

IAS Plus

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

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IAS Plus website

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IASB PROJECT TIMETABLE	
Accounting Standards for Small and Medium-sized Entities (Non-Publicly Accountable Entities)	<ul style="list-style-type: none"> ▪ Discussion Paper was issued in June 2004 ▪ Staff questionnaire issued April 2005 ▪ Public round tables planned for September 2005
Business Combinations – Phase II — Application of the Purchase Method	<ul style="list-style-type: none"> ▪ Exposure draft expected in 2nd quarter 2005 ▪ Separate ED on minority interests expected in 2nd quarter 2005 ▪ Separate ED on intangibles expected in 2nd quarter 2005 ▪ Timing of final statements not yet announced ▪ Expected effective date after 2005 year ends
Conceptual Framework	<ul style="list-style-type: none"> ▪ Discussion paper in 2006 or later
Consolidation (Including SPEs)	<ul style="list-style-type: none"> ▪ Exposure drafts on control and SPEs expected 2006 or later
Convergence – Short-term Issues, IFRSs and US GAAP.	<p><u>Asset Disposals/Discontinued Operations</u></p> <ul style="list-style-type: none"> ▪ IFRS 5 was issued in March 2004. Effective date December 2005 year ends. <p><u>IAS 12 Income Taxes</u></p> <ul style="list-style-type: none"> ▪ Exposure draft expected 2nd half of 2005 <p><u>IAS 14 Segment Reporting</u></p> <ul style="list-style-type: none"> ▪ Exposure draft on replacement of IAS 14 expected 2nd half of 2005 <p><u>IAS 19 Employee Benefits</u></p> <ul style="list-style-type: none"> ▪ Exposure draft of limited amendment was issued April 2004 ▪ Final IAS 19 Revised was issued in December 2004 <p><u>IAS 20 Government Grants</u></p> <ul style="list-style-type: none"> ▪ Exposure draft on replacement of IAS 20 expected 2nd quarter 2005 <p><u>IAS 37 Provisions</u></p> <ul style="list-style-type: none"> ▪ Exposure draft expected 2nd quarter 2005
Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> ▪ Revised IAS 32 and 39 were 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) ▪ Final revisions expected in 2nd quarter 2005 ▪ ED on shares puttable at fair value expected in 2nd half 2005 ▪ Effective date December 2005 year ends (limited amendment on forecast transactions effective 2006, with early application permitted)
Financial Instruments: Disclosures	<ul style="list-style-type: none"> ▪ Exposure draft ED 7 was issued July 2004 ▪ Final standard expected in 2nd half of 2005 ▪ Expected effective date after 2005 year ends, but permitted for December 2005 year ends
Extractive Industries	<ul style="list-style-type: none"> ▪ Exposure draft ED 6 was issued in January 2004 ▪ IFRS 6 was issued in December 2004 ▪ Effective date 2006 year ends; permitted for 2005 year ends
Insurance Contracts – Phase I	<ul style="list-style-type: none"> ▪ IFRS 4 was issued in March 2004 ▪ Effective date December 2005 year ends
Insurance Contracts – Phase II	<ul style="list-style-type: none"> ▪ Working group appointed in 2005 ▪ Next step is a discussion paper in 2006 or later
Reporting Comprehensive Income (Performance Reporting)	<ul style="list-style-type: none"> ▪ Working group appointed in 2005 ▪ Next step is a discussion paper in 2006 or later
Revenue and Related Liabilities	<ul style="list-style-type: none"> ▪ Discussion paper expected in 2nd half of 2005
Liabilities and Equity	<ul style="list-style-type: none"> ▪ Discussion paper in 2006 or later

Here is the link to the full list of IASB members with short biographies, term expirations, and photos:

www.iasplus.com/restruct/iasbbios.htm

You will find more information about the IASB's SME project here:

www.iasplus.com/agenda/sme.htm

On page 5 of this newsletter, in the Deloitte Letters of Comment section, you will find Deloitte's views on the staff's fair value option proposal.

Garnett, Gélard, and Leisenring reappointed to IASB

Following a recommendation of their nominating committee, the Trustees of the International Accounting Standards Committee Foundation, under which the IASB operates, voted unanimously to reappoint three members of the International Accounting Standards Board to five-year terms beginning 1 July 2005 and ending 30 June 2010. The three Board members are:

- Robert Garnett,
- Gilbert Gélard, and
- James Leisenring.

Questionnaire on SME recognition and measurement

The IASB has published a staff questionnaire on possible modifications of the recognition and measurement principles in IFRSs for use in IASB standards for small and medium-sized entities (SMEs). The IASB plans to hold public round-table meetings with preparers and users of the financial statements of SMEs, most likely in September 2005, to discuss possible recognition and measurement modifications. The questionnaire has been prepared by the staff of the IASB as a tool to identify issues that should be discussed at those round-table meetings. Response deadline is 31 May 2005.

The questionnaire contains two questions:

Question 1: What are the areas for possible simplification of recognition and measurement principles for SMEs? In responding, please indicate:

- the specific accounting recognition or measurement problem for an SME under IFRSs;
- the specific transactions or events that create the recognition or measurement problem for an SME under IFRSs;
- why is it a problem; and
- how that problem might be solved.

Question 2: From your experience, please indicate which topics addressed in IFRSs might be omitted from SME standards because they are unlikely to occur in an SME context. If they occur, the standards would require the SME to determine its appropriate accounting policy by looking to the applicable IFRSs.

Fair value option: staff draft and round-tables

The IASB released a preliminary staff draft of a possible new approach to the fair value option in IAS 39. The draft was the basis of discussion at public roundtable meetings that the Board conducted on 16 March 2005 in London. The IAS 39 fair value option permits entities to designate, at the time of acquisition or issuance, any financial asset or financial liability to be measured at fair value, with value changes recognised in profit or loss.

When the European Commission adopted IAS 39 for use in Europe, they prohibited companies from applying the fair value option to liabilities on grounds that such treatment is inconsistent with the European accounting directives. You can download the fair value option draft from the IASB's website.

You can find more information about the draft memorandum of understanding, including a download link, in the March 2005 past news page on Deloitte's IAS Plus website:

www.iasplus.com/pastnews/2005mar.htm

You will find a summary of the March 2005 IASB-ASBJ convergence meeting on the Japan country page on Deloitte's IAS Plus:

www.iasplus.com/country/japan.htm

You can download the full text of our letters of comment (going back to 1995) at:

www.iasplus.com/dttletr/comment.htm

Draft MoU on national standard setters and IASB

The IASB and accounting standard-setting bodies around the world are seeking comments on a draft Memorandum of Understanding (MoU) on the *Role of National and Regional Accounting Standard-Setting Bodies and their Future Relationships with the IASB*. The draft is intended to set out a shared vision of the respective roles of national and regional standard-setters and of the IASB in working towards a single set of high quality, understandable, and enforceable global accounting standards. An earlier draft of the MoU was discussed at a meeting of world standard setters in September 2004. The IASB requests comments by 29 July 2005. The IASB intends to present a collation of the comments and a revised draft MoU at a meeting of world standard-setters in September 2005.

Convergence talks with Japan

Representatives of the IASB, including Board Chairman Sir David Tweedie, met in Tokyo in March 2005 with representatives of the Accounting Standards Board of Japan (ASBJ) as part of an agreement between the two boards to identify ways to eliminate differences between IFRSs and Japanese standards.

Following that meeting, the ASBJ announced that the two boards agreed to pursue convergence issues in the following five standards in the first phase of the project:

- Measurement of inventories (IAS 2)
- Segment reporting (IAS 14)
- Related party disclosures (IAS 24)
- Unification of accounting policies applied to foreign subsidiaries (IAS 27)
- Investment property (IAS 40)

The ASBJ announcement states that while the two boards have agreed on those five topics, "how to proceed further will be announced when it becomes clearer." The next meeting will take place in London in September.

Elizabeth Hickey is new IASB technical director

The IASB has named Elizabeth Hickey as Director of Technical Activities, effective 1 May 2005. She succeeds Kevin Stevenson, who is returning to his native Australia as a partner in the Global Capital Markets Group at PricewaterhouseCoopers. Since August 2003 Ms Hickey has been the Director of Education of the IASC Foundation. Formerly she was a partner with Ernst & Young in New Zealand and chaired the New Zealand Financial Reporting Standards Board.

Deloitte Letters of Comment

Comments on IFRIC D10

The view expressed in Deloitte's letter of comment on IFRIC Draft Interpretation D10 Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment is quite straightforward: "We agree with the consensus reached by IFRIC." Our letter does make some suggestions for clarifications and for editorial changes.

Comments on the staff paper on IAS 39 FV option

On 23 March 2005, the IASB staff issued a paper on the Proposed Amendment to IAS 39: The Fair Value Option–Effective Date and Transition Provisions. Deloitte’s overall view:

While we remain of the view that the unrestricted fair value option as set out in IAS 39 Financial Instruments: Recognition and Measurement (Revised in March 2004) is preferable to a restricted version, we support the Board’s current proposal compared to the previous restricted fair value option detailed in the Exposure Draft (June 2004). We encourage the Board to issue the amendment as soon as practicable.

The consultation document – *IASC Foundation Constitution: Proposals for Change* – may be downloaded from the IASB’s website:
www.iasb.org

Comments on proposed IASCF Constitution changes

Deloitte has submitted a letter to the trustees of the IASC Foundation in response to the IASCF’s November 2004 Invitation to Comment titled *Review of the IASC Foundation Constitution: Proposals for Change*. Here is an excerpt from our response:

The IASC Foundation has a vital role to play in achieving the goal of one set of high-quality global accounting standards. In protecting the independence of the International Accounting Standards Board, while ensuring its public accountability, it must balance the legitimate demands of constituents for access and responsiveness against the Board’s need to develop high-quality accounting standards that serve the interests of those making economic decisions in an atmosphere that is free of political interference. However, the IASC Foundation must also work to achieve greater accountability and transparency in its own affairs, especially in the oversight of the IASB and its sub-groups (including the appointment, assessment and reappointment of Board Members) as well as the appointment and reappointment of the Trustees. We are disappointed that the proposals in the Invitation to Comment make such modest proposals for change and have not responded to many of the comments made by us in our comment letter of 11 February 2004 and our written evidence before the Trustees’ Constitution Committee submitted on 20 May 2004, as well as by other respondents.

Comments on IFRIC D11

Deloitte has submitted a letter of comment to the International Financial Reporting Interpretations Committee on IFRIC D11 Changes in Contributions to Employee Share Purchase Plans (ESPPs).

Our letter acknowledges that the definition of ‘vesting condition’ in IFRS 2 paragraph BC 7 might lead to the answer proposed in D11. However, Deloitte’s view is that “a more faithful representation of the employee’s decision to cease contributing to the scheme is to recognise an expense for the share-based payment component up until the date that the employee decides to withdraw their cash deposit. However, this accounting treatment is not supported by the current version of IFRS 2.”

News from IFRIC

Three ‘service concessions’ proposals from IFRIC

The International Financial Reporting Interpretations Committee (IFRIC) has released for public comment three related draft interpretations:

- D12 Service Concession Arrangements–Determining the Accounting Model
- D13 Service Concession Arrangements–the Financial Asset Model
- D14 Service Concession Arrangements–the Intangible Asset Model.

There are summaries of all SIC and IFRIC interpretations, and all draft interpretations, on Deloitte’s IAS Plus website:

www.iasplus.com/interps/interps.htm

Service concession arrangements are arrangements whereby a government or other body grants contracts with private operators for the supply of public services, such as roads, energy distribution, prisons, or hospitals.

D12 proposes that if, as often happens, the grantor continues to control how the infrastructure is used both during and after the concession, the operator should not recognise that infrastructure as its own property, plant, and equipment. The operator may construct or acquire such infrastructure for the purpose of the concession. If it does so, it should account for having provided construction services to the grantor under a construction contract, and recognise as an asset the rights it receives in exchange from the grantor.

D13 and D14 provide guidance on how the operator should apply relevant IFRSs when it recognises a financial or intangible asset respectively. Both address the recognition and measurement of contract revenue and costs, and service concession assets and obligations (such as obligations to repair and maintain infrastructure). The three Interpretations are proposed to be effective for annual periods beginning on or after 1 January 2006. Early adoption would be permitted. Comments are requested by 3 May 2005.

The full text of draft interpretations may be downloaded from the IASB's website during the exposure period:
www.iasb.org

IFRIC D15 Reassessment of Embedded Derivatives

The IFRIC has released for public comment Draft Interpretation D15 Reassessment of Embedded Derivatives. IAS 39 Financial Instruments: Recognition and Measurement requires an entity, when it first becomes a party to a contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for separately as derivatives under the standard. (An example of an embedded derivative is the conversion option that is part of an investment in convertible debt.) The two questions addressed in D15, and the proposed responses, are:

Question: Does IAS 39 require assessment of whether an embedded derivative must be separated from the host contract only when the entity first becomes a party to the derivative contract or throughout the life of the contract?

D15 Proposal: Make the assessment only when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract, in which case it is required.

Question: Should a first-time adopter of IFRSs make its assessment on the basis of the conditions that existed when the entity first became a party to the derivatives contract, or those prevailing when the entity adopts IFRSs for the first time?

D15 Proposal: Make the assessment based on the conditions that existed when the entity first became a party to the contract.

To allow entities affected by the final interpretation enough time to change current practices, the proposed effective date for the interpretation is annual periods beginning on or after a date to be set at three months after the interpretation is finalised. Earlier application would be encouraged. Comment deadline on D15 is 31 May 2005.

We have a complete list of IFRIC members, with affiliations, on our IAS Plus website:
www.iasplus.com/restruct/ifric.htm

New IFRIC member appointed

The IASC Foundation Trustees have appointed Shunichi Toyoda of NEC Corporation, Japan, to the IFRIC. He will complete the remainder of the term of Junichi Akiyama, Tama University, Japan, who recently retired from the IFRIC. Mr Toyoda's term expires on 30 June 2006.

IASC Foundation News

The consultation document – *IASC Foundation Constitution: Proposals for Change* – may be downloaded from the IASB's website:
www.iasb.org

Constitution review

The Trustees of the International Accounting Standards Committee Foundation (IASCF), under which the IASB operates, met in London on 18 March 2005 to discuss the comments received on their consultation document *IASC Foundation Constitution: Proposals for Change*. Presented in the table below is Deloitte's summary of the main decisions that Trustees made at that meeting with respect to the constitution review:

IASC TRUSTEES' TENTATIVE DECISIONS FROM THE CONSTITUTION REVIEW

General

- A new sub-paragraph will be added regarding the necessity to take into consideration the needs of SMEs in developing standards.
- The proposal to increase the number of Trustees from 19 to 22 was accepted.
- After considerable discussion, the proposed geographic distribution of Trustees into six North America, six Europe, six Asia/Oceania, and four others was accepted. However, this decision is subject to confirmation in June to allow for comment from the European Commission.
- The Trustees are likely to form a 'contact group' of interested organisations that would be involved in the process of nominating new Trustees and considering renewals. The committee would be consultative and would make recommendations to the Trustees, who would make the decisions.
- The Foundation chairman could serve for up to six years from date of appointment, even if that extends the chairman's term beyond six years total.

Oversight

- After considerable discussion, the Trustees approved a proposed Constitution paragraph that the Trustees will consider but not determine the IASB's technical agenda. Some Trustees commented that protecting the Board's independence was its most important role, but that the Trustees' involvement went a long way to providing 'independence with accountability'.

Funding

- The Trustees agreed to revert to something similar to the existing wording ('assume responsibility') in Constitution.

Composition of the Board

- The size of the IASB will remain at 14.
- The current provision for two part-time seats will remain.
- There should be no explicit geographical balance.
- The proposed easing of the professional background criteria was approved.

IASB voting

- The proposed change was agreed: 9 votes out of 14 will be required (instead of the current simple majority) to approve an exposure draft, final IFRS, or IFRIC Interpretation.

IFRIC

- No Constitutional changes were proposed, but the Trustees will expose the IFRIC's suggestions arising from its own review of operations and may propose changes later on.

SAC

- The chair should be independent of the IASB and the staff.
- The chair should be a half-time salaried position.
- The Trustees will likely grant formal approval to the proposed SAC Charter at its meeting in June. This will be an 'operational' document, not part of the Constitution.

You will find the latest list of IASC Foundation trustees here: www.iasplus.com/restruct/trustees.htm

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

Three new IASC Foundation trustees

The Trustees of the IASCF have appointed three new Trustees:

- Oscar Fanjul, Vice Chairman, Omega Capital, and former Chairman, Founder, and CEO, Repsol, SA, Spain;
- Tsuguoki (Aki) Fujinuma, Chairman and President, Japanese Institute of Certified Public Accountants, Japan ; and
- Antonio Vegezzi, President and Director, Capital International SA, Switzerland.

The appointments take effect immediately and are for terms ending 31 December 2007. Messrs Fanjul, Fujinuma, and Vegezzi fill the vacancies left by the departures of Guido Ferrarini, Koji Tajika, and John Biggs, respectively.

Upcoming Meetings

IASB and SAC MEETINGS 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 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

News from IFAC

Print versions of these handbooks may be purchased from IFAC, and electronic versions may be downloaded without charge, although registration is required. More information is on IFAC's website:
www.ifac.org

Two new handbooks from IFAC

- **IFAC 2005 handbook.** The International Federation of Accountants (IFAC) has released its *2005 Handbook of International Auditing, Assurance, and Ethics Pronouncements*. The handbook includes all pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) and the Ethics Committee through 31 December 2004.
- **IFAC Public Sector Accounting Handbook.** The 2005 edition of the International Federation of Accountants' *Handbook of International Public Sector Accounting Pronouncements* may now be downloaded from IFAC's Website. Print copies may also be ordered. The handbook features all International Public Sector Accounting Standards (IPSASs) issued as of 31 December 2004, including two new standards issued in 2004 dealing with cash-basis reports and impairment of non-cash-generating assets. The standards were developed by IFAC's International Public Sector Accounting Standards Board (IPSASB).

You will find these exposure drafts on the IAASB section of IFAC's website:
www.ifac.org/iaasb/

IAASB issues four exposure drafts

The International Auditing and Assurance Standards Board (IAASB) has invited comments on exposure drafts of four proposed International Auditing Standards (ISAs). The exposure drafts propose new guidance designed to enhance the quality of group financial statement audits, independent auditors' reports, and communications between auditors and those charged with governance.

Titles of the documents, which may be downloaded from IAASB's Website, are:

- Proposed ISA 600 (Revised), *The Audit of Group Financial Statements*.
- Proposed ISA 260 (Revised), *The Auditor's Communication with Those Charged with Governance*.
- Proposed ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*.
- Proposed ISA 706, *Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report* (derived from ISA 701, *Modifications to the Independent Auditor's Report*).

Comments on all of the proposals are due by 31 July 2005.

For more information, go to the WCOA-2006 Website at:
www.wcoa2006istanbul.org.tr.

Information about 2006 World Congress of Accountants

The 17th World Congress of Accountants will be held 13-17 November 2006 in Istanbul, Turkey. Workshop and plenary sessions will be organised around the theme **Generating Economic Growth and Stability Worldwide**. Session topics will include generating economic growth and stability through the accounting profession in the developing nations, capital markets stability worldwide and the accounting profession, and the role of professional accountants in business in contributing to value creation worldwide.

News from IOSCO

More information is on IOSCO's website:

www.iosco.org

and also on:

www.iasplus.com/restruct/restiosc.htm

IOSCO Technical Committee statement on IFRSs

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has issued a *Statement on the Development and Use of International Financial Reporting Standards in 2005*. The statement expresses the Committee's strong endorsement of IFRSs for cross-border securities offerings globally and encourages those countries that permit IFRSs but require a reconciliation to national GAAP to reconsider, on an ongoing basis, whether there is a continuing need for the reconciliation. IOSCO is the global association of over 100 of the world's securities and futures regulators. An excerpt from the Committee's statement:

As numerous countries around the world now engage in the adoption of IFRS in 2005 and beyond, the Technical Committee reaffirms its support for the development and use of IFRS as a set of high quality international standards in cross-border offerings and listings. The Technical Committee recommends that its members allow multinational issuers to use IFRS in cross-border offerings and listings, as supplemented by reconciliation, disclosure and interpretation where necessary to address outstanding substantive issues at a national or regional level. The Technical Committee further encourages members to continually evaluate such supplemental treatments as the implementation of IFRS continues and as the global financial reporting infrastructure is enhanced to encourage the consistent application and enforcement of IFRS. By this approach it is hoped that issuers would be allowed in the foreseeable future to make use of IFRS without reconciliation.

You can download the communiqué here:

www.iasplus.com/restruct/restiosc.htm

Final communiqué from 30th annual IOSCO conference

IOSCO held its 30th annual conference in Colombo, Sri Lanka, from 4 to 7 April 2005. The *Final Communiqué* from the meeting restated IOSCO's long-standing support for IFRSs:

8.1 International Financial Reporting Standards (IFRS). *At this Annual Conference IOSCO has taken the opportunity to reiterate its support for the work of the International Accounting Standards Board (IASB), and encourages its members to accept financial statements in filings for cross-border offerings prepared under the International Financial Reporting Standards (IFRS), with additional reconciliation or disclosure as necessary to meet national standards. In addition, IOSCO has encouraged those members still using supplemental treatments to continue to evaluate their need with the hope that within the foreseeable future, such reconciliation treatments will no longer be necessary.*

IOSCO is also developing procedures to encourage cooperation and consultation among members in the regulatory interpretation and enforcement of IFRS. A consultation paper outlining the options with this approach as well as the principles to be adopted and their implementation has been distributed to the IOSCO membership. IOSCO envisages that it will be in a position to confirm a final model during the second half of 2005, in time to be used in conjunction with reviews of 2005 annual financial statements.

More information is on IOSCO's website:
www.iosco.org

IOSCO initiative on cross-border cooperation

IOSCO has launched an initiative to raise the standards of cross-border cooperation among securities regulators. The initiative will involve a four-part process:

- Identifying jurisdictions that appear to be unable or unwilling to cooperate, and prioritising follow-up work with the jurisdictions presenting the greatest risks to IOSCO's objectives of investor protection, maintenance of fair and efficient markets, and financial stability.
- Entering into a dialogue (initially confidential) with priority jurisdictions to develop a mutual understanding of their ability and willingness to engage in cooperation and to assist them in resolving problems.
- Assessing progress in meeting IOSCO standards for cooperation.
- Considering further actions that will achieve conformity with IOSCO standards.

IFRS-Related News from the United States

For more information see EITF Issue No. 04-6 Accounting for Stripping Costs in the Mining Industry on FASB's website:
www.fasb.org

EITF mining decision affects US IFRS filers

On 30 March 2005, FASB's Emerging Issues Task Force reached a consensus on the treatment of stripping costs incurred in open pit mines once production commences. Those costs are to be considered a variable production cost. Deferral of such costs on the balance sheet via a 'life of mine stripping ratio' is no longer permitted under US GAAP. Foreign companies that file with the SEC and use IFRS or other national GAAP, and that decide to retain the practice of deferring post-production stripping costs, will have to include an adjustment in their US GAAP reconciliation going forward. Pre-production stripping was not addressed by the EITF, so the general practice of capitalising such costs as part of mine development costs is not affected.

You will find links to the SEC's press release and the revised SEC rule in a story dated 3 March 2005 on:
www.iasplus.com/pastnews/2005mar.htm

SEC grants one year SOX 404 deferral for foreign issuers

The US SEC has further extended the compliance dates for foreign private issuers and non-accelerated filers regarding Section 404 of the Sarbanes-Oxley Act. Section 404 requires a company to include in its annual reports a report by management on the company's internal control over financial reporting and an accompanying auditor's report. Under the latest extension, foreign private issuers filing annual reports on Form 20-F or 40-F, as well as non-accelerated filers, must begin to comply with the internal control requirements in their first financial year ending on or after 15 July 2006. This is a one-year extension from the previously established 15 July 2005 date.

The SEC noted that one reason for the deferral for foreign issuers is that "many foreign companies are facing regulatory and reporting challenges in addition to internal control reporting as companies incorporated in a European Union member country are required to prepare their financial statements for 2005 in accordance with new International Financial Reporting Standards."

You will find links to the full text of SAB 107, the SEC's press release, and a comparison of IFRS 2 and FAS 123R in a story dated 30 March 2005 on: www.iasplus.com/pastnews/2005mar.htm

SEC Staff Accounting Bulletin on stock options

The staff of the US Securities and Exchange Commission has issued Staff Accounting Bulletin 107 dealing with valuations and other accounting issues for share-based payment arrangements by public companies under FASB Statement 123R Share-Based Payment. For public companies, valuations under Statement 123R are similar to those under IFRS 2 Share-based Payment.

SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of Statement 123R in an interim period, capitalisation of compensation cost related to share-based payment arrangements, accounting for the income tax effects of share-based payment arrangements on adoption of Statement 123R, the modification of employee share options prior to adoption of Statement 123R, and disclosures in Management's Discussion and Analysis (MD&A) subsequent to adoption of Statement 123R.

One of the interpretations in SAB 107 is whether there are differences between Statement 123R and IFRS 2 that would result in a reconciling item:

Question: Does the staff believe there are differences in the measurement provisions for share-based payment arrangements with employees under International Accounting Standards Board International Financial Reporting Standard 2, Share-based Payment ('IFRS 2') and Statement 123R that would result in a reconciling item under Item 17 or 18 of Form 20-F?

Interpretive Response: The staff believes that application of the guidance provided by IFRS 2 regarding the measurement of employee share options would generally result in a fair value measurement that is consistent with the fair value objective stated in Statement 123R. Accordingly, the staff believes that application of Statement 123R's measurement guidance would not generally result in a reconciling item required to be reported under Item 17 or 18 of Form 20-F for a foreign private issuer that has complied with the provisions of IFRS 2 for share-based payment transactions with employees. However, the staff reminds foreign private issuers that there are certain differences between the guidance in IFRS 2 and Statement 123R that may result in reconciling items. [Footnotes omitted]

SEC amends form 20-F for IFRS adopters|

The SEC has adopted amendments to Form 20-F to provide an accommodation to foreign private issuers that change their basis of accounting to IFRSs prior to or for the 2007 financial year. The amendments also require certain disclosures from all foreign private issuers that adopt IFRSs for the first time during any financial year. The Commission did not, however, change its current requirement for a reconciliation of financial statement items to US generally accepted accounting principles. The SEC announcement says that "the Commission is adopting these amendments to promote and encourage the use of IFRSs as a high quality set of accounting standards."

News about IFRSs in Europe

You can download the EC survey report from Deloitte's IAS Plus website:

www.iasplus.com/restruct/euro2005.htm

Survey on extended use of IFRSs in the EU

The European Commission has updated its survey of the 25 EU member states and the three EEA member countries concerning their plans for the following four options on use of IFRSs that are permitted under the EU Accounting Regulation:

- 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 table below presents Deloitte's summary of the EC report as of January 2005:

EC SURVEY ON EXTENDED USE OF IFRSs IN THE EUROPEAN UNION

Use of IFRSs in the separate company financial statements of listed companies:

- 13 countries will permit: Denmark*, Finland, Germany**, Ireland, Luxembourg, Netherlands, Portugal***, United Kingdom, Norway, Iceland, Liechtenstein, Hungary**, Poland
*required after 2009; **statutory accounts that conform to national GAAP are also required; ***except banks
- 9 countries will require: Greece, Italy*, Czech Republic, Cyprus, Estonia, Latvia, Malta, Slovakia, Slovenia
*except insurance
- 5 countries will prohibit: Austria, France, Spain, Sweden, Latvia
- 1 country undecided: Belgium

Use of IFRSs in the consolidated statements of unlisted companies:

- 24 countries will permit: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy*, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom, Norway, Iceland, Liechtenstein, Czech Republic, Cyprus, Estonia, Hungary, Poland, Slovenia
*except small
- 6 countries will require: Latvia*, Lithuania*, Malta, Poland*, Slovakia, Slovenia*
*for banks only
- 2 countries will prohibit: Latvia*, Lithuania*
*for other than banks

Defer IFRSs to 2007 for companies with only listed debt securities:

- 13 countries will defer: Austria, Belgium, Denmark*, Finland, France, Germany, Luxembourg, Spain*, Sweden, Norway, Iceland, Hungary, Poland
*no deferral for banks
- 15 countries will not defer: all others

Defer IFRSs to 2007 for companies listed overseas using a non-EU GAAP:

- 6 countries will defer: Austria, Belgium, Germany, Luxembourg, Norway, Iceland
- 22 countries will not defer: all others

Information about the status of adoption of IFRSs in Europe can be found on this page:

http://europa.eu.int/comm/internal_market/accounting/ias_en.htm

EC formally endorses IFRS 2 for use in Europe

The European Commission has adopted a regulation endorsing IFRS 2 Share-based Payment for use in Europe. The regulation takes effect retroactively to 1 January 2005. IFRS 2 requires companies to reflect the cost of all share-based payments, including employee stock options, as an expense.

The text was supported almost unanimously by the Member States at the Accounting Regulatory Committee meeting on 20 December and by the European Parliament. A similar rule will go into effect in the United States beginning 15 June 2005. EU Internal Market and Services Commissioner Charlie McCreevy said:

Endorsement of IFRS 2 is very much in the interest of European capital markets and European investors. Granting stock options can be a very effective way for companies to motivate managers and staff, but like any other form of remuneration, it has to be considered as an expense. IFRS 2 will improve the quality of financial reporting by giving financial markets a clearer and more complete picture of a company's transactions.

You can download Mr. Volcker's comments in full from Deloitte's IAS Plus website:

www.iasplus.com/restruct/euro2005.htm#feb2005

IASCF Chairman Volcker's remarks to ARC

IASC Foundation Chairman Paul A. Volcker spoke to the European Commission's Accounting Regulatory Committee about the Trustees' current Review of the Constitution under which the Foundation and the Board operate. Among the points that Mr. Volcker made:

- The underlying reality in my view is that good progress is being made toward achieving a common set of respected accounting standards applicable in all significant markets. That is the grand prize that should not be lost.
- The only way to do that is to achieve a high degree of confidence in the process by which the IASB reaches agreement on internally consistent, effective, realistic, and, I hope, simpler standards.
- In the constitution review, it has not been the Trustees' intent to revisit the entire debate five years ago about the organisation of the IASB and our Constitution. The central idea that emerged from that debate, and will remain, is to foster the independence of judgement of a highly professional, decision-making Board, appropriately protected from particular national or special interest pleading.
- The IASCF proposals released in November directly addressed a large number of the concerns raised by various commentators, in particular those in Europe, including more Board consultation with representative groups, the process for agenda decisions, Board appointments, and Board voting requirements.
- The decision of the European Union to enforce IFRSs by law provided bold and constructive leadership toward the concept of international, rather than national or regional, standards. It does not, however, logically lead to a decision to overweight European representation on the Board or the Trustees. The 'end game', after all, is the acceptability of international standards right around the world.

EFRAG:
www.efrag.org

EFRAG supports IFRICs 4 and 5

The Technical Expert Group of the European Financial Reporting Advisory Group (EFRAG) has sent a letter to the European Commission recommending adoption, for use in Europe, of IFRIC 4 Determining whether an Arrangement Contains a Lease and IFRIC 5 Decommissioning, Restoration and Environmental Rehabilitation Funds. The letters can be downloaded from EFRAG's Website.

EFRAG:
www.efrag.org

EFRAG supports IFRS 6 and revised IASs 19 and 39

The Technical Expert Group of the European Financial Reporting Advisory Group (EFRAG) has sent letters to the European Commission recommending adoption, for use in Europe, of:

- IFRS 6 Exploration for and Evaluation of Mineral Resources.
- Amendments to IAS 19 Employee Benefits–Actuarial Gains and Losses, Group Plans and Disclosures.
- Amendments to IAS 39–Transition and Initial Recognition of Financial Assets and Financial Liabilities.

EFRAG:
www.efrag.org

EFRAG comments on IFRIC D11

The European Financial Reporting Advisory Group (EFRAG) has released its letter of comment on IFRIC Draft Interpretation D11 Changes in Contributions to Employee Share Purchase Plans (ESPPs). The letter expresses agreement with one aspect of the proposed consensus but disagrees with another. EFRAG agrees that if an existing ESPP is replaced by a new ESPP, the entity should account for this replacement as a modification of the original plan in accordance with IFRS 2.

However, EFRAG disagrees with the proposed consensus on how to account if an employee stops contributing to an ESPP while remaining in the entity's employment. D11 proposes that the entity account for this event as a cancellation and, therefore, should recognise immediately as an expense the amount that otherwise would have been recognised for services received over the remainder of the vesting period. EFRAG's letter raises questions about the basis for IFRIC's proposed consensus. Click to download EFRAG's Letter on D11 (PDF 17k).

Both speeches can be downloaded from links on the Europe pages on IAS Plus:
www.iasplus.com/restruct/resteuro.htm

EC Commissioner McCreevy Speaks about IFRSs

In two speeches in April 2005, Charlie McCreevy, the EU Commissioner for Internal Market and Services, discussed a range of issues relating to IFRSs

ICAEW, 5 April 2005

In a speech to the Institute of Chartered Accountants in England and Wales, Commissioner McCreevy covered:

- Convergence of US GAAP and IFRSs
- Convergence of Japanese GAAP and IFRSs
- EC consideration of the equivalence of US, Canadian, and Japanese GAAPs to IFRSs
- The EC 'carve-out' of two sections of IAS 39
- Independence of the IASB
- The need for interpretations
- Enforcement of IFRSs
- Auditor oversight
- The need for international regulatory cooperation in a globalised world

With regard to interpretations, Commissioner McCreevy commented:

Standards must not be undermined by a myriad of interpretations leading to a rules-based system. I very clearly see that the important players, such as the European Financial Reporting Advisory Group (EFRAG), CESR, and the national standard setters, have to ensure that this does not happen. And we need to consider how the links between a strengthened EFRAG and the IASB can be better defined.

Competitiveness and Growth in the EU, 1 April 2005

Commissioner McCreevy urged the United States to recognise IFRS financial statements submitted to the SEC without the need for reconciliation to US GAAP. He noted that with respect to auditing standards “the US authorities have broadly accepted the equivalence of the approach of EU Member States’ audit requirements.” He said he would raise the issue of mutual recognition of accounting standards with the SEC during an upcoming trip to Washington, including insistence on agreement on a framework and a timetable:

Since the beginning of this year, two major sets of standards are being applied globally: US GAAP and International Financial Reporting Standards, which are being applied by listed European companies since the beginning of this year. We have to find a way to free businesses which are active on both sides of the Atlantic from the costly requirement to publish their accounts according to both sets of rules and then having to square them up.

Up to now, US companies listed in Europe were able to publish their accounts in US GAAP. Under our new Prospectus and Transparency Directives, we must come to a decision about the equivalence of US GAAP to allow them to continue to publish their accounts in US GAAP. The Commission will base its decision on a technical report by the Committee of European Securities Regulators due in the summer.

But this is not a one-way street – it is only reasonable for European companies to expect that US regulators will make similar efforts to judge the equivalence of our international standards with US GAAP, and once this is done, to release companies from the costly burdens of converting standards. We intend to work closely with the SEC and standard setters to find a mutually acceptable road map through this problem.

Use of IFRSs Elsewhere in the World

APRA:
www.apra.gov.au

Australia to modify IFRS figures for bank regulation

The Australian Prudential Regulation Authority (APRA) has released the first of two discussion papers setting out its proposed regulatory response to the adoption of IFRSs by APRA-regulated institutions. APRA regulates the Australian financial services industry.

Australia has adopted national GAAP that starting in 2005 is virtually equivalent to IFRSs. The APRA noted that its objective is to “align its prudential and reporting standards with Australian accounting standards and principles to the extent practicable.... In certain circumstances, however, APRA’s prudential framework will depart from accounting standards.”

Among the areas of departure cited in the discussion paper are:

- Fair value measurement
- Non-accrual loans and deferred acquisition costs
- Treatment of hedges
- Available for sale financial assets
- Property
- Excess of market value over net assets
- Loan loss provisioning
- Defined benefit pension plans

APRA also states that it will wait until after implementation of A-IFRSs to assess other areas, including leases, impairment, business combinations, share-based payment, joint ventures, and provisions.

For a link to the Irish legislation, see the news story dated 15 March 2005:
www.iasplus.com/pastnews/2005mar.htm

The Russia page on Deloitte's IAS Plus website:
www.iasplus.com/country/russia.htm

There is a link to download the proposal on the Canada page on Deloitte's IAS Plus website:
www.iasplus.com/country/canada.htm

Ireland extends IFRSs to all companies

The Irish government has passed legislation that permits all companies in Ireland to use IFRSs in both their consolidated financial statements and their separate company financial statements.

Russia may delay move toward adopting IFRSs

In November 2004, we reported on www.iasplus.com that the Russian Duma (parliament) had given preliminary approval to a bill requiring corporations with more than one subsidiary to publish financial statements that conform to IFRSs starting either in 2004 or 2005. We noted that two additional votes of the Duma were required before the bill would become law. It now appears that the legislation is stalled in the Duma. A news story in *Vedomosti* (Russia's top business newspaper, a joint venture of the Financial Times and Wall Street Journal) on 2 February 2005 was titled 'IFRS to be Adjourned' and stated that "the effort has come to a standstill".

A few weeks later (22 February 2005), an editorial in *Vedomosti* said that neither the business community nor government is ready for transition to IFRS because "there are no incentives for transparency and there are technical difficulties for implementation that may cause chaos in the reporting rather than increase investment attraction". The editorial also questioned the quality of current IFRS implementation by Russian banks, which have been required to use IFRSs since third quarter 2004.

Proposal to replace Canadian GAAP with IFRSs

The Canadian Institute of Chartered Accountants' Accounting Standards Board (AcSB) has issued an Invitation to Comment on its draft strategic plan, Accounting Standards in Canada: Future Directions. The draft plan includes the AcSB's proposal to follow separate strategies for public companies, private businesses, and not-for-profit organisations. Highlights:

- For public companies, the AcSB will direct its efforts primarily to participating in the movement toward the global convergence of accounting standards. "The best way to achieve the objective of a single set of globally accepted, high-quality accounting standards is to converge Canadian GAAP with International Financial Reporting Standards (IFRSs) over a transitional period, expected to be five years. At the end of that period, Canadian GAAP will cease to exist as a separate, distinct basis of financial reporting for public companies." The AcSB also acknowledges that US GAAP is an appropriate alternative when regulators and other competent authorities choose to permit its use.
- For private businesses, the AcSB will clarify that GAAP applies only to entities that have significant external users of their financial statements. For those entities, the AcSB will undertake a comprehensive examination of their financial reporting needs and determine the most appropriate model for meeting those needs.
- For not-for-profit organisations, the AcSB will continue to apply those elements of GAAP for profit-oriented enterprises that are applicable to their circumstances, and develop other standards dealing with the special circumstances of the not-for-profit sector.

The deadline for written comments on the proposed strategies is 31 July 2005.

Download these checklists, as well as our IFRS model financial statements for 2005, without charge at:
www.iasplus.com/fs/fs.htm

Download this and other Deloitte IFRS publications without charge at:
www.iasplus.com/dttpubs/pubs.htm

For international orders, email:
custservice@johnwiley.com.au
(cite ISBN: 0470804947).

And, as a reminder, there's also IASPlus in Spanish:
iasplus.deloitte.es/

Publications from Deloitte

IFRS compliance, presentation/disclosure checklists

Deloitte Touche Tohmatsu is pleased to make publicly available our IFRS Compliance Questionnaire and IFRS Presentation and Disclosure Checklist, both applicable for financial periods commencing 1 January 2005. These checklists complement our Model IFRS Financial Statements for 2005, which we had previously posted on www.iasplus.com.

New Deloitte guidance on IFRS interim reporting

Deloitte & Touche (United Kingdom) has published *The Half-time Results – Reviewing and Revising Corporate Interim Reporting*. The publication consists of three parts:

- A survey on corporate interim reporting by listed companies to review progress compared to a 2002 Deloitte publication and to assess present UK practice against current and future reporting requirements for interim reports.
- Model interim financial statements to illustrate the typical content and disclosures expected of a UK listed company that chooses, in its 2005 interim report, to follow IAS 34 Interim Financial Reporting.
- A checklist for interim reporting covering the requirements of the UKLA Listing Rules, IAS 34, the Transparency Directive, and additional recommendations by the Statement on Interim Reporting by the Accounting Standards Board.

While focussed on interim reporting by UK listed companies, this publication should be of use to all IFRS adopters that prepare half-yearly or quarterly reports.

New IFRS textbook

Paul Pacter, a director in Deloitte's IFRS Global Office and webmaster of IASPlus, is co-author of a new university textbook *Applying International Accounting Standards*, published by John Wiley and Sons. The focus of this 1,112-page text is on the analysis, illustration, and application of International Financial Reporting Standards. The textbook has been written for intermediate and advanced financial reporting courses, at both undergraduate and postgraduate level, and aligns with the knowledge expectations of the accounting profession.

Paul's co-authors are Keith Alfredson, former chairman of the Australian Accounting Standards Board (AASB); Ruth Picker, AASB deputy chairman and a technical partner of Ernst & Young; and Ken Leo and Jeannie Radford, both of Curtin University of Technology in Australia.

You will find more information on the book's home page:
www.johnwiley.com.au/highered/applyingias/.

Announcing the launch of IAS Plus in German

We are pleased to announce the launch of www.iasplus.de – our German language IAS Plus website managed by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. While not all sections of the site are completed yet, already you will find the latest news, summaries of many of the standards and interpretations, and various Deloitte publications, all in German.

Download this and other Deloitte IFRS publications without charge at:

www.iasplus.com/dttpubs/pubs.htm

Guide to IFRS 1 in Polish

Deloitte has published the Polish translation of our popular guide to IFRS 1 First-time Adoption of IFRSs. As with the English language version, the guide in Polish includes:

- A summary of IFRS 1.
- Specific issues related to first-time adoption.
- Questions and responses.
- A disclosure checklist.

Also, 300,000 copies of the Polish translation were inserted in CD ROM format in the 23 March 2005 issue of the biggest Polish daily newspaper Rzeczpospolita.

IFRS in your Pocket 2005 in Spanish

Deloitte (Spain) has published IFRS in your Pocket 2005 in Spanish: *Guía Rápida IFRS*. This 112-page booklet is the third edition of the Spanish language equivalent of our popular English language guide, *IFRS in your Pocket 2005*.

IFRS in your Pocket 2005 in Chinese

Deloitte (China) has published IFRS in your Pocket 2005 in Chinese. This 67-page booklet is a translation of the English language version published in January 2005.

You can always access IFRS e-learning without charge by clicking on the light bulb icon on the IAS Plus home page:

www.iasplus.com

Over 200,000 e-learning downloads from IASPlus

As of 1 April 2005, 200,000 Deloitte IFRS e-learning modules had been downloaded from IASPlus by people in over 150 countries. Deloitte's e-learning was launched at the end of January 2004. Many of the downloaded modules have multiple users because organisations are permitted to install them on their own servers for the internal use of their employees or students. In addition, tens of thousands of additional modules have been completed online and offline by Deloitte staff.

Thirty-three modules are now available. The IFRS 5 module, issued in February 2005, is the latest release. IASs 32 and 39 on financial instruments are being covered in three modules. The first module is already available. The other two modules are nearing completion.

Download this and other Deloitte IFRS publications without charge at:

www.iasplus.com/dttpubs/pubs.htm

SOX 404 compliance challenges for foreign private issuers

In the United States, public companies large and small have laboured over the requirements of section 404 of the Sarbanes-Oxley Act. Accelerated filers with international operations are now finalising their assessment of internal control over financial reporting. Foreign Private Issuers (FPIs), beginning with year-ends on or after 15 July 2006, are required to include an internal control report from management in their annual report.

Deloitte's new publication, *Sarbanes-Oxley Section 404: Compliance Challenges for Foreign Private Issuer*, summarises the experiences of FPIs and highlights key challenges that your company may face as part of your section 404 readiness activities.

Accounting Standards Update in the Asia-Pacific Region

AUSTRALIA

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In early March 2005, the Australian Parliament, following a recommendation by the Parliamentary Joint Committee on Corporations and Financial Services, did not exercise its power of veto over standards adopted by the Australian Accounting Standards Board (AASB). Therefore, Australian Equivalents to IFRSs (A-IFRSs) became part of the law in Australia effective for annual reporting periods beginning on or after 1 January 2005. This represents the final hurdle for formalisation of the standards in Australia, although IASB and IFRIC developments continue to be incorporated into A-IFRSs.

Consistent with developments internationally, the AASB has amended AASB 119 Employee Benefits to include two additional alternatives for accounting for actuarial gains and losses related to defined benefit plans:

- The corridor approach, which was previously eliminated from the earlier version of AASB 119 (applicable for year ends beginning 1 January 2005); and
- Full recognition directly in retained earnings – a new alternative introduced by the IASB.

The revised AASB 119 will only be operative for annual reporting periods beginning on or after 1 January 2006. However, the revised standard can be early adopted as part of the first-time adoption of A-IFRSs.

The Urgent Issues Group (UIG) has issued two Australian equivalents to IFRIC Interpretations and a domestic Interpretation:

- UIG 2 Members' Shares in Co-operative Entities and Similar Instruments – applicable to annual reporting periods ending on or after 31 December 2005.
- UIG 3 Emission Rights – applicable to annual reporting periods ending on or after 28 February 2006.
- UIG 1013 Consolidated Financial Report in Relation to Pre-Date-of-Transition Stapling Arrangements – applicable to annual reporting periods ending on or after 31 December 2005.

Further, the UIG has reached consensus on draft Interpretation UIG 1052 Tax Consolidation Accounting, which is expected to be approved by the UIG at its next meeting in May 2005, effective for annual reporting periods ending on or after 31 December 2005.

HONG KONG

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During January 2005, the Hong Kong Institute of Certified Public Accountants (HKICPA) issued guidance encouraging preparers to disclose the impact of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards effective for accounting periods beginning on or after 1 January 2005.

During February 2005 the HKICPA issued the following new standards, interpretations, and amendments to standards/interpretations, based on the equivalent international standards issued by the IASB:

- HKFRS 6, Exploration for and Evaluation of Mineral Resources
- HKFRS-Int 2, Members' Shares in Co-operative Entities and Similar instruments
- HKFRS-Int 3, Emission Rights
- HKFRS-Int 4, Determining whether an Arrangement contains a Lease
- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- Amendments to HKAS 19, Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures

HONG KONG, continued

- Amendments to HKAS 39, Financial Instruments: Recognition and Measurement–Transition and Initial Recognition of Financial Assets and Financial Liabilities.
- Amendments to HKAS Int 12, Scope of HKAS Int 12 Consolidation–Special Purpose Entities

In March 2005, the HKICPA issued its final proposal in the form of an Exposure Draft on the financial reporting framework and standard for small and medium- sized entities (SME). It is largely based on the Institute's Consultation Paper, which was issued in June 2004.

Also in March 2005, the Institute issued Interpretation 24, Revenue–Pre-completion Contracts for the Sale of Development Properties, which will lead to more consistent accounting by property developers, and an Exposure Draft that contains a proposed Accounting Guideline on Merger Accounting. The Exposure Draft sets out the proposed basic principles and procedures of merger accounting and will result in the withdrawal of SSAP 27, Accounting for Group Reconstructions when it is finalised.

INDIA

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Revised Accounting Standard 15 on Employee Benefits

The Institute of Chartered Accountants of India (ICAI) has issued Revised Accounting Standard (AS) 15 Employee Benefits. AS 15 prescribes accounting and disclosure for all employee benefits except employee share-based payments. The effective date has not yet been specified.

The Revised AS 15 identifies four categories of employee benefits and prescribes the accounting for each similarly to IAS 19:

- short-term employee benefits, including paid annual leave, profit sharing and bonuses payable within 12 months of the end of the period, and non-monetary benefits for current employees;
- post-employment benefits including gratuity, pension, other retirement benefits, life insurance, and medical care;
- other long-term employee benefits, including long-service leave or sabbatical leave, long-term disability benefits and compensation payable beyond 12 months after the end of the period; and
- termination benefits.

Treatment of inter-divisional transfers

The ICAI has issued an announcement that states that the recognition of inter-divisional transfers within an enterprise as sales is an inappropriate accounting treatment and is inconsistent with Accounting Standard (AS) 9, Revenue Recognition. In case of inter-divisional transfers, risks and rewards remain within the enterprise. Also there is no consideration from the point of view of the enterprise as a whole. Therefore, the criteria for revenue recognition are not fulfilled.

JAPAN

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Convergence with IFRS

On 9 and 10 March 2005, representatives of the Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board (IASB) held an initial meeting in Tokyo to discuss their convergence project between Japanese GAAP and IFRSs. The two boards agreed on five topics as agenda items in the first phase of the project. For details please see the story on page four of this newsletter.

Japan, continued

Amendment of Accounting Standards for Retirement Benefits

On 16 March 2005, ASBJ issued Accounting Standard No. 3, Amendment of Accounting Standards for Retirement Benefits, and Related Guidance. Before that amendment, Japanese standards prohibited the recognition of the excess of fair value of plan assets over the present value of pension obligations as an asset. Such an excess can occur either by an excess of actual gains over expected gains on the plan assets or by the reduction of retirement benefits. The Amendment Standard No. 3 withdraws the prohibition and requires an entity to treat the excess as past service liabilities or actuarial differences. The Amendment Standard is effective for financial years beginning on 1 April 2005. Early adoption is permitted.

Discussion Paper–Business Combinations and Business Separations

On 28 January 2005, ASBJ issued a Discussion Paper on *Accounting Standards for Business Separations and Guidance on Accounting Standards for both Business Combinations and Separations*. The discussion paper includes accounting guidance for business combinations and separations, such as acquisitions and unitings (poolings) of interest, transactions under common control, the formation of jointly controlled entities, and separation and split-off of a business. The new standards and guidance will be issued by early 2006 and effective for financial years beginning on 1 April 2006.

New Company Law

The legislative council, a consultative body of the Ministry of Justice, wrapped up the final draft of a comprehensive amendment of the Commercial Code. The draft of the New Company Law, as successor of the current Commercial Code, enables an entity to choose its formation and capital structure more flexibly. The draft also enables an entity to structure business combinations more flexibly. However, application of articles relating to the acquisition by foreign companies using their own shares as consideration will be postponed for a year, as related articles will be added after later discussions.

The final draft is expected to be approved by the National Diet during the first half in 2005 and expected to be effective for financial years beginning on 1 April 2006.

Two New Exposure Drafts

During the first quarter of 2005, the Malaysian Accounting Standards Board (MASB) issued two Exposure Drafts (EDs) as follows:

- ED 46 Proposed Improvements to Financial Reporting Standards
- ED 47 First-time Adoption of Financial Reporting Standards

Exposure Draft ED 46 is the final batch of the Improvements project proposals and comprises revision to the following four Standards:

- FRS 127 [formerly known as MASB 11], Consolidated Financial Statements and Investments in Subsidiaries
- FRS 128 [formerly known as MASB 12], Investments in Associates
- FRS 131 [formerly known as MASB 16], Financial Reporting of Interests in Joint Ventures
- FRS 133 [formerly known as MASB 13], Earnings per Share.

MALAYSIA

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FRS 127, Consolidated Financial Statements and Investments in Subsidiaries

The proposed revision to FRS 127 is identical to IAS 27 (as revised December 2003) except that FRS 127 would require that, for a wholly-owned parent company to be exempted from presenting consolidated financial statements, the ultimate or immediate parent company must be incorporated in Malaysia. This is consistent with the requirement in the Ninth Schedule of the Malaysian Companies Act, 1965.

FRS 128, Investments in Associates

The proposed revision to FRS 128 is identical to IAS 28 (as revised December 2003) except that FRS 128 would require that, for an investment in associated company to be exempted from equity accounting, the ultimate or immediate parent company must be incorporated in Malaysia. This is consistent with the proposal made in [draft] FRS 127 as highlighted above.

FRS 131, Financial Reporting of Interests in Joint Ventures

Proposed Standard FRS 131 is similar to the IAS 31 Interests in Joint Ventures (as revised December 2003), which allows a venturer to use either the proportionate consolidation method or the equity method to account for its interest in a jointly controlled entity.

This choice of measurement is not found in the existing FRS 131. Under FRS 131, only the equity method is allowed in accounting for the venturer's interest in a jointly controlled entity.

Proposed Standard FRS 131 removes the following provisions in the existing FRS 131 that are not found in IAS 31:

- paragraph 4 of FRS 131, which contains additional explanation with regard to joint control;
- paragraphs 16, 17, and 22 of FRS 131 which provide additional guidance on jointly controlled assets;
- paragraphs 45 to 47 of FRS 131, which incorporate the consensus from SIC-13 Non-Monetary Contributions by Venturers; and
- Paragraphs 54 to 57 of FRS 131, which require that a venturer account for its interest in a joint venture using uniform accounting policies and the same reporting date.

FRS 133, Earnings per Share (EPS)

The existing FRS 133 prescribes that if the number of ordinary shares changes as a result of a capitalisation, bonus issue, or share split / reverse share split occurring after the balance sheet date but before the financial statements are authorised for issue, the EPS calculations should not be adjusted for these changes. However it does require disclosure of pro forma EPS calculations based on those changes.

However, proposed Standard FRS 133 is similar to the revised IAS 33 Earnings per Share, which provides that in such a case, the EPS calculations presented must be based on new number of shares.

Proposed Standard FRS 133 removes the following provisions in the existing FRS 133 not found in the IAS 33 equivalents:

- paragraph 2 of FRS 133 on the meaning of 'the process of issuing shares in public securities market';
- paragraphs 11 and 26 of FRS 133 with regard to the additional explanation on basic EPS and diluted EPS respectively; and
- paragraphs 16, 24, 33 and 36 of FRS 133 with regard to the additional explanation on basic and diluted EPS, including guidance on shares that were bought back.

MALAYSIA, continued

As MASB has yet to adopt SIC Interpretations, all references to SIC Interpretations are deleted from ED 46.

ED 47 First-time Adoption of Financial Reporting Standards

ED 47 is identical to IFRS 1 First-time Adoption of International Financial Reporting Standards, which was issued by the IASB in June 2003.

Amendments to the Financial Reporting Act, 1997

Amendments to the Financial Reporting Act, 1997 (the Act) were gazetted by Parliament of Malaysia on 31 December 2004 and took effect from 1 January 2005. The amendments, among other thing, allow foreign companies listed on a stock exchange in Malaysia to apply either:

- MASB approved accounting standards; or
- Any acceptable international accounting standards issued by accounting standards issuing bodies recognised by MASB under Section 26A of the Act.

The MASB Board, under its powers pursuant to Section 26A of the Act, approved the accounting standards issued by the following standards issuing bodies as acceptable international accounting standards:

- International Accounting Standards Board.
- Financial Accounting Standards Board, United States of America.
- Accounting Standards Board, United Kingdom.
- Australian Accounting Standards Board, Australia.

The amendments do not affect the required compliance with MASB accounting standards by Malaysian companies.

NEW ZEALAND

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The New Zealand Financial Reporting Standards Board (FRSB) has issued for comment seven exposure drafts of IFRS interpretations. These are:

- IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments
- IFRIC 3 Emission Rights
- IFRIC 4 Determining Whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC D10 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
- IFRIC D11 Changes in Contributions to Employee Share Purchase Plans
- IFRIC D12 Service Concession Arrangements - Determining the Accounting Model
- IFRIC D13 Service Concession Arrangements - the Financial Asset Model
- IFRIC D14 Service Concession Arrangements - the Intangible Asset Model
- IFRIC D15 Reassessment of Embedded Derivatives

FRSB also issued in draft form the IASB Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs).

NEW ZEALAND, continued

Additionally, FRSB issued several exposure drafts to clarify the application of IFRSs in New Zealand.

ED-98 - Framework for Differential Reporting for entities applying the New Zealand Equivalents to IFRS reporting regime

- This exposure draft is not a full review of the differential reporting regime in the context of IFRS. It is intended to be a short term regime until the IASB has completed its work on developing accounting standards for small and medium-sized entities and the Ministry of Economic Development (MED) has completed its review of the Financial Reporting Act 1993. Both of these projects may have an impact on what concessions are appropriate in a differential reporting regime.
- The proposed framework will be applicable for qualifying entities at the same time or subsequent to an entity's compliance with NZ IFRS 1: First Time adoption of New Zealand Equivalents to IFRS.
- Currently the framework proposes full exemption from NZ IS 14 Segments Reporting and from NZ SIC-29 Service Concession Arrangements. Partial exemptions are proposed for 21 standards and 2 interpretations.

ED-99 Impairment of Non-cash Generating assets by PBEs: a proposed amendment to NZ IAS 36 Impairment Assets

- The exposure draft requires public benefit entities (PBEs) to measure the value-in-use of non cash generating assets using depreciated replacement cost.
- The adoption of a class basis in respect of recognising impairment gains and losses will be permitted.
- The proposed amendments will become operative for a period beginning on or after 1 January 2006 for public benefit entities that elect to adopt NZ IFRS for a period beginning before 1 January 2007.

ED-100 Proposed Amendments to NZ IAS 1 Presentation of Financial Statements

Entities will be required to disclose:

- The statutory base under which the statements are prepared.
- Whether the entity is a profit oriented entity, public benefit entity or a qualifying entity applying differential reporting exemptions.
- All entities must assert in a separate statement compliance with NZ GAAP, which will assert the entity's compliance with New Zealand equivalents to IFRS and other applicable Financial Reporting Standards, as appropriate to that entity, such as:
 - compliance with New Zealand equivalents to IFRSs, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entity;
 - compliance with New Zealand equivalents to IFRSs, and other applicable Financial Reporting Standards, as appropriate for public benefit entity;
 - compliance with New Zealand equivalents to IFRSs, and other applicable Financial Reporting Standards, as appropriate for profit-oriented/public benefit entity that qualifies for and applies differential reporting concessions;
- Entities that comply with IFRSs must assert their compliance.
- Entities applying differential reporting exemptions cannot assert compliance with IFRSs.

NEW ZEALAND, continued

ED-101 New Zealand application guidance: when is an entity a public benefit entity?

The exposure draft gives guidance on which entities are public benefit entities using the following three guidelines:

- The founding documents of the entity (describing the purpose of the entity and its key objectives).
- The nature of the benefits generated by the entity.
- The quantum of financial surplus expected from the entity.

SINGAPORE

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During the first quarter of 2005, the Council on Corporate Disclosure and Governance (CCDG) approved the following standard and amendments, which are identical to those issued by the IASB except for the effective date of FRS 40 as explained below:

- FRS 40 Investment Property (IAS 40 revised);

IAS 40 (revised) is effective for annual periods beginning on or after January 1, 2005. In Singapore, FRS 40 will be effective for annual periods beginning on or after January 1, 2007.

- Amendments to FRS 39 (IAS 39) Transition and Initial Recognition of Financial Assets and Financial Liabilities; and
- Amendment to Scope of INT/FRS 12 Consolidation – Special Purpose Entities (Amendment to the Scope of Interpretation SIC 12 Consolidation – Special Purpose Entities).

The CCDG also issued the following exposure drafts of proposed interpretations during the 1st quarter of 2005:

- ED INT FRS Service Concession Arrangements – Determining the Accounting Model (Draft IFRIC Interpretation D12);
- ED INT FRS Service Concession Arrangements – The Financial Asset Model (Draft IFRIC Interpretation D13);
- ED INT FRS Service Concession Arrangements – The Intangible Asset Model (Draft IFRIC Interpretation D14); and
- ED INT FRS Reassessment of Embedded Derivatives (Draft IFRIC Interpretation D15).

The following exposure drafts of proposed standards are still outstanding:

Issued in 2004

- ED FRS Exploration for and Evaluation of Mineral Resources (IFRS 6);
- ED Proposed Amendments to FRS 103 (IFRS 3) Business Combinations – Combinations by Contract Alone or Involving Mutual Entities;
- ED Proposed Amendments to FRS 19 (IAS 19) Actuarial Gains and Losses, Group Plans and Disclosures;
- ED Proposed Amendments to FRS 39 (IAS 39) Financial Instruments: Recognition and Measurement – The Fair Value Option;
- ED Amendments to FRS 39 (IAS 39) Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- ED Amendments to FRS 39 (IAS 39) and FRS 104 (IFRS 4) Financial Guarantee Contracts and Credit Insurance; and
- ED FRS Financial Instruments: Disclosures (ED IFRS 7).

SINGAPORE, continued

The following exposure drafts of proposed interpretations are still outstanding:

Issued in 2003

- ED INT FRS, Emission Rights (IFRIC Interpretation 3).

Issued in 2004

- ED INT FRS Determining Whether an Arrangement Contains a Lease (IFRIC Interpretation 4);
- ED INT FRS Decommissioning, Restoration and Environmental Rehabilitation Funds (IFRIC Interpretation 5);
- ED INT FRS Applying FRS 29 Financial Reporting in Hyperinflationary Economies for the First Time (Draft IFRIC Interpretation D5);
- ED INT FRS Multi-employer Plans (Draft IFRIC Interpretation 6);
- ED INT FRS Members' Shares in Co-operative Entities (IFRIC Interpretation 2);
- ED INT FRS Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions (Draft IFRIC Interpretation D9);
- ED INT FRS Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (Draft IFRIC Interpretation D10); and
- ED INT FRS Changes in Contributions to Employee Share Purchased Plans (Draft IFRIC Interpretation D11).

TAIWAN

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On 30 December 2004, the Accounting Research and Development Foundation (ARDF) of the Republic of China revised Statement of Financial Accounting Standards (SFAS) No. 1, The Framework of Financial Accounting Concepts and Financial Report Preparation, to make it consistent with SFAS No. 34, Accounting for Financial Instruments. SFAS No. 34 applies to accounting periods beginning on or after 1 January 2006, and earlier application is not permitted.

The ARDF is now framing SFAS No.36, Presentation and Disclosure of Financial Instruments. This standard, which is in line with IAS No. 32, Financial Instruments: Disclosure and Presentation, specifies the standards for presenting and disclosing of financial instruments. Similar to SFAS No. 34, SFAS No. 36 should be adopted at the start of 2006, and earlier application is not permitted.

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