

IAS PLUS

Newsletter – UK Edition April 2003

**Deloitte
Touche
Tohmatsu**



DELOITTE TOUCHE TOHMATSU GLOBAL IAS LEADERSHIP TEAM

IAS GLOBAL OFFICE

GLOBAL IAS LEADER

Ken Wild

kwild@deloitte.co.uk

IAS CENTRES OF EXCELLENCE

EUROPE-AFRICA

LONDON

Veronica Poole

iasplus@deloitte.co.uk

PARIS

Laurence Rivat

iasplus@deloitte.fr

JOHANNESBURG

Graeme Berry

iasplus@deloitte.co.za

COPENHAGEN

Stig Enevoldsen

dk_iasplus@deloitte.dk

AMERICAS

D. J. Gannon

iasplusamericas@deloitte.com

ASIA -PACIFIC

Stephen Taylor

iasplus@deloitte.com.hk

IAS PLUS WEB SITE

Over 250,000 people visited our www.iasplus.com web site in 2002 (compared to 90,000 in 2001). Our goal is to be the most comprehensive source of news about IFRS on the Internet. Please check in regularly during 2003.

© 2003 Deloitte Touche Tohmatsu

IASB NEWS

Effective dates of new or revised Standards

Some new IFRS and revised IAS will be mandatory for 2005, others won't be until later, see on page 3.

Convergence

IFAD study shows trend toward GAAP convergence (page 3).

IASB roundtables on IAS 32 and 39

108 commentators met with the Board over five days in March 2003. Details on page 4.

IASB Agenda project updates

- Business Combinations Phase II: page 5.
- First-Time Adoption of IFRS: page 6.
- Financial Activities: page 6.
- Insurance Contracts – Phase I: page 7.
- Convergence Short Term: IFRS and US GAAP: page 7.
- Improvements to IFRS: page 8.
- IFIRC update: page 9.

News from the United States

FASB takes on stock options (page 10). PCAOB international news (page 10). Sarbanes-Oxley Act (page 10).

News in Europe

New accounting directive (page 11). Process for endorsing IFRS (page 11). Transparency directive (page 11). CESR standard on enforcement of IFRS (page 11). UK convergence handbook (page 12).

National adoptions of IAS

Page 12.

Publications from Deloitte Touche Tohmatsu

Audit committees (page 13).

About Deloitte Touche Tohmatsu

Page 13.

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

TIMETABLE FOR IASB PROJECTS

During the first quarter of 2003, the IASB did not publish any exposure drafts or final Standards. Nor did the IFRIC publish any draft Interpretations or final Interpretations. The Board did make certain changes to its project timetable. These are reflected below:

TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS	
Business Combinations – Phase I	<ul style="list-style-type: none"> ● Exposure Drafts were issued December 2002 ● Final Standards in 4th quarter 2003
Business Combinations – Phase II: Application of the Purchase Method	<ul style="list-style-type: none"> ● Exposure Draft in 2nd quarter 2003 ● Final Standard in 2004
Consolidation (including Special Purpose Entities)	<ul style="list-style-type: none"> ● Timetable not yet established
Convergence Topics – Short-term issues	<ul style="list-style-type: none"> ● Exposure Draft in 3rd quarter 2003 ● Final Standard in 2004
Convergence Topics – Other issues	<ul style="list-style-type: none"> ● Timetable not yet established
Disclosure and Presentation of Activities of Financial Institutions	<ul style="list-style-type: none"> ● Exposure Draft in 3rd quarter 2003 ● Final Standard in 2004
First-Time Application of IFRS	<ul style="list-style-type: none"> ● Exposure Draft was issued July 2002 ● Final Standard in 3rd quarter 2003
IAS 32 and IAS 39 Amendments	<ul style="list-style-type: none"> ● Exposure Draft was issued June 2002 ● Final Standard in 3rd quarter 2003
Improvements to International Accounting Standards	<ul style="list-style-type: none"> ● Exposure Draft was issued in May 2002 ● Final Standards in 2nd quarter 2003
The Income Statement (Performance Reporting)	<ul style="list-style-type: none"> ● Exposure Draft in 4th quarter 2003 ● Final Standard in 2004
Insurance Contracts – Phase I	<ul style="list-style-type: none"> ● Exposure Draft in 4th quarter 2003 ● Final Standard in 2004
Insurance Contracts – Phase II	<ul style="list-style-type: none"> ● Timetable not yet established
Revenue Recognition, Liabilities and Equity: Concepts	<ul style="list-style-type: none"> ● Exposure Draft in 3rd quarter 2003 ● Final Standard in 2004
Share-Based Payment	<ul style="list-style-type: none"> ● Exposure Draft was issued in November 2002 ● Final Standard in 4th quarter 2003

2005 is a key year because nearly 7,000 listed companies in Europe will be required to adopt IFRS in 2005. Standards mandatory for 2005 will, therefore, be part of the first-time IFRS adoption process for those companies. Comparative financial statements and note data for 2004 must also be on an IFRS basis.

This is the third annual study of national GAAPs and IFRS conducted by the large accounting firms under the auspices of the International Forum for Accountancy Development (IFAD). You can find links to them all on our IFAD page: www.iasplus.com/resource/ifad.htm

EFFECTIVE DATES OF NEW OR REVISED STANDARDS

The IASB has announced that the following new or revised standards will be mandatory for 2005:

- Business Combinations – Phase I and Phase II.
- Convergence – Short-term Issues.
- First-Time Adoption of IFRS.
- Improvements to Existing IFRS.
- Amendments to IAS 32 and IAS 39.
- Insurance Contracts Phase I.
- Share-Based Payment.

The Board also announced that while it hopes to complete the following projects in 2004 or early 2005, they would not be mandatory for 2005 year-ends, though early adoption would be encouraged:

- Consolidation, including special purpose entities.
- Deposit-Taking, Lending, and Securities Activities.
- The Income Statement (Performance Reporting).
- Post-Employment Benefits (part of the Convergence project).
- Liabilities, Equity, and Revenue Recognition.
- Segment Reporting (part of the Convergence project).

STUDY SHOWS GLOBAL TREND TOWARD GAAP CONVERGENCE

A study conducted jointly by the world's six largest accountancy firms, including Deloitte Touche Tohmatsu, 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% 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% said they were adopting IFRS on a standard by standard basis, and a further 20% said they were eliminating differences between national standards and IFRS as and when practical.

57% of those planning to adopt IFRS were driven by a government or regulatory requirement and 13% by standard setters. 51% of the 59 countries indicated that the complex nature of some of the international standards – in particular, those relating to financial instruments, and others incorporating fair value accounting – is a barrier to convergence in their country.

In addition, 49% of the countries surveyed also cited the tax-driven nature of their national accounting regime as a hurdle. Consequently, many countries are at present limiting implementation of IFRS to listed companies, rather than extending it to all companies.

Survey respondents also stressed the importance of getting better and more timely access to national language translations of the new standards and interpretations. While translations of IAS were available in 70% of the countries covered, in many cases the translations were not sanctioned by the IASB, and in nearly one-third of the countries where IFRS are available in the national language, the translations were not considered to be available quickly enough. Another area of challenge identified was the availability of IFRS training, for which demand is expected to build up significantly as the world moves towards new standards.

In July 2002, the IASB proposed some major changes to IAS 32 and IAS 39 on financial instruments. The principal changes would:

- Allow an entity to designate any financial instrument (including its own outstanding debt) irrevocably at initial recognition as an instrument to be measured at fair value, with changes in fair value recognised in profit or loss.
- Allow an entity to designate any originated loans and receivables as available for sale, resulting in measuring them at fair value in the balance sheet.
- Require that all fair value changes for available-for-sale financial instruments be recognised as a separate component of equity, with 'recycling' through net profit or loss when the financial asset is sold.
- Add guidance for recognising impairment losses in groups of loans.
- Prohibit reversal of impairment losses previously recognised for available-for-sale financial assets.
- Treat hedges of firm commitments as fair value hedges, not as cash flow hedges.
- Prohibit 'basis adjustment' for hedges of forecasted transactions, though continue to require basis adjustment for fair value hedges.
- Establish the principle of 'no continuing involvement' for deciding whether a financial asset should be derecognised. Derecognition would not be permitted to the extent that the entity could, or could be required to, reacquire control of the transferred asset, or could receive or be required to pay compensation based on the performance of the asset.

IASB HOLDS ROUNDTABLES ON IAS 32 AND IAS 39

The IASB held public roundtable discussions of its exposure draft of proposed amendments to IAS 32 and IAS 39 in Brussels and London from 10 to 14 March 2003. The purpose of the forums was to provide an opportunity for the Board and constituents to meet and discuss issues raised in the comment letters on the IASB's exposure draft. These were not decision-making meetings of the Board. Rather, they were intended to help increase the Board's understanding of various constituent views and, hopefully, lead to mutually acceptable solutions. A total of 108 respondents to the exposure draft participated in the roundtables.

There were nine sessions of roundtable discussions, each with a different group of constituents. However, all of the discussions covered similar topic areas and the issues raised in each session generally were similar, with the exception of the last two sessions, which were focused on issues related to insurance companies.

In general, the area of greatest concern to those representing retail banks was hedging. In particular, they sought the possibility of hedging the net interest rate position of a portfolio of assets and liabilities as a fair value hedge. Investment banks were less concerned about macro-hedging and more concerned about derecognition. Most wanted a risks and rewards approach to derecognition, but when queried by Board members on a simple derecognition example they could not agree amongst themselves what the answer would be under the risks and rewards approach. Thus, this suggestion did not provide the Board with a definitive solution.

Insurance companies were concerned about the interaction of the scopes of IAS 39 and the definition of an insurance contract in the first phase of the IASB's insurance project. In addition, they pushed for the Board to relax its provisions with respect to the held-to-maturity classification for insurance companies to permit them to have assets that were funding insurance liabilities to be accounted for as held to maturity, even though an unforeseen event might require them to sell the assets at some point in the future.

A number of constituents raised issues with derecognition, the portfolio approach to impairment, the so-called fair value hierarchy guidance in IAS 39, and the debt-equity classification. The recurring themes were:

- The Board should not move to a continuing involvement approach since it introduces a new approach to derecognition that has not been field-tested. Instead, most supported retaining the guidance in IAS 39 as it is, along with the Implementation Guidance Committee Q&A (IGCs).
- The impairment approach needs to state definitively that it is an incurred-loss model, and the guidance in the draft standard should be revised accordingly. In addition, the Board should only provide the objective or principle in the standard and leave the methodology for calculating impairment to develop in practice.
- The wording of the fair value hierarchy is too restrictive with respect to the use of valuation models for determining fair values.
- The debt-equity guidance is inconsistent with the Framework. In addition, most who responded to the issue would draw the line differently. Some would not require any obligation settled in shares to be classified as a liability. Others would classify as liabilities only those that included a net share settlement or net cash settlement option.
- Many wanted the Board to expand its guidance on when economic compulsion creates an obligation.

Recent decisions (after the roundtables)

- **Derecognition.** The Board has authorised the staff to revert to the existing IAS 39 approach to derecognition, rather than the "no continuing involvement" approach, and to incorporate the IGC guidance on derecognition into the revised standard.
- **Hedging.** The staff is exploring whether the hedging provisions can be modified to permit intra-group hedging, provided that any profit or loss arising from these transactions is eliminated, and the use of non-derivative instruments as hedging instruments. They are also exploring the possibility of eliminating cash flow hedges.

An observer from Deloitte Touche Tohmatsu attends every IASB meeting, and we publish the Board's tentative decisions on our web site, www.iasplus.com, usually the next day.

FASB is taking the lead on the "application of the purchase method" project. You will find their project summary at: www.fasb.org/project/index.shtml

IASB AGENDA PROJECT UPDATES

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

PROJECT UPDATE: BUSINESS COMBINATIONS PHASE II

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

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

The first component is now an active IASB project being conducted jointly with FASB, with a goal of achieving convergence in the procedures for applying the purchase method. The two boards have agreed on the following working principle:

In a business combination the total amount to be recognised by the acquirer should be the fair value of the acquiree. Assuming an exchange of equal values, that amount may be measured through direct measurement of the fair value of the acquiree or based on the fair value of the consideration paid, whichever is more clearly evident of the fair value of the acquiree.

Recent decisions. Building on the working principle, the IASB has made some tentative decisions, including these:

- If less than a 100% interest is acquired, the acquirer should recognise all of the goodwill of the acquiree, not just the acquirer's share.
- Minority interests in the net assets of a subsidiary should be presented in the consolidated balance sheet within equity separate from the parent shareholders' equity.
- In the income statement, both net profit or loss attributable to minority interests and net profit or loss attributable to the controlling interest should be presented on the face of the consolidated income statement, in addition to presenting consolidated net profit or loss.
- If a business combination is achieved by a series of share purchases (a step acquisition), at the time control is obtained the carrying amount of the acquirer's previous investment should be increased to its fair value on that date, with gain or loss recognised.
- Subsequent increases or decreases in ownership interests in a subsidiary without loss of control should be accounted for as equity transactions (no gain or loss recognised).
- If a parent loses control of a subsidiary, either by selling its investment or by the subsidiary selling shares to third parties, gain or loss should be recognised.
- Costs directly attributable to a business combination are not part of the fair value of the exchange transaction and, therefore, should be excluded from the cost of the business combination.
- Equity instruments issued in a business combination should be measured at acquisition date (date control passes), not at agreement date.
- Fair value measurement hierarchy:
 - Level 1: Observable market price for an identical item at or near the measurement date.
 - Level 2: Observable market prices for similar items, appropriately adjusted.
 - Level 3: Other valuation techniques that incorporate assumptions that marketplace participants would use or, if that information is not available, the entity's assumptions.
- Fair value of liabilities assumed should reflect the credit risk of the combined entity only to the extent that marketplace participants believe the fair value has been altered by the business combination.
- Fair value of post-employment benefit obligations assumed should be based on the actuarial assumptions of the acquirer.

What's next? Exposure draft in second quarter of 2003, final standard in 2004, effective for 2005.

You can download the Deloitte Touche Tohmatsu comment letter on ED 1 from this link: www.iasplus.com/links/comment.htm

The replacement for IAS 30 will focus on activities (deposit-taking, lending, and securities business) regardless of the type of entity that undertakes those activities.

PROJECT UPDATE: FIRST-TIME ADOPTION OF IFRS

A new name for the project. The final standard will be called First-Time Adoption of IFRS. ED 1's title was First-Time Application of IFRS.

Status. ED 1 was issued in July 2002. Comment deadline ended 31 October 2002. Under ED 1, a first-time adopter would comply with the latest version of each IFRS, with limited exemptions.

Recent decisions. ED 1 had proposed that some of the exemptions would require the first-time adopter to conclude that compliance with certain IFRSs would involve undue cost or effort. At its March 2003 meeting, the Board agreed that none of the exemptions would require a first-time adopter to demonstrate undue cost or effort. In the final IFRS, most choices will be free choices, but that would not include hedge accounting, derecognition, and estimates.

ED1 had proposed limited adjustments to goodwill on past business combinations. At a subsequent meeting the board agreed that the proposals should be amended to require other adjustments to goodwill, for example, to require separation of intangible assets that meet the IAS 38 requirements for recognition.

What's next? The IASB expects to issue a final IFRS in the second quarter of 2003, effective for a company's first IFRS financial statements for a period beginning on or after 1 January 2004, earlier application encouraged.

PROJECT UPDATE: FINANCIAL ACTIVITIES

Status. The Board has agreed on a financial risk disclosure principle, which states that an entity should disclose information that enables users of its financial statements to evaluate the nature and extent of the entity's exposure to financial risks during the reporting period.

To apply that principle, qualitative and quantitative information would be required about:

- credit risk;
- quality of assets – past due and impaired financial assets;
- liquidity risk; and
- market risk.

The Board has also tentatively agreed to require disclosure of capital requirements imposed by external parties (for example, a regulator).

The IASB's advisory committee on this project had recommended certain operational risk disclosures that the Board has concluded would better be addressed in the IASB's planned project on narrative reporting (MD&A).

Regarding balance sheet and income statement disclosures, the Board has expressed tentative agreement with the following proposed disclosures:

- balance sheet amounts based on the measurement basis of the financial asset and/or financial liability;
- income statement amounts based on the measurement basis of the financial asset and/or financial liability; and
- information about the loan loss allowance account.

What's next? An exposure draft is planned for third quarter 2003. The Board has indicated, however, that it does not expect to make a final standard mandatory in time for 2005 financial reporting.

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

An Exposure Draft on Phase I is planned for the second quarter of 2003, with a final IFRS in 2004. The IASB has not yet set a timetable for Phase II.

FASB has on its agenda a similar short-term convergence project. You will find their project summary at: www.fasb.org/project/index.shtml

PROJECT UPDATE: INSURANCE CONTRACTS – PHASE I

Status. The insurance contracts project has been carried forward from the former IASC. It was a comprehensive project addressing all issues on accounting for insurance contracts. However, at its May 2002 meeting, the IASB agreed to split the project into two phases, so that some components can be put in place by 2005 without delaying the rest of the project.

The first phase is addressing the application of existing IFRSs to companies that issue insurance contracts. Phase II is now the comprehensive project. Also, the Board is trying to avoid requiring changes in Phase I that might be reversed in Phase II. Moreover, the Board does not intend to develop specific recognition and measurement requirements in Phase I for most aspects of insurance contracts.

In the January 2003 edition of this newsletter, we presented a comprehensive summary of Phase I, particularly of the scope and definitional issues, noting the Board's tentative conclusions on existing practices.

Recent decisions. Among the additional tentative decisions made by the Board during the first quarter of 2003 are these:

- **Unbundling.** To the extent that the cash flows in an insurance contract are not affected by an insured risk, the contract contains an investment contract component (sometimes called the 'deposit component') that must be 'unbundled' and accounted for separately as a financial instrument.
- **Investment contracts.** Under IAS 39 as it currently stands, the issuer generally treats the investment contract component of an insurance contract as a held-to-maturity investment carried at amortised cost. Under IAS 39 as it is proposed to be amended, however, the issuer will have a choice of measuring investment contracts either at amortised cost or at fair value. The Board agreed that insurance investment contracts should be treated the same as other financial instruments under IAS 39, including related transaction costs.
- **Embedded derivatives.** A derivative embedded in an insurance contract (such as an equity-indexed return or a guaranteed interest rate in a life contract) should be accounted for as a separate derivative under IAS 39 if either (a) it is 'out of the money' at issuance or (b) it is leveraged. The cash surrender value of a life insurance contract is an embedded derivative (a put), but since its risks are closely related to those of the host insurance contract, it is not an embedded derivative that must be separated.
- **Disclosure.** The Board has tentatively accepted three disclosure principles:
 - An insurer should disclose information that identifies and explains the insurance-contract related amounts reported in the balance sheet, income statement, and cash flow statement.
 - An insurer should disclose information that helps users understand the estimated amount, timing, and uncertainty of future cash flows from insurance contracts.
 - An insurer should disclose the fair value of its insurance assets and insurance liabilities (obligations and rights arising under insurance contracts). However, disclosure would not be required for dates before 31 December 2005. Thus, an insurer adopting IFRSs for calendar year 2005 would disclose the fair value of its insurance assets and insurance liabilities at 31 December 2005, but would not need to disclose their fair values at 31 December 2004.

What's next? For Phase I, an exposure draft in the second quarter of 2003, with a final standard in 2004, effective for 2005. The IASB has not established a timetable for Phase II.

CONVERGENCE SHORT TERM: IFRS AND US GAAP

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

Some of the differences that are being considered in this project are ones that arose as a result of recent IASB exposure drafts. These include classification of liabilities as current or non-current, asset exchanges, voluntary accounting changes, and revisions to IAS 32 and IAS 39. The IASB is taking a close look at these as it redeliberates the EDs.

Other differences have arisen in statements recently issued by FASB. These include the definition and presentation of discontinued activities; costs associated with exit or disposal activities (including provisions for restructuring costs), assets held for sale, and government grants.

The Board's timetable calls for final revised Standards to be issued by the middle of 2003.

Still other differences are more long-standing but may be capable of resolution in a relatively short time. These include idle capacity and spoilage costs of inventories; accounting policies, changes in estimates, and errors; depreciation of assets held for disposal or idle; application of the temporary difference approach to income taxes; construction contracts; investments in joint ventures; interim financial reporting; and research and development costs.

What's next? An exposure draft in the third quarter of 2003, with a final standard in 2004, effective for 2005.

PROJECT UPDATE: IMPROVEMENTS TO IFRS

Status: In May 2002, IASB published an exposure draft of proposed amendments to 15 standards and consequential amendments to a number of other standards. The Board received over 150 letters of comment on its exposure draft. It began its consideration of those comments at meetings in November and December 2002.

Recent decisions. During the first quarter of 2003, the Board discussed the comments further at its February 2003 meeting and made the following tentative decisions:

IAS 1, Presentation of Financial Statements

- Require a subtotal for net profit and loss attributable to controlling shareholders on the face of the income statement. As a result, profits associated with controlling and minority shareholders must be presented separately on the face of the income statement.

IAS 2, Inventories

- Retain the requirement to prohibit LIFO.
- Retain the requirement to reverse impairment losses recorded on inventory.
- Allow producers and brokers who deal in commodities to measure inventories at "fair value less cost to complete and sell" (that phrase will replace "net realisable value").

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10, Events after the Balance Sheet Date

IAS 15, Information Reflecting the Effects of Changing Prices

- Retain unchanged all of the proposals in the exposure draft relating to the three standards above.

IAS 16, Property, Plant and Equipment

- Clarify that the components approach is a method of getting a more precise calculation of depreciation. An entity should use its best judgement as to how small the components should be for an accurate calculation of depreciation.
- Clarify that if repair or replacement of an item that is not a separate component occurs, that amount should be expensed. If the asset is a separate component, then that amount should be capitalised and the replaced asset should be written off.
- Require re-estimation of residual values of property, plant, and equipment on an annual basis.

IAS 21, The Effects of Changes in Foreign Exchange Rates

- Require that an entity's functional currency should be the currency of the primary economic environment in which it operates.
- Clarify that there is no such thing as a "group functional currency".
- Require disclosure of why an entity has changed its functional currency, if applicable.
- Permit a reporting entity to present its financial statements in any currency. However, this is a convenience translation from the functional currency of the entity that should be translated at the spot rate. The final standard will clearly distinguish between a presentation currency and a convenience translation.
- Reaffirmed deletion of the allowed alternative in paragraph 21 of IAS 21 to capitalise certain exchange differences.

- Treat goodwill and fair value adjustments to assets and liabilities of a foreign operation as assets and liabilities to be translated at the closing rate. On this issue, the Board decided to allow prospective application (but permit retrospective application) for acquisitions after the effective date that give rise to goodwill.
- Retain the 'net investment' exception to reporting changes in the exchange rate in the profit and loss accounts.

IAS 24, Related Party Disclosures

- Require disclosure of management compensation. The staff will develop a working definition of management compensation, which the Board suggested should include stock compensation and use of company assets.
- Delete paragraph 3 of the exposure draft – disclosures of related party transactions between consolidated entities. The Board's view is that if transactions are eliminated in the financial statements presented, those transactions need not be disclosed. However, if transactions are not eliminated, then those transactions must be disclosed.

IAS 33, Earnings Per Share

- Withdraw the approach to calculating annual EPS in the exposure draft based on taking an average of the interim periods presented and replace it with an accumulative method approach. The Board noted that not all jurisdictions have similar interim reporting requirements and therefore a different EPS figure could be obtained merely as a result of reporting on a quarterly basis versus a semi-annual basis. The new approach treats the annual reporting period as its own distinct period. The Board noted that the accumulative method would be a divergence from US GAAP.
- Include any instrument in the diluted EPS calculation if it can be settled in shares, so that diluted EPS reflects the maximum dilution possible. This is consistent with SIC 24 (which would be withdrawn and included in the final standard) but inconsistent with the requirements of IAS 32. However, the Board noted that EPS is merely a calculation of a ratio, and therefore consistency with other standards is not required. The Board noted this decision is a divergence from US GAAP.
- Include mandatorily convertible securities in the basic EPS calculation, as their issuance depends only on the passage of time, which is a certainty.

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

IFRIC news on our web site:

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

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

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

IFRIC UPDATE

The International Financial Reporting Interpretations Committee (IFRIC) met on 4 and 5 February 2003 and again on 1 and 2 April 2003. Presented below is a summary of steps taken on agenda issues. For details about these projects, including issue descriptions and summaries of IFRIC's deliberations, please see www.iasplus.com

Final Interpretation Expected Shortly

- Emission Rights – A pre-ballot draft Interpretation was sent to the IASB Board for review. IFRIC will issue a final Interpretation shortly. Emission rights granted meet the definition of a government grant under IAS 20, so that Standard will be the basis for the interpretation.

Discussion Continuing at a Future IFRIC Meeting

- Linkage of Transactions.
- IAS 19, Employee Benefits – Money Purchase Plan with Minimum Guarantee.
- IAS 19 Employee Benefits – Multi-Employer Plan Exemption.
- IAS 37 – Changes in Decommissioning and Similar Liabilities.
- Decommissioning and Environmental Rehabilitation Funds.
- Rights of Use.

The FASB exposure draft that preceded FASB Statement 123 had proposed expensing the fair value of options granted, but the final standard permits disclosure in lieu of expensing for most employee options.

The PCAOB's new web site:
www.pcaobus.org/

SEC news release:
www.sec.gov/news/press/2003-43.htm

and the rule itself:
www.sec.gov/rules/final/33-8220.htm

SEC news release:
www.sec.gov/news/press/2003-39.htm

NEWS FROM THE UNITED STATES

FASB ADDS EMPLOYEE STOCK OPTIONS TO ITS AGENDA

Noting that "a move to require an expense treatment would be consistent with the FASB's commitment to work toward convergence between US and international accounting standards", the US Financial Accounting Standards Board has added to its agenda a project on employee stock options.

The current US standard (FASB Statement 123) gives companies a choice, in most cases, to accrue an expense or to disclose in the notes the amount that would have been accrued. In ED 2 issued in November 2002, the IASB proposed that all share-based payment transactions (including employee options) be recognised in the financial statements, using a fair value measurement basis. An expense would be recognised when the goods or services received are consumed. The same recognition and measurement standards would apply to both public and non-public companies. Prior to adding the project to its agenda, FASB invited comments on the IASB proposal.

PCAOB FORUM ON REGISTRATION OF NON-US AUDIT FIRMS

On 31 March 2003, the US Public Company Accounting Oversight Board held a public roundtable, with the five SEC members in attendance, on registration and oversight of non-US public accounting firms. Participants included the European Commission, several large audit firms (including Deloitte Touche Tohmatsu), foreign professional accountants' organisations, and foreign securities regulators.

While overseas participants at the roundtable tended to disagree or asked for time extensions for foreign firms, the acting chairman of the PCAOB, Charles D. Niemier, said that the issue strikes at the heart of the board's mission. "A great deal of the US markets now involve companies and auditors that are not in the United States.... We believe registration is extremely important for us to be able to fulfil our mandate."

Consistent with the requirements of the Sarbanes-Oxley Act, the PCAOB had published proposed registration rules that do not contain an exemption for non-US public accounting firms.

VIOLATION OF AUDIT COMMITTEE RULES WILL RESULT IN DELISTING IN USA (BOTH DOMESTIC AND FOREIGN ISSUERS)

The US Securities and Exchange Commission has adopted final rules directing the US securities markets to prohibit the listing of any security of an issuer (domestic or foreign) that is not in compliance with the audit committee requirements established by the Sarbanes-Oxley Act of 2002. Those requirements provide, among other things, that each member of the issuer's audit committee must be independent. Also, the audit committee must be directly responsible for appointing, compensating, retaining, and overseeing the auditors; must establish procedures for handling complaints about accounting and auditing matters; must have the authority to engage independent counsel and other advisors it deems necessary; and must be appropriately funded. The rules include several provisions, applicable only to foreign private issuers, that seek to address the special circumstances of particular foreign jurisdictions. Also, foreign private issuers (and small business issuers) will have a later compliance date (by 31 July 2005) than other issuers (first annual shareholders meetings after 15 January 2004 but not later than 31 October 2004).

SEC PROPOSES TO AMEND RULES FOR CEO AND CFO CERTIFICATIONS

The SEC has proposed changes to its rules requiring certification of financial statements by CEOs and CFOs. Those rules apply to both domestic and foreign issuers. The Sarbanes-Oxley Act requires CEOs and CFOs of all public companies in the United States (domestic and foreign) to certify in quarterly and annual reports that the report is accurate and complete and that the financial statements fairly present the financial condition and results of operations of the company.

The amendments would require that the certifications under both Section 302 and 906 of the Sarbanes-Oxley Act be included as an exhibit to the periodic reports on Forms 10-Q, 10-QSB, 10-K, 10-KSB, 20-F, and 40 to which they relate (making them more easily retrievable using EDGAR, the SEC's electronic search system).

NEWS IN EUROPE

EUROPEAN PARLIAMENT APPROVES AMENDED ACCOUNTING DIRECTIVES

The European Parliament has approved amendments to the European accounting directives that would complement the accounting regulation adopted in June 2002. The regulation requires virtually all 7,000 listed European companies to follow IFRS starting in 2005. The amended directives would remove inconsistencies of the existing directives with IFRS and would address accounting by the estimated 5 million European companies that are not subject to the IFRS accounting regulation. The amended directives are now before the Council of Ministers in March for final adoption.

PROCESS OF ENDORSING IFRS FOR USE IN EUROPE HAS STARTED

Two steps are required for the 7,000 European listed companies to follow IFRS starting in 2005: (1) translation of IFRS into the European languages and (2) endorsement of the IFRS by a new Accounting Regulatory Committee established by the European Commission to give them legal standing in Europe. Both the translation and endorsement processes are now under way. The European Commission has recently announced that their goal for completing both steps in mid-year 2003.

PROPOSED EC "TRANSPARENCY" DIRECTIVE FOR LISTED COMPANIES

The European Commission has published, and sent to the European Parliament and Council of Ministers, a proposed directive that would upgrade the current level and frequency of the mandatory financial information that publicly traded companies must provide to the markets throughout the financial year. Among the proposed requirements:

All securities issuers must publish:

- An audited annual financial report (financial statements based on International Financial Reporting Standards) and a management report, within three months of the end of each financial year.
- A half-yearly condensed financial report based on IAS 34, as well as an update of the last annual management report.

Share issuers must also publish:

- A less extensive quarterly financial report for the first and third quarters of a financial year, including turnover and profit and loss before or after tax.

Companies that issue only debt securities:

- These companies are currently not subject to any interim reporting requirement at all. Under the proposal they would be required to issue half-yearly financial reports for the first six months of a financial year.

All interim information must be published within 60 days after the end of the period.

Interim Reports for 2005

IAS 34 states that it applies if an entity is required or elects to publish an interim report in accordance with IFRS. However, the commission proposes allowing member states to exempt their security issuers from the application of IFRS in the half-yearly report in 2005.

EU SECURITIES REGULATORS ADOPT ACCOUNTING ENFORCEMENT STANDARD

The Committee of European Securities Regulators (CESR) has published its Standard No. 1, Enforcement of Standards on Financial Information in Europe. This standard is aimed at developing and implementing a common approach to the enforcement of International Financial Reporting Standards (IFRS) throughout the EU. The document sets out 21 high level principles that define enforcement and describe principles that EU member states should adopt in enforcing IFRS, including structure of their enforcement authority; selection of financial information to be reviewed for enforcement purposes; actions available to enforcers (in particular, asking for public correction); cross-border co-ordination; and reporting by enforcement agencies.

Download the EC proposal:
www.europa.eu.int/comm/internal_market/en/finances/mobil/transparency/index.htm#proposal

CESR's web site:
www.europefesco.org

www.europa.eu.int/eur-lex/en/com/pdf/2003/com2003_0029en01.pdf

You can download the 2003 update to the Convergence Handbook here:
www.icaew.co.uk

Details of the AASB's plan:
www.aasb.com.au/international/2005.htm

EU PROPOSES TO ENLARGE SMALL-COMPANY REPORTING EXEMPTIONS

European law allows member States to exempt small companies from certain requirements for disclosures in their accounts, preparing consolidated accounts, preparing an annual report, and being audited. The EC has proposed to raise the size limits for defining a 'small company' by 16.8%.

UPDATE OF UK CONVERGENCE HANDBOOK IS AVAILABLE

The Institute of Chartered Accountants in England and Wales has issued the third update of its Convergence Handbook, originally published in November 2000. The Handbook compared IAS and UK GAAP. This new update, which replaces all previous updates, reflects the effects of standards and exposure drafts issued by the IASC, the IASB, and the UK Accounting Standards Board up to the end of December 2002.

NATIONAL ADOPTIONS OF IAS

AUSTRALIA

Rather than replacing Australian GAAP with IFRS, the Australian Accounting Standards Board (AASB) is now planning a "big bang" approach to convergence and intends to issue 35 new or revised AASB Standards (equivalent to IFRS) by 31 March 2004, applicable from 1 January 2005.

NEW ZEALAND

New Zealand's Accounting Standards Review Board has recommended to the Government the compulsory adoption of IFRS by listed issuers by 1 January 2007 with the option for both public and private sector entities to adopt IFRS from 1 January 2005.

GUATEMALA

Will replace national GAAP with IFRS effective for 2002.

SINGAPORE

We had reported that Singaporean GAAP was to be replaced, but instead all Singapore companies will be required to follow Singapore GAAP which are closely modelled on IFRS.

BULGARIA

All companies will be required to use IFRS from 2005, however listed companies, banks insurance companies and pension funds must follow IFRS from 2003.

RUSSIA

IFRS must be used by listed and banking companies for consolidated accounts from 2004. Individual company accounts of group members must be in Russian GAAP (except banks). This will be extended to all companies, except small companies, through to 2007. At the same time Russian GAAP will be brought more in line with IFRS.

ESTONIA

All companies have the choice between IFRS and Estonian GAAP. Listed companies already comply with IFRS, and non-listed credit institutions and insurance companies will be required to use IFRS from 2005.

CANADA

In June 2002, the Canadian Securities Administrators (CSA) had proposed that certain eligible foreign issuers would be allowed to submit financial statements prepared using IFRS (or several specified national GAAPs), without reconciliation to Canadian GAAP. The CSA also proposed that Canadian companies registered with the US SEC could use US GAAP, with reconciliation to Canadian GAAP for the first two years in which US GAAP is used. The CSA has recently announced that its consideration of the comments on the proposal is nearing completion and that it expects to publish a revised proposal for comment by mid-2003.

Also, we have posted in the countries section of www.iasplus.com a comparison of International Financial Reporting Standards and Canadian GAAP. The comparison is taken, with permission, from the Handbook of the Canadian Institute of Chartered Accountants.

VIETNAM

New Vietnamese Accounting Standards (VAS), based on IFRS, are beginning to be adopted. You can download a comprehensive summary of the new VAS, prepared by VACO-Deloitte Touche Tohmatsu, from the Vietnam country page on www.iasplus.com

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

PUBLICATIONS FROM DELOITTE TOUCHE TOHMATSU

NEW DTT PUBLICATION ON CORPORATE GOVERNANCE

The Sarbanes-Oxley Act of 2002 has rewritten the US rules for corporate governance, disclosure, and reporting. The new and proposed SEC rules that influence Sarbanes-Oxley are complicated and require immediate and decisive action. Sarbanes-Oxley focuses heavily on the critical role of internal control. It is a process in which a company's board of directors, management, and other personnel must actively participate to drive business success.

In a new publication, **Moving Forward – A Guide to Improving Corporate Governance Through Effective Internal Control**, Deloitte & Touche (US) recommends developing an internal control program with a single methodology to address the provisions of both Sections 302 and 404 of Sarbanes-Oxley. The comprehensive five-step program provides a reliable approach to linking effective internal controls to sound corporate governance.

DELOITTE & TOUCHE AUDIT COMMITTEE RESOURCE GUIDE

The Sarbanes-Oxley Act, related SEC rule-making, and the proposed modifications of the NYSE, NASDAQ, and AMEX listing standards expand, codify, and formalise the composition, duties, and responsibilities of the audit committees of public companies. Audit committee members are in the process of implementing the new requirements to fulfil investor expectations and protect shareholder interests. They are also seeking resources and tools to assist in executing their new responsibilities effectively and efficiently.

Deloitte & Touche is committed to helping audit committee members and management remain apprised of emerging requirements and trends. With that objective, we have published **The Audit Committee Resource Guide**. It presents a history and overview of the new requirements and, more importantly, emerging best practices and specific steps for consideration. The Audit Committee Resource Guide also includes a compilation of resources and tools developed by Deloitte & Touche and other professional service organisations and trade groups that we believe will be useful in helping audit committees comply with the new requirements.

ABOUT DELOITTE TOUCHE TOHMATSU

Deloitte Touche Tohmatsu is one of the world's leading professional services organizations. The member firms of Deloitte Touche Tohmatsu deliver world-class assurance and advisory, tax, and consulting services. With more than 119,000 people in over 140 countries, the member firms serve over one-half of the world's largest companies, as well as large national enterprises, public institutions, and successful, fast-growing global growth companies. Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate. Our mission is to help our clients and our people excel.

Deloitte Touche Tohmatsu is a Swiss Verein, and each of its national practices is a separate and independent legal entity.



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

Deloitte Touche Tohmatsu is one of the world's leading professional services organizations. The member firms of Deloitte Touche Tohmatsu deliver world-class assurance and advisory, tax, and consulting services. With more than 119,000 people in over 140 countries, the member firms serve over one-half of the world's largest companies, as well as large national enterprises, public institutions, and successful, fast-growing global growth companies. Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate. Our mission is to help our clients and our people excel.

Deloitte Touche Tohmatsu is a Swiss Verein, and each of its national practices is a separate and independent legal entity.

This publication contains general information only and is not intended to be comprehensive nor to provide specific accounting, business, financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any decision or action that may affect you or your business. Before making any decision or taking any action that may affect you or your business, you should consult a qualified professional advisor.

Whilst every effort has been made to ensure the accuracy of the information contained in this publication, this cannot be guaranteed and neither Deloitte Touche Tohmatsu nor any related entity shall have any liability to any person or entity who relies on the information contained in this publication. Any such reliance is solely at the user's risk.

© Deloitte Touche Tohmatsu 2003. All rights reserved.

Publication number:

Deloitte Touche Tohmatsu, Stonecutter Court,
1 Stonecutter Street, London EC4A 4TR, United Kingdom.
Tel: +44 (0) 20 7936 3000. Fax: +44 (0) 20 7583 1198.

Designed and produced by
The Deloitte Touche Tohmatsu Studio, London.

This newsletter has been written in general terms and is intended for general reference only. The application of its contents to specific situations will depend on the particular circumstances involved. Accordingly, we recommend that readers seek appropriate professional advice regarding any particular problems they encounter. This newsletter should not be relied on as a substitute for such advice. The partners and managers of Deloitte Touche Tohmatsu will be pleased to advise on any such problems. While all reasonable care has been taken in the preparation of this newsletter, no responsibility is accepted by Deloitte Touche Tohmatsu for any errors it might contain, or for any loss, howsoever caused, that happens to any person by their reliance on it.