entities in the ability to comply with the recently issued AASB 1047 "Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards". AASB 1047 requires disclosure, in annual and interim financial reports issued before first-time adoption of Australian equivalents to IFRS, of information relating to the transition to Australian equivalents to IFRS. The Standard requires narrative disclosure as at 30 June 2004 with increased quantitative disclosure of known or reliably estimable impacts in 30 June 2005 financial reports. As at 30 June 2004 such disclosures will include an explanation of how the transition to Australian equivalents to IFRS is being managed and a narrative explanation of the key differences in accounting policies that are expected to arise from adopting Australian equivalents to IFRS.

Finally, consistent with developments at the IASB, the AASB has issued the following exposure drafts:

- ED 131 "Request for Comment on IASB ED Proposed Amendments to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures";
- ED 132 "Request for Comment on IASB ED Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – The Fair Value Option "; and
- ED 133 "Request for Comment on IASB ED of Proposed Amendments to IFRS 3 Business Combinations – Combinations by Contract Alone or Involving Mutual Entities".

Contrary to the above FRC strategy, the AASB is proposing that ED 133 will be applicable from 1 January 2005 due to the complexities surrounding first-time adoption and the ability in future periods to make an explicit and unreserved statement of compliance with IFRS.

CHINA
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Q&A on Accounting System for Business Enterprises (ASBE)

In May 2004, the Ministry of Finance (MOF) issued a series of authoritative questions and answers covering the following matters:

- Share issue costs
- Equity investment difference (goodwill) arising in step acquisitions
- Impairment of equity investments accounted for by the equity method
- Reversal of impairment losses in respect of fixed assets and intangible assets
- Change in the depreciation method for fixed assets
- Derecognition of discounted receivables
- Accounting for the tobacco business tax by tobacco enterprises
- Recognition of provisions and their tax effects
- Accounting by property developers for costs of developing rental property
- Provision for safety costs incurred by coal producing enterprises

SME Accounting System

In April 2004, the MOF issued a new Accounting System for Small Enterprises (ASSE) with effect from 1 January 2005. Qualified small enterprises are allowed to choose the adoption of ASSE or ASBE. If a parent adopts the ASBE, its subsidiaries must also adopt the ASBE even though they qualify as small enterprises. If a small enterprise adopts the ASSE but its size subsequently changes so that it no longer qualifies as a small enterprise for three years, that enterprise should change to the ASBE.

A small enterprise is one:

- that does not raise funds from the public (that is, has not issued shares or debt securities to the public). A small enterprise may still borrow from banks;
- whose operations are relatively small as defined in a document jointly issued by four government bodies covering number of employees, sales volume and total assets (to ensure consistency with national requirements. See illustration below;
- that is not a sole proprietorship or a partnership; and
- that is not a financial institution.

An example of the size test for a small enterprise: a small enterprise is one that is below any one of the following criteria:

	Number of Employees	Turnover (in RMB)	Total Assets (in RMB)
Industrial	300	30,000,000	40,000,000
Construction	600	30,000,000	40,000,000
Retail	100	10,000,000	Not applicable

The ASSE provides a number of simplifications or exemptions as compared to the ASBE in such areas as impairment of assets, equity method investments, finance leases, capitalisation of borrowing costs, post-balance-sheet-date events, and which financial statements are required.

ED on Derivative and Hedge Accounting

In July 2004, MOF issued an ED on *Derivative and Hedge Accounting for Financial Institutions*. The general principles are:

CHINA, continued

- Derivative instruments should be measured at fair value (at initial recognition and at the end of each period).
- Hedges are classified as fair value hedges, cash flow hedges, and hedges of the net investment in a foreign operation, and the accounting is similar to the IAS 39 requirements.
- Disclosure of risk management objective and policies and, for hedge accounting, the hedging relationship, description of hedging instruments and their fair value, and nature of risk mitigated, with further disclosures for cash flow hedges.

HONG KONG
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In the second quarter of 2004, the Hong Kong Society of Accountants (HKSA) advanced significantly toward its objective to have Hong Kong's financial reporting standards "fully converged" with IFRSs effective for accounting periods beginning on or after 1 January 2005 by adopting HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement* and proposing changes to certain existing Hong Kong's accounting standards, including radical changes for investment property accounting despite objection from some property companies. Details of standards/interpretation adopted and exposure drafts, consultation and discussion papers issued by the HKSA in the second quarter of 2004 are listed below:

Standards/Interpretation Adopted

- HKAS 1 *Presentation of Financial Statements*
- HKAS 2 *Inventories*
- HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 10 *Events after the Balance Sheet Date*
- HKAS 16 *Property, Plant and Equipment*
- HKAS 21 *The Effects of Changes in Foreign Exchange Rates*
- HKAS 27 *Consolidated and Separate Financial Statements*
- HKAS 28 *Investments in Associates*
- HKAS 29 *Financial Reporting in Hyperinflationary Economies*
- HKAS 32 *Financial Instruments: Disclosure and Presentation*
- HKAS 33 *Earnings Per Share*
- HKAS 39 *Financial Instruments: Recognition and Measurement*
- HKFRS 2 *Share-based Payment*
- HKAS-Int-12 *Consolidation – Special Purpose Entities*

All the above are effective for accounting periods beginning on or after 1 January 2005. There are no major textual differences between the above standards/interpretation and the relevant standards and interpretation under the IFRS framework. However, unlike the transition provisions in IAS 32 and IAS 39, HKAS 32 and HKAS 39 are to be applied prospectively.

Exposure Drafts for Comment

- ED/HKAS 7 *Cash Flow Statements*
- ED/HKAS 17 *Leases*
- ED/HKAS 23 *Borrowing Costs*
- ED/HKAS 24 *Related Party Disclosures*
- ED/HKAS 30 *Disclosures in the Financial Statement of Banks and Similar Financial Institutions*
- ED/HKAS 31 *Interests in Joint Ventures*
- ED/HKAS 40 *Investment Property*
- ED/HKAS-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*

HONG KONG, continued

- ED/HKAS-Int 15 *Operating Leases* – Incentives
- ED/HKAS-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*

The above exposure drafts are the last in series of documents that would finally result in Hong Kong's accounting standards being fully harmonized with the IFRS and eliminate, to the greatest extent, all differences that previously existed between the Hong Kong accounting standards and the equivalent IASs. Some of the significant changes proposed by the above exposure drafts are:

- Changes in fair values of investment property should be accounted through income statement under the fair value model.
- Borrowing costs will now need to be expensed as a preferred treatment but may be capitalized on meeting certain criteria as an allowed alternative treatment.
- Wholly-owned subsidiaries would be required to include related party disclosures in their financial statements.
- The introduction of proportionate consolidation option for joint venture accounting.
- Leasehold land should be classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

In addition to the above exposure drafts, the HKSA has also issued a Consultation Paper for comment on a proposed implementation of a *Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard* in Hong Kong. The Financial Accounting Standards Committee (FASC) of the HKSA has also invited comment on the IASB's proposals on *Proposed Limited Amendment to IAS 39 Financial Instruments: Recognition and Measurement on the Fair Value Option; Proposed Amendment to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures; Proposed Limited Amendment to IFRS 3 Business Combinations – Combinations by Contract Alone or Involving Mutual Entities;* and IASB discussion paper, *Preliminary Views on Accounting Standards for Small and Medium-sized Entities.*

Hong Kong exposure drafts on IFRS 3 *Business Combinations* and related amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*, IFRS 4 *Insurance Contracts* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are still outstanding. The FASC intends to adopt all of these as Hong Kong standards to be effective for accounting periods beginning on or after 1 January 2005.

A difference between the definition of a subsidiary under the Companies Ordinance and under HKAS 27 (equivalent to IAS 27) continues to be under study by the government. Because the legal definition must be used in applying HKAS 27, this may be the most significant difference between HKASs and IFRSs that may not be resolved by 1 January 2005.

JAPAN

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The following accounting standards and related publications were issued in Japan during the second quarter of 2004:

Issued	Issuer*	Document Description
24 June 2004	BAC	Statement of Opinion, Conceptual Framework for Assurance Services with respect to Financial Information and Other (Exposure Draft)
*BAC = Business Accounting Council		

Japan, continued

Statement of Opinion, Conceptual Framework for Assurance Services with respect to Financial Information and Other (Exposure Draft)

The Business Accounting Council issued this exposure draft in June 2004. At present, there is no standard with respect to assurance services such as review work, which gives less assurance than an audit in Japan. This exposure draft was announced as giving a basis for future implementation of standards for various assurance services, especially for review work of quarterly financial information, which listed companies have been required to disclose since 2003, though an accountants review report is not presently required in Japan.

MALAYSIA
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The Financial Reporting Act, 1997 is being amended to permit foreign companies listed on the Malaysian Stock Exchange to use IFRSs in preparing their financial statements. The amendments have been submitted for parliamentary sitting in July 2004 and will take effect from the date of gazette.

In July 2004, the Malaysian Accounting Standards Board (MASB) issued Exposure Draft ED 37, comprising revision to four MASB Standards. The MASB is currently reviewing 13 of its existing MASB Standards in view of the recent revisions to the International Accounting Standards (IAS) by the IASB. The remaining MASB revisions will be issued in three other batches.

In reviewing the MASB Standards, MASB has stated that its policy is to converge with the IAS. In this regard, MASB policy is to use IASB Standards as the basis for the ED. Further, MASB's policy is that the wordings in IASB standards are maintained strictly and would only be changed if it is absolutely necessary. Additions to IASB standards are clearly identified and are made in a manner that preserves the format and structure of the IASB standards. Changes to IASB standards would be made with the sole objective of enhancing the quality of reporting, without altering the intent or meaning of the original Standard. Areas of potential enhancements would be those that deal with (a) specific issues that are not dealt with in the IASB standards; (b) illustrations or additional clarification for better understanding of the context of the Standard; or (c) compliance with local laws and regulations.

NEW ZEALAND
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In line with New Zealand's strategy to adopt IFRSs, the Financial Reporting Standards Board (FRSB) issued the following exposure drafts during the second quarter of 2004. The exposure drafts are based on the international standards with additional guidance for public benefit entities incorporated in shaded boxes. The FRSB has also restricted choices and required additional disclosures to ensure that the quality of current reporting in New Zealand is not diminished.

Listing of Exposure Draft releases in New Zealand

- ED NZ IAS-26: *Accounting and Reporting by Retirement Benefit Plans*
- ED NZ IAS-27: *Consolidated & Separate Financial Statements and* ED NZ SIC-12: *Consolidation – Special Purpose Entities*
- ED NZ IAS-20: *Accounting for Government Grants and Disclosure of Government Assistance and* ED NZ SIC-10: *Government Assistance – No Specific Relation to Operating Activities*
- ED NZ IAS-39: *Discussion Paper and IASB Exposure Draft of Proposed Amendments to IAS-39 Financial Instruments: Recognition and Measurement: The Fair Value Option.*
- ED NZ IAS-30: *Disclosures in Financial Statements of Banks and Similar Financial Institutions*
- ED NZ IAS-31: *Financial Reporting of Interests in Joint Ventures and* ED NZ SIC-13: *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*

NEW ZEALAND, continued

- IASB Exposure Draft of Proposed Amendments to IAS-19: *Employee Benefits: Actuarial Gains and Loses, Group Plans and Disclosures*
- IASB Exposure Draft of Proposed Amendments to IFRS-3: *Business Combinations – Combinations by Contract Alone or Involving Mutual Entities*
- ED *New Zealand Preface*
- ED *New Zealand Framework*

Listing of IFRIC Draft Interpretations

- IFRIC Draft Interpretation D6: *Multi-Employer Plans*

Release 8 2004: *The Role of the Accounting Standards Review Board (ASRB) and the Nature of Approved Financial Reporting Standards*

The release is designed to assist with maintaining the quality of financial reporting in New Zealand in regards to standard setting and the role the ASRB plays in standard setting.

New Zealand Pending Standards

The ASRB has resolved to make available the pending New Zealand equivalents to the International Financial Reporting Standards on both the ICANZ (www.icanz.co.nz) and ASRB (www.asrb.co.nz) web sites in order to assist users of the standards to identify the potential impacts on their financial statements and their financial reporting systems.

The following pending standards are available:

- NZ IAS-2: *Inventories*
- NZ IAS-7: *Cash Flow Statements*
- NZ IAS-8: *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS-10: *Events after the Balance Sheet Date*
- NZ IAS-11: *Construction Contracts*
- NZ IAS-17: *Leases*
- NZ SIC-15: *Operating Leases-Incentives*
- NZ SIC-27: *Evaluating the Substance of Transactions in the Legal Form of a Lease*
- NZ IAS-23: *Borrowing Costs*
- NZ IAS-33: *Earnings per Share*
- NZ IAS-37: *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IAS-40: *Investment Property*

The ASRB will officially approve the standards as applicable financial reporting standards when the full suite is completed.

PHILIPPINES
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The Accounting Standards Council of the Philippines issued invitations to comment on three IASB exposure drafts:

- IAS 19 Revisions
- IAS 39 – Fair value Option
- IFRS 3 – Scope

SINGAPORE
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On April 8, 2004, the CCDG approved revised standards almost identical to those issued under the IASB's Improvements Project and Financial Instruments Project, except for IAS 40 Investment Property. These improved FRSs will be effective for financial periods beginning on or after 1 January 2005.

The revised standards are as follows:

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

The revised standards issued by the CCDG contain a few departures from the equivalent revised IASs:

- FRS 16 *Property, Plant and Equipment* allows for one-off revaluations prior to 1996 to be carried as cost.
- FRS 17 *Leases* allows leasehold land to be classified as a finance lease if it meets the criteria in the standard.
- FRS 27 *Consolidated and Separate Financial Statements*, FRS 28 *Investments in Associates*, and FRS 31 *Interests in Joint Ventures* do not require that the parent must produce consolidated financial statements that comply with IFRSs in order to be exempt from consolidation or applying the equity method.

The CCDG also issued the following exposure drafts of a proposed accounting standard during the 2nd quarter of 2004:

- ED Proposed Amendments to [Draft] FRS 103 *Business Combinations – Combinations by contract alone or involving mutual entities*;
- ED Proposed Amendments to FRS 19 *Actuarial Gains and Losses, Group Plans and Disclosures*; and
- ED Proposed Amendments to FRS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option.*

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

- ED INT FRS *Multi-employer Plans.*

The following exposure drafts of proposed standards are still outstanding:

Issued in 2002

- ED/FRS 40, *Investment Property* (IAS 40 revised);
- ED/FRS, *Share-based Payment* (IFRS 2);
- ED/FRS, *Business Combinations* (IFRS 3); and
- ED/FRS, Proposed Amendments to FRS 34 *Intangible Assets* and FRS 36 *Impairment of Assets* (revised IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*).

SINGAPORE, continued

Issued in 2003

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

Issued in 2004

- ED FRS *Exploration for and Evaluation of Mineral Resources* (ED/IFRS 6).

The following exposure drafts of proposed interpretations are still outstanding:

Issued in 2003

- ED INT FRS, *Emission Rights* (Draft IFRIC Interpretation D1); and
- ED INT FRS *Changes in Decommissioning, Restoration and Similar Liabilities* (Draft IFRIC Interpretation D2).

Issued in 2004

- ED INT FRS Applying FRS 29 *Financial Reporting in Hyperinflationary Economies* (Draft IFRIC Interpretation D5);
- ED INT FRS *Determining Whether an Arrangement Contains a Lease* (Draft IFRIC Interpretation D3); and
- ED INT FRS *Decommissioning, Restoration and Environmental Rehabilitation Funds* (Draft IFRIC Interpretation D4).

TAIWAN
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In the second quarter of 2004, the Accounting Research and Development Foundation (ARDF) of the Republic of China issued an exposure draft of Statement of Financial Accounting Standards No. 35, *Accounting for Impairment of Assets*. This proposed statement would provide accounting standards for recognising an impairment loss, specify when an entity should reverse an impairment loss, and prescribe certain disclosures. SFAS No. 35, which is in line with IAS No. 36 *Impairment of Assets*, would apply to accounting periods beginning on or after 31 December 2005, with earlier application permitted.

The ARDF invited comments on SFAS No. 35, and the deadline for comments was 11 June 2004.

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- A news page (updated almost daily). Day-by-day past news back to December 2000.
- Detailed summaries of all Standards and Interpretations.
- E-learning modules for each IAS and IFRS – made available at no charge in the public interest.
- Model IFRS financial statements and disclosure checklists.
- Downloadable Deloitte Touche Tohmatsu publications relating to IFRS (over 60 publications available).
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- Complete history of the adoption of IFRSs in Europe, with links to all the relevant documents.
- Information about adoptions of IFRSs elsewhere around the world.
- Updates on national accounting standards development in nearly 40 countries throughout the world.
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