

In this Issue

IASB MEMBER BIOGRAPHIES

IAS ADVISORY COUNCIL

IASB AGENDA DECISIONS

POTENTIAL IASB PROJECTS

IASB MEETING SCHEDULE

RECENT IASB STANDARDS

– Effective Dates

IASC XBRL PROJECT

PROJECT TARGET DATES

IAS 39 GUIDANCE

IASC STAFFING, OFFICES

INTERPRETATIONS

– Effective Dates

– SIC 26, *Incidental Operations*, and SIC 28, *Shares Issued in Business Combinations*, will not be issued

– SIC 27, *Lease-Leaseback* also may not be issued

SIC PROJECTS

MINING INDUSTRY

GAAP 2000 ON LINE

IAS IN EUROPE

NATIONAL NEWS: CANADA, HONG KONG, FRANCE, GERMANY

RESTRUCTURING THE IASC

ACCOUNTING UPDATES IN THE ASIA-PACIFIC REGION

IAS PLUS WEB SITE

Our new site is up and running. Please check it out at <http://www.iasplus.com> and give us suggestions for improvement. You will find the latest IASB and SIC news, summaries of all proposed and final Standards and Interpretations, updates on ongoing projects, reports about IASB meetings, and reference materials. Also there are links to other IAS-related web sites.

April 2001

Published Quarterly, Issue No. 3

IASB NEWS

The baton is passed. The International Accounting Standards Board (IASB) officially took over from IASC effective 1 April 2001. The IASC Trustees, meeting in Brussels on 7-8 March, passed the necessary resolutions invoking certain portions of IASC's new Constitution. Brief biographies of IASB members are presented on pages 2-3.

An oversight foundation is created. As part of that action, the Trustees established a not-for-profit Delaware corporation, named the International Accounting Standards Committee Foundation, to oversee the IASB.

Advisory Council members are soon to be appointed. See page 3.

IASB meets informally, then officially. IASB held its first formal Board meeting on 18-20 April in London. In February, the Board had held an informal administrative meeting in Streatley-on-Thames, UK, at which no technical matters were discussed. IASB decisions at its April meeting are summarised on pages 4-5.

Think "IASB" not "IASC". IASB has revamped its website to reflect the new structure. Because the focus of the website is primarily on the work of the standards board, its Internet address is www.iasb.org.uk, although the old www.iasc.org.uk also works.

IASB meeting schedule. IASB announced its meeting schedule for the remainder of 2001. They plan to meet monthly, except in August, for three to five days each month. While most meetings will be in London, they have planned one meeting each in Washington and Paris during 2001. See page 6.

IASB offices. The IASC Trustees concluded that IASB's permanent home should be in London, and new office facilities were rented. Page 7.

Standing Interpretations Committee (SIC). SIC met in Tokyo 12-13 February. It finalised its consensus on SIC 26 (incidental operations), began discussing comments on SIC D-27 (lease-leaseback), and reached a tentative consensus on the measurement of shares issued in a business combination, which was to be D28. However, in April the IASB decided that D26 should not be finalised and D28 should not be issued. The future of D27 is also uncertain. See pages 8-9. SIC meets 9-11 May in Melbourne, Australia. The agenda is discussed on page 10.

Reminder: IAS 12, 19, 39, and 40 take effect in 2001. See page 4.

G4+1 DISBANDS

The G4+1 group of standard-setters agreed to disband and cancel its planned future activities, because the new IASB is ready to start its activities. G4+1 does not plan any further publications or meetings.

EUROPE

The European Commission has proposed that all listed companies use IAS starting in 2005. Key European business organisations have proposed a mechanism for providing European input to IASB. See page 13.

For information about the content of IAS PLUS please contact:

Stephen Taylor: stetaylor@deloitte.com.hk

Paul Pacter: paupacter@deloitte.com.hk

INTERNATIONAL ACCOUNTING STANDARDS BOARD MEMBERS

Sir David Tweedie, Chairman

Sir David Tweedie served as the first full-time Chairman of the U.K. Accounting Standards Board, with a term from 1990-2000. Before assuming the Chairmanship of the U.K. Board, Sir David was national technical partner for KPMG and has served as a professor of accounting in his native Scotland. He has worked on international standards setting issues both as the first Chairman of the G4+1, a cooperative group among leading standard setters, and as a member of the previous IASC Board.

Thomas E. Jones, Vice Chairman

As the former Principal Financial Officer of Citicorp and Chairman of the IASC Board, Tom Jones brings extensive experience in standard setting and the preparation of financial accounts for financial institutions. A British citizen, Mr. Jones has worked principally in Belgium, Italy, France, and the United States throughout his professional career.

Mary E. Barth

As a part-time Board member, Mary Barth, an American citizen, will retain her position as a Professor of Accounting at the Graduate School of Business at Stanford University. Among the academic community, she is widely known and has won national awards both as an educator and for her body of scholarly work. Before entering academia, Prof. Barth was a partner at Arthur Andersen.

Hans-Georg Bruns – Liaison to German Standard Setter

Hans-Georg Bruns has served as the Chief Accounting Officer for DaimlerChrysler and has been head of a principal working group of his home country's German Accounting Standards Committee. In his role at Daimler-Benz and now DaimlerChrysler, Dr. Bruns was in charge of the task force listing Daimler-Benz on the New York Stock Exchange and was responsible for the accounting issues related to the DaimlerChrysler merger.

Anthony T. Cope

Tony Cope joined the U.S. Financial Accounting Standards Board in 1993. Prior to that engagement, Mr. Cope, a British citizen, worked as a financial analyst in the United States for 30 years, ultimately becoming Director of Fixed Income Research, Wellington Management Co in Boston. Mr. Cope, as a member of the IASC Strategy Working Party, was closely involved with the organization's current restructuring, and has served as FASB's observer to IASC Board meetings for the last five years.

Robert P. Garnett

Robert Garnett is the Executive Vice President of Finance for Anglo American plc, a South African company, listed on the London Stock Exchange. Mr. Garnett has worked as a preparer and analyst of financial statements in his native South Africa throughout his career and, as an IASB Board member, will reach out to the economies of Southern Africa to improve accounting standards.

Gilbert Gélard – Liaison to French Standard Setter

Currently a partner at KPMG in his native France, Gilbert Gélard has extensive experience with French industry. He served as a Deputy CFO with Groupe Hachette from 1973 to 1982 and Deputy Group Comptroller with Elf Aquitaine from 1982 to 1987. Mr. Gélard speaks eight languages and has been a member of the French standard-setting body (CNC). He served as a member of the former IASC Board.

Robert H. Herz

Robert Herz, as a part-time member of the Board, will continue to be a partner at PricewaterhouseCoopers where he has been in charge technical and professional matters in the United States and in the Americas. Mr. Herz has been a member of several FASB task forces and professional and academic committees and has recently been nominated to become the Chairman of the new Transnational Auditors Committee of the International Federation of Accountants. Though a U.S. citizen, Mr. Herz has also lived in England and Argentina, speaks Spanish, and has worked with many international companies on accounting and reporting matters.

James J. Leisenring – Liaison to the U.S. Standard Setter

Jim Leisenring has worked on issues related to accounting standards setting over the last three decades, as the Vice Chairman and most recently as Director of International Activities of the U.S. Financial Accounting Standards Board (FASB) in his home country. While at FASB, Mr. Leisenring served as FASB's observer for several years at meetings of the former IASC Board.

continued...

INTERNATIONAL ACCOUNTING STANDARDS BOARD MEMBERS continued

Warren McGregor – Liaison to Australian and New Zealand Standard Setters

Warren McGregor developed an intimate knowledge of standard setting issues with his work over 20 years at the Australian Accounting Research Foundation, where he ultimately became the Chief Executive Officer. In his most recent position with Stevenson McGregor, a company he co-founded in his native Australia, he has been involved in advising ASEAN nations on adopting high quality accounting standards.

Patricia O'Malley – Liaison to Canadian Standard-Setter

Patricia O'Malley currently serves as Chair of the Accounting Standards Board of Canada. She has worked on issues related to global standard setting since 1983 and brings vast experience on work with financial instruments. Before joining the Canadian Board, Ms. O'Malley was a Technical Partner at KPMG in her home country of Canada.

Harry K. Schmid

Harry Schmid brings over 40 years of experience as a preparer of financial statements for Nestlé, ultimately becoming Senior Vice President at its headquarters, responsible for corporate reporting. During his professional career and before returning to his native Switzerland, Mr. Schmid lived in Latin America for 17 years and was responsible for finance and control of a Latin American subsidiary. Mr. Schmid speaks four languages (German, French, English, and Spanish). He served as a member of the former IASC Board and the Standing Interpretations Committee.

Geoffrey Whittington – Liaison to U.K. Standard Setter

Geoffrey Whittington is the PricewaterhouseCoopers Professor of Financial Accounting at Cambridge University and formerly served as a member of the UK Monopolies and Merger Commission. In academia, Professor Whittington is widely respected internationally on issues related to accounting and financial statement analysis and has served as a member of the UK Accounting Standards Board in his native England.

Tatsumi Yamada – Liaison to Japanese Standard Setter

Tatsumi Yamada is currently a partner at ChuoAoyama Audit Corporation (a member firm of PricewaterhouseCoopers) in Tokyo. Mr. Yamada brings extensive experience with international standard setting as a Japanese member of the previous IASC board between 1996 and 2000, of which he became an Executive Committee member in 2000.

The Standards Advisory Council (SAC) will provide a forum through which IASB can hear the views of key constituency groups on technical and procedural issues. The Council will be a sounding board and a source of ideas for possible agenda projects.

INTERNATIONAL ACCOUNTING STANDARDS ADVISORY COUNCIL

In March, the IASC Trustees began deliberations regarding the 175 applicants and nominations to the International Accounting Standards Advisory Council (SAC). At the meeting, the Trustees reiterated their commitment to achieving a broad and representative balance of perspectives, both professionally and geographically, through the creation of SAC. The Trustees expect to complete the selection process for the Advisory Council in May.

SAC will have approximately 30 members and will provide a forum for organisations and individuals with an interest in international financial reporting to participate in the standard setting process. Members will be appointed for a renewable term of three years and have diverse geographic and functional backgrounds.

SAC will normally meet three times each year at meetings open to the public to:

- ☐ advise the Board on priorities in the Board's work;
- ☐ inform the Board of the implications of proposed standards for users and preparers of financial statements; and
- ☐ give other advice to the Board or to the Trustees.

Key decisions in April:

- All existing IASs and SICs continue in force.*
- Grey-letter sections of IAS are no less authoritative than black-letter.*
- New IASB Standards will be known as International Financial Reporting Standards.*
- SIC D26 and D27 are not expected to be finalised in their current form. Proposed SIC D28 also will not be issued.*
- IASB will embark on a project to make relatively small improvements to existing IAS.*
- IAS 39 guidance questions and answers will be added as an illustrative appendix to the Standard itself.*

IASB DISCUSSION AND DECISIONS IN APRIL

At its meeting in London 18-20 April 2001, IASB reached the following decisions:

Adoption of existing IASs and SICs. The IASB Board approved a resolution to adopt the IASB Standards and SIC Interpretations existing at 1 April 2001, the date that IASB assumed responsibility for setting standards. The resolution makes clear that the existing pronouncements continue to be applicable unless and until they are amended or withdrawn after formal due process.

Black letter vs. grey letter. IASB approved a proposed introduction to the old IASB Standards stating that “grey-letter” and “black-letter” paragraphs have equal authority, and an enterprise must apply both to comply with IAS. The status of appendices to IAS is unchanged. The Board will continue to discuss how to issue the proposed wording for comments at its next meeting in May 2001. The Board will also discuss style of the Standards at that time.

Name for new standards issued by IASB. New Standards issued by the IASB will be named “International Financial Reporting Standards”.

Interpretations. SIC D26 and SIC D27 will not be issued as final Interpretations in their current form. Nor will SIC D28, Business Combinations: Measurement of Shares Issued, be published (SIC had approved D28 in February). IASB wants to have more involvement than the former IASB Board in developing draft Interpretations before they are issued. At its May meeting, IASB will discuss its future relationship with SIC, based on a paper to be prepared by the SIC. SIC D26 and SIC D28 will be included in the improvements project. The future of SIC D27 is uncertain.

Improvements project. IASB added to its agenda an improvements project. For some time, the staff of the IASB have been aware of a need for a project to address topics that can be dealt with relatively quickly and are not individually significant enough to be a project on their own. A number of potential topics have been raised with IASB staff, mainly by national standard setters, accounting firms, IOSCO, the SIC, and IASB Board Members. Potential topics for improvements are broadly of six types:

- ☐ elimination of choices;
- ☐ elimination of conceptual inconsistencies between IASs;
- ☐ additional guidance;
- ☐ additional disclosure;
- ☐ drafting improvements; and
- ☐ improvements in the structure of certain IASs.

IAS 39 implementation guidance. The IAS 39 Implementation Guidance Committee (IGC) should continue to finalise its current work. IGC will be asked to raise controversial issues for IASB to discuss before they are issued as final guidance. IGC’s Q&As will be added to IAS 39 as an appendix illustrating application of the Standard.

The Board also discussed the following matters in some detail, but no decisions were taken:

- ☐ Board agenda and future work programme, including priorities, criteria for selecting agenda items, and their classification into potential projects on convergence, leadership, critical path, improvement, conceptual framework, and other financial reporting issues;
- ☐ Proposals by the Joint Working Group on Financial Instruments and Similar Items, including the recognition and derecognition model;
- ☐ Present Value;
- ☐ Insurance Contracts;
- ☐ Reporting Financial Performance;

IASB DISCUSSION AND DECISIONS IN APRIL, continued

- ☐ Bank Presentation and Disclosures;
- ☐ Leases; and
- ☐ Share-Based Payment.

A wide variety of potential agenda projects were suggested to IASB. The critical path projects represent pervasive issues that arose in a number of past IASC projects and that were addressed by IASC on an ad hoc basis. Many of the convergence projects are matters on which IASC and major national accounting standard-setters have reached differing decisions in the past few years. The leadership projects are ones that have proved to be major stumbling blocks for individual national standard-setters. For these, the collective effort of IASB and the national standard-setters – with IASB taking the initiative – offers the most likely path to agreement on comprehensive and high quality standards.

INVENTORY OF POTENTIAL IASB PROJECTS

Listed below are the projects that were suggested for the new IASB's agenda, as discussed at the IASB's inaugural meeting 18-20 April:

Improvements Projects

- ☐ Improvements Project

Critical Path Projects

- ☐ Reporting Financial Performance
- ☐ Distinguishing Between Liabilities and Equity
- ☐ Consolidation Policy
- ☐ Present Value

Conceptual Framework Projects

- ☐ Definitions of the Elements of Financial Statements
- ☐ Measurement
- ☐ Liability Recognition
- ☐ Revenue Recognition

Leadership Projects

- ☐ Share-Based Payments
- ☐ Intangible Assets
- ☐ Leases
- ☐ Measurement of Financial Instruments at Fair Value
- ☐ Insurance Contracts
- ☐ Extractive Industries
- ☐ Rate-Regulated Enterprises, including Privatisation Issues
- ☐ Mutual Funds

Convergence Projects

- ☐ Impairment
- ☐ Business Combinations
- ☐ Consolidation Procedures
- ☐ Pension Accounting
- ☐ Income Taxes
- ☐ Joint Venture Accounting
- ☐ Derecognition
- ☐ Revaluations
- ☐ Non-Reciprocal Transfers
- ☐ Segment Reporting
- ☐ Accounting for Borrowing Costs

Other Financial Reporting Issues

- ☐ Financial Reporting by "Small" Enterprises and Emerging Markets
- ☐ Management Discussion and Analysis
- ☐ Transition and First Time Application of IAS
- ☐ Preface to International Accounting Standards
- ☐ Business Reporting on the Internet and XBRL Taxonomy
- ☐ Bank Disclosures and Presentation
- ☐ Implementation Guidance on IAS 41, Agriculture
- ☐ Long Operating Leases
- ☐ Venture Capital Enterprises
- ☐ Accounting for Associates
- ☐ Accounting for Commodity Inventories
- ☐ Financial Reporting in Hyperinflationary Economies

IASB plans to meet for three to five days each month, other than August, generally in London but occasionally elsewhere. Meetings are open to public observation. From an observer perspective, IASB's inaugural meeting was a "sell-out".

Two new IAS take effect in 2001: IAS 39, and 40. IAS 41 will become operative in 2003. The limited revisions to IAS 12, 19, and 39 also take effect in 2001. And all of these will affect quarterly and halfyearly reports, not just annual reports. Deloitte Touche Tohmatsu can help with the transition.

IASB has joined a global organisation whose goal is to make financial information reported on the Internet more easily retrievable and usable.

Issuance of the IASB issues paper on present value has been delayed until second half of 2001.

Issuance of the Draft Statement of Principles on insurance contracts has been delayed until late 2001 or early 2002.

UPCOMING IASB MEETINGS

IASB has scheduled the following Board meetings for 2001 (in addition to its inaugural meeting held 18-20 April):

- ❑ 22-25 May 2001, London (May 24 will be an open meeting with the chairs of major global accounting standard setters)
- ❑ 26-28 June 2001, London
- ❑ 25-27 July 2001, London
- ❑ 11-13 September 2001, London
- ❑ 15-19 October 2001, Washington
- ❑ 27-29 November 2001, London
- ❑ 18-20 December 2001, Paris

RECENT IASC STANDARDS

International Accounting Standards are issued on approval of at least 8 of the 14 IASB members. Proposed Standards are first published for comment, and for larger projects a discussion paper is issued for comment before the proposal.

EFFECTIVE DATES OF INTERNATIONAL ACCOUNTING STANDARDS EFFECTIVE 2001 OR LATER		
	New IAS	Effective for Periods Beginning on or After
IAS 39	Financial Instruments: Recognition and Measurement*	1 January 2001 (financial years beginning on or after)
IAS 40	Investment Property*	1 January 2001
IAS 41	Agriculture**	1 January 2003
IAS 12, 19, and 39	Limited Revisions to IAS 12, 19, and 39 and Other Related Standards**	1 January 2001

*Summarised in **IAS PLUS**, October 2000. **Summarised in **IAS PLUS** January 2001. Both newsletters are available at <http://www.iasplus.com>.

XBRL PROJECT

In February, IASC released a draft taxonomy of XBRL for Financial Statements to members of a global XBRL committee for review. XML is a general language in which Internet web sites are programmed. XBRL applies the XML language to business reporting of financial information on the Internet, enabling downloading of data into usable formats such as electronic spreadsheets and databases. The IASC taxonomy will specifically enable electronic retrieval and use of financial information prepared in accordance with International Accounting Standards. IASB will invite public comment prior to finalising the draft.

NEW TARGET DATES ON IASB PROJECTS

Present Value (Discounting). Under the new IASB structure, Issues Papers will normally be issued by the Board, not by the steering committee as in the past. The steering committee's work on an issues paper on Present Value is at an advanced stage. IASB held its initial discussion of the project at its inaugural meeting 18-20 April, but additional "educational sessions" will be needed, most likely continuing into the summer. Therefore, publication of a paper in the first half of 2001 is no longer a realistic expectation. Second half of 2001 is more likely.

Insurance Contracts. Because of the transition to the new IASB, publication of a Draft Statement of Principles on Insurance Contracts is now no longer expected in the first half of 2001. Late 2001 or early 2002 is the most likely time frame at present.

IASB has demonstrated its ability to provide timely guidance on accounting for financial instruments. The IAS 39 Implementation Guidance Committee has now approved over 200 Q&A.

As the senior technical staff officer, the Director of Technical Activities will participate in the debate of both the IASB and the SIC. The Director of Research will oversee the drafting of papers and standards by the IASB staff. There will be approximately 15 project managers and other technical staff.

The Corporation of London has provided partial financial support toward IASB's occupancy expenses.

PROGRESS ON IAS 39 GUIDANCE

When the IASC Board voted to approve IAS 39 in December 1998, it instructed staff to monitor implementation issues and to consider how IASC can best respond to such issues. In March 2000, the IASC Board approved an approach proposed by staff to publish implementation guidance on IAS 39 in the form of Questions and Answers and appointed an IAS 39 Implementation Guidance Committee (IGC) to review and approve the draft Q&A and to seek public comment before final publication. IGC is chaired by John T. Smith of Deloitte & Touche, USA.

As of 15 January 2001, the IGC had issued 164 questions and answers (Q&A) in final form. These are available without charge in a single, comprehensive publication from IASB's website: www.iasb.org.uk, then click on Standards, then on IAS 39. In addition, about 50 draft Q&A were issued for public comment in December 2000 with a comment deadline of 19 February 2001. These too can be downloaded from IASB's website. IGC gave final approval nearly all of these draft Q&A at its meeting on 24-25 April 2001. These will be available on IASB's website shortly.

IASB HAS BEGUN A STAFF SEARCH

IASB is seeking two key technical staff leaders as well as project staff. The leadership positions are Director of Technical Activities and Director of Research.

The Director of Technical Activities will be responsible for ensuring that the technical staff is working effectively. The Director will participate in the debate, but not vote, at the meetings of the Board and the Standing Interpretations Committee.

Primary responsibilities of the Director of Technical Activities will include:

- ☐ coordinating the work agenda with the Chairman of the Board and other Board members;
- ☐ assigning staff to projects and evaluation of staff performance;
- ☐ ensuring the timeliness and quality of the work produced by the staff;
- ☐ liaising with the technical directors of national standards setters;
- ☐ overseeing the hiring of professional staff; and
- ☐ ensuring that the work being "outsourced" to national standard setters is consistent with the standards and expectations of the IASB.

The Director of Research will serve as senior counsel to all staff on technical projects being conducted and is expected to be involved with all technical activities and agenda projects. This individual will oversee the drafting of papers and standards by the staff. The Director of Research will report to the Technical Director and will assist in staff assignment and evaluation. The Director of Research will work closely with the Board Chairman.

IASB is also seeking project managers and other technical project staff, to expand to approximately 15 technical staff.

IASB WILL RELOCATE TO NEW LONDON OFFICES

IASB Board members and technical staff will be relocating to 30 Cannon Street, in the City (financial district) of London, in early June. Some administrative operations are expected to remain at 166 Fleet Street.

IASB wants to have more involvement than the former IASC Board in developing draft Interpretations before they are issued. IASB is deliberating its future relationship with SIC. Meanwhile, IASB decided, at its April meeting that SIC D26 and SIC D28 will be included in the improvements project. The future of SIC D27 is uncertain.

RECENT INTERPRETATIONS

IASB's Standing Interpretations Committee develops draft Interpretations and exposes them for public comment. The IASC Board must approve final Interpretations.

EFFECTIVE DATES OF NEW IASC INTERPRETATIONS		
	<i>New SIC Interpretation</i>	<i>Effective Date</i>
SIC 17	Equity – Costs of an Equity Transaction*	Periods beginning on or after 30 January 2000
SIC 18	Consistency – Alternative Methods*	Periods beginning on or after 1 July 2000
SIC 19	Reporting Currency – Measurement and Presentation of Financial Statements Under IAS 21 and IAS 29**	Annual financial periods beginning on or after 1 January 2001
SIC 20	Equity Accounting Method – Recognition of Losses*	Periods beginning on or after 1 July 2000
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets*	Effective on 15 July 2000
SIC 22	Business Combinations - Subsequent Adjustment of Fair Values and Goodwill Initially Reported*	Annual periods ending on or after 15 July 2000
SIC 23	Property, Plant and Equipment – Major Inspection and Overhaul Costs*	Effective on 15 July 2000
SIC 24	Earnings Per Share – Financial Instruments and Other Contracts that May Be Settled in Shares**	1 December 2000
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*	Effective on 15 July 2000

*Summarised in **IAS PLUS**, October 2000. **Summarised in **IAS PLUS**, January 2001. Earlier issues of the IASPlus newsletter are available at <http://www.iasplus.com>.

D26 had proposed that incidental operating income during construction of long-lived asset must be reported in net profit or loss, not as a reduction of the asset's cost. However, IASB has concluded that this matter should be addressed in the improvements project. A final Interpretation will not be issued.

SIC 26, PROPERTY, PLANT AND EQUIPMENT – INCIDENTAL OPERATIONS, WILL NOT BE ISSUED IN FINAL FORM

SIC D26 addressed income earned and expenses incurred from operations that are incidental to the construction or development of property, plant, or equipment before the asset is fully operational. In D26, SIC had reached a consensus that the results of these incidental operations should be recognised in net profit or loss for the period. They should not be recognised as an adjustment of the cost of the related property, plant, or equipment asset.

In February 2001, SIC confirmed the consensus without any substantive changes, though SIC did clarify that selling product produced from a plant during its commissioning period is also an example of an incidental and start-up operation. SIC approved a final Interpretation and submitted to the IASB for approval. However, at its April 2001 meeting the Board did not approve the proposed Interpretation, concluding instead that the issue should be addressed in the improvements project.

*If a property owner “leases” the *property out to an investor for financing or tax reasons and simultaneously leases the property right back, so that the investor does not, in substance, have the right to use the asset for an agreed period of time, the transaction is most likely not a lease under IAS 17.*

Like D26, this issue will become part of the improvements project rather than a separate Interpretation.

OUTSTANDING DRAFT INTERPRETATIONS

D27, TRANSACTIONS IN THE LEGAL FORM OF A LEASE AND LEASEBACK: ISSUANCE OF A FINAL INTERPRETATION IS UNCERTAIN

The issue is whether a transaction that takes the legal form of a lease of assets from an enterprise and a lease of the same assets back to the same enterprise is a lease under IAS 17. The draft Interpretation establishes the principle that the accounting should reflect the substance of the transaction. All aspects of a transaction should be evaluated to determine its substance, and whether a series of transactions are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole and should be accounted for as one transaction. The draft Interpretation identifies the following as examples of indications that the transaction is not a lease:

- ❑ the lease/leaseback transactions are linked together such that, in substance, during the sublease period the enterprise retains control of the underlying asset and enjoys substantially the same rights to its use as before the arrangement; or
- ❑ the transaction has been arranged predominantly for a particular purpose other than leasing (for instance, solely to generate tax benefits that can be shared or increase off-balance-sheet borrowings).

Most of these transactions involve a fee, and the draft Interpretation proposes guidance on whether to recognise fee income when execution of the “lease” agreement is finalised or to defer all or a portion of it to future periods. There is also guidance on determining whether separate investment account and sublease payment obligations should be recognised. Comment deadline was 20 December 2000.

A sizeable number of the comment letters on D27 criticised the proposal because it addressed a narrow fact pattern rather than clarifying a broader issue of principle. IASB discussed the matter at its April meeting but did not reach a conclusion as to whether SIC should proceed toward finalising this Interpretation. It is on SIC’s May 2001 agenda for further discussion.

D28, BUSINESS COMBINATIONS – MEASUREMENT OF SHARES ISSUED, WAS APPROVED BY SIC BUT WILL NOT BE ISSUED

IAS 22 requires an acquisition to be accounted for at its cost at the date of exchange. The issues before the SIC in this project are, in a single step acquisition, (a) when does the date of exchange occur and (b) whether it is appropriate to move from a quoted market price, when one exists, in determining the fair value of shares issued.

At its meeting in February 2001, the SIC reached a consensus that the published price of a share quoted in an active market is the best evidence of the share’s fair value. SIC also agreed that if there is an undue price fluctuation in an active market, then the published price should not be adjusted unless a more reliable estimate of the fair value can be made. The SIC approved a Draft Interpretation, which was tentatively numbered D28.

Before D28 was published, however, IASB discussed the matter at its April meeting. At that meeting, the IASB Board expressed a view that D28 should not be issued. Instead, IASB would prefer that the issue be addressed as part of the improvements project.

SIC continues to function under the new IASB structure essentially as it had under the old IASC structure. The new, full-time IASB expects to take a more active role in the interpretation process than did its predecessor.

SIC MEETINGS AND AGENDA PROJECTS

SIC will meet next on 9-11 May, followed by meetings on 6-7 August and 12-13 November. Currently on SIC's agenda for discussion (SIC added the last four to its agenda in February):

- ❑ **SIC D27, Transactions in the Legal Form of a Lease and Leaseback.** See story on previous page.
- ❑ **Transactions Among Enterprises Under Common Control.** IAS 22 excludes from its scope "transactions among enterprises under common control". SIC is developing guidance to identify which transactions qualify as common-control transactions, but the guidance will not address the accounting for such transactions. In transactions among enterprises under common control, old carrying amounts generally continue. But for non-common-control transactions, measurement (carrying amount or current fair value) becomes an issue.
- ❑ **Reporting Currency – Translation from Measurement Currency to Presentation Currency.** How to translate financial statements from a measurement currency to a different currency for presentation purposes (sometimes called a "convenience translation").
- ❑ **Advertising Barter Transactions.** What are the circumstances in which fair value may be reliably measured in an advertising barter transaction, particularly in an e-commerce environment.
- ❑ **Intangible Assets - Website Costs.** Application of IAS 38, Intangible Assets, in the context of costs incurred to develop and maintain a website, both by an enterprise whose website forms the basis of its business activities and an enterprise whose website supplements its existing business.
- ❑ **Service Concessions.** Disclosure of arrangements by which a private sector enterprise agrees to provide services of the type normally considered public (government) services.
- ❑ **Consolidation and Equity Method - Potential Voting Rights.** Under IAS 27, a subsidiary is defined in terms of control by an investor. Under IAS 28, an equity method associate is defined in terms of significant influence by an investor. This project addresses whether the existence of potential voting rights, such as share options, should be considered in determining whether control or significant influence exists.
- ❑ **Financial Instruments - Issuance with a Put Option, Exercisable at the Instrument's Fair Value.** If the holder of a financial instrument has the right to put it back to the issuer for cash equal to the fair value of the instrument at the date when the put is exercised, should the issuer classify that instrument as a liability or equity? Mutual funds (unit trusts) are an example of such an instrument.
- ❑ **Earnings Per Share - Preference Dividends.** When calculating basic earnings per share, IAS 33 requires that preference dividends be deducted from the net profit or loss for the period. SIC will consider, when an enterprise acquires or redeems its own preferred shares, whether any difference between the fair value of the consideration given and the carrying amount of those shares represents a preference dividend.

Potential SIC agenda items include the following:

- ❑ **Indefeasible Right of Use of Assets.** Accounting and disclosure for arrangements by which an enterprise contracts for either exclusive or joint use of infrastructure assets generally of an infrastructure or utility nature such as telecom cabling or an oil or gas pipeline.
- ❑ **Classification of Preference Shares.** Need for possible guidance in applying IAS 32 to decide on liability vs. equity classification.
- ❑ **SIC-12 Consolidation - Special Purpose Entities (SPEs).** SIC will review some of the implementation difficulties being experienced and consider whether further clarification may be required.

The comment deadline on IASC's Extractive Industries Issues Paper is 30 June 2001. This Deloitte Touche Tohmatsu publication focuses on issues relevant to the mining industry.

ACCOUNTING IN THE MINING INDUSTRY

Deloitte Touche Tohmatsu has published a 45-page booklet summarising and analysing the issues in IASC's Extractive Industries Issues Paper from the perspective of mining enterprises. IASC has asked for comments on its 412-page issues paper by 30 June. We prepared this booklet to help mining clients and other interested parties more easily identify the issues that could have the greatest impact on their financial statements in years to come.

Copies of the booklet may be downloaded at <http://www.iasplus.com>.

DELOITTE TOUCHE TOHMATSU MINING INDUSTRY LEADERSHIP TEAM	
Robin Fryer (Global leader) New York, USA Tel: +1 212 492 3835 Fax: +1 212 492 4001	Rod Smith Adelaide, Australia Tel: +61 8 8407 7104 Fax: +61 8 8407 7001
Bob Francis Toronto, Canada Tel: +1 416 601 6174 Fax: +1 416 601 6151	Nourival Pedroso Sao Paulo, Brazil Tel: +55 11 3150 1759 Fax: +55 11 257 0813
Costa Qually Johannesburg, South Africa Tel: +27 11 806 5889 Fax: +27 11 806 6138	Luis Toro Santiago, Chile Tel: +56 2 270 3281 Fax: +56 2 374 9177
Urs Landolt Zurich, Switzerland +41 1 421 6227 +41 1 421 6600	Tony Zoghby Johannesburg, South Africa Tel: +27 11 806 5130 Fax: +27 11 806 5003

IASC has now made its Extractive Industries Issues Paper available for downloading in six PDF files totalling 2,195k. When printed it is 412 pages long. A separate 44-page summary (195k PDF file) can also be downloaded. All files are available at IASC's website: www.iasb.org.uk. Comment deadline is 30 June 2001.

Previously, individual country pages could be viewed on the Internet. Now, this important study can be downloaded in its entirety.

GAAP 2000 AVAILABLE ON LINE

In January 2001, the large accounting firms jointly published a study, *GAAP 2000: A Survey of National Accounting Rules in 53 Countries*. It provides an overview of some of the differences between national accounting rules and 60 key accounting measures (including a few areas of disclosure) under International Accounting Standards. The study highlights instances where a country's rules at December 2000 would not allow, or would not require, the IAS accounting treatment.

The study demonstrates the continuing problems of cross border interpretation of company financial data. The objective of GAAP 2000 is to alert as many players as possible in each country to the need for progress towards the convergence of accounting standards on a worldwide basis (governmental agencies, standard-setters, regulators, preparers, analysts and users of financial information).

The complete text of GAAP 2000 is now available as a single document that may be downloaded from <http://www.iasplus.com>.

The biggest “market” for International Accounting Standards in the next several years is likely to be Europe, if the EC proposal is adopted.

EC PROPOSES IAS THROUGHOUT EUROPE

The European Commission has presented a proposal for a Regulation that would require all EU companies listed on a regulated market, including banks and insurance companies (about 7,000 companies in all), to prepare consolidated accounts in accordance with International Accounting Standards (IAS) by 2005, at the latest. EU Member States would have the option to extend this requirement to unlisted companies and to individual company accounts. The EC announcement said:

“The Regulation would help eliminate barriers to cross-border trading in securities by ensuring that company accounts throughout the EU are more transparent and can be more easily compared. This would in turn increase market efficiency and reduce the cost of raising capital for companies. The proposal is a priority measure under the Financial Services Action Plan, endorsed by the Lisbon European Council as a key element of the creation of an integrated financial services market. It is also in line with the strategy outlined in the Commission’s June 2000 Communication on the future of financial reporting in Europe.”

The Regulation proposes to establish a new EU mechanism to “assess IAS and give them legal endorsement for use within the EU. This mechanism will use an Accounting Regulatory Committee set up under the proposal that will operate at the political level under established EU rules on decision-making by regulatory committees. The Accounting Regulatory Committee, chaired by the Commission and composed of representatives of the Member States, will adopt or reject IAS on the basis of a proposal made by the Commission.”

Currently, approximately 275 European listed companies prepare their consolidated financial statements under IAS, 300 under US GAAP, and the remainder (about 6,500 companies) use their national GAAP. (These figures do not include Switzerland, where most large companies already follow IAS.) The EC said:

“IAS will offer [those now using US GAAP] the same high quality level of financial information as US GAAP, with the additional advantage that IAS have been conceived in a truly international perspective and are not modelled by a particular national environment. The Commission hopes and expects that the US Securities and Exchange Commission (SEC) will accept in the near future financial statements prepared by EU issuers without requiring a reconciliation to US GAAP.”

SUPPORT FOR IAS FROM EUROPEAN GROUPS

A broad group of organisations representing the European accounting profession, preparers, users, and national standard-setters has proposed to organise a private-sector structure that would (a) provide input to the IASB and (b) assess IAS and SIC Interpretations. The proposal (details of which can be found at www.iasplus.com) describes the latter process as “endorsement”. The structure would be known as EFRAG: the European Financial Reporting Advisory Group. The proposal envisages a two-tier structure:

1. An accounting technical committee – the Technical Expert Group – comprising “highly-qualified technical experts” drawn from national standard setters, the accountancy profession, preparers and users, and
2. A Supervisory Board of European Organisations “to guarantee representation of the full European interest and to enhance the legitimacy and credibility of EFRAG”.

continued...

SUPPORT FOR IAS FROM EUROPEAN GROUPS, continued

“The accounting technical committee... would participate actively in the international accounting standard setting process and organise the coordination within the EU of views concerning international accounting standards. This committee should be in place in the course of the second quarter of 2001, *i.e.*, soon after the new IASB Board becomes operative (from 1 April 2001 onwards). The Commission would be represented in this committee in an observer capacity.”

The Technical Expert Group is expected to undertake a wide consultation process on IASB projects and proposals, including regular meeting with a “consultative forum” of all European accounting standard setters. The majority of the members of the Technical Expert Group are expected to come from the Boards of the national standard setters. Members of the Technical Expert Group “will be accountable to the Supervisory Board and should work in the European interest”.

The Technical Expert Group members are expected to spend 20-50% of their time on EFRAG activities and will continue to be employed by their existing employers.

The organisers of EFRAG envision that EFRAG will participate in the IASB process rather than be an additional level of standard setting that could conflict with the role of the IASB as the global standard setter. EFRAG is not expected to issue separate interpretations of IAS or to modify existing IAS in any way. Organisations sponsoring the proposal include:

Preparers:

- ☐ UNICE - Union des Confederations de l'Industrie et des Employeurs d'Europe
- ☐ GEBC - European Association of Cooperative Banks
- ☐ ESG - European Savings Banks Group
- ☐ EBF - European Banking Federation
- ☐ CEA - Comite Europeen des Assurances

Organisations of Small and Medium-sized Enterprises:

- ☐ UEAPME - European Association of Craft, Small and Medium-sized Enterprises
- ☐ EFAA - European Federation of Accountants and Auditors for SMEs

Users:

- ☐ EFFAS - European Federation of Financial Analysts Societies
- ☐ FESE - Federation of European Securities Exchanges

Accountancy profession:

- ☐ FEE - Federation des Experts Comptables Europeens

A CAUTIONARY NOTE FROM FEE

The Federation des Experts Comptables Europeens (FEE), which represents the accounting profession throughout Europe, has noted that compliance with the existing EC Accounting Directives would continue to be required. FEE has expressed concern that there are incompatibilities between the Accounting Directives and IAS and sees an “urgent need for modernisation of the Directives”. FEE has published a *Discussion Paper on the Modernisation of the Directives*. The paper discusses both the strategic and technical issues that are at stake and gives the advantages and disadvantages of the various approaches for modernisation. FEE's preferred solution would be to exempt listed companies that apply IAS from the EC Accounting Directives. FEE's paper may be downloaded from <http://www.iasplus.com>.

Canada's securities regulators are wrestling with the same kinds of issues as the US SEC is considering in its Concepts Release.

CANADA CONSIDERING IAS OR US GAAP

Canadian securities regulators have requested comment on whether they should allow Canadian and foreign companies to file using IAS or US GAAP instead of Canadian GAAP. Currently, Canadian registrants must use Canadian GAAP. Foreign registrants may use IAS but then generally must reconcile to Canadian GAAP. Many Canadian companies already prepare US GAAP statements, in addition to Canadian GAAP, because they have US as well as Canadian listings. In Canada, securities markets are regulated provincially rather than nationally. The provincial regulators have published a joint request for comments that is available on the IASPlus website <http://www.iasplus.com>.

Meanwhile, in a public statement to Canada's Accounting Standards Oversight Council, the Certified General Accountants Association of Canada strongly supported adopting the IASC standards in Canada. CGA-Canada "firmly supports moving away from setting national accounting standards based on those set by the Financial Accounting Standards Board (FASB), in favour of harmonized global standards".

Companies whose primary listing is on the Stock Exchange of Hong Kong will be permitted to prepare IAS financial statements, rather than Hong Kong GAAP.

HONG KONG EXCHANGE ALLOWS IAS

Effective 1 April, companies that have a primary listing on the Stock Exchange of Hong Kong (SEHK) are permitted to adopt IAS instead of Hong Kong GAAP. They will be required to explain any significant differences with Hong Kong GAAP, including a reconciliation of the financial effect. The reconciliation requirement will not apply to companies from mainland China whose "H Shares" are listed on SEHK; they have previously been allowed to use IAS without reconciliation. Overseas-incorporated issuers and applicants that have or will have only a secondary listing on the SEHK are permitted also to follow US GAAP.

Currently, 739 companies are listed on the SEHK's Main Board (including 48 incorporated in mainland China) plus 11 overseas listings. Those companies had a market capitalisation of HK\$ 4.8 trillion. SEHK's GEM (growth enterprises) market has 60 listed companies with a market capitalisation of HK\$ 67 billion.

Europe begins to gear up for IAS (see story on page 13).

FRENCH COB: PREPARE FOR IAS NOW

The French securities regulator COB has issued a Bulletin recommending that French listed companies commence without delay their preparations for the transition to IAS by 2005 and reminding the companies that they will have to present comparative figures for 2003 and 2004.

GERMAN STOCK EXCHANGE TO REQUIRE IAS OR US GAAP FOR SMALL-CAP COMPANIES

Deutsche Bourse will require small-cap companies listed on the Smax index to use IAS or US GAAP, rather than German GAAP, starting in 2002. The goal is to enhance understandability of financial information for international investors. Currently, 127 companies are included in the Smax list. Smax is intended to be a "quality segment" of companies that have agreed to "meet increased criteria of transparency and publicity according to international standards".

UPDATE ON RESTRUCTURING THE IASC

IASC's restructuring is nearly complete. The new Board has begun to meet; appointment of the Standards Advisory Council is imminent; search for a Technical Director, Director of Research, and technical staff is under way; and the IASB will relocate to new, larger facilities in June.

Brief biographies of the members of the IASB are presented on the next two pages.

Here is a brief summary of steps to date in the IASC restructuring:

CHRONOLOGY OF THE IASC RESTRUCTURING	
September 1996	IASC Board approves formation of a "Strategy Working Party" (SWP) to consider what IASC's strategy and structure should be when it completes the "Core Standards" work programme.
December 1998	SWP publishes a Discussion Paper, <i>Shaping IASC for the Future</i> , and invites comments.
April to October 1999	Various meetings of SWP to discuss the comments on their initial proposal and to develop final recommendations.
December 1999	SWP final report, <i>Recommendations on Shaping IASC for the Future</i> . IASC Board passes a resolution supporting the report and appoints a Nominating Committee for the initial Trustees.
January 2000	Nominating Committee elects SEC Chairman Arthur Levitt as its Chair and invites nominations from public.
March 2000	IASC Board approves a new Constitution reflecting the SWP proposals.
May 2000	Nominating Committee announces initial Trustees (see table below).
May 2000	IASC Member Bodies approve the restructuring and the new IASC Constitution.
June 2000	Trustees appoint Sir David Tweedie as the first Chairman of new IASC Board.
Starting in July 2000	Trustees invite nominations for membership on the new IASC Board, narrow the list to approximately 45 finalists, and conduct interviews in London, New York, and Tokyo.
January 2001	Trustees invite nominations for membership on the new Advisory Council.
January 2001	Members of the International Accounting Standards Board announced. New name of the standard-setting board is International Accounting Standards Board.
February 2001	Informal meeting of members of new IASB.
March 2001	IASC Trustees activate Part B of IASC's Constitution and establish a non-profit Delaware corporation, named the International Accounting Standards Committee Foundation, to oversee the IASB.
April 2001	On 1 April 2001, the new IASB takes over from the IASC the responsibility for setting International Accounting Standards.
April 2001	First official meeting of the new IASB to adopt existing IAS and SICs and to deliberate its agenda and other issues.
May 2001	IASB meets with chairs of those national accounting standards-setting bodies that have a formal liaison relationship with IASB – Australia/New Zealand, Canada, France, Germany, Japan, UK, and US – to begin coordinating agendas and setting out convergence goals.

AUSTRALIA

Contact: *Bruce Porter*

The Australian Accounting Standards Board (AASB) is continuing its policy of harmonising Australian Accounting Standards with IAS. For 30 June 2001 year-ends, the following Standards come into effect (their equivalent IAS is indicated for reference):

- ☐ AASB 1010 (revised), Recoverable Amount of Non-Current Assets (IAS 36)
- ☐ AASB 1015 (revised), Acquisition of Assets (IAS 22)
- ☐ AASB 1018 (revised), Statement of Financial Performance
- ☐ AASB 1033 (revised), Presentation and Disclosure of Financial Instruments (IAS 32 and IAS 39)
- ☐ AASB 1034 (revised), Financial Report Presentation and Disclosure (IAS 1)
- ☐ AASB 1037, Self-Generating and Regenerating Assets
- ☐ AASB 1040, Statement of Financial Position (IAS 1)
- ☐ AASB 1041, Revaluation of Non-Current Assets (IAS 16)
- ☐ AASB 1043, Changes to the Application of AASB and AAS Standards and Other Amendments

AASB 1043 is issued to amend the application of AASB and AAS Standards and to specify that entities need not comply with requirements of certain AASB and AAS Standards in preparing interim financial reports. Hence, AASB 1043 does not have an IAS equivalent.

Standards issued by the AASB as part of the harmonisation program do not necessarily conform to the equivalent IAS in every respect.

The AASB has not issued any new AASB Standards since the last issue of IAS Plus other than AASB 1043, Changes to the Application of AASB and AAS Standards and Other Amendments, which applies to annual reporting periods and interim reporting periods ending on or after 31 December 2000.

The Urgent Issues Group (UIG), a sub-committee of the AASB, reviews accounting issues that are likely to receive divergent or unacceptable treatment with a view to reaching a consensus as to the appropriate accounting treatment. The UIG is also responsible for reviewing SIC Interpretations to determine whether they should apply to Australian reporting entities. Abstracts issued since the last issue IAS Plus are as follows

- ☐ UIG Abstract 37, Accounting for Web Site Costs
- ☐ UIG Abstract 38, Contributions by Owners Made to Wholly-Owned Public Sector Entities

Outstanding AASB exposure drafts, currently being considered for issue as Standards, are as follows.

- ☐ Provisions and Contingencies (IAS 37)
- ☐ Employee Benefits (IAS 19)
- ☐ Impairment of Assets (IAS 36)
- ☐ Amendments to AASB 1041 and AAS 38, Revaluation of Non-Current Assets
- ☐ Provision of Public Sector Infrastructure by Other Entities (this project deals with accounting for build, own, operate and build, own, operate and transfer infrastructure arrangements)

Other projects on which the AASB is expected to issue Exposure Drafts in the next twelve months include:

- ☐ Related Party Disclosures
- ☐ Director and Executive Disclosures
- ☐ Investment Properties
- ☐ Post-Employment Benefits
- ☐ Glossary of Definitions

The AASB is currently working on a series of issues paper for public comment on accounting for intangible assets.

In late January 2001, the Ministry of Finance (MOF) issued:

- ❑ a new comprehensive Accounting System for Business Enterprises;
- ❑ three new standards (intangible assets, borrowing costs, and leases); and
- ❑ five revised standards (debt restructuring, non-monetary transactions, accounting policies, cash flow statements, and investments – only the first two of those are significant revisions).

All of the new and revised pronouncements became effective from 1 January 2001.

New Accounting System

The new accounting system brings accounting practice in the PRC more closely into line with international best practice (see table below), including a requirement to recognise impairment losses on receivables, inventories, investments, fixed assets, intangibles, and other assets. MOF intends the new system to apply to all medium and large sized enterprises, other than banks and insurance companies, but it will apply initially only to listed companies. Adoption by other enterprises is encouraged.

China's New Comprehensive Accounting System	
Defines fundamental principles including going concern, accounting period, substance over form, consistency, timeliness, understandability, accrual basis, matching, impairment recognition, prudence, materiality, and measurement currency vs. presentation currency	
Defines the basic elements of financial statements: assets, liabilities, owners' equity, revenues, expenses, and profits – definitions are similar to International Accounting Standards (IAS)	
Specifies classifications within the asset, liability, and equity elements	
Specifies recognition and measurement principles for a wide variety of assets and liabilities	
Specifies revenue recognition principles for goods, services, royalties, and interest	
Specifies expense recognition principles for bad debts, cost of good sold, depreciation, major overhauls, and impairment of assets	
Requires that expenses be classified into operating, administrative, and financing and that profit be classified between operating profit, investment income, subsidy income, and several other non-operating income categories	
Specifies accounting principles for non-monetary transactions, assets contributed by investors, accounting for income taxes, foreign currency transactions, changes in accounting policies, changes in estimates, corrections of errors, post-balance sheet events, contingencies, and related party transactions	
Defines the content of a financial and accounting report (which financial statements are presented annually, half-yearly, quarterly, and monthly), minimum notes to the financial statements, and how soon reports should be published	
Specifies principles for consolidated financial statements and accounting for investments in joint ventures	
Requires a management discussion of financial condition similar to, but less detailed than, those in the United States the United Kingdom	

Three New Standards

- ❑ **Borrowing Costs.** Borrowing costs on project-specific borrowings must be capitalised as part of the cost of acquiring or constructing a tangible fixed asset. All other borrowing costs are expensed as incurred.
- ❑ **Intangible Assets.** Under the new PRC standard, a separately purchased intangible asset is recorded based on the actual purchase price. However, costs of internally developing an intangible asset are regarded as research and development costs, and all R&D costs must be charged to expense. Regarding amortisation, if an intangible asset has no contractual or legal life, the amortisation period may not exceed 10 years.
- ❑ **Leases.** This new standard classifies a lease as a finance lease if it transfers to the lessee substantially all of the risks and rewards incident to ownership of the underlying asset. All other leases are classified as operating leases. A lessee will record an asset leased under a finance leases at the lower of the carrying amount of the asset in the books of the lessor and the present value of the minimum lease payments. The lessee will recognise the liability at the gross minimum lease payments. The difference between the asset and the liability recorded is an unrecognised finance charge, which will be deducted from the liability. A lessor will record a finance lease in the balance sheet as a receivable at an amount equal to the aggregate of the gross minimum lease payments and the unguaranteed residual value. The difference between the gross receivable and its present value is recorded as unearned finance income, which will be deducted from the related receivable.

Significantly Revised Standards

Debt restructuring. The revisions result in more transactions being defined as debt restructurings but all gains on such transactions being reported directly in equity.

Non-monetary transactions. The revised standard prohibits all gain recognition on non-monetary transactions except to the extent that boot is received, even on exchanges of dissimilar assets.

Effective 1 April, companies that have a primary listing on the main board of the Stock Exchange of Hong Kong (SEHK) are permitted to adopt IAS instead of Hong Kong GAAP. They will be required to explain any significant differences with Hong Kong GAAP, including a reconciliation of the financial effect on net profit or loss. Overseas-incorporated issuers and applicants that have or will have a secondary listing on the SEHK are permitted to follow US GAAP.

As a result of these changes, the accounting standards requirements for companies listed on the SEHK are as follows:

Main Board

- ❑ As a general principle, listed enterprises (whether or not incorporated in Hong Kong) with a primary listing on the main board of the SEHK, and those applying for such a primary listing, are required to prepare financial statements in accordance with either Hong Kong GAAP or (starting 1 April 2001) International Accounting Standards. Those that choose to use IAS are required to explain any significant differences with Hong Kong GAAP, including a reconciliation of the effect on net profit or loss.
- ❑ Enterprises incorporated or otherwise established in the People's Republic of China, with a primary listing on the main board of the SEHK ("H Shares"), are required to comply with either Hong Kong GAAP or IAS. Those that choose to use IAS are not required to provide an explanation of differences with or a reconciliation to Hong Kong GAAP.
- ❑ Overseas enterprises for which the Hong Kong listing is a secondary listing may use Hong Kong GAAP, IAS, or US GAAP.

Growth Enterprises Market (GEM)

- ❑ As a general principle, companies listed on GEM may choose to prepare their accounts using either IAS or Hong Kong GAAP, provided that they apply the standards consistently. In exceptional cases, GEM listed companies may be permitted to prepare financial statements using other standards, but they are required to provide a reconciliation to either Hong Kong GAAP or IAS.
- ❑ Starting in November 1999, a specific exemption was granted for GEM registrants incorporated overseas and either already listed or being simultaneously listed on the New York Stock Exchange or the NASDAQ National Market. Such companies may prepare their financial statements in accordance with US GAAP, subject to certain conditions.

The Hong Kong Society of Accountants has issued the following new Exposure Drafts and Draft interpretations:

- ❑ Exposure Draft: Discontinuing Operations. This proposal, closely modelled on IAS 35, would replace the current disclosure requirements of SSAP 2 regarding discontinued operations.
- ❑ Exposure Draft: Revision of SSAP 27, Accounting for Group Reconstructions. A minor revision of SSAP 27 to make clear that the standard does not preclude merger accounting in a reconstruction when a transaction other than a share-for-share exchange takes place, as long as all other conditions for merger accounting have been met.
- ❑ Draft Interpretation 12: Business Combinations – Subsequent Adjustments of Fair Values and Goodwill Initially Reported. Closely modelled on SIC 22.
- ❑ Draft Interpretation 13: Accounting for Goodwill Previously Eliminated Against Reserves. Goodwill previously written off to reserves as not "disappeared". On subsequent disposal of the investment or on impairment of the underlying goodwill, the relevant amount previously transferred to reserves should be recycled back through the income statement.

- ❑ The Institute of Chartered Accountants of Pakistan (ICAP) reviews all International Accounting Standards (IAS) and intimates to the Securities and Exchange Commission of Pakistan (SECP) to issue notification. The IAS becomes part of company law and becomes applicable to all listed companies only. Other companies are encouraged to apply them.

IAS ADOPTED BY SECP IN PAKISTAN TO DATE	
IAS 1	Presentation of Financial Statements (Revised 1997)
IAS 2	Inventories (Revised 1993)
IAS 4	Depreciation Accounting (Reformatted 1994)
IAS 7	Cash Flow Statements (Revised 1992)
IAS 8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (Revised 1993)
IAS 10	Events After the Balance Sheet Date (Revised 1999)
IAS 11	Construction Contracts (Revised 1993)
IAS 12	Income Taxes (Revised 1996)*
IAS 14	Segment Reporting (Revised 1997)
IAS 16	Property, Plant and Equipment (Revised 1998)
IAS 17	Leases (Revised 1997)
IAS 18	Revenue (Revised 1993)
IAS 19	Employee Benefits (Revised 1998)
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance (Reformatted 1994)
IAS 21	The Effects of Changes in Foreign Exchange Rates (Revised 1993)
IAS 23	Borrowing Costs (Revised 1993)
IAS 24	Related Party Disclosures (Reformatted 1994)
IAS 25	Accounting for Investments (Reformatted 1994)
IAS 26	Accounting and Reporting by Retirement Benefit Plans (Reformatted 1994)
IAS 27	Consolidated financial Statements and Accounting for Investments in Subsidiaries (Reformatted 1994)
IAS 28	Accounting for Investments in Associates (Revised 1998)
IAS 30	Disclosures in the Financial Statements of Banks and similar Financial Institutions (Reformatted 1994)
IAS 31	Financial Reporting of Interests in Joint Ventures (Revised 1998)
IAS 32	Financial Instruments: Disclosure and Presentation (Revised 1998)
IAS 33	Earnings Per Share (1997)
IAS 34	Interim Reporting (1998)
IAS 35	Discontinuing Operations (1998)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (1998)
IAS 38	Intangible Assets (1998)

* Its applicability has been deferred until periods beginning on or after January 1, 2002. Until then IAS 12 (Reformatted 1994) applies.

The following IASs are in the process of adoption by SECP.

- ❑ IAS 22, Business Combinations (1998)
- ❑ IAS 36, Impairment of Assets (1998)
- ❑ IAS 39, Financial Instruments: Recognition and Measurement (1998)

The ICAP has also issued Technical Releases and Selected Opinions, which are merely further interpretations of IAS on the basis of local specific circumstances. Specialised regulations have been established for banks and insurance companies.

The following standards have been adopted for financial statement periods beginning on or after April 1, 2001:

- ☐ SAS 12, Income Taxes (IAS 12 including E68 revisions)
- ☐ SAS 17 (2000), Employee Benefits (E67 revisions)
- ☐ Limited Revisions to SAS 33, Financial Instruments: Recognition and Measurement (E66 revisions)
- ☐ SAS 37, Information Reflecting the Effect of Changing Prices (IAS 15) (note that this standard is required under Singapore standards and optional under IAS)
- ☐ SAS 38, Financial Reporting in Hyperinflationary Economies (IAS 29)

The following interpretations are effective from April 1, 2001:

- ☐ INT 12, Equity Accounting Method - Recognition of Losses (SIC 20)
- ☐ INT 13, Business Combinations - Subsequent Adjustment of Fair Values and Goodwill Initially Reported (SIC 22)
- ☐ INT 14, Property, Plant and Equipment - Major Inspection or Overhaul Costs (SIC 23)
- ☐ INT 15, Earnings Per Share - Financial Instruments and Other Contracts that May be Settled in Shares (SIC 24)
- ☐ INT 16, Income Taxes-Recovery of Revalued Non-Depreciable Assets (SIC 21)
- ☐ INT 17, Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders (SIC 25)

The following exposure drafts of proposed Interpretations were issued:

- ☐ ED/INT 18, Earnings Per Share - Financial Instruments and Other Contracts that May be Settled in Shares (SIC 24)
- ☐ ED/INT 19, Property, Plant and Equipment- Results of Incidental Operations (SIC D26)
- ☐ ED/INT 20, Transactions in the Legal Form of a Lease and Leaseback (SIC D27)
- ☐ ED/INT 21, Reporting Currency - Measurement and Presentation of Financial Statements under SAS 20 (IAS 21) and SAS 38 (IAS 29) - (SIC D19)

The following exposure drafts issued in 2000 are still outstanding:

- ☐ ED/SAS 30, Interim Financial Reporting (IAS 34)
- ☐ ED/SAS 39, Agriculture (IAS 41)
- ☐ ED/SAS 40, Investment Property (IAS 40)

THAILAND

Contact: *Russell Toy*

The Institute of Certified Accountants and Auditors in Thailand (ICAAT) has issued ten new accounting standards eight of which became effective on 1 January 2000. These new accounting standards are primarily based on IAS. However, they do not necessarily conform to the standards upon that are based on in every respect.

New Thai Accounting Standards (TAS) which became effective on 1 January 2000:

- ☐ TAS No. 41, Interim Financial Information (IAS 34)
- ☐ TAS No. 42, Accounting for Investment Companies (based on the AICPA Audit and Accounting Guide: *Audits of Investment Companies*)
- ☐ TAS No. 43, Business Combinations (IAS 22)
- ☐ TAS No. 44, Consolidated Financial Statements and Accounting for Subsidiaries (IAS 28)
- ☐ TAS No. 45, Accounting for Investments in Associates (IAS 28)
- ☐ TAS No. 46, Financial Reporting of Interests in Joint Ventures (IAS 31)
- ☐ TAS No. 47, Related Party Disclosures (IAS 24)
- ☐ TAS No. 48, Financial Instruments: Disclosure and Presentation (IAS 32)

In addition to the above TASs, the ICAAT issued TAS No. 49, Construction Contracts (IAS 11), which is effective for financial reporting periods beginning on or after 1 January 2001, and TAS No. 50, Segment Reporting (IAS 14), which will become effective for financial reporting periods beginning on or after 1 January 2002.

Other projects for which the ICAAT is expected to issue exposure drafts in the next 12 months are:

- ☐ Development Stage Enterprises (US FASB SFAS 7)
- ☐ Derivatives (IAS 39)
- ☐ Accounting Interpretations
- ☐ Classifications of Financial Instruments - Contingent Settlement Provisions (SIC 5)
- ☐ Jointly Controlled Entities – Non-monetary Contributions by Venturers (SIC 13)
- ☐ Property, Plant and Equipment - Compensation for the Impairment or Loss of Items (SIC 14)
- ☐ Operating Leases - Incentives (SIC 15)

VIETNAM

Contact: *Rowell Tan*

In an effort to further develop the auditing activities in Vietnam, the Ministry of Finance (MOF) has adopted the following new auditing standards, with effect from 15th January 2001:

- ☐ Standard 250, Consideration of Laws and Regulations in an Audit of Financial Statements
- ☐ Standard 310, Knowledge of the Business
- ☐ Standard 500, Audit Evidence
- ☐ Standard 510, Initial Engagement - Opening Balances
- ☐ Standard 520, Analytical Procedures
- ☐ Standard 580, Management Representations

Vietnam now has ten standards on auditing.

On the accounting side, MOF is developing a new accounting law which, if enacted, is planned to go into effect as planned early next year. MOF has considered the country's commitment to liberalising financial services such as insurance, auditing, and accounting in drafting the new law. The new law would replace the 1998 ordinance on accounting and statistics, which many in the business sector believe is not suitable to economic activities of a market economy.

ABOUT DELOITTE TOUCHE TOHMATSU

Deloitte Touche Tohmatsu is one of the world's leading professional services firms, delivering world-class assurance and advisory, tax, and consulting services through its national practices.

More than 92,000 people in over 130 countries serve nearly one-fifth of the world's largest companies as well as large national enterprises, public institutions, and successful fast-growing 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.

In the Asia Pacific region, Deloitte Touche Tohmatsu has a network of more than 18,500 people in 24 countries throughout the region, stretching from New Zealand to the People's Republic of China, and from Guam to Pakistan. Our offices are strategically placed, and provide our clients with the right combination of international and local expertise. Our strength in the Asia Pacific region is anchored by Tohmatsu & Co, the leading auditing and accounting practice in Japan, and by our practices in every major business centre.

SUBSCRIBE TO IAS PLUS

DTT plans to make **IAS PLUS** available quarterly in both printed and electronic formats. We also plan to send by email for any important news arising between issues of **IAS PLUS**. If you would like to receive **IAS PLUS** regularly either by post or by email, please let us know.

☐

I would like to receive the printed version of **IAS PLUS** by post.

☐

I would like to receive the electronic version of **IAS PLUS** by email.

Here are my contact details:

NAME	
COMPANY	
ADDRESS	
CITY, COUNTRY, POST CODE	
EMAIL ADDRESS	

You may:

- ☐ Fax this form to Ms. Royee Lee, DTT Hong Kong +852-2542-2681
- ☐ Mail this form to Ms. Royee Lee, Technical Department, Deloitte Touche Tohmatsu, 26/F Wing On Centre, 111 Connaught Road Central, Hong Kong
- ☐ Email the information above to Stephen Taylor at stetaylor@deloitte.com.hk

Electronic editions of **IAS PLUS** are available at: <http://www.iasplus.com>

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.