

IAS Plus

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

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IAS Plus website

Over 480,000 people visited our www.iasplus.com web site in 2003 (267,000 in 2002 and 89,000 in 2001). Our goal is to be the most comprehensive source of news about IFRS on the Internet. Please check in regularly during 2004.

IASB News

Exposure draft. IASB ED on extractive industries: page 3.

New and revised standards are issued. During the first quarter of 2004, by issuing the following standards the IASB made good on its commitment to have in place a “stable platform” of standards that European listed companies and others can use when they move to IFRSs in 2005:

- IFRS 2 Share-based Payment: Page 3.
- IFRS 3 Business Combinations and related amendments to IAS 36 and IAS 38: Page 4.
- IFRS 4 Insurance Contracts: Page 5.
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Page 7.
- Macro hedging amendment to IAS 39: Page 8.

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Agenda project updates.

- Extractive Industries: Page 9.
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- Business Combinations – Phase II: Page 10.
- Concepts: Revenue and Liabilities: Page 11.
- Disclosure of Financial Risks: Page 12.
- Comprehensive Income (Performance Reporting): Page 12.
- Convergence – Short-term Issues: Page 12.
- Standards for Small and Medium-Sized Entities: Page 13.
- Insurance Contracts – Phase II: Page 13.
- IFRIC update: three draft interpretations. Page 13.

Deloitte letters of comment on IFRIC D3 and D4. Page 14.

News from IASC Foundation. Page 14.

News from IFAC. Page 16.

IFRS-related news from the United States. Page 17.

News about IFRS in Europe. Page 17.

Rest of the world. Page 21.

New publications from Deloitte. IFRS e-Learning (page 22). Model IFRS financial statements (page 22). Three special IASPlus newsletters (page 23).

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TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS	
Accounting Standards for Small and Medium-Sized Entities	- Discussion Paper in 2nd quarter 2004. - Exposure draft in 2004.
Amendments to IAS 32 and IAS 39 2005	- Final standards issued December 2003 (ex macro hedging and fair value option amendments) - Revised IAS 39 reflecting macro hedging was issued in 2004 - Exposure draft on fair value option expected 2nd quarter 2004. - Effective date December 2005 year ends
Business Combinations – Phase I 2005	- Exposure drafts were issued December 2002 - IFRS 3, IAS 36, and IAS 38 were issued in March 2004 - Effective dates December 2005 year ends
Business Combinations – Phase II — Application of the Purchase Method	- Exposure draft in 2nd quarter 2004 - Final standards in 2005 - Expected effective date after 2005 year ends
Consolidation (Including SPEs)	Exposure draft in 4th quarter 2004
Convergence – Short-term Issues, IFRS and US GAAP. 2005	<u>Asset Disposals/Discontinued Operations</u> - Exposure draft ED 4 on Asset Disposals/Discontinued Operations was issued August 2003. - IFRS 5 was issued in March 2004. Effective date December 2005 year ends. <u>IAS 37 Provisions</u> - Exposure draft on provisions expected 2nd quarter 2004. - Final standard expected in 2005. Expected effective date after 2005 year ends. <u>IAS 19 Employee Benefits</u> - Exposure draft in 2nd quarter 2004. - Final standard in 2005. <u>IAS 20 Government Grants</u> - Exposure draft on replacement of IAS 20 expected 2nd quarter 2004. - Final standard 2004 or 2005.
Disclosure Financial Risk and Other Disclosures about Activities of Financial Institutions	- Exposure draft in 2nd quarter 2004 - Final standard in 2005 - Expected effective date after 2005 year ends
Extractive Industries 2005	- Exposure draft ED 6 was issued in January 2004 - Final standard in 4th quarter 2004 - Expected effective date December 2005 year ends
Insurance Contracts – Phase I 2005	- Exposure draft ED 5 was issued in July 2003 - IFRS 4 was issued in March 2004 - Effective date December 2005 year ends
Insurance Contracts – Phase II	- Exposure draft 2005 - Final standard timetable not yet established - Expected effective date after 2005 year ends
Reporting Comprehensive Income (Performance Reporting)	- Discussion paper expected 2004 - Exposure draft – timing is under review - Final standard – timing is under review - Expected effective date after 2005 year ends
Revenue Recognition, Liabilities, and Equity: Concepts	- Exposure draft in 2004 - Final standard timetable not yet established - Expected effective date after 2005 year ends
Share-Based Payment 2005	- Exposure draft ED 2 was issued in November 2002 - IFRS 2 was issued in February 2004 - Effective date December 2005 year ends

ED 6 may be downloaded from the IASB's website:
www.iasb.org

IASB Issues Exposure Draft on Extractive Industries

The IASB has invited comment on Exposure Draft ED 6 Exploration for and Evaluation of Mineral Resources. ED 6 proposes to exempt companies engaged in exploring for and evaluating mineral resources from certain requirements of IFRSs and the IASB Framework. Those companies would continue to use, under IFRSs, the accounting policies for recognising and measuring assets arising from mineral exploration and evaluation activities that were used in their most recent annual financial statements. A company that elects to use its previous accounting policies should then change those policies if, and only if, the change makes the financial statements more relevant and reliable.

In addition, ED 6 proposes indicators to be considered when identifying whether exploration and evaluation assets might be impaired. It also proposes a "cash generating unit for exploration and evaluation assets" under IAS 36, Impairment of Assets.

The proposals would be effective for annual periods beginning on or after 1 January 2005. That is, the final IFRS would be followed by European and other companies that adopt IFRS in 2005.

IASB subscribers may download IFRS 2 from the IASB's website:
www.iasb.org

IASB Publishes IFRS 2 on Share-based Payment

In February 2004, the IASB issued IFRS 2 Share-based Payment. Key features are set out in the table below. IFRS 2 is effective for financial years beginning on or after 1 January 2005, earlier application encouraged.

KEY FEATURES OF IFRS 2 SHARE-BASED PAYMENT

- **Recognition and measurement.** All share-based payment transactions must be recognised in the financial statements, using a fair value measurement basis. An expense is recognised when the goods or services received are consumed. The same standards apply to both public and non-public companies.
- **Fair value measurement principle.** In principle, transactions in which goods or services are received as consideration for equity instruments of the entity should be measured at the fair value of the goods or services received. Only if the fair value of the goods or services cannot be measured reliably would the fair value of the equity instruments granted be used.
- **Measuring employee share options.** For transactions with employees and others providing similar services, the entity is required to measure the fair value of the equity instruments granted, because it is typically not possible to estimate reliably the fair value of employee services received.
- **When to measure fair value – options.** For transactions measured at the fair value of the equity instruments granted (such as transactions with employees), fair value should be estimated at grant date.
- **When to measure fair value – goods and services.** For transactions measured at the fair value of the goods or services received, fair value should be estimated at the date of receipt of those goods or services.
- **Measurement guidance.** For goods or services measured by reference to the fair value of the equity instruments granted, IFRS 2 specifies that, in general, vesting conditions are not taken into account when estimating the fair value of the shares or options at the relevant measurement date (as specified above). Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.
- **More measurement guidance.** IFRS 2 requires the fair value of equity instruments granted to be based on market prices, if available, and to take into account the terms and conditions upon which those equity instruments were granted. In the absence of market prices, fair value is estimated using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. The standard does not specify which particular model should be used.
- **Disclosure.** Disclosures include:
 - the nature and extent of share-based payment arrangements that existed during the period;
 - how the fair values were determined; and
 - the effect of share-based payment transactions on profit or loss for the period and on financial position.

IASB subscribers may download IFRS 3, IAS 36, and IAS 38 from the IASB's website:
www.iasb.org

IASB Issues IFRS 3 on Business Combinations

On 31 March 2004, the IASB completed Phase I of its business combinations project by issuing the following pronouncements:

- IFRS 3 Business Combinations
- IAS 36 Impairment of Assets (revised)
- IAS 38 Intangible Assets (revised)

IFRS 3 is effective for business combinations agreed to on or after 31 March 2004, and for previously recognised goodwill or negative goodwill. The table below summarises the key features of the new and revised standards.

The IASB is continuing its work in this area. Phase II of the Board's business combinations project is addressing:

- Issues related to applying the purchase method of accounting.
- Accounting for formations of joint ventures and business combinations involving entities under common control.
- Possible applications for "fresh start" accounting.

KEY FEATURES OF IFRS 3 BUSINESS COMBINATIONS AND RELATED REVISIONS TO IASs

The main requirements of IFRS 3 are:

- **Purchase method.** All business combinations within the scope of IFRS 3 must be accounted for using the purchase method. The pooling of interests method is prohibited. The old IAS 22 had required the pooling method if an acquirer could not be identified.
- **No restructuring provisions.** In applying the purchase method, an acquirer must not recognise provisions for future losses or restructuring costs expected to be incurred as a result of the business combination. These must be treated as post-combination expenses.
- **Recognition of intangibles.** In applying the purchase method, an intangible item acquired in a business combination, including an in-process research and development project, must be recognised as an asset separately from goodwill if it meets the definition of an asset, is either separable or arises from contractual or other legal rights, and its fair value can be measured reliably.
- **Recognition of contingent liabilities.** In applying the purchase method, an acquirer must recognise contingent liabilities assumed in the business combination, if their fair value is reliably measurable.
- **Full fair value, including minority share.** The identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed, must be initially measured at full fair value, including any minority interest's share of the acquired item. Under the old IAS 22, the acquirer had an option to carry forward minority's share at the old book value.
- **Non-amortisation of goodwill.** Goodwill acquired in a business combination must not be amortised. Instead it must be tested for impairment at least annually. The old IAS 22 required amortisation, with a rebuttable presumption that the useful life of goodwill could not exceed twenty years.
- **Negative goodwill.** If the acquirer's interest in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, that excess (sometimes referred to as negative goodwill) must be recognised immediately in the income statement as a gain.

The main revisions to IAS 36 and IAS 38 are:

- **Impairment testing.** Goodwill must be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment.
- **Reversals.** Reversals of impairment losses for goodwill are prohibited.
- **Measuring impairment.** Guidance is provided on how to measure impairment of intangible assets, including goodwill.
- **Disclosure.** A range of information must be disclosed for each cash-generating unit that has goodwill or intangible assets with indefinite useful lives. That information is concerned primarily with the key assumptions used to measure the recoverable amounts of the units.

IASB subscribers may download IFRS 4 from the IASB's website: www.iasb.org

IASB Issues a IFRS 4 on Insurance Contracts

On 31 March 2004, the IASB published IFRS 4 Insurance Contracts. This is the first guidance from the IASB on accounting for insurance contracts – but not the last. A second phase of the Board's insurance project is already under way.

The Board issued IFRS 4 because it saw an urgent need for improved disclosures for insurance contracts, and modest improvements to recognition and measurement practices, in time for the adoption of IFRSs by listed companies throughout Europe and elsewhere in 2005. The improvements to recognition and measurement are ones that will not likely have to be reversed when the IASB completes the second phase of the project.

In the second phase, the IASB will address broader conceptual and practical issues related to insurance accounting. These will be the subject of IASB deliberations and consultations with interested parties that will resume in the second quarter of 2004.

The IASB has announced that it will form an international insurance accounting working party of about 15 members. The working party will be composed of experts active in the insurance industry and the accounting profession, representatives of the appropriate regulatory and supervisory authorities, and investment analysts. The completion of any long-term solution for insurance contracts may take several years. The IASB has said it is willing to revise IFRS 4 in the short term in the light of any immediate solutions arising from the working party's discussions. Further details of the insurance working party will be announced shortly.

The table on the next page summarises the key features of IFRS 4.

IASB subscribers may download final standards from the IASB's website: www.iasb.org

Editorial Corrections to Recently Revised Standards

The IASB has begun posting (for subscribers) on its website editorial changes to the IASs that were revised in the Improvements Project and to the revised IAS 32 and IAS 39, which were released in December 2003. Editorial changes are textual corrections that do not change the intended meaning of the document. No Board or IFRIC approval is needed for such corrections.

The IASB's policy is to post editorial corrections as and when needed, but normally not more frequently than monthly.

The Board has also posted tables listing all of the consequential amendments made by each of the fifteen standards revised in the Improvements Project. Consequential amendments are changes to a standard that are caused by the issue, revision, or amendment of another standard.

KEY FEATURES OF IFRS 4 INSURANCE CONTRACTS

- **Scope.** IFRS 4 applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Furthermore, it does not address accounting by policyholders.
- **Definition of insurance contract.** An insurance contract is a “contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.”
- **Accounting policies.** The IFRS exempts an insurer temporarily (during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the IASB’s Framework in selecting accounting policies for insurance contracts. However, the IFRS:
 - prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions).
 - requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.
 - requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and prohibits offsetting insurance liabilities against related reinsurance assets.
- **Changes in accounting policies.** IFRS 4 permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them:
 - measuring insurance liabilities on an undiscounted basis.
 - measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current market-based fees for similar services.
 - using non-uniform accounting policies for the insurance liabilities of subsidiaries.
- **Remeasuring insurance liabilities.** The IFRS permits the introduction of an accounting policy that involves remeasuring designated insurance liabilities consistently in each period to reflect current market interest rates (and, if the insurer so elects, other current estimates and assumptions). Without this permission, an insurer would have been required to apply the change in accounting policies consistently to all similar liabilities.
- **Prudence.** An insurer need not change its accounting policies for insurance contracts to eliminate excessive prudence. However, if an insurer already measures its insurance contracts with sufficient prudence, it should not introduce additional prudence.
- **Future investment margins.** There is a rebuttable presumption that an insurer’s financial statements will become less relevant and reliable if it introduces an accounting policy that reflects future investment margins in the measurement of insurance contracts.
- **Asset classifications.** When an insurer changes its accounting policies for insurance liabilities, it may reclassify some or all financial assets as ‘at fair value through profit or loss’.
- **Other issues.** The IFRS:
 - clarifies that an insurer need not account for an embedded derivative separately at fair value if the embedded derivative meets the definition of an insurance contract.
 - requires an insurer to unbundle (that is, to account separately for) deposit components of some insurance contracts, to avoid the omission of assets and liabilities from its balance sheet.
 - clarifies the applicability of the practice sometimes known as ‘shadow accounting’.
 - permits an expanded presentation for insurance contracts acquired in a business combination or portfolio transfer.
 - addresses limited aspects of discretionary participation features contained in insurance contracts or financial instruments.
- **Disclosures.** The IFRS requires disclosure to help users understand:
 - the amounts in the insurer’s financial statements that arise from insurance contracts.
 - the amount, timing and uncertainty of future cash flows from insurance contracts.
- **Effective date.** Entities should apply the IFRS for annual periods beginning on or after 1 January 2005, but earlier application is encouraged. An insurer need not apply some aspects of the IFRS to comparative information that relates to annual periods beginning before 1 January 2005.

IASB subscribers may download IFRS 5 from the IASB's website: www.iasb.org

New IFRS 5 Deals with Asset Disposals and Discontinued Operations

On 31 March 2004, the IASB issued IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which replaces IAS 35, Discontinuing Operations. The table below summarises the provisions of IFRS 5.

IFRS 5 is the first standard to result from the IASB's joint convergence project with the FASB. The project focuses on differences that are not the subject of major current or planned projects by either board and are thought capable of quick resolution. The first phase of the project involves each board reviewing the other's recent pronouncements, with an expectation that recent work on an accounting problem will have produced a good solution. IFRS 5 results from the IASB's review of the FASB standard SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets, which was issued in 2001.

The requirements in IFRS 5 relating to assets held for sale and the timing of the classification of discontinued operations are substantially the same as the equivalent requirements in US GAAP. The type of operation that can be classified as discontinued is narrower than under US GAAP, but the IASB has indicated that it intends to continue to work with the FASB in this area to achieve convergence soon.

KEY FEATURES OF IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Provisions relating to assets held for disposal:

- **Held-for-sale classification.** IFRS 5 establishes a classification for non-current assets "held for sale" using the same criteria as those contained in US FASB Statement 144 Accounting for the Impairment or Disposal of Long-Lived Assets. In general, to be classified as held for sale, an asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, sale of the asset must be highly probable, and the transfer expected to qualify for recognition as a completed sale within one year, with limited exceptions.
- **Disposal groups.** Assets sold in a single transaction must be accounted for as a disposal group.
- **Measurement.** Assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell
- **Non-depreciation.** An entity is not allowed to depreciate an asset classified as held for sale, or included within a disposal group that is classified as held for sale.
- **Balance sheet presentation.** Assets classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, must be presented separately on the face of the balance sheet.

Provisions relating to discontinued operations:

- **Classification as discontinuing.** IFRS 5 changes the timing of the classification as a discontinued operation. IAS 35 had classified an operation as discontinuing at the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan. IFRS 5 classifies an operation as discontinued at the date the entity has actually disposed of the operation, or when the operation meets the criteria to be classified as held for sale.
- **Income statement presentation.** The results of discontinued operations must be presented separately on the face of the income statement. IAS 35 had allowed presentation in the notes.
- **No retroactive classification.** IFRS 5 prohibits the retroactive classification as a discontinued operation, when the discontinued criteria are met after the balance sheet date.

IASB subscribers may download IAS 39 from the IASB's website: www.iasb.org

IASB Issues Macro Hedging Amendment to IAS 39

On 31 March 2004, the IASB issued the "macro hedging" amendment to IAS 39 Financial Instruments: Recognition and Measurement. The amendment enables fair value hedge accounting to be used more readily for a portfolio hedge of interest rate risk – a macro hedge – than under the version IAS 39 that the IASB published in December 2003.

Under the macro hedging amendment:

- The hedged item is designated as an amount of a currency (for instance, an amount of dollars, euro, or pounds) rather than as individual assets (or liabilities).
- The gain or loss attributable to the hedged item is presented either:
 - in a single separate line item within assets, for those repricing time periods for which the hedged item is an asset, or
 - in a single separate line item within liabilities, for those repricing time periods for which the hedged item is a liability.
- Prepayment risk is incorporated by scheduling prepayable items into repricing time periods based on expected, rather than contractual, repricing dates. However, when the portion hedged is based on expected repricing dates, the effect that changes in the hedged interest rate have on those expected repricing dates is included when determining the change in the fair value of the hedged item. Consequently, if a portfolio that contains prepayable items is hedged with a non-prepayable derivative, ineffectiveness arises if the dates on which items in the hedged portfolio are expected to prepay are revised, or if actual prepayment dates differ from those expected;

The amendment should result in a reduction in implementation and compliance costs, because previously institutions would have to set up systems to track the relationship between either individual assets and liabilities and the hedging derivative.

Like the more comprehensive amendments to IAS 39 released in December 2003, the macro hedging amendment is effective for financial years beginning on or after 1 January 2005. Earlier application is encouraged.

IASB Will Propose Further Revisions to IAS 39

The IASB has agreed to propose amending IAS 39 to narrow the circumstances in which an entity will have the option to designate an individual financial asset or financial liability as one to be measured at fair value with changes in fair value recognised in profit or loss (the "fair value option". The fair value option was added to IAS 39 by the amendments to that standard that were published in December 2003.

After those amendments were published, some regulatory authorities in Europe questioned whether the Board intended the fair value option to be available for all financial instruments without any constraints. The Board has agreed in principle to propose amending IAS 39 to restrict the circumstances in which companies may choose the fair value option. The proposal will also include several other clarifications to IAS 39 for matters recently raised by the European Central Bank.

You can keep up to date on this project on our IASPlus website: www.iasplus.com/agenda/ias39rev.htm#fv

You can keep up to date on the IASB's internal review on our IASPlus website:
www.iasplus.com/restruct/iasbreview2004.htm

IASB Proposes to Reform its Own Due Process

The IASB has initiated an internal review of its own deliberative procedures alongside the Trustees' Constitution Review now under way. As part of its internal review, the IASB has published a consultation paper, *Strengthening the IASB's Deliberative Processes*, inviting public comment on certain proposed improvements to its procedures. Comment deadline is 25 June 2004.

The consultation paper cites some steps already taken by the Board to improve its due process and sets out the Board's preliminary views on some further changes. See the table below.

CHANGES TO THE IASB'S DUE PROCESS

Steps Already Taken by the IASB:

- Post observer notes in advance of Board meetings.
- Include more substantive content in observer notes.
- Webcast Board meetings live.
- Provide archived webcasts for those unable to listen live.

Further Changes Under Consideration:

- Post comment letters on the IASB's website when received, rather than as a batch after the deadline date.
- Post on the IASB's website a summary of the Board's position on the major points raised in the letters, once they have been addressed.
- Post changes to EDs when tentatively agreed by the Board, as consideration of an ED progresses.
- Make available near-final drafts of forthcoming exposure drafts and standards on the Board's website before they have been formally voted for issue.
- Use existing advisory groups or an appropriate expert group to discuss near-final drafts of exposure drafts and standards.
- Use advisory groups more regularly.
- Use field testing and public hearings more regularly.
- Make greater use of discussion papers.
- Re-expose proposals when changes are made as a result of comments received.

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

This project is a limited scope project addressing only costs incurred in exploration and evaluation activities. The IASB's predecessor (IASC) published a comprehensive discussion paper broadly addressing accounting in the extractive industries.

IASB Agenda Project Updates

On the next several pages, we note some of the key decisions made by the Board in the first quarter of 2004 on its ongoing agenda projects. More detailed project information can be found on our web site www.iasplus.com and on the IASB's site.

Project Update: Extractive Industries

Status. This project is developing interim guidance on how IFRS should be applied to exploration and evaluation costs incurred in the oil and gas and mining industries (extractive industries).

Exposure draft. Exposure Draft 6 Exploration for and Evaluation of Mineral Resources was published 15 January 2004. Comment deadline is 16 April 2004. ED 6 is summarised on page 3 of this newsletter.

What's next? Final standard in 2004, effective for 2005.

The revisions to IAS 27 and SIC 12 will not be effective for 2005 reporting.

This is a joint project with the FASB. You will find FASB's project summary at:
[www.fasb.org
project/index.shtml](http://www.fasb.org/project/index.shtml)

Consolidation, Including Special Purpose Entities

Status. The Board is developing an exposure draft that would replace both IAS 27 and SIC 12. Control would continue to be the basis for consolidation. The Board has tentatively developed the following criteria for assessing control:

- the ability to set strategic direction and to direct financing and operating policy and strategy;
- the ability to access benefits; and
- the ability to use such power so as to increase, maintain or protect the amount of those benefits.

Deliberations during first quarter of 2004. The Board discussed how potential voting rights affect control and entities that hold interests in other entities as agents for another party.

What's next? Exposure draft most likely in fourth quarter 2004. The Board has not indicated a target date for the final standard.

Project Update: Business Combinations – Phase II

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

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

Item 1 is the first component being pursued jointly by the IASB and the US FASB.

Deliberations during first quarter of 2004. The Board's deliberations focused primarily on whether and how events that happen after the acquisition date should be reflected in accounting for the business combination.

What's next? The Board expects to issue an exposure draft on application of the purchase method during the second quarter of 2004, with a final standard in 2005. The effective date is expected to be 1 January 2006, with earlier application optional. The requirements would have to be applied retrospectively, unless impracticable. However, all business combinations that occur after the earliest business combination that has been retrospectively restated must also be restated.

A timetable has not been set for other Phase II components, including combinations of entities under common control and fresh start accounting.

This is a joint project with the FASB. You will find FASB's project summary at:
[www.fasb.org
 project/index.shtml](http://www.fasb.org/project/index.shtml)

Project Update: Concepts of Revenue and Liabilities

Status. This project addresses general principles for recognising revenue and related liabilities. The Board is exploring an approach that focuses on changes in assets and liabilities rather than a notion of completion of an earnings process. The IASB has tentatively agreed that two criteria must be met to recognise revenue:

- The **elements criterion** requires that a change in assets or liabilities has occurred, specifically:
 - An increase in assets has occurred that increases equity, without a commensurate investment by owners; and
 - A decrease in liabilities has occurred that increases equity, without a commensurate investment by owners (such as the forgiveness by owners of a debt owed to them by the entity).
- The **measurement criterion** requires that the change in assets or liabilities can be appropriately measured, specifically:
 - Assets or liabilities are measured by means of a relevant attribute; and
 - The increase in assets or decrease in liabilities is measurable with sufficient reliability.

Deliberations during first quarter of 2004. The Board's preliminary views about revenue recognition principles are noted in the table below.

What's next? An exposure draft is planned for fourth quarter 2004. Any final standard would not be effective until after 2005.

IASB'S PRELIMINARY VIEWS ON REVENUE RECOGNITION PRINCIPLES

Fundamental Revenue Recognition Principle

A reporting entity should recognise revenues in the accounting period in which they arise and measure them at their fair value on the date that they arise if it can determine both their occurrence and measurement with sufficient reliability.

The following recognition principles amplify and extend the fundamental revenue recognition principle:

Recognition Principle #1

Contractual revenues cannot arise before a contract with a customer exists.

Recognition Principle #2

A reporting entity should recognise contractual revenues when an increase in its claims against its customers can be determined to have occurred and the fair value of that increase can be measured with sufficient reliability.

Recognition Principle #3

A reporting entity should recognise contractual revenues when a decrease in claims against it by its customers can be determined to have occurred and the fair value of that decrease can be measured with sufficient reliability.

Recognition Principle #4

Increases in assets or decreases in liabilities that give rise to contractual revenues stem from contractual promises that may be either express or implied.

Recognition Principle #5

Contractual revenues should be recognised at contract inception if the fair values of the contractual assets obtained on that date exceed the fair values of the contractual liabilities simultaneously incurred, and if those revenues can be measured with sufficient reliability.

Recognition Principle #6

Subsequent to contract inception, contractual revenues should be recognised upon the reporting entity's performance of its obligations under the contract, as evidenced by a decrease in its contractual liabilities or an increase in its contractual assets, the fair value of which can be determined with sufficient reliability.

Recognition Principle #7

Contractual revenues should be recognised upon contract completion to reflect any final increases in the fair values of contractual assets or final decreases in the fair values of contractual liabilities.

IAS 30 applies to banks and other financial institutions. Initially, the goal of this project was to update IAS 30. More recently, however, the Board has concluded that the proposed disclosures are relevant to all financial instruments. Hence the scope of the project has been amended to cover all entities that have financial instruments.

Based on the results of some field tests of the Board's preliminary views, the Board has decided to invite comments via a discussion paper before proceeding with an exposure draft.

The IASB and the FASB will meet jointly in April 2004 in London, UK, and again in October 2004 in Norwalk, Connecticut, USA.

Project Update: Disclosure of Financial Risks

Status. The Board has agreed that entities should disclose qualitative and quantitative information about financial risks. The Board has adopted the following disclosure principle for this standard:

An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of the risks arising from financial instruments that it was exposed to during the reporting period and at the reporting date.

To implement that principle, the standard should require both qualitative and quantitative disclosures about each financial risk. The risks for which disclosure would be required would include credit risk (including credit quality of assets, collateral, and credit enhancements), liquidity risk, and market risk. Also a capital disclosure requirement would be added to IAS 1.

Deliberations during first quarter of 2004. None.

What's next? The Board plans to issue an exposure draft in second quarter of 2004, with a final standard in 2005.

Project Update: Reporting Comprehensive Income (Performance Reporting)

Status. The Board is developing a standard for presenting performance – a new format for the traditional income statement that will reflect all items of income and expense recognised in the current period. Items would no longer be reported directly in equity; nor would recycling of items from equity into profit or loss be allowed.

Key decisions to date. This is a presentation project that will not change any recognition or measurement standards. The Board currently favours a three-column statement of comprehensive income that will segregate profit other than remeasurements from gains and losses recognised as a result of remeasurements of previously recognised assets and liabilities. Also, rows on the income statement would separate operating profit, other business profit, financial income, financing expense, income taxes, discontinuing operations, and results of cash flow hedges.

Deliberations during first quarter of 2004. None.

What's next? The IASB has announced that its next step will be to present its preliminary views in a discussion paper, with comments invited. The timing of an exposure draft is under review.

Project Update: Convergence – Short-Term Issues: IFRS and US GAAP

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

IASB progress to date. IFRS 5 Disposal of Non-Current Assets and Reporting Discontinued Operations is the first IASB standard resulting from the convergence project.

What's next? Exposure drafts of amendments to IAS 19 Employee Benefits and IAS 37 Provisions, Contingent Liabilities and Contingent Assets are expected in second quarter 2004. Also in that quarter, the IASB will either propose to amend or replace IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

The Board has decided on a principle of “no public accountability” to define the class of entities for which the IASB’s standards for SMEs would be suitable.

The IASB has recently published IFRS 4 Insurance Contracts as interim guidance on applying IFRSs to insurance contracts (story on page 5).

IFRIC news on our web site:

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

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

Topics not added to IFRIC’s agenda:
www.iasplus.com/ifric/notadded.htm

Project Update: Standards for Small and Medium-Sized Entities

Status. The basic intention of the IASB’s project to develop standards for small and medium-sized entities (SMEs) is to reduce the financial reporting burden on SMEs.

Deliberations during first quarter of 2004. The Board discussed the first draft of a Discussion Paper setting out the Board’s preliminary and tentative views on the approach to the project developing accounting standards for SMEs and the reasons for those views, with comments invited. A summary of the Board’s preliminary views can be found on the SME project page on the IASB’s Website.

The Discussion Paper will include specific questions for respondents on the Board’s preliminary views. It will also set out alternatives that were considered and the arguments for and against each.

What’s next? The Board will consider a revised draft of the Discussion Paper at its April 2004 meeting, and may approve the document for publication at that time. The Board decided that the Discussion Paper would have a 90-day comment period.

Project Update: Insurance Contracts – Phase II

Status. This longer-term project will develop a comprehensive standard on accounting for insurance contracts.

The IASB’s leanings in the Phase II project. The Board favours an asset and liability model that requires an entity to identify and measure directly individual assets and liabilities arising from insurance contracts, rather than creating deferrals of inflows and outflows. Under that model, assets and liabilities arising from insurance contracts would be measured at fair value (which involves discounting), except that:

- entity-specific assumptions and information may be used to determine fair value if market-based information is not available; and
- the estimated fair value of an insurance liability shall not be less, but may be more, than the entity would charge to accept new contracts with identical terms and remaining term from new policyholders.

What’s next? The Board expects to issue an exposure draft in 2005. It will also appoint an international working party. Timetable for the final IFRS is not yet announced.

IFRIC Update – Three Draft Interpretations

In the first quarter of 2004, the International Financial Reporting Interpretations Committee invited comment on three draft Interpretations:

IFRIC D3 Determining Whether an Arrangement Contains a Lease.

D3 would require arrangements that do not take the legal form of leases, but that have the substance of leases, to be accounted for in accordance with IAS 17 Leases. The types of arrangements addressed include outsourcing arrangements; contracts to supply network capacity in the telecommunications industry; take-or-pay contracts; and service concession arrangements in which a supplier (usually a private entity) provides the use of an item of infrastructure to a purchaser (usually a government). The draft provides guidance on determining whether an arrangement is, or contains, a lease for the purpose of applying IAS 17, but it does not provide guidance on whether such leases should be classified as finance or operating leases. Comment deadline was 19 March 2004.

IFRIC news on our web site:

Summaries of Interpretations:
[www.iasplus.com/
interps/interps.htm](http://www.iasplus.com/interps/interps.htm)

IFRIC projects by topic:
[www.iasplus.com/
ifric/ifricissues.htm](http://www.iasplus.com/ifric/ifricissues.htm)

Topics not added to IFRIC's
agenda:
[www.iasplus.com/
ifric/notadded.htm](http://www.iasplus.com/ifric/notadded.htm)

You can download the full text
of our letters of comment at:
[www.iasplus.com/
links/comment.htm](http://www.iasplus.com/links/comment.htm)

IFRIC Update, continued

IFRIC D4 Decommissioning, Restoration and Environmental Rehabilitation Funds.

This interpretation would provide guidance on accounting for contributions to funds established to reimburse an entity's decommissioning, restoration, or rehabilitation obligations when the costs are incurred. Such funds may be established by a single contributor to fund its own decommissioning obligations, or by multiple contributors to fund their joint decommissioning obligations. IFRIC proposes that the contributor determine whether it has control, joint control, or significant influence over the fund by reference to the standards dealing with subsidiaries, joint ventures, associates and special purpose entities. If it does, the contributor should account for its interest in the fund in accordance with those standards. If this does not apply, and the fund does not relieve the contributor of its obligation to pay decommissioning costs, the contributor should recognise a separate asset (for rights to reimbursement from the fund) and liability (to pay decommissioning costs). Comment deadline was 19 March 2004.

IFRIC D5 Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the First Time.

IAS 29 Financial Reporting in Hyperinflationary Economies requires that the financial statements of an entity that reports in the currency of a hyperinflationary economy must be stated in terms of the measuring unit current at the balance sheet date. Comparative figures for prior period(s) should be restated into the same current measuring unit. Draft Interpretation D5 proposes guidance on how an entity would restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency. Comment deadline is 14 May 2004.

Deloitte Comments on Two IFRIC Draft Interpretations

IFRIC D3

We have submitted our letter of comment on IFRIC D3 Determining Whether an Arrangement Contains a Lease. In our view, an Interpretation in this area may be an improvement to current IFRS. However, "we have reservations regarding the application of the draft Interpretation and the consequences the theory supporting the consensus may cause."

IFRIC D4

Our letter of comment on IFRIC D4 Decommissioning, Restoration and Environmental Rehabilitation Funds questioned the value added to the IFRS reporting requirements by the proposed Interpretation. "We do not believe that current practices, absent the draft Interpretation, are sufficiently diverse or inconsistent with the IFRS framework to justify the introduction of an IFRIC interpretation."

IASC Foundation News

Bertrand Collomb Joins the IASC Foundation Trustees

The IASC Foundation has appointed Bertrand Collomb, Chairman of Lafarge of France, as a trustee from Europe. Mr. Collomb replaces Didier Pineau-Valencienne, whose term ended on 31 December 2003. Mr Collomb is currently chairman of Association Francaise des Entreprises Privees. He also serves as a director of Total, ATCO, and Vivendi Universal, and is a member of the Supervisory Board of Allianz and the Advisory Board of Unilever.

You will find more information about the constitution review here:

www.iasplus.com/restruct/constreview.htm

IASC Foundation Trustee Kenneth H. Spencer

Kenneth H Spencer, a Trustee of the IASC Foundation, died at his home in Melbourne, Australia, on 31 March 2004. Before becoming a Trustee of the IASC Foundation, he served as Chairman of the Australian Accounting Standards Board (1995-1999), Chairman of the G4+1 group of national standard-setters (February 1998-June 1999), and as a member of the Australian delegation to the IASB's predecessor, the IASC Board (1998-2000). He was a former managing partner of KPMG Australia.

Progress on IASCF Constitution Review

The IASC Foundation Trustees have announced the next steps in their review of the IASCF Constitution. The trustees' announcement said that 70 responses have been received to the November 2003 consultation paper. They are posted on the IASB's website.

The constitution committee met with the Standards Advisory Council in February. The committee will meet with the IASB's liaison standard setters and EFRAG on 26 April 2004 and will hold a series of public roundtables in at least four cities around the World from June through October. The Trustees have identified the following ten issues for review (others may be added):

- Whether the objectives of the IASC Foundation should expressly refer to the challenges facing small- and medium-sized entities (SMEs).
- Number of Trustees and their geographical and professional distribution.
- The oversight role of the Trustees.
- Funding of the IASC Foundation.
- The composition of the IASB.
- The appropriateness of the IASB's existing formal liaison relationships.
- Consultative arrangements of the IASB.
- Voting procedures of the IASB.
- Resources and effectiveness of the International Financial Reporting Interpretations Committee (IFRIC).
- The composition, role, and effectiveness of the Standards Advisory Council.

IASCF Trustees Propose a European Consultative Group

The IASC Foundation Trustees have invited senior officials from European banking, securities, and insurance regulators and from the accounting, banking, and insurance industries to form a high level European consultative group to advise the IASB. The group will focus specifically on application of accounting standards to financial institutions. In announcing formation of the group, the Trustees said:

The concept of such a group has grown out of discussions with the European Commission, which is invited to participate in the consultative group's discussions as an observer. While deliberations on the international standards on financial instruments (IASs 32 and 39) must come to a close by the end of March 2004, the extended debate surrounding the IASB's proposed improvements to these two standards has demonstrated that long-standing and basic issues of accounting and regulatory philosophy and approach will remain. The IASB will need in the future to address these longer-term issues, which centre importantly on the application and extent of fair value accounting appropriate for regulated financial institutions in the banking and insurance industries.

For a list of the SAC members go to:

www.iasplus.com/restruct/advisory.htm

Except for administrative and personnel matters, all of these meetings are open to public observation. Registration forms are on IASB's web site.

Advisory Council Met in November

Matters discussed that the February 2004 meeting of the IASB's Advisory Council included the following:

- Meeting with the IASCF Trustees Constitution Committee.
- SAC's review of own operations and effectiveness.
- Accounting and financial reporting by small and medium-sized entities.
- IASB Chairman's update.
- IASB Agenda planning and priorities.
- Review of IASB internal procedures.

IFAC Releases its 2004 Standards Handbooks

The International Federation of Accountants has published 2004 editions of two handbooks of standards: The *Handbook of International Auditing, Assurance, and Ethics Pronouncements* includes all pronouncements of the International Auditing and Assurance Standards Board and the Ethics Committee through 31 December 2003. The *Handbook of International Public Sector Accounting Pronouncements* includes all of the currently effective International Public Sector Accounting Standards and other pronouncements related to public sector accounting issued through 31 December 2003.

Both handbooks are available in print, PDF, and electronic formats. There is no charge to download the PDF versions.

Upcoming Meetings

IASB and SAC MEETINGS 2004	
London, UK	21-23 April 2004 26-27 April 2004 – Meeting with chairs of Partner National Standard Setters
London, UK	17-19 May 2004 (this date recently was changed)
Oslo, Norway	21-23 June 2004 24-25 June 2004 – Meeting with Standards Advisory Council
London, UK	21-23 July 2004
London, UK	22-24 September 2004 27 September 2004 – Meeting with World Standard Setters 28 September 2004 – Meeting with chairs of Partner National Standard Setters
Norwalk, Connecticut, USA	20-22 October 2004
London, UK	15-17 November 2004 18-19 November 2004 – Meeting with Standards Advisory Council
London, UK	15-17 December 2004

IFRIC MEETINGS 2004	
London, UK	4-5 May 2004
London, UK	3-4 June 2004
London, UK	29-30 July 2004
London, UK	7-8 October 2004
London, UK	2-3 December 2004

IFRS-Related News from the United States

SEC website:
www.sec.gov

US SEC Proposes Rules for Transition to IFRS

The US Securities and Exchange Commission has proposed amendments to Form 20-F that would affect foreign issuers that change their basis of accounting to IFRS. Normally, Form 20-F requires a company to include in its SEC filings three years of audited financial statements prepared on a consistent basis of accounting. The proposed amendments would allow companies switching to IFRS for the first time for any financial year beginning no later than 1 January 2007, in their first year of reporting under IFRS, to include only two years of audited financial statements, with appropriate related disclosure.

The SEC's news release said:

The proposals are intended to ease the burdens that foreign companies may face when they adopt IFRS for the first time, while improving the quality of financial disclosure that they provide to investors. The proposals are addressed particularly at foreign issuers located in the European Union (EU), which under current EU law will generally be required to adopt IFRS for reporting on their 2005 financial year. The proposals are also intended to encourage other foreign companies to switch their accounting voluntarily to IFRS.

FASB website:
www.fasb.org

FASB Proposes Expensing Stock Options

The US Financial Accounting Standards Board has issued an exposure draft, Share-Based Payment, proposing that all share-based payment transactions – including share options – be recognised in the financial statements and measured at fair value. An expense is recognised when the goods or services received are consumed.

The FASB's proposals are generally similar to the accounting requirements in IFRS 2 (see story on page 3), though FASB would permit nonpublic (unlisted) entities to elect to use either (a) the fair-value-based method or (b) the intrinsic value method with final measurement of compensation cost at settlement date. Under the intrinsic value method, compensation cost is recognised at grant date only if the exercise price of an option is below the market price at that date.

Current US GAAP (FASB Statement 123) allows companies to choose either to recognise the fair value of stock options and other share-based payment as expense or to disclose those fair values in the notes. Roughly three percent of the 15,000 US SEC registrants currently choose the expense recognition option. Comment deadline is 30 June 2004.

News about IFRS in Europe

EFRAG website:
www.efrag.org

EFRAG Endorses the Improved IASs

The European Financial Reporting Advisory Group (EFRAG) has concluded that the revised IASs resulting from IASB's Improvements Project "meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards" and, in a letter to the European Commission, said: "We believe that it is in the European interest to adopt the revised IASs and, accordingly, we recommend their adoption."

EFRAG website:
www.efrag.org

Deloitte Partner is the New Chair of EFRAG

Deloitte & Touche partner Stig Enevoldsen has been selected as the new full-time Chairman of the Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG) effective 1 April 2004 for a three-year term. Stig currently heads Deloitte's Copenhagen, Denmark, IFRS Centre of Excellence and is a member of the firm's Global IFRS Leadership Team. Previously, he chaired the firm's IAS Policy Committee.

Also, Deloitte partner Catherine Guttman, from France, a specialist in insurance and financial instruments issues, was appointed a new part-time member of the TEG. In addition, the chairs of the UK, French, and German standard setters will be permanent observers at the TEG.

EFRAG was established in June 2001 by a broad group of organisations representing the European accounting profession, preparers, users, and national standard-setters to provide technical expertise to the European Commission concerning the use of IFRS within the Europe and to participate in IASB's standard setting process. EFRAG is currently in the middle of a process to enhance its role and streamline its operating processes with the goal of strengthening European input to the IASB.

More information:
www.euronext.com

Euronext Eases Quarterly Reporting Requirements

A Euronext rule, adopted in April 2003, would have required that companies in the NextEconomy and NextPrime segments publish quarterly reports starting in 2004. Euronext has changed that requirement to a non-mandatory "best practice". Half-yearly reporting remains mandatory. Another rule adopted in April 2003 requires NextEconomy (technology) and NextPrime (more traditional) companies that are not already using IFRS to disclose, in half-yearly reports for financial years beginning on or after 1 January 2004, the effects of converting to IFRS in 2005. That rule has not been changed. Euronext is an amalgamation of the stock exchanges in Amsterdam, Brussels, Lisbon, and Paris.

ICAEW website:
www.icaew.co.uk

English Institute Will Offer IFRS Learning and Certificate

The Council of the Institute of Chartered Accountants in England and Wales has approved a proposal for the Institute to offer a training, assessment, and award programme in IAS/IFRS. The programme will be open to ICAEW members and non-members. Subject to member approval, a Certificate and Diploma will be available. The training and assessment will encompass the new and improved international standards currently being developed by the IASB.

EC Internal Market website:
[europa.eu.int/comm/
internal_market/company/
directors-remun/index_en.htm](http://europa.eu.int/comm/internal_market/company/directors-remun/index_en.htm)

EU Consults on Directors' Remuneration Including Disclosures

The European Commission has undertaken a public consultation on directors' remuneration, including the questions of (a) how each EU listed company should disclose in its annual accounts and annual report (or in the notes to the annual accounts) the remuneration policy for directors for the next financial year and (b) which elements, for example the performance-related elements of directors' remuneration, supplementary pensions, and contract policy, should be included in that disclosure? The IASB's recent amendments to IAS 24 include a requirement to disclose key management personnel compensation (amounts, but not policies) in total and subdivided into five categories. IFRS 2 also requires some disclosures about equity compensation arrangements (though not policies).

EC Internal Market website:
[europa.eu.int/comm/
 internal_market/auditing/
 officialdocs_en.htm](http://europa.eu.int/comm/internal_market/auditing/officialdocs_en.htm)

European Commission Proposes New Audit and Governance Rules

The European Commission is proposing major revisions to its rules in the areas of auditing standards, auditor oversight, and related corporate governance. The proposals, which are somewhat along the lines of the Sarbanes-Oxley Act in the US, are set out in a proposed Directive on Statutory Audit of Annual Accounts and Consolidated Accounts.

The new Directive would replace the current 8th Directive and amend the 4th and 7th Directives. Some of the proposals in the new Directive are set out in the table below:

PROPOSED NEW EC AUDIT AND GOVERNANCE RULES
■ Require registration of all statutory auditors and audit firms. Non-EU auditors of companies listed in Europe will have to register in the EU. ■ Create an EU-wide, publicly accessible, electronic database of registered statutory auditors and audit firms. ■ Require that statutory auditors and audit firms be subject to a code of professional ethics at least as rigorous as the code adopted by the Ethics Committee of IFAC. ■ Adopt International Standards on Auditing throughout the EU. The proposed Directive notes that the Commission may adopt a common standard audit report for use throughout the EU. ■ Require that the group auditor assume full responsibility for financial statements. ■ Define “public interest entities” to include all listed companies plus other entities that are publicly accountable because of the nature of their business (such as banks and insurance companies) or because of their size (number of people employed). ■ Require that boards be established in each EU member state (something like the PCAOB in the US) to oversee the auditing profession: ■ The board overseeing audit firms that do not audit public interest entities should comprise a “clear majority” of non-practitioners. ■ The board overseeing audit firms that audit public interest entities must be 100% non-practitioners. ■ In overseeing audit firms from outside the EU, an EU-wide system will be established to decide whether and to what extent the quality assurance systems in other countries should be recognised. ■ Form an EU-wide audit regulatory committee to co-ordinate oversight (details have not yet been agreed). ■ Require each “public interest entity” to form an audit committee of non-executive directors to oversee the audit. ■ Establish principles of auditor independence, with more stringent independence requirements for auditors of public interest entities. ■ Require annual transparency reports of statutory auditors and firms that audit public interest entities. These would be publicly available. ■ Require companies and audit firms to explain to national authorities the reasons for all auditor changes. ■ Require disclosure of audit and non-audit fees paid by listed companies. ■ Give member states the following options regarding auditor rotation: (a) require rotation of the lead audit partner on an engagement every five years or (b) require rotation of the entire audit firm every seven years. ■ Mandate mutual recognition in a number of areas, including auditor licensing, oversight, quality assurance, and registration. An EU member state would be allowed to impose an “aptitude test” for statutory auditors registered in other member states or other countries. ■ Update education requirements for auditors, adding a requirement for continuous education.

Survey Finds that IFRSs Will Improve Understanding

A survey of 425 companies (249 listed and 176 non-listed) in six European countries by the French-based international auditing and advisory firm Mazars has found that:

- The great majority of listed companies are confident that adopting IFRSs will bring about “beneficial impacts” on the transparency (73% of listed companies) and reliability (79% of listed companies) of their financial statements.
- Listed companies believe that the largest impact of the change to IFRSs will be on their internal organisation, with 57% of listed companies foreseeing “a real opportunity to improve their internal organisation”.
- The majority (55%) of non-listed companies wish to apply IFRS, and 64% of those think that improved comparability and transparency will result from the change.
- Many companies are late in setting up IFRS implementation programmes, measuring the impact of IFRSs, training of employees, and developing external communications strategies for financial analysts, shareholders, and investors.

CESR website:
www.europefesco.org/

CESR Recommendations on Prospectuses

The Committee of European Securities Regulators (CESR) has submitted to the European Commission its recommendations on the content of prospectuses. Noting that some EU member States require three years of historical financial information in prospectuses, CESR recommended, for companies that must switch to IFRSs because they are selling securities in a public market for the first time, that:

- Debt issuers should restate only one year of accounts on an IFRS basis even if two years is required for equity issuers.
- No issuer should be required to produce IFRS figures in a prospectus for any period earlier than 1 January 2004 (1 January 2006 if the member State allows delayed transition to IFRSs for debt issuers and/or companies that currently prepare their primary financial statements with US GAAP).
- Non-EU companies that list in Europe for the first time and that use “internationally accepted standards” should be allowed to continue to do so until 2007.
- Non-EU issuers that currently have securities listed on a European exchange be required to switch to IFRSs only if the future transparency directive requires them to do so.
- The Commission should establish a procedure to evaluate equivalence of non-EU-GAAPs to IFRSs.

ASB website:
www.asb.org.uk

United Kingdom: ASB Seeks Comments on Converging with IFRSs

The United Kingdom Accounting Standards Board has published a Discussion Paper on UK Accounting Standards: A Strategy for Convergence with IFRS. The Paper proposes a phased approach to convergence, including:

- New standards effective in 2005 and 2006 that will “enhance existing UK financial reporting requirements, maintain their position as highly regarded internationally, and adapt to changes in the law”.
- Thereafter, a series of “step changes” replacing one or more existing UK accounting standards with standards based on IFRS as prospective IASB projects are completed.

DTI website:
www.dti.gov.uk

United Kingdom: Consultation on Use of IFRSs by Unlisted Entities

The United Kingdom Department of Trade and Industry (DTI) has released a consultation document titled Modernisation of Accounting Directives/IAS Infrastructure. DTI is seeking input on proposed changes to the UK 1985 Companies Act that would allow companies that are not already required by European law to follow IFRSs to choose IFRSs instead of UK GAAP in preparing their financial statements. Companies choosing the IFRS option would be able to reverse it only in limited circumstances. Parent companies would be required to ensure consistency of choice within the group unless there are good reasons against it.

Use of IFRSs Elsewhere in the World

Japan FSA website:
www.fsa.go.jp/indexe.html

Japan: Government Agency Comments to British FRS

The Financial Services Agency of the Government of Japan (the Japanese securities regulator) has written to the UK Financial Services Authority requesting the UK government “to continue to allow Japanese issuers with a primary listing or a secondary listing on the LSE to use Japan GAAP as equivalent to IAS (or US GAAP)”. The Japan FSA went on to say: “If Japanese issuers were required to prepare their financial statements in accordance with IAS, and not allowed to use Japan GAAP, this could discourage their financial activities within the City and other EU markets, encourage their delisting from the LSE and other EU securities exchanges, and shift the focus of Japanese financing efforts outside Japan to non-EU markets.”

The UK Financial Services Authority (FSA) has proposed to require foreign companies listed on the London Stock Exchange to prepare financial statements using only US GAAP or IFRSs.

Swiss Exchange website:
www.swx.com

Switzerland: Exchange Backtracks on IFRSs

In August 2003, the Swiss Exchange announced that starting in 2005 all listed companies would be required to use either US GAAP or IFRSs. The Exchange has now announced an exception for companies that are not multinational:

From 2005, companies listed on the Swiss Exchange will have to carry out their accounting according to IFRS or US GAAP. Companies that are oriented towards their home markets in terms of financing may, however, continue to use the Swiss GAAP ARR standards which are tailored to the Swiss marketplace.

AASB website:
www.aasb.com.au

Australia: Updated Plan for Adopting IFRSs

The Australian Accounting Standards Board (AASB) has updated its Plan for Adopting IASB Standards by 2005. The AASB is a government-sponsored board that operates under the oversight of the government’s Financial Reporting Council (FRC). The plan states:

The AASB’s plans are aimed at achieving the FRC’s strategic direction of ensuring that for-profit entities applying AASB standards for reporting periods beginning on or after 1 January 2005 will also be complying with IASB standards. This will enable those entities to make an unreserved statement that their financial reports are prepared in compliance with IASB standards and, as mentioned in the FRC’s strategic direction, will enable audit reports to refer to entities’ compliance with IASB standards.

FRC website:
www.frc.gov.au/

Canadian Securities
Administrators' joint website:
www.csa-acvm.ca

Canada: Foreign Issuers May Use IFRSs Without Reconciliation

The provincial securities commissions in Canada have jointly adopted a regulation allowing foreign companies issuing securities in Canada to submit IFRS financial statements without reconciliation to Canadian GAAP. The regulation takes effect 30 March 2004. A foreign issuer may also use US GAAP, but a reconciliation is required unless the issuer is also a US SEC registrant. A foreign issuer may also use national accounting standards from several other designated countries without reconciliation, or still other national GAAPs with reconciliation. Currently, 39 of the 3,602 companies listed on the Toronto Stock Exchange are foreign (mostly US companies with Canadian operations). So only a few IFRS filings are likely.

Columbia: Switch to IFRSs Is Being Considered

The government of Colombia has invited comment on a draft law that would adopt International Financial Reporting Standards as Colombian national standards. Currently, the government establishes Colombian Accounting Standards. The standards differ significantly from IFRSs. The draft law is a joint effort of various government ministries and departments, including finance, public credit, industry and commerce, accountancy, banking, companies, securities markets, planning, taxes, and customs – all of the key bodies that would need to agree to such a fundamental change in Colombian accounting practice.

Publications from Deloitte

Deloitte IFRS e-Learning Material Is Available Without Charge

Deloitte is pleased to make available, in the public interest and without charge, our e-learning training materials for IFRSs. Content on the following standards is now available: IAS 1, IAS 2, IAS 8, IAS 11, IAS 14, IAS 16, IAS 17, IAS 18, IAS 21, IAS 27, IAS 28, IAS 31, IAS 34, IAS 37, IAS 40, IAS 41, and the Framework for the Preparation and Presentation of Financial Statements. Those modules that relate to standards amended by the IASB in December 2003 as part of the Improvements Project have been updated to reflect the improvements.

Modules on the remaining standards are currently being developed and will be released in phases throughout 2004, starting with IAS 7 and IAS10, which are expected to be released shortly.

The Deloitte IFRS e-Learning can be accessed via our website:
www.iasplus.com.



Download link:
www.iasplus.com/fs/fs.htm

Model IFRS Financial Statements for 2003

We have posted on the IASPlus website our model IFRS financial statements and presentation and disclosure checklist for the year ended 31 December 2003. The model financial statements reflect the presentation and disclosure requirements of IFRSs and also contain additional disclosures that are considered to be best practice, particularly where such disclosures are included in illustrative examples provided with a specific International Financial Reporting Standard.

For the purposes of presenting the income statement, statement of changes in equity, and cash flow statement, the various alternatives allowed for under IFRSs for those primary statements have been illustrated.

The statements may be downloaded without charge. A Chinese language version has also been posted.

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

Three Special IFRS Newsletters Are Available

We have posted on our IAS Plus website three special newsletters highlighting the following new or recently revised IASB standards:

- The 14 Improvements Project Revised IASs.
- IASB's two recently revised financial instruments standards – IAS 32 Financial Instruments: Disclosure and Presentation, and IAS 39 Financial Instruments: Recognition and Measurement.
- IFRS 2 Share-based Payment.

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

Guidance for Applying IFRS 2 Share-based Payment

Deloitte's new 76-page book on IFRS 2 Share-based Payment provides guidance on how to put the new Standard into practice. This publication includes guidance on measurement of share-based payments, a benchmark study of key measurement variables, comparison with US SFAS 123, and illustrative disclosures. It also offers further illustrative examples and implementation guidance on applying IFRS 2.

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UK GAAP 2004 in Your Pocket

Deloitte & Touche (United Kingdom) has published the 2004 version of its popular guide UK GAAP 2004 in Your Pocket. This 48-page booklet is a summary of United Kingdom financial reporting, including UK ASB standards and UITF interpretations in issue at 1 January 2004, standards issued by the ASB's predecessor body, and current Statements of Recommended Practice. The summaries of the standards include key features, related UITFs, Deloitte guidance, and an indication of the impact of IFRS implementation in 2005.

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Accounting Standards Update in the Asia-Pacific Region

AUSTRALIA

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The Australian Accounting Standards Board (AASB) has approved numerous Pending AASB Standards since January 2004 including those relating to first-time adoption and share-based payments, as part of Australia's convergence with International Financial Reporting Standards (IFRS). The Pending AASB Standards approved are generally consistent with the equivalent IFRS except for the following differences:

- Pending AASB 114 Segment Reporting is applicable to all for-profit entities including those entities that do not have publicly traded equity or debt securities and/or are not in the process of issuing securities in publicly traded markets.
- Pending AASB 119 Employee Benefits does not permit the "corridor approach" for the recognition of actuarial gains and losses on defined benefit plans. Instead, all actuarial gains and losses will need to be recognised in the period they arise.
- Pending AASB 131 Interest in Joint Ventures requires a venturer to measure its interest in a jointly controlled entity by applying the equity method. A venturer is not permitted to proportionately consolidate its interest in a jointly controlled entity.

As AASB Standards are applicable to all entities, some of the Pending AASB Standards contain specific requirements that are applicable only to not-for-profit entities. Such requirements will result in certain not-for-profit entities not being able to claim compliance with IFRS.

Further, several of the Pending AASB Standards approved contain additional disclosure requirements compared to what is required in the equivalent IFRS. The additional disclosures generally relate to information that is currently required to be disclosed under existing Australian Accounting Standards.

The Pending AASB Standards will only be issued as AASB Standards when all IFRS converged AASB Standards are finalised and will only be able to be adopted when all IFRS converged AASB Standards are adopted for annual reporting periods commencing on or after 1 January 2005. This is expected to occur in June 2004.

The AASB has also released ED 130 Request for Comment on IASB ED 6 Exploration for and Evaluation of Mineral Resources.

CHINA

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Following is a summary of financial reporting events in China during the first quarter of 2004.

Accounting Guideline for Enterprises Engaging in Publishing Business

The Ministry of Finance (MOF) has issued an Accounting Guideline for Enterprises Engaged in the Publishing Business (including books, newspapers, periodicals, printing, and audio and video products). This Guideline is applicable to those publishing enterprises that have adopted the Accounting System for Business Enterprises, starting from 1 January 2004.

The Guideline specifies the general principles for recognising revenue and related costs for sales of goods:

- risks and rewards have passed to the buyer;
- no continuing managerial involvement and no control retained over the goods sold;
- the relevant economic benefits will flow to the enterprise; and
- revenue and cost can be measured reliably.

Those principles are the same as those set out in the MOF's standard on revenue.

CHINA, continued

In addition to the general principle, the guideline also sets out special principles relating to credit sales, instalment sales, cash sales, sales where cash will be received by another party, consignment sales, sales when right of return exists.

Accounting System for Financial Enterprises

The scope of MOF's Accounting System for Financial Enterprises, which was adopted in 2002 for listed financial institutions and foreign invested financial institutions, was extended to unlisted non-foreign invested brokerages starting 1 January 2004.

Asset Valuation Standards

MOF has adopted certain standards for asset assessments (valuations) that must be followed when such valuations are reflected in the financial statements. The standards are intended to be broadly consistent with International Valuation Standards. The MOF expects to develop implementation guidance for various classes of assets.

CICPA Activities

To improve the self-regulating structure and practices of the accountancy profession in China, the Chinese Institute of Certified Public Accountants has established four special committees:

Auditing Standards Committee

- To develop proposed independent auditing standards, including an exposure draft and comments prior to final adoption.

Discipline Committee

- To discipline those CPA firms and CPAs who violate regulations.

Appeal Committee

- To consider an appeal of a decision of punishment made by the Discipline Committee and to affirm or modify the decision.

Right-protecting Committee

- To protect the rights of the accountancy profession and members of the profession.

CICPA Technical Bulletin No. 8

The CICPA Technical Expert Team issued this bulletin on 19 February 2004. It deals with five issues:

- Four questions in connection with the application of a provisional regulation relating to Impairment Losses of Assets issued in 2003.
- How to account for "surplus reserves" (a special reserve under PRC law) when an investment no longer qualifies for consolidation because the investor no longer has a majority interest.
- How a parent should account for a dividend receivable by the minority interest in a subsidiary when the parent acquires the minority interest including the dividend receivable.
- Offsetting in the balance sheet of amounts receivable from and payable to the same party.
- Three questions relating to "capital surplus" (a special reserve under PRC law).

HONG KONG

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Restructuring of Hong Kong Standards Along IASB Lines

It is the policy of the Financial Accounting Standards Committee (FASC) of the Hong Kong Society of Accountants (HKSA) to base Hong Kong accounting standards on IFRSs. The goal is to achieve convergence “as far as practicable”. In recent years most standards are nearly identical, and in most cases compliance with the Hong Kong standard will ensure compliance with the relevant IFRS. Each Hong Kong Statement of Standard Accounting Practice (SSAP) contains a section explaining how it relates to the IFRS dealing with the same topic.

Hong Kong standards will be restructured to coordinate better with IFRSs. SSAPs will be renamed as Hong Kong Accounting Standards (HKASs), and their numbering will be aligned with the IASs. Just as new IASB standards are known as International Financial Reporting Standards, so new HK standards will be known as Hong Kong Financial Reporting Standards (HKFRSs). FASC interpretations will be similarly reorganised to conform to the IASB structure.

IFRSs and IASs Recently Issued by the IASB

In December 2003, the IASB completed its “Improvements Project” by issuing revised versions of 14 standards. The FASC is developing updates to its related standards. The committee has already sent to the HKSA Council for approval the converged versions of IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 21, IAS 27, IAS 28, and IAS 33. The FASC has some further issues to deliberate with respect to IAS 24.

Also, in the next several months, the FASC plans to issue an exposure draft proposing convergence with the other IASB standards, including those on leases (IAS 17), borrowing costs (IAS 23), joint ventures (IAS 31), and investment property (IAS 40).

Hong Kong exposure drafts on IAS 32 and IAS 39 are also outstanding. When issued, the final standards are expected to incorporate the IASB’s recent macro hedging amendments to those two standards. In addition, the FASC has already invited comment on the IASB’s proposals that have resulted in IFRS 3, IFRS 4, and IFRS 5, and the recent amendments to IAS 36 and IAS 38. The FASC intends to adopt all of these as Hong Kong standards without further exposure.

All of the revised Hong Kong standards will be published in the HKSA’s new A4-sized Handbook due for release in May 2004. All will come into effect for periods beginning on or after 1 January 2005, same as the international standards.

INDIA

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The Institute of Chartered Accountants of India (ICAI) has amended Accounting Standard 26 on Intangible Assets (AS 26) to exclude terminal benefits from its scope. Terminal benefits are defined as employee benefits payable as a result of either (a) an enterprise's decision to terminate the employee's employment before the normal retirement date or (b) an employee's decision to accept voluntary redundancy in exchange for such benefits.

The limited revision was made because Indian Industries claimed to be in a disadvantageous position while passing through a restructuring phase because AS 26 had required that all such payments be charged off when incurred. The Indian Industries noted that termination benefits are excluded from the scope of IAS 38 Intangible Assets, which is the corresponding International Accounting Standard to AS 26, and instead are incorporated in IAS 19 Employee Benefits, which corresponds to AS 15 Accounting for Retirement Benefits in the Financial Statements of Employers.

Because AS 15 is currently under revision, the ICAI decided to amend the scope of AS 26. Accordingly, the treatment of terminal benefits will be dealt with by AS 15 when revised.

The limited revision to AS 26 is effective for accounting periods commencing on or after 1 April 2003, the date from which AS 26 had come into effect.

JAPAN

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The following accounting standards and related publications were issued in Japan during the first quarter of 2004:

Issued	Issuer*	Document Description
17 Feb. 2004	JICPA	Auditing Standards Committee Report No. 25 Communication with Corporate Auditors, Board of Corporate Auditors, or Audit Committee
9 March 2004	ASBJ	ASB PITF (Practical Issues Task Force) No.13 Accounting Treatment for Bonuses to Directors and Corporate Auditors
*ASBJ = Accounting Standards Board of Japan JICPA = Japanese Institute of Certified Public Accountants		

ASB PITF No.13 Accounting Treatment for Bonuses to Directors and Corporate Auditors

Under the present accounting practices in Japan, bonuses to directors and corporate auditors are accounted for as a reduction of retained earnings after approval of appropriation of retained earnings at the general shareholders meeting that is held subsequent to the fiscal year-end, while remunerations to directors and corporate auditors are recorded as expenses in income statement when paid.

The new PITF prescribes:

- Bonuses to directors and corporate auditors should be charged to income as expenses on an accrual basis because such bonuses are considered as having similar nature to remunerations to directors and corporate auditors; but
- The present accounting practice of such bonuses being accounted for as a reduction of retained earnings after approval of appropriation of retained earnings is still permitted for the time being, except for companies that have implemented three committees, that is "nomination", "remuneration" and "audit" committees, under the Japanese Commercial Code.

NEW ZEALAND

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The following exposure drafts were issued during the first quarter of 2004 by the Financial Reporting Standards Board (FRSB) in line with their strategy to adopt IFRS as equivalent FRSB standards. The exposure drafts include the international standards with additional guidance for public benefit entities incorporated in shaded boxes. The FRSB has also restricted choices and required additional disclosures to ensure that the quality of current reporting in New Zealand is not diminished.

Listing of Exposure Draft Releases in New Zealand

- ED NZ IAS-18 Revenue and ED NZ Interpretation SIC-31: Revenue-Barter Transactions Involving Advertising Services
- ED NZ IAS-21 The effects of changes in foreign exchange rates and Ed NZ interpretation SIC-7: Introduction of the Euro
- ED NZ IAS-29 Financial Reporting in Hyperinflationary Economies
- ED NZ IAS-34 Interim Financial Reporting
- ED NZ IAS-36 Impairment of Assets
- ED NZ IAS-38 Intangible Assets and NZ interpretation SIC-32 Intangible Assets-Web Site Costs.
- ED NZ IAS-24 Related Party Disclosures
- ED NZ IAS-28 Investments in Associates
- ED NZ IAS-39 Financial Instruments: Recognition and Measurement
- ED NZ IAS-32 Financial Instruments: Disclosure and Presentation
- ED NZ IAS 12 Income Taxes
- Invitation to Comment – Proposed NZ IAS-41 Agriculture

Listing of IFRIC Draft Interpretations Under Consideration

- D3 Determining Whether an Arrangement Contains a Lease
- D4 Decommissioning, Restoration and Environmental Rehabilitation Funds
- D5 Applying IAS 29: Financial Reporting in Hyperinflationary Economies for the First Time.

Review of the Financial Reporting Act 1993

The Ministry of Economic Development has released a discussion document entitled Review of the Financial Reporting Act 1993, Part 1: The Financial Reporting Structure. The discussion document is the first part of a two-part review of the Financial Reporting Act 1993 and deals specifically with the question of “who is required to report?”

The discussion paper outlines a proposal put forward by the Accounting Standards Review Board (ASRB) for a new financial reporting framework. The document focuses on the specific needs of New Zealand entities and the users of the reports, with particular emphasis on eliminating unnecessary compliance costs unless they can be justified and there is a net benefit. The Ministry of Economic Development is seeking written submissions on the proposal and the issues raised in the document. The closing date for submissions is Friday, 14 May 2004.

Corporate Governance

The Securities Commission has released a document outlining the corporate governance principles it expects to be generally applied to the governance of entities that have economic impact in New Zealand or are accountable in various ways to the public. The principles do not impose any new legal obligations on issuers. However they set out standards of corporate governance that the commission expects boards of issuers to observe and to report on to their investors and stakeholders.

PHILIPPINES

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The Accounting Standards Council of the Philippines approved the following effective for financial statements beginning January 1, 2004:

- SFAS 12/IAS 12 Income Taxes (Exposure Draft 52)
- SFAS 26/IAS 26 Accounting and Reporting by Retirement Benefit Plans (Exposure Draft 53)

SFAS 21/IAS 21 has also been approved but effective for statements beginning January 1, 2005.

The following Philippines exposure drafts are awaiting approval as final standards:

- ED 54 – equivalent to IAS 32
- ED 55 – equivalent to IAS 39
- ED 56 – equivalent to IAS 40
- ED 57 – equivalent to IAS 19
- ED 58 – equivalent to IAS 29
- ED 59 – equivalent to IAS 30
- ED 60 – equivalent to IAS 41

SINGAPORE

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The Council on Corporate Governance and Disclosure (CCDG), the accounting standard-setter in Singapore, issued the following accounting standard during the first quarter of 2004:

- ED FRS Exploration for and Evaluation of Mineral Resources (ED/IFRS 6)

CCDG also issued the following exposure drafts of proposed interpretations:

- ED INT FRS Applying FRS 29 Financial Reporting in Hyperinflationary Economies (Draft IFRIC Interpretation D5)
- ED INT FRS Determining Whether an Arrangement Contains a Lease (Draft IFRIC Interpretation D3)
- ED INT FRS Decommissioning, Restoration and Environmental Rehabilitation Funds (Draft IFRIC Interpretation D4)

The CCDG also issued the Guide on Operating and Financial Review (“the OFR Guide”) for listed companies. The OFR Guide has been accepted by the Ministry of Finance. The CCDG recommended the OFR Guide be included as a practice note (which is non-mandatory) in the listing manual of the Singapore Exchange.

The following exposure drafts of proposed standards are still outstanding:

Issued in 2000

- ED/SAS 40, Investment Property (IAS 40)

Issued in 2002

- ED/SAS 47 Proposed Improvements to Statements of Accounting Standards
- ED/SAS 48 Proposed Amendments to SAS 32 (IAS 32) Financial Instruments: Disclosure and Presentation, and SAS 33 (IAS 39) Financial Instruments: Recognition and Measurement
- ED/FRS Share-based Payment (ED/IFRS 2)
- ED/FRS Business Combinations (ED/IFRS 3)
- ED/FRS Proposed Amendments to SAS 34 Intangible Assets and SAS 36 Impairment of Assets (ED Proposed Amendments to IAS 36 Impairment of Assets and IAS 38 Intangible Assets)

SINGAPORE, continued

Issued in 2003

- ED/FRS Disposal of Non-Current Assets and Presentation of Discontinued Operations (ED/IFRS 4)
- ED/FRS Insurance Contracts (ED/IFRS 5)
- ED Proposed Amendments to FRS 39 (IAS 39) Financial Instruments: Recognition and Measurement – Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk

The following proposed interpretations issued in 2003 are still outstanding:

- ED INT FRS Emission Rights (Draft IFRIC Interpretation DI)
- ED INT FRS Changes in Decommissioning, Restoration and Similar Liabilities (Draft IFRIC Interpretation D2)

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