

# IAS Plus.

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

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## IAS Plus website

Over 4.4 million people have visited our [www.iasplus.com](http://www.iasplus.com) web site for the latest news about international financial reporting. Please check in regularly.

## International financial reporting news

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<b>IASB PROJECT TIMETABLE – ACTIVE PROJECTS</b>	
<b>2006 Annual Improvements</b>	<ul style="list-style-type: none"> <li>• ED expected first half of 2007</li> </ul>
<b>Accounting Standards for Small and Medium-sized Entities (Non-Publicly Accountable Entities)</b>	<ul style="list-style-type: none"> <li>• Recognition and measurement questionnaire issued April 2005</li> <li>• Public round tables held October 2005</li> <li>• Exposure Draft (ED) issued 15 February 2007</li> <li>• Final IFRS first half 2008</li> </ul>
<b>Business Combinations – Phase II – Purchase Method and Non-controlling Interest* –Liabilities (IAS 37 amendments)</b>	<ul style="list-style-type: none"> <li>• Separate EDs issued June 2005</li> <li>• Public round-tables held November 2005</li> <li>• Round-tables on liabilities held fourth quarter 2006</li> <li>• Final IFRS on business combinations expected second half 2007</li> <li>• Final IFRS on liabilities expected first half 2008</li> </ul>
<b>Conceptual Framework</b> Eight phases in all	<ul style="list-style-type: none"> <li>• Discussion Paper (DP) on objectives and qualitative characteristics was issued July 2006. ED expected second half 2007.</li> <li>• Round-tables on measurement planned first half 2007</li> <li>• DP on reporting entity expected first half 2007</li> </ul>
<b>Consolidation, including SPEs*</b>	<ul style="list-style-type: none"> <li>• DP expected second quarter 2007</li> <li>• ED(s) expected second half 2008</li> </ul>
<b>Convergence – Short-term Issues, IFRSs and US GAAP*</b>	<p><b><u>IAS 12 Income Taxes</u></b></p> <ul style="list-style-type: none"> <li>• ED expected second quarter 2007</li> <li>• Final IFRS 2008</li> </ul> <p><b><u>IAS 23 Borrowing Costs</u></b></p> <ul style="list-style-type: none"> <li>• Final Standard expected first quarter 2007</li> </ul> <p><b><u>IAS 31 Joint Ventures</u></b></p> <ul style="list-style-type: none"> <li>• ED expected second quarter 2007</li> <li>• Final IFRS expected 2008</li> </ul> <p><b><u>Impairment</u></b></p> <ul style="list-style-type: none"> <li>• Staff research has begun</li> </ul>
<b>Earnings per Share amendment</b>	<ul style="list-style-type: none"> <li>• ED expected first quarter 2007</li> <li>• Final IFRS fourth quarter 2007</li> </ul>
<b>Fair Value Measurement Guidance*</b>	<ul style="list-style-type: none"> <li>• DP issued 30 November 2006</li> <li>• ED expected second half 2008</li> </ul>
<b>Financial Statement Presentation (Performance Reporting)*</b> Phase A: IAS 1: A Revised Presentation Phase B: Presentation	<ul style="list-style-type: none"> <li>• Working group appointed in 2005</li> <li>• Phase A: ED issued March 2006</li> <li>• Phase A: Final IFRS expected first half 2007</li> <li>• Phase B: DP expected first half 2007 and ED in 2008</li> </ul>
<b>Government Grants and Emission Rights Trading*</b>	<ul style="list-style-type: none"> <li>• Work deferred pending IAS 37 amendments project.</li> </ul>
<b>IFRS 1 Amendment – Cost of Investment in Subsidiary in Separate Statements of Parent</b>	<ul style="list-style-type: none"> <li>• Added to agenda March 2006</li> <li>• ED issued 25 January 2007</li> <li>• Final IFRS expected fourth quarter 2007</li> </ul>
<b>IFRS 2 Amendment – Vesting Conditions and Cancellations</b>	<ul style="list-style-type: none"> <li>• ED issued February 2006</li> <li>• Final amendment expected first quarter 2007</li> </ul>
<b>Insurance Contracts – Phase II</b>	<ul style="list-style-type: none"> <li>• DP expected first quarter 2007</li> <li>• ED expected second half 2008</li> </ul>
<b>Leases*</b>	<ul style="list-style-type: none"> <li>• Added to agenda July 2006</li> <li>• Working Group being formed</li> <li>• DP expected second half 2008</li> </ul>

<b>Post-retirement Benefits (including Pensions)*</b>	<ul style="list-style-type: none"> <li>• Staff research under way</li> <li>• Working Group being formed</li> <li>• DP expected second half 2007</li> </ul>
<b>Puttable Instruments</b>	<ul style="list-style-type: none"> <li>• ED was issued June 2006</li> <li>• Final IFRS expected third quarter 2007</li> </ul>
<b>Revenue Recognition*</b>	<ul style="list-style-type: none"> <li>• DP expected second half 2007</li> <li>• ED expected in 2008</li> </ul>
<b>Related Party Disclosures</b>	<ul style="list-style-type: none"> <li>• ED expected first quarter 2007</li> <li>• Final IFRS expected second half 2007</li> </ul>

<b>IASB PROJECT TIMETABLE – RESEARCH AGENDA</b>	
<i>Projects agreed in the February 2006 IASB-FASB convergence agreement:</i>	
<b>Derecognition*</b>	<ul style="list-style-type: none"> <li>• Staff research paper being developed</li> </ul>
<b>Financial Instruments*</b>	<ul style="list-style-type: none"> <li>• Working group appointed</li> <li>• Staff research questionnaire issued March 2006</li> <li>• DP expected fourth quarter 2007</li> </ul>
<b>Intangible Assets*</b>	<ul style="list-style-type: none"> <li>• Staff research under way</li> </ul>
<b>Liabilities and Equity*</b>	<ul style="list-style-type: none"> <li>• DP expected second quarter 2007</li> </ul>
<i>Other IASB Research Projects:</i>	
<b>Extractive Industries</b>	<ul style="list-style-type: none"> <li>• Group of national standard setters conducting research</li> <li>• DP expected first half 2008</li> </ul>
<b>Hyperinflationary Economies**</b>	<ul style="list-style-type: none"> <li>• Group of national standard setters conducting research</li> </ul>
<b>Management Commentary</b>	<ul style="list-style-type: none"> <li>• DP issued October 2005</li> </ul>
<b>Measurement Objectives**</b>	<ul style="list-style-type: none"> <li>• DP issued November 2005</li> </ul>

\* IASB projects with milestones agreed in the February 2006 IASB-FASB Memorandum of Understanding on convergence – download the MoU at [www.iasplus.com/pressrel/0602roadmapmou.pdf](http://www.iasplus.com/pressrel/0602roadmapmou.pdf).

\*\*These are no longer shown on the IASB's published work plan.

This timetable is derived from the IASB's published timetable supplemented by decisions and comments made at recent meetings of the Board. You will find details on each project, including decision summaries from each Board meeting, at [www.iasplus.com/agenda/agenda.htm](http://www.iasplus.com/agenda/agenda.htm)

## IASB News

You can download the IASB Exposure Draft here:  
[www.iasb.org/](http://www.iasb.org/)

### IASB proposes first-time adoption amendments

In January 2007, the IASB published an Exposure Draft (ED) proposing exemptions from the requirements of IFRSs when they are adopted for the first time. The ED would amend IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The proposals respond to concerns about difficulties encountered by parent companies in measuring the cost of an investment in a subsidiary on adopting IFRSs.

The ED proposes to allow a parent to use a 'deemed cost' to measure its investment in subsidiaries when it first adopts IFRSs. In addition, the proposals would alleviate the need to restate the pre-acquisition accumulated profits of the subsidiary in accordance with IFRSs for the purposes of classifying dividends. Comment deadline is 27 April 2007.

You can download the IASB discussion paper here:  
[www.iasb.org/](http://www.iasb.org/)

### IASB discussion paper on fair value measurements

In November 2006, the IASB published for public comment a Discussion Paper (DP) on Fair Value Measurements. The DP sets out the IASB's preliminary views how to measure fair values when fair value measurement is already prescribed under existing IFRSs. It does not propose any extensions of the use of fair values. The DP is built around the US Financial Accounting Standards Board's recently issued FAS 157 Fair Value Measurements. FAS 157 establishes a single definition of fair value together with a framework for measuring fair value for financial reports prepared in accordance with US GAAP. The IASB's DP:

- indicates the IASB's preliminary views on the provisions of FAS 157;
- identifies differences between FAS 157 and fair value measurement guidance in existing IFRSs; and
- invites comments on the provisions of FAS 157 and on the IASB's preliminary views about those provisions.

#### Some points about FAS 157:

- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts.
- Fair value should be based on the assumptions market participants would use when pricing the asset or liability.
- FAS 157 establishes a fair value hierarchy that prioritises the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data.
- Fair value measurements would be separately disclosed by level within the fair value hierarchy.
- FAS 157 is effective for financial statements issued for fiscal years beginning after 15 November 2007, and interim periods within those fiscal years. Early adoption is permitted.
- FAS 157 may be downloaded from [FASB's Website](#) without charge.

The IASB DP is available without charge on the IASB's website. Comment deadline, originally 2 April 2007, has been extended to 4 May 2007. The IASB plans to publish an Exposure Draft in 2008.

Information on the leases project:  
[www.iasplus.com/agenda/leases.htm](http://www.iasplus.com/agenda/leases.htm)

### New IASB-FASB joint working group on leases

The IASB and the FASB have announced the membership of a new international working group that will help the boards in their joint project on lease accounting. The joint project involves comprehensive reconsideration of all aspects of lease accounting and is expected to lead to fundamental changes in how lessees and lessors account for leases. The boards expect to publish a joint discussion paper in 2008 expressing their preliminary views.

Deloitte has issued a special IFRS 8 disclosure checklist. You will find it here: [www.iasplus.com/fs/fs.htm](http://www.iasplus.com/fs/fs.htm)

### IASB issues convergence standard on segment reporting

The IASB has issued International Financial Reporting Standard 8 *Operating Segments* as part of its joint project with the FASB to reduce differences between IFRSs and US GAAP. IFRS 8 replaces IAS 14 *Segment Reporting* and aligns the IASB's standards with the requirements of SFAS 131.

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. See below for an overview of IFRS 8.

#### OVERVIEW OF IFRS 8 OPERATING SEGMENTS

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8:

- applies only to listed entities.
- requires identification of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.
- includes a component of an entity that sells primarily or exclusively to other operating segments of the entity in the definition of an operating segment if the entity is managed that way.
- requires the amount of each operating segment item reported in IFRS financial statements to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.
- requires reconciliations of total reportable segment revenues, total profit or loss, total assets, total liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.
- requires an explanation of how segment profit or loss and segment assets and liabilities are measured for each reportable segment.
- requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions.
- requires an entity to give descriptive information about the way in which operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.
- by means of consequential amendments to IAS 34 *Interim Financial Reporting* significantly expands the requirements for segment information at interim reporting dates.
- applies to the annual financial statements for periods beginning on or after 1 January 2009. Earlier application is permitted.

You can download the ED from the IASB's website:  
[www.iasb.org](http://www.iasb.org)

### ED of an IFRS for SMEs

The IASB has published an Exposure Draft of an International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The ED was approved by a vote of thirteen Board members in favour and one opposed. An overview of the ED is presented below and on the following page. Comment deadline is 1 October 2007.

## OVERVIEW OF EXPOSURE DRAFT OF IFRS FOR SMEs

### Definition of an SME

The IFRS for SMEs is intended for an entity with no public accountability. An entity has public accountability (and therefore should use full IFRSs) if:

- it has issued debt or equity securities in a public market; or
- it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund, or investment bank.

### Stand-alone document

The Board intends the IFRS for SMEs to be a stand-alone document for a typical SME with about 50 employees. That is, it will cover the kinds of transactions and other events and conditions that companies of that size will likely encounter. The '50 employees' was a guide to the Board in deciding the content of the IFRS for SMEs. It is not intended as a quantified size test for defining an SME, though jurisdictions adopting the IFRS for SMEs may add one. There is no mandatory fallback to full IFRSs.

### Small listed companies

They are not eligible to use the IFRS for SMEs. Listed companies, large or small, have elected to seek capital from outside investors who are not involved in managing the business and who do not have the power to demand information that they might want. Full IFRSs have been designed to serve public capital markets.

### Based on concepts and principles in full IFRSs

The draft IFRS for SMEs was developed by extracting the fundamental concepts from the *IASB Framework for the Preparation and Presentation of Financial Statements* and the principles and related mandatory guidance from IFRSs with appropriate modifications in the light of users' needs and cost-benefit considerations.

### Modifications of IFRSs

The modifications are of three broad types:

1. **Topics omitted.** IFRS topics not relevant to a typical SME are omitted, with cross-references to the IFRS if needed. These are:
  - General price-level adjusted reporting in a hyperinflationary environment.
  - Equity-settled share-based payment (the computational details are in IFRS 2 *Share-based Payment*).
  - Determining fair value of agricultural assets (look to IAS 41 *Agriculture*, but the Board also proposes to reduce the use of fair value through profit or loss for agricultural SMEs).
  - Extractive industries (look to IFRS 6 *Exploration for and Evaluation of Mineral Resources*).
  - Interim reporting (look to IAS 34 *Interim Financial Reporting*).
  - Lessor accounting finance leases (finance lessors are likely to be financial institutions who would be ineligible to use the IFRS for SMEs anyway).
  - Recoverable amount of goodwill (SMEs would test goodwill for impairment much less frequently than under IAS 38 *Intangible Assets*, but if an SME is required to perform such a test it would look to the calculation guidance in IAS 36).
  - Earnings per share and segment reporting, which are not required for SMEs, and Insurance contracts (insurers would not be eligible to use the IFRS for SMEs).

*continued...*

## OVERVIEW OF EXPOSURE DRAFT OF IFRS FOR SMEs, continued

2. **Only the simpler option included.** Where full IFRSs provide an accounting policy choice, only the simpler option is in the IFRS for SMEs. An SME is permitted to use the other option by cross-reference to the relevant IFRS. These are:

- Cost-depreciation model for investment property (fair value through profit or loss is permitted by reference to IAS 40 *Investment Property*).
- Cost-amortisation-impairment model for property, plant and equipment and intangibles (the revaluation model is allowed by references to IAS 16 *Property, Plant and Equipment* and IAS 38).
- Expense borrowing costs (capitalisation allowed by reference to IAS 23 *Borrowing Costs*).
- Indirect method for reporting operating cash flows (the direct method is allowed by reference to IAS 7 *Cash Flow Statement*).
- One method for all grants (or an SME can use any of the alternatives in IAS 20 *Government Grants and Disclosure of Government Assistance*).

In adopting the IFRS for SMEs, an individual jurisdiction could decide not to allow the option that is cross-referenced to the full IFRS.

3. **Recognition and measurement simplifications.** Here are some examples:

- Financial instruments:
  - Two categories of financial assets rather than four. This means no need to deal with all of the “intent-driven” held to maturity rules or related “tainting”, no need for an available for sale option, and many other simplifications.
  - A clear and simple principle for derecognition – if the transferor has any significant continuing involvement, do not derecognise. The complex “pass-through testing” and “control retention testing” of IAS 39 are avoided.
  - Much simplified hedge accounting.
- Goodwill impairment – an indicator approach rather than mandatory annual impairment calculations.
- Expense all research and development cost (IAS 38 would require capitalisation after commercial viability has been assessed).
- The cost method for associates and joint ventures (rather than the equity method or proportionate consolidation).
- Less fair value for agriculture – only if “readily determinable without undue cost or effort”.
- Defined benefit plans – a principle approach rather than the detailed calculation and deferral rules of IAS 19 *Employee Benefits*. Complex ‘corridor approach’ omitted.
- Share-based payment – intrinsic value method.
- Finance leases – simplified measurement of lessee’s rights and obligations.
- First-time adoption – less prior period data would have to be restated than under IFRS 1 *First-time Adoption of IFRSs*.

### Frequency of updating the IFRS for SMEs

Approximately once every two years via an ‘omnibus’ exposure draft.

### Organisation of the ED

The ED is issued in three documents – the draft IFRS for SMEs (254 pages), implementation guidance (80 pages, consisting of illustrative financial statements and a disclosure checklist), and a basis for conclusions (48 pages). The IFRS for SMEs is organised topically, rather than in IAS/IFRS statement number sequence. It has 38 sections and a glossary.

### Next steps

- Comment deadline on the Exposure Draft is 1 October 2007.
- During the exposure period the Board will conduct round-table meetings with SMEs and small firms of auditors to discuss the proposals. The Board will field test the proposals in the ED.
- Final Standard is expected in mid-2008.
- It would be effective based on decisions in each jurisdiction that adopts the IFRS for SMEs.

## Deloitte Letters of Comment

Deloitte letters of comment to the IASB, IFRIC, IASCF, IASC, and SIC may be found here:

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

Deloitte letters of comment to the IAASB may be found here:

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

We have published a special edition of the IAS Plus newsletter summarising the Discussion Paper. You can find it here:

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

### Our view: Comment letters to the IAASB

The Deloitte Touche Tohmatsu global network has, for years, submitted comment letters on all IASB, IFRIC, IASCF, IASC, and SIC comment documents including Discussion Papers, Exposure Drafts, and Draft Interpretations. There is a page on IAS Plus that has links to all of those letters since 1995. Also, we announce each new letter in a brief news story on the IAS Plus home page.

The Deloitte Touche Tohmatsu global network also submits global comment letters to the International Auditing and Assurance Standards Board (IAASB). We have created a new page on our IAS Plus website with links to our letters to the IAASB, and we plan to announce each new letter on our home page.

### Our view: Conceptual Framework discussion paper

Although we agree with many of the proposals in the IASB's Discussion Paper *Conceptual Framework—Objective and Qualitative Characteristics*, we have concerns about some of them, including:

- Insufficient emphasis is given to stewardship as an objective of financial reporting. Our letter states:

*“Management, in addition to having the responsibility for allocation of the assets entrusted to it for the benefit of shareholders, also has an obligation to provide its shareholders with an account of what it has done with those assets. This account has to be a faithful and complete historical description of the entity’s assets and liabilities at the beginning and end of the accounting period, coupled with management’s explanation of how those balances changed during the period. Recognizing this broader meaning of ‘stewardship’ as one of the primary objectives of financial reporting both supports all of the qualitative characteristics of financial reporting information proposed in the DP, and helps to align management’s behaviour with the objectives of all of the entity’s stakeholders. Such a stewardship objective will emphasize the role of financial reporting as a dialogue between management and the owners of the business.”*

- While present and potential investors and creditors view cash flow information as essential for their decision-making, they also value other information not specifically tied to cash flows. For example, many non-cash transactions such as asset write-downs and share-based payments lend insight into management’s stewardship and the impact of current economic factors on the entity’s assets and liabilities. Other information such as sensitivity or trend analyses might prove equally useful.
- Different information needs of different categories of users of financial reports should be set out in a hierarchy.
- The DP focuses on financial reporting, rather than financial statements, but does not define financial reporting.
- Reliability should be regarded as an essential attribute of financial information and as an additional and separate characteristic that should not be subsumed in the attributes of faithful representation and verifiability.
- ‘Substance over form’ should be identified as a component of representational faithfulness.



### Letter on significant audit issues in recent IASB proposals

Deloitte Touche Tohmatsu has submitted a response to a request from the International Auditing and Assurance Standards Board (IAASB) for identification of significant audit issues in recent proposals by the International Accounting Standards Board (IASB). Here is an excerpt:

*We have concerns about measuring some items in the financial statements at fair value, including whether it is possible to develop sufficient accounting and auditing guidance on measuring fair value reliably. In the appendix to this letter, we have referred to significant audit issues that we have included in our recent comment letters to the IASB as well as an issue arising out of practice. In previous years, we have also highlighted audit issues and concerns around fair value measurement more generally, and specifically on financial instruments and share-based payments.*

### News from IFRIC

On our website you can find our summary of IFRIC 12: [www.iasplus.com/interps/ifric012.htm](http://www.iasplus.com/interps/ifric012.htm)

#### IFRIC 12 on service concession arrangements

The International Financial Reporting Interpretations Committee (IFRIC) has issued Interpretation IFRIC 12 *Service Concession Arrangements*. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports, prisons and energy and water supply and distribution facilities – to private sector operators. Control of the assets remains in public hands, but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. IFRIC 12 addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. IFRIC 12 is effective for annual periods beginning on or after 1 January 2008.

Here is a brief summary of IFRIC 12:

- IFRIC 12 draws a distinction between two types of service concession arrangement.
  - In one, the operator receives a financial asset, specifically an unconditional contractual right to receive cash or another financial asset from the government in return for constructing or upgrading the public sector asset.
  - The operator recognises the financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services.
- The operator measures the financial asset at fair value.
- In the other, the operator receives an intangible asset – a right to charge for use of the public sector asset that it constructs or upgrades. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.
- The operator recognises the intangible asset to the extent that it receives a right (a licence) to charge users of the public service.
- The operator measures the intangible asset at fair value.

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](http://www.iasb.org)

IASB and IFRIC meetings are also webcast.

## Upcoming meeting dates

<b>IASB and SAC MEETINGS 2007</b>	
London, UK	19 to 23 February 2007, and 26 to 27 February 2007 with the Standards Advisory Council
London, UK	19 to 23 March 2007
London, UK	16 to 20 April 2007
London, UK	23 to 24 April 2007 – Joint IASB/FASB Meeting
London, UK	14 to 18 May 2007
London, UK	18 to 22 June 2007, and 25 to 26 June 2007 with the Standards Advisory Council
London, UK	16 to 20 July 2007
London, UK	17 to 21 September 2007
London, UK	24 to 25 September 2007 – World Standard Setters Meeting
London, UK	15 to 19 October 2007
Norwalk, CT, USA	22 to 23 October 2007 – Joint IASB/FASB Meeting
London, UK	12 to 16 November 2007, and 8 to 9 November 2007 with the Standards Advisory Council
London, UK	10 to 14 December 2007

<b>IFRIC MEETINGS 2007</b>	
London, UK	8 to 9 March 2007
London, UK	3 to 4 May 2007
London, UK	12 to 13 July 2007
London, UK	6 to 7 September 2007
London, UK	1 to 2 November 2007

<b>IASB FOUNDATION TRUSTEES MEETING 2007</b>	
London, UK	2 to 3 April 2007
Europe	2 to 3 July 2007
United States	31 October to 1 November 2007

## IASC Foundation News

You will find a complete list of IASCF Trustees here:  
[www.iasplus.com/restruct/trustees.htm](http://www.iasplus.com/restruct/trustees.htm)

### Philip Laskawy reappointed as IASCF chairman

Philip Laskawy, who has been serving as interim Chairman of the Trustees of the IASC Foundation (IASCF) since May 2006, has agreed to remain as Chairman for a further twelve months until the end of 2007. In addition, Bertrand Collomb, Chairman of Lafarge, has accepted the newly-created position of Vice-Chairman of the Trustees for 2007. The IASCF oversees the operations of the IASB.

As Mr Laskawy will be retiring from the Trustees at the end of 2007, the Trustees have initiated a process to select a new Chairman during the year. The Trustees have indicated a preference for a European candidate with the relevant professional experience and commitment to the organisation's objectives. In addition, the IASC Foundation announced the following appointments as Trustees to fill vacancies resulting from Trustee retirements, with immediate effect:

- David Sidwell, Chief Financial Officer, Morgan Stanley; former member of the IASB's Standards Advisory Council
- Kees Storm, former Chairman, AEGON; Chairman of the Supervisory Board, KLM; member of the Supervisory Board, AEGON and PON Holdings; member of the Boards, Baxter International, InBev and Unilever; member of the IASB Standards Advisory Council
- Paul Tellier, former President and CEO of Bombardier; former Clerk of the Privy Council and Secretary of the Cabinet, Canada
- Jeff van Rooyen, Chief Executive, Uranus Investment Holdings, a broad-based Black Economic Empowerment company; former Vice Chairman, Executive Committee, International Organization of Securities Commissions (IOSCO); former CEO, South African Financial Services Board

## Other News

You can download the vision statement here:  
[www.iasplus.com/resource/0611visionpaper.pdf](http://www.iasplus.com/resource/0611visionpaper.pdf)

### Big-6 CEOs' vision for strengthening financial reporting International Forum of Independent Audit Regulators

The CEOs of the six major global networks of accounting and auditing firms, including Deloitte, have jointly published a 'vision statement' titled Global Capital Markets and the Global Economy "as the beginning of what we hope will be a robust dialogue about how global financial reporting and public company auditing procedures must adapt to better serve capital markets around the world". The vision statement suggests development of "a new business reporting model to deliver relevant and reliable information in a timely way".

### Ordering details:

Quote product code:  
 UP/KIRSCH-BI7001.  
 ISBN: 978-1-84140-608-4.  
 By phone: CCH's Customer Service Department in the UK at +44 (0)870 777 2906; or  
 By email:  
[customerservice@cch.co.uk](mailto:customerservice@cch.co.uk).

### Comprehensive history of the IASC is published

WoltersKluwer/CCH has published *The International Accounting Standards Committee: A Political History*, by Robert J. Kirsch, PhD. The book covers the history of the IASC from its earliest days starting in 1962. This 465-page book looks at the human side of the organisation's history, its institutional and economic development, administrative policies and practices, and its various constitutions and structures. Additionally, it charts the flow of its technical international accounting standard setting work through its various stages of development.

## News from IFAC

[www.ifac.org](http://www.ifac.org)

### Deloitte partner assumes the Presidency of IFAC

Fermin del Valle, a Partner in Deloitte Argentina since 1980, has become the President of the International Federation of Accountants for a two-year term ending in November 2008. Mr del Valle was IFAC Deputy President from November 2004 to November 2006 and served as a member of the IFAC Board beginning in October 1997.

He has been an Associate Professor at the School of Economic Sciences at the University of Buenos Aires and a Professor of Accounting and Auditing at the University of San Andres. Mr del Valle is also a member of the IFAC Regulatory Liaison Group and most recently served as chairman of IFAC's Planning and Finance Committee, where he led the organisation in the development of its operational and strategic plan for 2006-2008. He is also a former member of IFAC's Compliance Committee, Audit Committee, and Structure and Organisation Task Force.

You can download the proposals from IAASB's website:

[www.ifac.org/iaasb](http://www.ifac.org/iaasb)

### IAASB exposure drafts

In November 2006, the International Auditing and Assurance Standards Board (IAASB) issued three exposure drafts of proposed International Standards on Auditing (ISAs) that follow its new clarity drafting conventions. The three new EDs are:

- ISA 320 (Revised and Redrafted), Materiality in Planning and Performing an Audit;
- ISA 450 (Redrafted), Evaluation of Misstatements Identified during the Audit; and
- ISA 260 (Revised and Redrafted), Communication with Those Charged with Governance.

Comment deadline is 15 February 2007.

In December 2006, the IAASB issued an additional six exposure drafts. One is a proposed revised International Standard on Auditing (ISA) 580 (Revised and Redrafted) Written Representations. The five others are revised standards written in accordance with the IAASB's new clarity drafting conventions. The five 'clarity' exposure drafts are:

- ISA 230 (Redrafted), Audit Documentation;
- ISA 540 (Revised and Redrafted), Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures;
- ISA 560 (Redrafted), Subsequent Events;
- ISA 610 (Redrafted), The Auditor's Consideration of the Internal Audit Function; and
- ISA 720 (Redrafted), Reading Other Information in Documents Containing Audited Financial Statements.

Comments on the exposure drafts of proposed redrafted ISAs 230, 560, 610 and 720 are requested by 31 March 2007. Comments on the exposure drafts of proposed ISAs 540 (Revised and Redrafted) and 580 (Revised and Redrafted) are requested by 30 April 2007.

## IFRS-related news from the United States

[www.sec.gov](http://www.sec.gov)

### SEC 2006 annual report references to IFRSs

The Performance and Accountability Report of the US Securities and Exchange Commission for the year ended 30 September 2006 makes a number of references to IFRSs including the following progress report under the heading ‘Improving Disclosure for Investors’:

**Global accounting standards.** *Last year, the SEC staff published a ‘roadmap’ of the milestones necessary to permit foreign private issuers to file financial statements prepared under International Financial Reporting Standards (IFRS), without reconciling them to U.S. generally accepted accounting principles. The roadmap involves, among other things, a detailed analysis of the faithfulness and consistency of the application, interpretation, and enforcement of IFRS in financial statements across companies and jurisdictions, and continued progress in the convergence work now being conducted by the International Accounting Standards Board and the Financial Accounting Standards Board. The SEC staff has been working with other regulators, including through IOSCO and the Committee of European Securities Regulators (CESR), to help reach some of these milestones. For example, the SEC staff and CESR finalized a work plan in 2006 to share information about IFRS implementation.*

You can download the Heads Up newsletter here:  
[www.iasplus.com/usa/headsup0612.pdf](http://www.iasplus.com/usa/headsup0612.pdf)

### Heads Up newsletter on AICPA SEC/PCAOB conference

Annually, the American Institute of Certified Public Accountants hosts a conference featuring speeches by, and question-and-answer sessions with, representatives of the Securities and Exchange Commission, the Public Company Accounting Oversight Board, and other standard setters.

The 2006 conference was held on 11-13 December 2006. Deloitte & Touche LLP (USA) has published a special, 79-page issue of their *Heads Up* newsletter that extracts key insights from this three-day conference attended by more than 2,000 CPAs.

SEC press release:  
[www.iasplus.com/usa/0702kroeker.pdf](http://www.iasplus.com/usa/0702kroeker.pdf)

### Deloitte partner named SEC Deputy Chief Accountant

The US Securities and Exchange Commission has named James L Kroeker as Deputy Chief Accountant for Accounting in the Commission’s Office of the Chief Accountant. Mr Kroeker comes from Deloitte & Touche, LLP. Since June 2002, he has been a partner in the firm’s National Office Accounting Services Group and responsible for providing consultation and support regarding the implementation, application, communication and development of accounting standards, including disclosure and reporting matters. From August 1999 to June 2001, Mr Kroeker served as a Practice Fellow at the Financial Accounting Standards Board.

You will find the Commission's regulation and related press release here:

[www.iasplus.com/restruct/euro2006.htm#dec2006](http://www.iasplus.com/restruct/euro2006.htm#dec2006)

## News about IFRSs in Europe

### Non-EU issuers may use national GAAP for two more years

After receiving positive votes of agreement from the European Securities Committee and the European Parliament, the European Commission has adopted measures extending by two years the transitional exemption granted to foreign companies presenting financial statements prepared in accordance with national accounting standards for the issuing of securities on EU stock markets. Under these measures, 'third-country' (non-EU) issuers are not subject to restatement obligations until 31 December 2008 if:

- the financial information contains an explicit and unreserved statement that it complies with IFRSs; or
- the financial information is prepared in accordance with Canadian GAAP, Japanese GAAP, or US GAAP; or
- the financial information is prepared using a third-country GAAP in relation to which the following conditions are met:
  - the third-country authority responsible for that GAAP has made a public commitment to converge it with IFRS; and
  - that authority has established a work programme that demonstrates progress towards convergence before 31 December 2008; and
  - the issuer provides satisfactory evidence to the relevant competent authority demonstrating that the conditions in the above two points have been met.

A decision on the equivalence of third-country GAAPs with IFRS is expected to take place before the end of 2009. The measures also require the Commission to adopt a definition of equivalence and an equivalence mechanism before 1 January 2008.

You can get more information about the SARG on our web page:

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

### Members of Standards Advice Review Group (SARG)

The European Commission has announced the members of its Standards Advice Review Group (SARG). The Group's task will be to assess whether the endorsement advice given by the EFRAG is well balanced and objective. The group will deliver its advice to the Commission normally within three weeks. The final advice will be published on the Commission's website. Members of the SARG are:

- Josef Jilek
- Elisabeth Knorr
- Carlos Soria Sendra
- Herve Stolowy
- Enrico Laghi
- Jan Klaasen
- Geoffrey Mitchell

Here is a link to download the Commissioner McCreevy's remarks:

[www.iasplus.com/restruct/euro2006.htm#dec2006](http://www.iasplus.com/restruct/euro2006.htm#dec2006)

### Regulation of financial reporting in the EU

Charlie McCreevy, the European Commissioner for Internal Market and Services, spoke on Financial Reporting in the EU: Striking the Right Regulatory Balance at a conference organised by the European Accounting Federation (FEE) in Brussels in December 2006. Here are excerpts on several matters:

- **Fair value reporting.** “Today’s Conference will explore, in particular, whether principles-based fair value reporting poses a conflict between transparency and stability. It will also consider whether greater access to information over the internet is an opportunity or a risk. The accounting firms are right to provoke a debate on this. Personally, I am sceptical about the benefits, but I will be interested to hear the outcome of your discussions.”
- **Implementation of IFRSs.** “I think there is a feeling out there that the investment was worth it and that the benefits outweigh the initial costs. However, we still need to maintain our focus so that further improvements can be made. In particular, more consistency and more coherence still need to be developed. We can debate the theoretical value or not of fair value reporting until the cows come home but if there are big differences of approach across the EU, then this will certainly not contribute to financial stability and transparency.”
- **Statutory audit.** “The Commission has wide powers to deliver implementing measures under the new statutory audit directive, but I will follow my motto of ‘less is more’. Implementing measures will be adopted only after their usefulness is fully demonstrated. Two issues need to be addressed as a matter of urgency. Firstly, how to deal with third country auditors. The Commission will launch a consultation early next year on this. We want, above all, to avoid duplication. The starting point for cooperation between oversight bodies should be the home country principle. This is why I have suggested to the US PCAOB that we should develop a roadmap towards future cooperation between US and EU oversight bodies. This has been done in the accounting field and it should be done for auditing, too. Secondly, we need to consider what should be done about the adoption of the IAASB’s International Standards on Auditing, the so-called ‘ISAs’. I envisage that we might also launch a consultation on this in the course of next year.”
- **IFRS for SMEs.** “Work is also going on within the IASB on SME accounting. Again, I would repeat that what are needed are simple, easy to apply standards that help business. From what I have seen up to now, I have doubts whether the IASB standards will be able to achieve that. And I am very well aware that many in business share this concern.”

Here is a link to download the EU Council decision and public statement:

[www.iasplus.com/restruct/euro2006.htm#nov2006](http://www.iasplus.com/restruct/euro2006.htm#nov2006)

### **New EU procedure for endorsing IFRSs**

A new step has been added to the procedure for endorsing IFRSs (including Interpretations) for use in Europe. The European Commission will be required to submit its endorsement proposals to a Committee of the European Parliament, known as the Regulatory Procedure with Scrutiny Committee. That Committee will give its opinion on endorsement to the Commission within a time frame determined on a case by case basis.

If the Committee agrees with the Commission's recommendation, the recommendation goes to the European Parliament and Council for approval, as at present. If, however, the Committee does not agree with the Commission's recommendation, the matter will go directly to the Council. If the Council supports the Commission's recommendation, the matter will go to Parliament for action. If the Council does not support the Commission's recommendation, the Commission will be asked to reconsider the matter and submit a new recommendation.

[www.efrag.org](http://www.efrag.org)

### **European discussion paper on performance reporting**

The European Financial Reporting Advisory Group (EFRAG) and the Spanish standard setter, Instituto de Contabilidad y Auditoría de Cuentas (or ICAC), have published a discussion paper on performance reporting entitled *What (if anything) is wrong with the good old income statement?*

The paper identifies and analyses the arguments of those who believe that fundamental changes are needed to the existing performance reporting model, and also explains the reasoning of those who believe such changes are not needed. The paper does not reach any conclusions on the issues, but it sets the scene for a subsequent paper that will explore the underlying issues involved in greater detail. The comment period ends on 31 March 2007.

[www.efrag.org](http://www.efrag.org)

### **European discussion paper on the conceptual framework**

In November 2006, the European Financial Reporting Advisory Group (EFRAG) and the French accounting standard setter (Conseil National de la Comptabilite, or CNC) jointly published the first discussion paper under EFRAG's programme for greater pro-activity in accounting standards. The discussion paper, titled *The Conceptual Framework: Starting from the Right Place?*, elaborates on the following issues:

- Purpose of the conceptual framework;
- Users of financial reporting;
- Entities within the scope of the Framework; and
- The scope of financial reporting.

EFRAG and CNC invite comments by 18 March 2007.



You can download the report on our website:  
[www.iasplus.com/europe/0612ecbifrs.pdf](http://www.iasplus.com/europe/0612ecbifrs.pdf)

### European Central Bank report on IFRSs

The European Central Bank (ECB) has published a report titled Assessment of Accounting Standards from a Financial Stability Perspective that was prepared by the ESCB Banking Supervision Committee. The Committee comprises representatives of the ECB and the national central banks and banking supervisory authorities of the European Union.

**Assessment criteria.** First, the report puts forward ten criteria deemed important from the perspective of financial stability with which accounting standards should be consistent. The selected criteria are:

- reliance on principles-based accounting standards;
- use of reliable and relevant values;
- recognition of the allocation and magnitude of risks;
- provision of comparable financial statements;
- provision of clear and understandable financial statements;
- portrayal of the financial situation of banks (solvency, profitability, liquidity);
- alignment of accounting rules and sound risk management practices;
- promotion of a forward-looking recognition of risks;
- avoidance of negative and promotion of positive externalities, in particular regarding the behaviour of banks; and
- enhancement of market confidence and corporate governance.

**Positive findings.** The report analyses IFRSs based on these criteria. Positive features of the IFRSs from a financial stability point of view identified in the report include:

- the overall increase in comparability and transparency, which enhances the level playing field between financial institutions and strengthens market discipline;
- the provision of early warning signals on exposures or risks, which is relevant both for the risk management function of financial institutions and for effective market discipline; and
- the use of a principles-based framework, which provides for an adequate degree of flexibility in implementation.

**Concerns.** Then the report identifies areas where concerns could arise from a financial stability perspective. These include:

- the reliability of 'fair' values: fair values should be accurately measured and appropriately documented, so as to avoid an inappropriate upfront recognition of gains that are unrealisable and behaviour that is based on accounting figures rather than on the underlying economic factors;
- the economic basis for hedge accounting: the accounting framework should reflect the underlying economic situation and adequately take into account strictly documented risk management practices, as this would further encourage better risk management;
- provisioning: the provisioning regime should not be conducive to increasing pro-cyclicality, but should encourage the use of methods that are aimed at identifying credit losses already inherent in a particular credit portfolio at the present time.

[www.efrag.org](http://www.efrag.org)

### EFrag does not support IFRIC D20

The European Financial Reporting Advisory Group (EFRAG) has written to the International Financial Reporting Interpretations Committee expressing reservations about the proposals in IFRIC Draft Interpretation D20 *Customer Loyalty Programmes*. Here is an excerpt from EFRAG's letter:

*We do not support the consensus proposed by the Draft Interpretation. In particular, we do not support the adoption of a deferred revenue approach. Instead, we favour adoption in D20 of the so-called cost/provision approach and believe that this approach will, in most instances, result in the most appropriate accounting treatment. We believe that the lack of a clear set of guidelines on segmentation of revenue transactions will lead to inconsistent accounting practices and, generally we doubt whether a consistent and comparable approach will be achieved if the measurement model being proposed is adopted. For those reasons, and until further research is undertaken, we believe that the cost/provision approach will provide the most suitable level of comparability of information in the financial statements.*

We have information about accounting standards in individual jurisdictions here: [www.iasplus.com/country/country.htm](http://www.iasplus.com/country/country.htm)

### EU IFRS regulation now applies to Bulgaria, Romania

Bulgaria and Romania became members of the European Union as of 1 January 2007. As a result, the EU regulation requiring the use of IFRSs by all listed companies in their consolidated financial statements became applicable in those two countries. Bulgaria had already required IFRSs for its listed companies, and Romania had required IFRSs for all large companies.

Link to the report: [www.iasplus.com/uk/0612ifrsimplementation.pdf](http://www.iasplus.com/uk/0612ifrsimplementation.pdf)

### Report on implementation of IFRSs in the United Kingdom

The United Kingdom Financial Reporting Review Panel has published a report on its preliminary findings in respect of IFRS implementation by UK listed companies in their annual accounts. The Panel found 'a good level of compliance with IFRSs' but also identified a number of recurring issues that are highlighted in the report.

ED 151 can be downloaded from the AASB Website: [www.aasb.com.au](http://www.aasb.com.au)

### Use of IFRSs elsewhere in the world

#### Australia proposes to undo changes it made to IFRS

On 30 November 2006, the Australian Accounting Standards Board (AASB) issued Exposure Draft ED 151 *Australian Additions to, and Deletions from, IFRSs* for comment. ED 151 reflects the AASB's recent decision to make Australian accounting requirements the same as IFRSs in respect of for-profit entities. To this end, the exposure draft proposes reinstating various accounting policy options that were previously deleted in making the existing suite of A-IFRS, and removing certain Australian-specific disclosures.

## IFRS publications from Deloitte

Download our IFRS model financial statements and presentation and disclosure checklist for 2006, and the IFRS 8 supplement, here: [www.iasplus.com/fs/fs.htm](http://www.iasplus.com/fs/fs.htm)

New IASC history page: [www.iasplus.com/restruct/iaschistory.htm](http://www.iasplus.com/restruct/iaschistory.htm)

### IFRS 8 disclosure checklist

Deloitte has published a supplement to our IFRS presentation and disclosure checklist for 2006 that contains a checklist of the disclosures required by IFRS 8 *Operating Segments*.

### News about our IAS Plus website

In 2006 we had 1,347,000 visitors to [www.iasplus.com](http://www.iasplus.com). Thank you for making us, once again, the #1 source on the Internet for information about international financial reporting. Here are a few more statistics about IAS Plus in 2006:

- Total page views: 5,102,000
- Total website file size: 541mb
- Total number of files: 3,733 files, including 609 HTML web pages and 2,413 downloadable PDF files.

We have added a page of historical information about the International Accounting Standards Committee - the IASB's predecessor from 1973 to March 2001. The historical information about the IASC on that page is based on tables prepared for *The International Accounting Standards Committee: A Political History*, by Robert J Kirsch, published in January 2007 by WoltersKluwer/CCH. The tables on [www.iasplus.com](http://www.iasplus.com) include:

- IASC Voting Requirements
- Dates and Locations of Meetings of the IASC
- Duration of IASC Board Meetings Per Year
- IASC Expenditure
- IASC Revenue by Source as Per Cent of Total
- Chairmen of the IASC
- IASC Secretaries (to 1983) and Secretaries-General (from 1984)
- Location and Size of IASC-IASB Offices

We have updated the table on global use of IFRSs by country and region to include information about whether *unlisted* companies are required or permitted to use IFRSs. Previously, the table covered only listed companies.

You will find links to all IAS Plus newsletters here:

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

You can also sign up for free subscription by e-mail on the IAS Plus home page:

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

#### Four special editions of our IAS Plus Newsletter

Deloitte's IFRS Global Office has published four special editions of our IAS Plus Newsletter:

- **Special Edition – IFRIC 11.** IFRIC 11 addresses the application of IFRS 2 *Share-based Payment* to certain share-based payment arrangements involving an entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. It is effective for annual periods beginning on or after 1 March 2007.
- **Special Edition – IFRIC 12.** IFRIC 12 *Service Concession Arrangements* addresses the accounting by private-sector entities that, by contract with a government, participate in developing, financing, operating, and maintaining infrastructure assets relating to public services traditionally provided by governments. Examples of those assets include roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, and energy supply and telecommunication networks. IFRIC 12 does not address the accounting for the government (grantor) side of such arrangements. IFRIC 12 is effective for annual periods beginning on or after 1 January 2008, with early adoption permitted.
- **Special Edition – IFRS 8.** On 30 November 2006, the IASB issued IFRS 8 *Operating Segments*, which replaces IAS 14 *Segment Reporting*. This newsletter explains the requirements of IFRS 8 and how it differs from IAS 14. IFRS 8 is mandatory for annual financial statements for periods beginning on or after 1 January 2009, although earlier application is permitted. Once IFRS 8 is effective, segment reporting under IFRSs and US GAAP (SFAS 131) will be converged except for some minor differences. IFRS 8 will expand significantly the requirements for segment information at interim reporting dates.
- **Special Edition – 2006 Review.** This newsletter summarises all of the new and revised Standards and Interpretations in effect for December 2006 year ends and beyond.

You can download Deloitte IFRS publications here:

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

#### Czech and Turkish language IFRSs in your Pocket 2006

Deloitte Czech Republic has published *IFRS do kapsy*, the Czech language version of our very popular publication *IFRSs in your Pocket 2006*.

Deloitte Turkey has published *UFRS Cep Kitapçigi 2006*, the Turkish language version of IFRSs in your Pocket.

You can find more information about the book here:

[www.johnwiley.com.au](http://www.johnwiley.com.au)

#### Enhanced edition of IFRS textbook

Paul Pacter, a director in Deloitte's IFRS Global Office and webmaster of [www.iasplus.com](http://www.iasplus.com), is co-author of the Second (Enhanced) Edition of the leading university textbook on IFRSs, *Applying International Financial Reporting Standards*, published in December by John Wiley and Sons (Australia). The focus of this 1,236-page text is on the analysis, illustration, and application of IFRSs. The textbook has been written for intermediate and advanced financial reporting courses, at both undergraduate and postgraduate level (ISBN: 9780470808238).

## Accounting Standards Update in the Asia-Pacific Region

### AUSTRALIA

Contact: Bruce Porter  
bruporter@deloitte.com.au

In October 2006, the AASB revised AASB 101 Presentation of Financial Statements as part of its initiative to eliminate differences between A-IFRSs and IFRSs. The revised Standard is applicable to annual reporting periods beginning on or after 1 January 2007, but early adoption is permitted.

The impacts of the revised AASB 101 are to eliminate much of the Australian specific content in AASB 101, including the Australian illustrative formats of the income statement, balance sheet and statement of changes in equity which entities were previously 'encouraged' to adopt in preparing their financial statements. In addition a number of other disclosure requirements have been deleted from AASB 101.

In November 2006, the AASB finalised its deliberations on differences between A-IFRSs and IFRSs in relation to for-profit entities and has agreed to issue ED 151 Australian Additions to, and Deletions from, IFRSs. Comments close on 31 January 2007.

The ED proposes to allow entities the option to:

- prepare cash flow statements using the 'indirect' method.
- use proportionate consolidation to account for their jointly controlled entities
- account for government grants as deferred income or as a deduction from the related asset. The choice affects the timing of recognition of the grant as income
- account for government grants in the form of a transfer of a non-monetary asset for use by the recipient at fair value or nominal amount
- disclose government grants related to income as a credit in profit and loss or as a deduction from the related expense
- disclose a reconciliation between the average effective tax rate and the applicable tax rate instead of reconciliation between tax expense and accounting profit multiplied by the tax rate. Also, the ED proposes eliminating the additional disclosures related to the treatment of exchange differences on deferred taxes

ED 151 also proposes that entities will no longer be required to make many of the current Australian specific disclosures. The proposed application date of the amendments to annual reporting periods beginning on or after 1 July 2007, with early adoption permitted.

The AASB continued to debate whether, and if so how, the IASB SME project proposals should be implemented in Australia. The Board also agreed that there is a need to revisit the current practice of identifying the Standards that entities are required to apply. The AASB appears to favour a concept based on 'public accountability' rather than the 'reporting entity' for differential reporting. At its December meeting, the AASB considered some approaches that might be adopted in relation to various groups of entities, including the possibility of an AASB-developed 'size test' for certain entities. No conclusions were reached.

## AUSTRALIA, continued

Following the IFRIC decision in March 2006 not to add the issue to its agenda, the AASB initially released a rejection notice that Petroleum Resource Rent Tax (PRRT) was within the scope of AASB 112 Income Taxes. However, following concern expressed about the decision and the lack of due process, the AASB subsequently called for submissions on whether PRRT was within the scope of AASB 112. As a consequence of submissions received on the invitation to comment, in December the Board agreed to:

- revise its original agenda rejection statement to remove the statement that PRRT is within the scope of AASB 112 Income Taxes
- form an Advisory Panel to recommend to the Board on whether PRRT should or should not be accounted for as an income tax under AASB 112.

The AASB continued its review of public sector specific accounting standards. The Board met with public sector constituents to discuss their views on the treatment of particular issues arising out of the short-term review of the requirements in public sector specific standards in Australia. The Board subsequently asked staff to draft an ED for consideration at a future meeting that proposes amendments to a number of Standards to pick up the issues currently addressed in public sector specific standards that are not adequately addressed in other Standards.

As part of its short term review the AASB also extended the current exemption for accounting for land under roads for a further twelve months until 31 December 2007. The Board made it very clear that this extension will not be repeated.

The Board has yet to approve the following, but intends to do so in early 2007:

- IFRS 8 Operating Segments.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.
- IFRIC 12 Service Concession Arrangements. As this Interpretation does not address accounting by the grantor (usually the government), the AASB agreed to form an Advisory Panel to advise on accounting for service concession arrangements by the grantor.

## HONG KONG Contact: Stephen Taylor stetaylor@deloitte.com.hk

The fourth quarter of 2006 was quiet, and no new Hong Kong Standards, Interpretations or Amendments were released. However HK(IFRIC)-Int 11, IFRS 2 – Group and Treasury Share Transactions was released in January 2007 based on its international equivalent, IFRIC 11. The other two new IFRSs released in the fourth quarter of 2006 (namely IFRS 8 and IFRIC 12) are also expected to be adopted by the HKICPA in early 2007.

During the fourth quarter of 2006, the HKICPA invited comments on the IASB discussion paper on fair value measurements.

On 17 and 18 January 2007 Hong Kong was the location of the round-table discussions by the IASB and Financial Accounting Standards Board (FASB) on measurement in conjunction with their joint conceptual framework project.

**JAPAN**  
**Contact: Yasuyuki**  
**Miyasaka**  
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The following accounting and auditing standards and related publications were issued in Japan during the fourth quarter of 2006:

Issued	Issuer	Document Description
12 Oct. 2006	ASBJ	Project Plan Concerning the Development of Japanese Accounting Standards
17 Oct. 2006	ASBJ	ASB Standard No. 11, Accounting Standard for Disclosure of Transaction with Related Parties
27 Oct. 2006	ASBJ	Exposure Draft of Amendment to PITF No. 2, Transfers between Retirement Benefit Plans
27 Oct. 2006	ASBJ	PITF No. 22, Tentative Treatment for Accounting for Subsidy to Employees' Pension Fund
1 Nov. 2006	ASBJ	Exposure Draft of Accounting Standard for Quarterly Financial Statements
21 Nov. 2006	BAC	Exposure Draft of Standard for Implementation of Evaluation and Audit for Internal Control over Financial Reporting
21 Nov. 2006	BAC	Exposure Draft of Review Standard for Quarterly Financial Statements
27 Dec. 2006	ASBJ	Amendments to Implementation Guidance No. 10, Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures
27 Dec. 2006	ASBJ	Exposure Draft of Amendments to Accounting Standard for Lease Transactions and its Implementation Guidance
*ASBJ: Accounting Standards Board of Japan FSA: Financial Services Agency BAC: Business Accounting Council JICPA: Japanese Institution of Certified Public Accountants		

### **ASBJ Project Plan Concerning the Development of Japanese Accounting Standards**

On 12 October 2006, ASBJ published its project plan. The plan focuses on accounting standards development projects related to convergence and indicates the status of initiatives of the ASBJ in a clearer manner to various constituencies in Japan and abroad.

In the plan, ASBJ stated that primary emphasis was placed on:

- mapping out the work planned to be achieved through the end of 2007, and
- clarifying the prospects of convergence status as of the beginning of 2008 concerning the initiatives to be undertaken with respect to the 26 issues for which the remedies were proposed by the Committee of European Securities Regulators (CESR).

The project plan can be found on the ASBJ website [www.asb.or.jp/](http://www.asb.or.jp/) and also on the Japan country page on Deloitte's IAS Plus website.

### **ASB Standard No.11, Accounting Standard for Disclosure of Transaction with Related Parties**

On 17 October 2006, ASBJ issued Accounting Standard and Implementation Guidance for Disclosure of Transaction with Related Parties. The Standard is a consequence of the convergence project with the IASB and relates to IAS 24 *Related Party Disclosures*. The Standard is effective for years beginning on or after 1 April 2008. Early adoption is permitted.

**JAPAN, continued**

**Exposure Draft of Standard for Implementation of Evaluation and Audit for Internal Control over Financial Reporting**

On 21 November 2006, the Internal Control Committee of BAC issued Exposure Draft of Standard for Implementation of Evaluation and Audit for Internal Control over Financial Reporting. The Draft expands on the guidance issued by BAC on 8 December 2005, effective for years beginning on or after 1 April 2008.

The Standard and draft Guidance, sometimes referred to as the “J-SOX Rule”, require the management of an entity to examine and evaluate its own internal control over financial reporting, and auditors to audit the report of evaluation prepared by the management. The rule will be implemented from years beginning on or after 1 April 2008.

**Amendments to Implementation Guidance No. 10, Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures**

On 27 December 2006, ASBJ issued Amendments to Implementation Guidance No. 10, Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures. The amendments resolve some inconsistencies between current accounting guidance issued by ASBJ and implementing regulations of the Company Law legislated by the Ministry of Justice, regarding accounting treatment of business combinations within consolidation group under common control.

**Exposure Draft of Amendments to Accounting Standard for Lease Transactions and its Implementation Guidance**

On 27 December 2006, ASBJ issued an Exposure Draft of Amendment to Accounting Standard for Lease Transactions. Based on a ‘proposed draft’ issued on 5 July 2006, this ED states that companies should recognise all finance leases on the balance sheet, except for lease arrangements that are either less than 3 million yen or less than one year. The proposed rule would be effective for years beginning on or after 1 April 2008. Early adoption will be permitted.

**MALAYSIA**  
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**MASB Issues Policy Statement on FRS 112(2004) Income Taxes**

The Malaysian Accounting Standards Board (‘MASB’) has issued a Policy Statement on FRS 112(2004) Income Taxes to clarify and re-affirm its position that FRS 112(2004) is clear on the prohibition of the recognition of deferred tax asset relating to unutilised re-investment allowances or investment tax allowances and that the provision in FRS 112(2004) is consistent with IAS 12.

The conclusion is based on the provision of FRS 112(2004) relating to a deferred tax asset that arises on initial recognition of an asset or liability. Deferred tax asset/liability is not recognised (initially or subsequently) if it arises on initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

MASB considered the arguments that re-investment allowances or investment tax allowances are tax credits accorded to companies by the Government but concluded that the tax allowances in excess of normal capital allowances are tax deductions in arriving at taxable profit. They are not the same as tax credits. It is of the view that the Government is under no obligation to pay or make good any tax incentives that are not utilised by the companies.



**MALAYSIA, continued**

The manner in which tax incentives are provided in Malaysia is such that the tax benefits could only be realised when the companies make sufficient profits. The tax incentives of re-investment allowance or investment tax allowance provided by the Government are realised and recognised in the years they are utilised in the form of lower current tax expense as opposed to them being tax credits.

*Glossary:*

- Policy Statement: A Statement issued by MASB to address a perceived problem in the application of a particular Standard issued by MASB which resulted in differing interpretations as to the intent of the Standard concerned, leading to potentially varying approaches to the accounting treatment. The purpose of a Policy Statement is to clarify and re-affirm MASB's position on the application of a Standard in question in order to ensure consistency of application by reporting entities in Malaysia.
- Re-investment Allowance: An allowance given to qualifying companies in addition to the normal 100% capital allowance ('CA') based on qualifying capital expenditure incurred on qualifying projects located in specific areas for expansion, modernisation or diversification. The allowance is computed as 60% of the qualifying expenditure incurred by the entity and used as a deduction against statutory income. However, the deduction is restricted to 70% of the statutory income for the year. Any unutilised allowances may be carried forward indefinitely to future years to offset against future statutory income of a qualifying entity.
- Investment Tax Allowance: An allowance given to qualifying companies in addition to the normal 100% CA based on qualifying capital expenditure incurred in relation to a promoted activity or product for a period of 5 years from the date approval is granted. The allowance is computed as 60% of the qualifying expenditure incurred by the entity and used as a deduction against statutory income. However, deduction is restricted to 70% of statutory income for the year. Any unutilised allowances may be carried forward indefinitely to future years to offset against future statutory income of a qualifying entity.

**IASB Discussion Paper on Fair Value Measurements**

MASB solicited comments from interested parties on IASB's Discussion Paper on Fair Value Measurements in order for it to consider those comments in its response to IASB.

The Discussion Paper seeks to establish a concise definition of fair value and a single source of guidance for all fair value measurements required by IFRSs and uses SFAS 157 Fair Value Measurements, accounting standard issued by Financial Accounting Standards Board, United States as its starting point for deliberation.

**PHILIPPINES**

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**Securities and Exchange Commission Notice**

The Philippine Securities and Exchange Commission in its Resolution No. 493 dated 16 November 2006 issued a notice which approved the transitional relief from PAS 39 Financial Instruments: Recognition and Measurement, covering the hedging contracts of mining companies that were entered into and effective prior to 1 January 2005.

Under the approved transitional relief, certain commodity derivative contracts of mining companies shall be 'grandfathered' and exempted from the fair value requirements of PAS 39. The said approval shall be subject to the following conditions:

1. Derivative contracts of mining companies shall qualify for exemption from PAS 39 if all the following requirements are met:

- Commodity derivative contracts entered into and effective prior to 1 January 2005;
- Commodity derivative contracts with original maturity of more than 1 year; and
- Commodity derivative contracts that would have qualified under PAS 39 hedge accounting rules had these been applied at inception of such contracts.

2. Mining companies availing of the transitional relief from PAS 39 shall apply the same to all such contracts outstanding as of 1 January 2006 on a retrospectively basis. Applying such exemption only to selected transactions shall not be permitted. The companies will have to decide either to apply such exemption to all or none of its qualified contracts.

3. Mining companies shall make an irrevocable choice to avail of the exemption by a written notice to the Philippine SEC on or before 29 December 2006. A mining company availing of the exemption shall nonetheless indicate in the notes to financial statements the following:

- the fact that it availed of such exemption;
- the applicable disclosures required by PAS 32 (Financial Instruments: Disclosure and Presentation) and its forthcoming amendments embodied in Philippine Financial Reporting Standard (PFRS) 7 Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007; and
- a presentation of the quantitative impact on retained earnings and net income for the reporting periods covered, had the subject derivatives not been exempted from PAS 39 and accounted for under non-hedge treatment.

**Questions and Answers issued by the Philippine Interpretations Committee**

The Philippine Interpretations Committee (PIC) has approved Questions and Answers (Q&As) on revenue recognition for sales of property units under pre-completion contracts and clarification of the criteria for exemption from presenting consolidated financial statements. The Q&As have been approved for issuance by the Philippine Financial Reporting Standards Council (FRSC).

## PHILIPPINES, continued

*Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts*

This Q&A allows the use of the percentage of completion (POC) method in accounting for revenues related to pre-completion contracts on the basis of the transfer of equitable interest to the buyer as provided in the appendix to PAS 18 Revenue. The Q&A also lists conditions that must be met for the use of the POC method.

*Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements*

PAS 27 Consolidated and Separate Financial Statements specifies the criteria to be met in order that a parent company need not present consolidated financial statements. This Q&A clarifies the following criteria for purposes of that exemption: (a) when consolidated financial statements are considered 'available for public use' (for example, when these are posted in websites) (b) financial reporting framework of other countries considered acceptable for purposes of the exemption (for example, those that are converged or virtually converged with IFRSs or are conceptually similar to IFRSs).

## SINGAPORE

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The Council on Corporate Disclosure and Governance (CCDG) issued the following, which is identical to that issued by the IASB during the fourth quarter of 2006:

- INT FRS 110 Interim Financial Reporting and Impairment (IFRIC 10)

**The following exposure drafts of proposed standards are still outstanding:**

*Issued in 2004*

- ED Proposed Amendments to FRS 103 (IFRS 3) Business Combinations – Combinations by Contract Alone or Involving Mutual Entities.

*Issued in 2005*

- ED Proposed Amendments to FRS 37 (IAS 37) Provisions, Contingent Liabilities and Contingent Assets and FRS 19 (IAS 19) Employee Benefits;
- ED Proposed Amendments to FRS 27 (IAS 27) Consolidated and Separate Financial Statements; and
- ED Proposed Amendments to FRS 103 (IFRS 3) Business Combinations.

**SINGAPORE, continued**

*Issued in 2006*

- ED Proposed Amendments to FRS 1 (IAS 1) A Revised Presentation;
- ED Proposed Amendments to FRS 102 (IFRS 2) Vesting Conditions and Cancellations;
- ED FRS Operating Segments (IFRS 8);
- ED of Proposed Amendments to FRS 32 (IAS 32) and FRS 1 (IAS 1) on financial instruments puttable at fair value and obligations arising on liquidation; and
- ED Proposed Amendments to FRS 23 (IAS 23) Borrowing Costs.

**The following exposure drafts of proposed interpretations are still outstanding:**

*Issued in 2004*

- ED INT FRS Multi-employer Plans (IFRIC Draft Interpretation D6);
- 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 (IFRIC Draft Interpretation D9); and
- ED INT FRS Changes in Contributions to Employee Share Purchase Plans (IFRIC Draft Interpretation D11).

*Issued in 2005*

- ED INT FRS 102 Group and Treasury Share Transactions (IFRIC 11);
- ED INT FRS Service Concession Arrangements – Determining the Accounting Model (IFRIC 12);
- ED INT FRS Service Concession Arrangements – The Financial Asset Model (IFRIC 12); and
- ED INT FRS Service Concession Arrangements – The Intangible Asset Model (IFRIC 12).

*Issued in 2006*

- ED INT FRS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements (IFRIC Draft Interpretation D19); and
- ED INT FRS Customer Loyalty Programmes (IFRIC Draft Interpretation D20).

**THAILAND**

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Accounting Standards in Thailand are issued by the Federation of Accounting Professions (FAP), which was established in 2004.

Minor revisions were made to the following Thai Accounting Standards (TAS) during 2006:

- TAS No. 52 Events after the Balance Sheet Date
- TAS No. 27 Disclosure of Information in Banks and Financial Institutions' Financial Statements
- TAS No. 32 Property, Plant and Equipment
- TAS No. 44 Accounting for Investments in Subsidiary and Associated Companies

The FAP also issued the following draft guidelines:

- Accounting for Derivatives and Embedded Derivatives
- Accounting for Securitization

As of December 31, 2006, the FAP had issued exposure drafts which would revise existing TAS to conform with International Financial Reporting Standards (IFRS):

- TAS No. 29 Leases (IAS 17)
- TAS No. 31 Inventories (IAS 2)
- TAS No. 32 Property, Plant and Equipment (IAS 16)
- TAS No. 35 Presentation of Financial Statements (IAS 1)
- TAS No. 36 Impairment of Assets (IAS 36)
- TAS No. 44 Consolidated and Separate Financial Statements (IAS 27)
- TAS No. 45 Investments in Associates (IAS 28)
- TAS No. 46 Interests in Joint Ventures (IAS 31)
- TAS No. 47 Related Party Disclosures (IAS 24)
- TAS No. 51 Intangible Assets (IAS 38)
- TAS No. 55 Accounting for Government Grants and Disclosure of Government Assistance (IAS 20)
- TAS No 57 Agriculture (IAS 41)

Prior to 31 December 2006, the FAP had also issued an exposure draft accounting standard which covers Investment Property based on IAS No. 40.

## *The most comprehensive IFRS news on the Net*

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board and International Financial Reporting Standards, including:

- A news page (updated almost daily). Day-by-day past news back to December 2000.
- Detailed summaries of all Standards and Interpretations.
- E-learning modules for each IAS and IFRS – made available at no charge in the public interest.
- Model IFRS financial statements and disclosure checklists.
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- Background and updates on all IASB and IFRIC agenda projects, including decision summaries of all IASB meetings.
- Comparisons of IFRSs and various national GAAPs.
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- Updates on national accounting standards development in over 75 countries throughout the world.
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- Description of the IASB structure, component bodies, and key organisations with which it interrelates.
- History of the IASB, including a comprehensive chronology.
- Links to nearly 200 global IFRS-related websites.
- Even some tools to help in your work, such as world time clock, 9-year calendar, unit conversions, amortisation calculator, telephone codes, currency converter, stock market indexes, worldwide weather, and a calculator.
- 4,400,000 visitors through January 2007.

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