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Summary of the IASB Exposure Draft Improvements to International Accounting Standards

On 15 May 2002, the International Accounting Standards Board published an Exposure Draft of proposed amendments to the following standards:

- **IAS 1, Presentation of Financial Statements**
- **IAS 2, Inventories**
- **IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies**
- **IAS 10, Events After the Balance Sheet Date**
- **IAS 15, Information Reflecting the Effect of Changing Prices [to be withdrawn]**
- **IAS 16, Property, Plant and Equipment**
- **IAS 17, Leases**
- **IAS 21, The Effects of Changes in Foreign Exchange Rates**
- **IAS 24, Related Party Disclosures**
- **IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries**
- **IAS 28, Accounting for Investments in Associates**
- **IAS 31, Financial Reporting of Interests in Joint Ventures***
- **IAS 33, Earnings Per Share**
- **IAS 40, Investment Property**

The Exposure Draft also proposes consequential amendments to a number of other Standards.

*Though described in the Exposure Draft as 'consequential amendments', the proposed changes to IAS 31, Financial Reporting of Interests in Joint Ventures, are more in the nature of substantive amendments.

The proposed effective date is financial statements covering periods beginning on or after 1 January 2003, with earlier adoption encouraged. Comment deadline is 16 September 2002.

This newsletter summarises the main proposals in the Exposure Draft. As such, it is an 'overview' document. The Exposure Draft itself is over 400 pages long and is much more detailed than this booklet. Entities that want to assess the potential impact of the IASB's proposals on their own circumstances, and individuals and organisations who want to comment to the IASB on the proposals, should read the entire Exposure Draft, not just this summary. The Exposure Draft is available without charge on IASB's web site: <http://www.iasb.org.uk>.

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IAS 1, Presentation of Financial Statements

- 'Presents fairly' will be defined as 'represent[ing] faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework for the Preparation and Presentation of Financial Statements'.
- Financial statements that follow IFRS and Interpretations of IFRS, with additional disclosure when necessary, are presumed to achieve a fair presentation.
- In the extremely rare circumstances in which management concludes that compliance with a requirement in an International Financial Reporting Standard or an Interpretation of a Standard would be so misleading that it would conflict with the objective of financial statements set out in the Framework:
 - If departure from the requirement is not prohibited by national law, the entity will make that departure and provides specified disclosures; and
 - If departure from the requirement is prohibited by national law, the entity must reduce, to the maximum extent possible, the perceived misleading aspects of compliance by providing certain specified disclosures.
- Standards on selection of accounting policies currently in IAS 1.20-22 will be moved to IAS 8.
- A balance sheet presentation that classifies assets and liabilities between 'current' and 'noncurrent' will be required unless a 'liquidity presentation' (decreasing order of liquidity without subtotals for 'current' and 'noncurrent') provides more relevant and reliable information. Currently, IAS 1 allows free choice between a current/noncurrent and a liquidity presentation.
- Refinancing after the balance sheet date should not be taken into account in classifying liabilities as current/non-current.
- If, at the balance sheet date, a lender has an absolute right to demand repayment immediately, the liability is a current liability, even if, after the balance sheet date, the lender agreed not to demand payment.
- If a borrowing agreement has a covenant that makes a liability payable on demand if certain conditions related to the borrower's financial position are breached, and those conditions are breached at the balance sheet date, the liability is classified as current, even if corrected after balance sheet date. An exception to this principle is proposed if, prior to the balance sheet date, the lender has granted a grace period in which to correct the breach and, when the financial statements are authorised for issue, either (a) the borrower has corrected the breach or (b) the grace period has not yet expired.
- Certain line-item disclosures that are required by other Standards to be on the face of the balance sheet (including investment property and biological assets) or on the face of the income statement (gain/loss on disposal of a discontinuing operation) will be added to the line items listed in IAS 1.
- Certain line-item disclosures on the face of the income statement will be eliminated, including results of operating activities, profit or loss from ordinary activities, and extraordinary items.
- Disclosure of the following items currently required by IAS 1 will be dropped: an entity's country of incorporation (disclosure of country of domicile is not dropped), the address of its registered office, and the number of its employees.

- ❑ Added accounting policy disclosure: judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements.
- ❑ Added accounting policy disclosure: key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
- ❑ IAS 1 will be amended to exempt an entity from restating comparative information under IAS 1 when the restatement would cause 'undue cost or effort'.
- ❑ The current IAS 1 requirement to present a Statement Showing Changes in Equity will be replaced by a Statement of Changes in Equity that must show either (a) all changes in equity or (b) changes in equity other than those arising from capital transactions with owners and distributions to owners.

IAS 2, Inventories

- ❑ LIFO will be eliminated. Currently, it is the allowed alternative under IAS 2.23.
- ❑ Added disclosure: The amount of write-downs of inventory to net realisable value.
- ❑ Additional guidance will be included for inventories of service providers: If revenues related to services provided have not been recognised, the remaining work in progress is considered to be inventory and is measured at the costs of production, which do not include profit margins or non-production costs that are often factored into prices.
- ❑ Regarding inventories carried at fair value, the word 'producer' will be taken out of IAS 2.1(c) to permit brokers and dealers (as well as producers) to measure their inventories at net realisable value (whether below or above cost) in accordance with 'well established practices in certain industries'.
- ❑ SIC 1, Consistency – Different Cost Formulas for Inventories, will be incorporated into IAS 2.

IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

- ❑ The name of the Standard will be changed to 'Accounting Policies, Changes in Accounting Estimates and Errors'.
- ❑ GAAP hierarchy: The following sources must be applied in descending order of authoritativeness:
 - International Financial Reporting Standard, including any appendices that form part of the Standard (note that existing IAS are treated as IFRS for this purpose).
 - Interpretations.
 - Appendices to an IFRS that do not form part of the Standard.
 - Implementation guidance issued by IASB in respect of the Standard.
- ❑ The standard and guidance currently in IAS 1.20-22 regarding selection of accounting policies will be moved to IAS 8.
- ❑ The distinction between fundamental and other errors (IAS 8.31-32) will be eliminated.

- ❑ Errors are defined as newly discovered omissions or misstatements of prior period financial statements based on information that was available when the prior financial statements were prepared.
- ❑ All material errors will be accounted for retrospectively by restating all prior periods presented and adjusting the opening balance of retained earnings of the earliest prior period presented. Cumulative effect recognition in income will be prohibited.
- ❑ IAS 8 will be amended to exempt an entity from restating comparative information under IAS 1 only when the restatement would require 'undue cost or effort'. Currently, exemption from restatement is permitted on grounds of 'impracticability'.
- ❑ All voluntary changes in accounting policy will be accounted for retrospectively by adjusting the opening balance of retained earnings and restating prior periods. Cumulative effect recognition in income will be prohibited.
- ❑ The extraordinary item classification on the income statement (IAS 8.11) will be eliminated. All items of income and expense will be part of the ordinary activities of the entity.
- ❑ A change in measurement basis or method applied is a change in accounting policy, not a change in estimate.
- ❑ IAS 8 will be amended to require disclosure, for a new IASB Standard that has not yet come into effect, of the nature of the future change in accounting policy, the date the entity plans to adopt the Standard, and the estimated effect of the change on financial position or, if such an estimate cannot be made without 'undue cost or effort', a statement to that effect.
- ❑ SIC 18, Consistency – Alternative Methods, will be incorporated into IAS 8.

IAS 10, Events After the Balance Sheet Date

- ❑ IAS 10 will clarify that an entity should not recognise a liability for dividends declared after the balance sheet date because it is not a present obligation at balance sheet date as described in IAS 37.

IAS 15, Information Reflecting the Effects of Changing Prices

- ❑ IAS 15 will be withdrawn. IAS 15 (issued 1981) had required entities to present supplementary information on one of two bases: (1) adjusted for changes in the general price level or (2) balance sheet items measured at replacement cost. In 1989, the IASB had made the Standard optional, and entities stopped providing the information. Meanwhile, subsequent Standards, including IAS 16, 32, 36, 39, and 41, have addressed reporting the effects of changing prices for individual classes of assets.

IAS 16, Property, Plant and Equipment

- ❑ IAS 16 will require a components approach for depreciation. Under a components approach, each material component of a composite asset with different useful lives or different patterns of depreciation is accounted for separately for the purpose of depreciation and accounting for subsequent expenditure (including replacement and renewal). See IAS 16.12.
- ❑ The acquisition cost of property, plant, and equipment should include the amount of an IAS 37 provision for the estimated cost of dismantling and removing the asset and restoring the site, including both provisions recognised when the asset is acquired and incremental provisions recognised while the asset is used. However, after a provision is recognised, an increase to the provision resulting from accretion of interest or a change in the discount rate will be charged to expense, not added to the asset cost.
- ❑ Accounting for incidental revenue (and related expenses) during construction or development of an asset will depend on whether the incidental revenue is a necessary activity in bringing the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management (including those to test whether the asset is functioning properly):
 - Net sales proceeds received during activities necessary to bring the asset to the location and working condition necessary for it to be capable of operating properly are deducted from the cost of the asset.
 - Revenue and related expenses should be separately recognised for operations that occur in connection with construction or development of an asset but that are not necessary to bring the asset to the location and working condition necessary for it to be capable of operating properly.
- ❑ Regarding cost capitalisation, references to start-up costs, pre-operating costs, pre-production costs, and similar items will be removed from IAS 16.17, and more general principles will be provided.
- ❑ Measurement of residual value would be clarified: Current prices for assets of a similar age and condition to the estimated age and condition of the asset when it reaches the end of its useful life.
- ❑ Exchanges of similar items of property, plant, and equipment will be recorded at fair value, and gain or loss will be recognised, unless the neither the fair value of the asset given up nor the fair value of the asset acquired can be measured reliably, in which case the cost of the acquired asset would be the carrying amount of the asset given up. Currently, gain or loss is not recognised under IAS 16.22. This principle will also be extended to previously recognised intangible assets by amending IAS 38, though caution will be added in IAS 38 regarding the importance and difficulty of measuring fair values of intangibles. The principle will not be extended to exchanges of goods and services of a similar nature under IAS 18.12. These would continue to be accounted for at carrying amounts.
- ❑ IAS 16.29 seems to permit measurement of subsequent restoration expenditure at revalued amounts, whereas IAS 37.37 requires that a provision should be measured at the amount required to settle it or transfer it to a third party. IAS 16 will be amended to conform to IAS 37.
- ❑ Subsequent expenditure is added to the carrying amount of an asset only if the expenditure increases the asset's future economic benefits above those reflected in its most recently assessed level of performance. Currently, IAS 16.23 refers to the originally assessed level of performance.

Key Proposals in IASB's Improvements Exposure Draft

- ❑ SIC 6 on costs of modifying software is to be withdrawn.
- ❑ An entity should review an asset's estimated useful life at each balance sheet date, rather than 'periodically' as currently required by IAS 16.49.
- ❑ Items of property, plant, and equipment that are idle or held for sale will continue to be depreciated and tested for impairment. IAS 36.9(f) will be amended to include ceasing to use the asset as a trigger for impairment review.
- ❑ Any compensation received from a third party for an item of property, plant, or equipment that was impaired, lost, or given up is to be included in profit or loss for the period in which it is received, with appropriate disclosure.
- ❑ Additional disclosures:
 - Methods and significant assumptions applied in estimating the assets' fair values; and
 - Extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques.

IAS 17, Leases

- ❑ When a single lease covers both land and buildings, the minimum lease payments at the inception of the lease (including any up-front payments) are allocated between the land and the buildings elements in proportion to their relative fair values. The land element is generally classified as an operating lease under paragraph 11 of IAS 17. The buildings element is classified as an operating or finance lease by applying the criteria of IAS 17. However, if the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases.
- ❑ The definition of investment property in IAS 40 is being amended so that property rights held under an operating lease can qualify as investment property if the other conditions for investment property are met and the lessee's policy is to account for investment property using the fair value model.
- ❑ Initial direct costs incurred by lessors should be capitalised and amortised over the lease term. The alternative in IAS 17.33 to expense initial direct costs up front will be eliminated. The costs to be capitalised will be limited to costs that are incremental and directly attributable to the lease and may include both internal and external costs.

IAS 21, Changes in Foreign Exchange Rates

- ❑ Foreign currency derivatives that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement, will be removed from the scope of IAS 21. This would eliminate any potential inconsistency between the two standards.
- ❑ IAS 21's concept of 'reporting currency' will be replaced by two concepts: functional currency (the currency in which the entity measures the items in the financial statements) and presentation currency (the currency in which the entity presents its financial statements). The term 'functional currency' will be used in place of 'measurement currency' (which is presently in SIC 19) to converge with US GAAP and common usage. Those two terms have essentially the same meaning.
- ❑ Functional currency is 'the currency of the primary economic environment in which the entity operates'. The guidance in SIC 19 on identifying the measurement (functional) currency will be incorporated into IAS 21.

Key Proposals in IASB's Improvements Exposure Draft

- ❑ The measurement (functional) currency of each entity within a group is the currency of the country that drives that entity's economics (usually the country it is incorporated in). It is not a 'free choice'.
- ❑ There will be no distinction between 'integral foreign operations' and 'foreign entities'. An entity that was previously classified as an integral foreign operation will have the same functional currency as the reporting entity.
- ❑ IAS 21's indicators of what is an 'integral foreign operation' as opposed to a 'foreign entity' will be incorporated into the indicators of what is an entity's functional currency. As a result, operations that are presently classified as 'integral foreign operations' would have the same functional currency as the reporting entity.
- ❑ A reporting entity (single company or group) may present its financial statements in any currency (or currencies) that it chooses, that is, a free choice of presentation currency will be allowed. The financial statements of any operation whose functional currency differs from the presentation currency used by the reporting entity would be translated as follows (assuming the functional currency is not hyperinflationary): assets, liabilities and equity items at closing rate; income and expense items at the rate on the transaction date; all resulting exchange differences recognised as a separate component of equity.
- ❑ The allowed alternative in IAS 21.21 to capitalise certain exchange differences will be eliminated. In most cases in which IAS 21.21 has allowed capitalisation, the asset is also restated in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. In such cases, to also capitalise exchange differences results in double counting.
- ❑ The choice in IAS 21.33 of methods for translating goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity will be eliminated. Goodwill and fair value adjustments will be translated at the closing rate.
- ❑ Any ineffectiveness that arises on a hedge of a net investment in a foreign entity should be reported in net profit or loss. This would be the same treatment as is required for other kinds of hedges under IAS 39. The conditions for using hedge accounting for a hedge of a net investment in a foreign entity will be the same as for other kinds of hedges under IAS 39. All of the material on hedging that is presently in IAS 21 will move to IAS 39
- ❑ Translation of comparative prior period amounts will be as follows:
 - (a) If the functional currency is not hyperinflationary, translate comparative assets and liabilities at the closing rate and translate comparative income and expense items at historical exchange rates at the time the income was earned and expenses incurred.
 - (b) If the functional currency is hyperinflationary and the presentation currency is also hyperinflationary, translate all balance sheet and income statement items at the current closing rate.
 - (c) If the functional currency is hyperinflationary and the presentation currency is not hyperinflationary, prior period comparative amounts remain as previously reported, that is, they are not updated for subsequent changes in price levels or exchange rates.
- ❑ IAS 21 would be amended to take account of the situation recently experienced in Argentina, where a currency is suspended and this straddles a year end. At present the standard is silent on this issue. The revision states that where there is non-exchangeability of a currency at the year-end, the rate that should be used is the exchange rate at the date when exchangeability is first re-established.

- ❑ The Board discussed concerns that have been raised about accounting for net investments in foreign subsidiaries. The Board decided not to propose a specific change to IAS 21 in the Improvements Exposure Draft but, rather, to include a question on this issue in the Exposure Draft.
- ❑ Most of the disclosures currently required by SIC 30, Reporting Currency - Translation from Measurement Currency to Presentation Currency, will be incorporated into IAS 21.
- ❑ SIC 11, Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations, will be withdrawn. SIC 19, Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29, and SIC 30, Reporting Currency – Translation from Measurement Currency to Presentation Currency, will be incorporated into IAS 21.

IAS 24, Related Party Disclosures

- ❑ Definition of related parties will be expanded or clarified to include (a) parties with joint control over the reporting entity, (b) joint ventures in which the reporting entity is a joint venturer, (c) individuals who control the reporting entity, (d) post-employment benefit plans for the benefit of employees of the entity, or of any entity that is a related party of the entity, and (e) non-executive directors.
- ❑ Further guidance will be provided regarding the definition of close family members (includes domestic partners and children or dependents of the individual or domestic partner).
- ❑ The exemption in IAS 24.4(d) for state-controlled enterprises will be removed. Thus a state-controlled enterprise will have to disclose transactions with other state-controlled enterprises.
- ❑ Clarify that the Standard does not require remeasurement of the amounts of related party transactions to an arm's length amount. Also remove the existing requirement to disclose the basis of pricing related party transactions and clarify that related party transactions should not be described as having been made on terms equivalent to those that would prevail in arm's length transactions only if such a statement can be substantiated.
- ❑ Amend IAS 24.23 to require disclosure of the amounts of transactions and outstanding balances with related parties, not just the proportions of such transactions and balances.
- ❑ Additional disclosures about related party balances: terms and conditions of outstanding balances, including security, how repayment will be made, details of guarantees given or received, and amounts of any bad debts provisions.
- ❑ Disclosures relating to management compensation and expense allowances paid in the ordinary course of business will not be added to IAS 24. However, this is raised as a question in the invitation to comment.
- ❑ In March 2002, the Board reversed a decision taken in October 2001 that would have restricted the exemption in IAS 24.4 for financial statements of parent companies and wholly-owned subsidiaries. The Board had previously agreed, as part of the Improvements project, that such financial statements could omit IAS 24 disclosures only if those financial statements are published in a single document together with the consolidated financial statements for the group to which the entity belongs. Thus the exposure draft essentially reverts back to the existing IAS 24.4, which allows the exemption if the parent company or wholly-owned subsidiary financial statements are made available or published with the consolidated statements for the group to which the parent or subsidiary belongs.

IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries

- IAS 27.8 currently permits wholly owned (and virtually wholly-owned) subsidiaries to be excluded from consolidation. The exemption would be tightened by requiring the following conditions:
 - (a) the wholly-owned subsidiary's equity and debt securities are not publicly traded;
 - (b) it is not in the process of issuing equity or debt securities in public securities markets;
 - (c) the immediate parent or ultimate parent publishes consolidated financial statements that comply with IFRS; and
 - (d) if the subsidiary is not wholly owned, the parent obtains the approval of the owners of the minority interest; and
- If the exemption is applied, an entity should disclose:
 - (a) the reason for not publishing consolidated financial statements; and
 - (b) the name of the parent that publishes consolidated financial statements that comply with IFRS.
- Minority interests should be presented in equity, separately from parent shareholders' equity. However, current requirements for accounting recognition and measurement of minority interest should not be changed in the improvements project. The consequences of equity classification (for example, step acquisitions and dilution gains and losses) are to be discussed in phase II of the Business Combinations project.
- SIC 33, Potential Voting Rights, will be incorporated into IAS 27. However SIC 12, Consolidation – Special Purpose Entities, will not be. The Board will reconsider consolidation of special purpose entities in a future project.
- The exemptions from consolidation would be tightened:
 - Temporary investment: IAS 27.13(a) excludes a subsidiary from consolidation when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. 'In the near future' will be replaced by 'within 12 months'.
 - Restrictions on transfer of funds: IAS 27.13(b) excludes a subsidiary from consolidation 'when it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent'. A similar exception is included in IAS 28.8(b) and IAS 31.35(b). The exemption will be removed, and IAS 27, IAS 28, and IAS 31 will all be revised to indicate that severe long-term restrictions on the ability to transfer funds may preclude control, significant influence, or joint control.
- All entities within the group will be required to use uniform accounting policies for like transactions and other events in similar circumstances. The practicability exemption in IAS 27.21 will be removed.
- See also *IAS 27, IAS 28, and IAS 31: Investor's Separate Financial Statements* below.

IAS 28, Investments in Associates

- ❑ Investments that would otherwise be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts, and similar entities that are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in accordance with well-established practice in those industries, will be excluded from the scope of IAS 28 and IAS 31.
- ❑ Add additional guidance and disclosures for when it is appropriate to overcome the presumption that an investor has significant influence if it holds 20% or more of the voting power. Examples: investee is in legal reorganisation or bankruptcy or operates under severe long-term restrictions on its ability to transfer funds to the investor.
- ❑ IAS 28.8(a) excludes an associate from the equity method when significant influence is intended to be temporary because the investment was acquired and held exclusively with a view to its subsequent disposal in the near future. 'In the near future' will be replaced by 'within 12 months'.
- ❑ IAS 28.8(b) currently excludes an associate from the equity method when 'it operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor'. A similar exception is included in IAS 27.13(b) and IAS 31.35(b). The exemption will be removed, and IAS 27, IAS 28, and IAS 31 will all be revised to indicate that severe long-term restrictions on the ability to transfer funds may preclude control, significant influence, or joint control.
- ❑ An investor's share of losses of an associate should be recognised only to the extent of the investment in the associate.
- ❑ IAS 28 will be amended to clarify that an investment in an associate can include loans and long-term advances. This affects the base to be reduced when an associate incurs losses.
- ❑ SIC 20, Equity Accounting Method – Recognition of Losses, will be rescinded.
- ❑ SIC 3, Elimination of Unrealised Profit and Losses on Transactions with Associates, and SIC 33, Potential Voting Rights, will be incorporated into IAS 28.
- ❑ All references to consolidated financial statements would be removed from IAS 28, to make it clear that when accounting for associates the equity method should be used, except for in the individual financial statements of the investor where the proposed amendments to IAS 27 will apply (that is, cost or IAS 39 – see separate section on *IAS 27, IAS 28, and IAS 31: Investor's Separate Financial Statements* below).
- ❑ If an investor does not prepare consolidated financial statements because it does not have any subsidiaries, it must use the equity method to account for investments in associates. IAS 28.14(a) and (c) would therefore be deleted.
- ❑ SIC 33, Potential Voting Rights, will be incorporated into IAS 28.
- ❑ SIC 3, Elimination of Unrealised Profits and Losses on Transactions with Associates, will be incorporated into IAS 28.
- ❑ The date of the financial statements of an equity method associate used in applying the equity method must not be more than three months earlier than the financial statements of the investor.

- The investor and equity method associates must use uniform accounting policies for like transactions and events in similar circumstances.
- Additional disclosures will be required, including fair values of investments in associates for which there are published price quotations; summarised financial information of associates; reasons a departure from the 20% presumption of significant influence; differences in reporting dates; restrictions on an associate's ability to transfer funds; unrecognised losses of an associate; the investor's contingent liabilities with respect to the associate.

IAS 27, IAS 28, and IAS 31: Investor's Separate Financial Statements

- Investments in subsidiaries, associates, and jointly controlled entities that are consolidated, proportionately consolidated, or accounted for under the equity method in the consolidated financial statements must either be carried at cost or be accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements.
- Investments in subsidiaries, associates, and jointly controlled entities that are accounted for in accordance with IAS 39 in the consolidated financial statements must be accounted for in the same way in the investor's separate financial statements.
- The investor's separate financial statements should disclose:
 - reasons why separate statements are prepared;
 - the existence of consolidated, proportionately consolidated, or equity method financial statements; and
 - a description of the method used to account for investments in subsidiaries, associates, and jointly controlled entities.

IAS 31, Investments in Jointly Controlled Entities

- Investments that would otherwise be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts, and similar entities that are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in accordance with well-established practice in those industries, will be excluded from the scope of IAS 28 and IAS 31.
- All references to consolidated financial statements would be removed from IAS 31, to make it clear that paragraphs 25-37 apply to the financial statements of a venturer whether those statements are consolidated or company-only.
- If an investor does not prepare consolidated financial statements because it does not have any subsidiaries, it must use the equity method to account for investments in jointly controlled entities. IAS 31.38 would be amended.

IAS 33, Earnings Per Share

- ❑ Basic and diluted EPS must be presented for (a) profit or loss from continuing operations and (b) net profit or loss, on the face of the income statement for each class of ordinary shares, for each period presented.
- ❑ Potential ordinary shares are dilutive only when their conversion to ordinary shares would decrease EPS from continuing operations (IAS 33 currently uses net income as the benchmark).
- ❑ For contracts that may be settled in cash or shares, SIC 24 now requires that diluted EPS must assume that shares will always be issued. In Canada, UK, and US, those shares are excluded if experience or stated policy provide evidence that the contract will be settled in cash. IAS 33 will be amended to include a rebuttable presumption that the contract will be settled in shares, and SIC 24 will be withdrawn.
- ❑ If an entity purchases (for cancellation) its own preference shares for more than their carrying amount, the excess (premium) should be treated as a preferred dividend in calculating basic EPS (deducted from the numerator of the EPS computation).
- ❑ IAS 33 is to be revised for other minor issues, including guidance on how to calculate the effects of contingently issuable shares; potential ordinary shares of subsidiaries, joint ventures, or associates; participating securities; written put options; and purchased put and call options.

IAS 40, Investment Property

- ❑ The definition of investment property will be amended to permit a property interest held by a lessee under an operating lease to qualify as investment property provided that:
 - (a) the rest of the definition of investment property is met, and
 - (b) the lessee uses the fair value model.
- ❑ A lessee that classifies a property interest held under an operating lease as investment property must account for the lease as if it were a finance lease.

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