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IFRS 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.

IFRS: YEAR 2003 IN REVIEW

The International Accounting Standards Board continued its course toward the three objectives stated in its constitution. A few key achievements:

OBJECTIVE: DEVELOP HIGH QUALITY STANDARDS

Final Standards Published

- ☐ IFRS 1, First-time Adoption of International Financial Reporting 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: Presentation and Disclosure
- ☐ IAS 33, Earnings per Share
- ☐ IAS 39, Financial Instruments: Recognition and Measurement
- ☐ IAS 40, Investment Property

Exposure Drafts Published

- ☐ ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations
- ☐ ED 5, Insurance Contracts
- ☐ Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk

New Agenda Projects

- ☐ Accounting Standards for Small and Medium-Sized Entities
- ☐ Extractive Industries: Exploration and Evaluation Activities
- ☐ Disposal of Non-current Assets and Presentation of Discontinued Operations

Standard Withdrawn

- ☐ IAS 15, Information Reflecting the Effects of Changing Prices

OBJECTIVE: PROMOTE THE USE OF IFRS GLOBALLY

Europe. 2003 saw amended accounting directives, a new accounting enforcement standard from CESR, endorsement of IFRS for use in Europe, and translations into official EU languages.

Elsewhere. Australia and New Zealand took steps toward using IFRS as the basis of their national GAAP. All listed companies in South Africa will switch to IFRS in 2005.

OBJECTIVE: WORK TOWARD CONVERGENCE

Convergence with US GAAP. Progress on joint IASB/FASB convergence projects, including FASB proposals to converge with IFRS in four areas.

INTERNATIONAL FINANCIAL REPORTING: YEAR 2003 CHRONOLOGY

JANUARY 2003

Use of IFRS in new EU member states. The admissions to the EU of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia are approved, effective May 2004, expanding the IFRS requirement to eight new countries (IFRS were already required in Cyprus and Malta).

FEBRUARY 2003

GAAP convergence study. A study conducted jointly by the world's six largest accountancy firms, including Deloitte, shows a marked leap toward worldwide convergence with IFRS from previous years. The study, titled *GAAP Convergence 2002*, examines the current and planned adoption of IFRS in 59 countries. In 58 percent of the countries surveyed, national accounting standards will be replaced with IFRS for all listed companies, except where national issues remained not covered by the new standards. Another 22 percent said they are adopting IFRS on a standard by standard basis, and a further 20 percent said they are eliminating differences between national standards and IFRS as and when practical.

Which standards are mandatory for 2005? The IASB announces, for each of its current projects, which will result in final standards that are mandatory for 2005, and which will not:

Mandatory for 2005	Not mandatory for 2005. Application encouraged:
<ul style="list-style-type: none"> <input type="checkbox"/> Business Combinations – Phase I <input type="checkbox"/> Convergence – short-term items <input type="checkbox"/> First-time Adoption of IFRS <input type="checkbox"/> Improvements to Existing IFRS <input type="checkbox"/> Amendments to IAS 32 and IAS 39 <input type="checkbox"/> Insurance Contracts Phase I <input type="checkbox"/> Share-Based Payment 	<ul style="list-style-type: none"> <input type="checkbox"/> Business Combinations – Phase II <input type="checkbox"/> Consolidation, including special purpose entities <input type="checkbox"/> Financial Instruments: Disclosures of Risks <input type="checkbox"/> Performance Reporting (Reporting Comprehensive Income) <input type="checkbox"/> Post-Employment Benefits (part of the Convergence project) <input type="checkbox"/> Revenue Recognition, Liabilities, and Equity <input type="checkbox"/> Segment Reporting (part of the Convergence project)

MARCH 2003

IAS 32 and IAS 39 public roundtables. Representatives of 108 firms and organisations participate in five days of roundtable discussions with the IASB, in Brussels and London, on proposed amendments to the existing International Accounting Standards on financial instruments.

FASB chairman reports to Congress on convergence. In testimony before a committee of the US House of Representatives, FASB Chairman Robert H. Herz reports on progress toward convergence of IFRS and US GAAP.

EU transparency directive. The European Commission proposes a transparency directive that would require, among other things, that listed companies publish half-yearly reports that conform to IAS 34, Interim Financial Reporting.

APRIL 2003

Accounting enforcement standard in Europe. The Committee of European Securities Regulators has adopted a new standard containing 21 principles aimed at developing and implementing a common approach to the enforcement of International Financial Reporting Standards (IFRS) throughout the EU.

Audit reports on IFRS financial statements. The International Auditing and Assurance Standards Board issued International Auditing Practice Statement 1014 to provide guidance when the auditor expresses an opinion on financial statements that are asserted by management to be prepared in conformity with IFRS.

Euronext IFRS rules. The Euronext market publishes rules requiring the 151 companies listed on the Nextprime segment and the 116 companies listed on the Nexteconomy segment to provide disclosures about transition to International Financial Reporting Standards earlier than companies (approximately 1,200 in number) quoted on the other market segments.

APRIL 2003, continued

SEC expects FASB to consider IFRS. In reaffirming its policy of recognising FASB pronouncements as being generally accepted for purposes of filings with the Commission, the US SEC announces: “In order for US accounting standards to remain relevant and to continue to improve, however, the Commission expects the FASB to consider, in adopting accounting principles, the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors, including consideration of moving towards greater reliance on principles-based accounting standards whenever it is reasonable to do so.... We expect that during its deliberations of an accounting issue the FASB will consider, among other things, international accounting standards addressing that issue.”

MAY 2003

Amended European accounting directives. The European Union’s Council of Ministers approves the amended EU accounting directives (the 4th and 7th Company Law Directives), bringing them into law. The directives had been approved by the European Parliament in January 2003. The revised directives complement the IAS Regulation, adopted in June 2002, that requires all listed EU companies to use IFRS from 2005 onwards and allows member states to extend that requirement to all companies. All inconsistencies of the old directives and IFRS have been removed.

G8 finance ministers endorse IFRS. Finance ministers from the Group of Eight large developed nations meet in Deauville, France, to discuss the challenges to their own economies and, more broadly, global economic growth. The meeting results in a statement backing the development of international accounting standards as a means to bolster investor confidence.

IFRS in South Africa. The Johannesburg (South Africa) Stock Exchange requires all listed companies to follow IFRS starting in 2005.

IFRIC issues draft interpretation on emissions trading schemes. The International Financial Reporting Interpretations Committee (IFRIC) publishes for comment its first draft Interpretation – on accounting for transferable emissions (pollution) allowances. Draft Interpretation D1, Emission Rights, would require companies to account for the emission allowances they receive from governments as intangible assets, recorded initially at fair value. Emissions of pollutant would then give rise to a liability for the obligation to deliver allowances to cover those emissions. Any excess of the fair value of the allowance over the amount paid to the government is initially recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance period (per IAS 20).

JUNE 2003

IASC Foundation chairman testifies on stock options. Paul Volcker, chairman of the IASC Foundation trustees, testifies on stock option accounting before a committee of the US House of Representatives. An excerpt:

If the U.S. Congress, or political authorities in other countries, seek to override the decisions of the competent professional standard setters – including those of the IASB for which I have responsibility – accounting standards will inevitably lose consistency, coherence and credibility, weakening the fabric of the international financial system.

IFRS in Canada. Canadian securities administrators propose to let foreign issuers use IFRS in Canada. Also this month, a committee of the Senate of Canada urges the adoption of global accounting standards.

IFRS in Australia and New Zealand. Both Australia and New Zealand decide that they will continue to use their national GAAPs, which would be based on IFRS, rather than replacing the national GAAPs with IFRS.

UK survey shows need to prepare for IFRS. A survey by the Institute of Chartered Accountants in England and Wales finds a need to increase the awareness of and preparedness for IFRS by British companies and auditors.

FASB convergence. FASB agrees to converge with IASB on debt classifications and EPS calculations. FASB also agrees on certain key decisions on share-based payment that are the same as the IASB’s earlier decisions.

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

JULY 2003

EC Accounting Regulatory Committee endorses IAS minus 32/39. By unanimous vote, the Accounting Regulatory Committee of the European Commission recommends endorsement of all extant International Accounting Standards for use in Europe other than IAS 32 and IAS 39 (and related Interpretations SIC 5, 16, and 17). The ARC endorsement does not cover IFRS 1, First-time Adoption of IFRS, which will be considered separately by the ARC at a future meeting.

ED 4, Disposal of Non-current Assets and Reporting of Discontinued Operations. The IASB issues this exposure draft as part of the short-term convergence project being undertaken jointly with the FASB. The proposals in ED 4 would achieve substantial convergence of IFRS with the requirements of US SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, with respect to:

- classifying, measuring, and presenting assets held for sale, and
- classifying and presenting discontinued operations.

ED 4 does not address impairment of long-lived assets that are not being disposed of, which is covered by IAS 36, Impairment of Assets.

SEC study on principles-based accounting. The US Securities and Exchange Commission releases a staff study on adopting a principles-based accounting system for US financial reporting. The study was conducted pursuant to the Sarbanes-Oxley Act of 2002 and was submitted to committees in both Houses of the US Congress. The study recommends that accounting standards should be developed using a principles-based approach. The SEC study noted that:

“An additional benefit is the facilitation of greater convergence between US GAAP and international standards. Standard setters can come to an agreement on a principle more rapidly than they can on a highly detailed rule. The benefits of convergence include greater comparability and improved capital formation globally.”

EFRAG recommends that the European Commission adopt IFRS 1. In a letter to the European Commission, the European Financial Reporting Advisory Group recommends the adoption in Europe of IFRS 1, First-time Adoption of International Financial Reporting Standards.

IASB issues ED 5 on insurance contracts. ED 5 sets out the Board’s proposals in Phase I of a two-part project. ED 5 provides guidance on applying existing IFRSs to accounting insurance contracts and requires additional disclosures. 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.

AUGUST 2003

IFRS in Switzerland. Swiss Stock Exchange announces that, starting 2005, it will allow listed companies to use only IFRS or US GAAP.

IFAC proposes that IFRS be a “membership obligation”. The International Federation of Accountants seeks comments on seven proposed Statements of Membership Obligations, including one that sets out the obligation of IFAC’s member bodies to support the work of the IASB by bringing to the notice of their members every IFRS and by using their best endeavors:

- To persuade governments and standard setting bodies that published private sector financial statements should comply with IFRSs.
- To persuade authorities controlling securities markets and the industrial and business community that published private sector financial statements should comply with IFRSs and disclose the fact of such compliance.
- To foster acceptance of IFRSs internationally.
- To monitor compliance with IFRS.

IFRS in Estonia. Estonia announces that listed companies will be required to use IFRS in their separate-company accounts – in addition to their consolidated financial statements – starting in 2005.

IFRS in Germany. Unlisted companies in Germany will be permitted to use IFRS instead of national GAAP.

IASB publishes “macro hedging” exposure draft. The IASB issues an exposure draft on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk, proposing a “macro hedging” amendment to IAS 39. The ED would permit an entity to use fair value hedge accounting for a net portfolio hedge of interest rate risk if specified conditions are met. This amendment was not among the Amendments to IAS 39 that the Board had proposed in July 2002. The Board determined that the change is of a magnitude that warrants soliciting public comment.

SEPTEMBER 2003

IFRIC issues draft interpretation D2. Under IAS 37, a provision must be recognised when an asset is acquired if the acquirer is obligated to incur costs for decommissioning, restoration, and similar future activities. The costs are included as part of the cost of the asset. Draft Interpretation D2, Changes in Decommissioning, Restoration and Similar Liabilities, deals with accounting for subsequent changes in the estimated cash flows relating to the provision. It concludes, among other things, that decommissioning, restoration, and similar liabilities should be remeasured at each balance sheet date using a current market-assessed discount rate.

IFRS in Denmark. The Danish Parliament invites public comment on proposed legislation that would (a) require the use of IFRS in individual company financial statements if an entity uses IFRS in its consolidated statements and (b) permit non-listed companies to choose to follow IFRS, instead of Danish GAAP, in both their consolidated and individual company statements.

Board member Harry Schmid will retire. The IASC Foundation announced that IASB member Harry Schmid will retire from the Board in March 2004.

EC endorses IAS minus 32/39. Based on the recommendation of the Accounting Regulatory Committee, the European Commission formally endorses all existing IAS for use in Europe except for IAS 32 and IAS 39 (and related Interpretations SIC 5, 16, and 17).

OCTOBER 2003

“Provisional” final versions of improved IFRS. The IASB announces that it will make available to subscribers the “provisional” final versions of the IFRS being amended as part of the Improvements Project. IAS 33 is the first one released. Others follow throughout the fourth quarter of 2003.

Disclosing the impact of adopting IFRS in Europe. The Committee of European Securities Regulators issues a proposed recommendation on the disclosures that a European company should make about its transition to IFRS in 2005.

Official EU translations of IFRS published. The translations of IFRS into all of the official languages of the European Union are published in the Official Journal of the European Communities on 13 October 2003.

FASB reaches same conclusion as IASB on stock options. The US Financial Accounting Standards Board votes 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, expected to be finalised in first quarter 2004.

NOVEMBER 2003

IOSCO presses for convergence. The International Organization of Securities Commissions issues a public statement encouraging 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 encouraging regulators to address “the broader issues of consistent interpretation, application, and enforcement of accounting standards”.

IASB trustees begin a constitution review. The trustees of the IASC Foundation (which oversees the IASB) announce the appointment of a committee to review the IASB’s constitution. The review will cover “the full range of issues raised by the constitution”. The trustees will consult a wide range of organisations, including international and regional organisations, securities regulators, other international regulatory organisations, accounting standard-setters, organisations representing the accountancy profession, organisations representing business groups, analyst groups and other investment organisations, academic groups, and the Standards Advisory Council.

DECEMBER 2003

EC interprets the IAS regulation. The European Commission publishes the final version of a document interpreting aspects of the EU’s IAS Regulation and the interaction of the Regulation with the Accounting Directives.

EFRAG proposes to enhance its role and working process. The European Financial Reporting Advisory Group (EFRAG) proposes to broaden its role and streamline its operating processes with the goal of “strengthening European input to the IASB”. Key proposals include (a) increasing EFRAG’s pro-active role with the IASB and (b) seeking full recognition of EFRAG as a liaison standard-setter by the IASB.

DECEMBER 2003, continued

FASB publishes four “convergence” exposure drafts. The US Financial Accounting Standards Board issues 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.

IASB publishes final versions of “improved” IASs. The following revised IASs are released:

- ❑ 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 33, Earnings per Share
- ❑ IAS 40, Investment Property

Final versions of IAS 32 and IAS 39. The IASB releases the final versions of two revised standards on financial instruments: IAS 32, Financial Instruments: Presentation and Disclosure, and IAS 39, Financial Instruments: Recognition and Measurement.

DELOITTE IFRS RESOURCES PUBLISHED DURING 2003

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

- ❑ IAS Plus Newsletters: quarterly editions plus occasional special editions on major issues.
- ❑ IFRS Model Financial Statements
- ❑ IFRS Disclosure and Presentation Checklist
- ❑ International Accounting Standards: A Guide to Preparing Accounts, written by Deloitte & Touche (UK) and published by ABG Professional Information, London.
- ❑ International Financial Reporting Standards: A Practical Guide, third edition.
- ❑ IFRS in your Pocket, third edition.
- ❑ GAAP Differences in your Pocket: IAS and US GAAP.
- ❑ Accounting Roundup and EITF Roundup (Deloitte & Touche USA).
- ❑ Accounting Alert newsletters in Australia, New Zealand, and Hong Kong.
- ❑ GAAP Differences in your Pocket: IAS and GAAP in the People’s Republic of China. Both English and Chinese versions.
- ❑ Standards Compared: Differences between IAS, Netherlands GAAP and US GAAP.
- ❑ Comparison of IAS with generally accepted accounting practice in Albania, Bulgaria, Belarus, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Republic of Macedonia, Romania, Slovakia, and Slovenia.
- ❑ Introduction to International Accounting Standards in Danish.
- ❑ Manufacturing: The Future for UK Automotive and Aerospace Industries under IAS – Deloitte UK.
- ❑ IAS Healthcheck 2002 – Deloitte UK.
- ❑ Investment Property: The Future for UK Property Accounting under IAS – Deloitte UK.
- ❑ Publishing Industry: The Future of Intangibles under IAS – Deloitte UK.

MEETING DATES SET FOR 2004

International Accounting Standards Board

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

Standards Advisory Council

- ☐ 23-24 February, London
- ☐ 24-25 June, Oslo
- ☐ 18-19 November, London

International Financial Reporting Interpretations Committee

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

NATIONAL ADOPTIONS OF IFRS DURING 2003

New entrants to the EU starting in 2005*

- ☐ Cyprus (IFRS are already required)
- ☐ Czech Republic
- ☐ Estonia (allowed starting 2003)
- ☐ Hungary
- ☐ Latvia
- ☐ Lithuania
- ☐ Malta (IFRS are already required)
- ☐ Poland
- ☐ Slovak Republic
- ☐ Slovenia

* Starting in 2005, IFRS required in consolidated financial statements of listed European companies (excludes non-European companies listed on a European exchange). 2007, at national option, for companies whose current primary reporting basis is US GAAP and for companies whose only listed securities are debt securities. Member states can extend IFRS to individual company financial statements or to non-listed companies.

Other Countries

- ☐ Bulgaria – 2003 for listed companies, banks, insurance companies. 2005 for all companies.
- ☐ Czech Republic – effective 2002.
- ☐ Guatemala – effective 2002.
- ☐ Nicaragua – effective 2005.
- ☐ Russia – phase-in starting 2004
- ☐ South Africa – 2005 for listed companies.

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