

International Accounting Standards **Healthcheck 2003**



2003

2004

2005



Foreword

International Accounting Standards – ‘not applicable to us’,
‘nothing to worry about yet’.


Wrong, IAS will be mandatory for listed companies from 2005 (ie comparative figures required for 2004) – also, the ASB has signalled its intent to converge UK standards with IAS. This will have a significant impact on your business and you will need to start planning now. Big changes should be expected. Changes that will impact on your profits and your net assets. Changes that do not derive from operational activity. Changes that the board, investors, analysts and employees are going to need to understand.

We hope that having read this document you will agree that this is much more than an accounting issue. Significant **business issues** (see pages 5 and 6) are raised by this conversion and these need to be addressed if the transition is to be made without damaging your business and business environment.

You may feel that you are already on track to achieve a smooth transition to the new regime. We hope that this healthcheck can be used to reinforce that view or to provide an indication of where further action is required. For those not so well prepared, we hope that this document sets the parameters of the conversion process and provides contact points for advice and assistance.

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Your profits and EPS will change. Your balance sheet will look very different. These are not just accounting numbers.

IAS 2005

– What's the deal?

All EU listed companies are required to prepare consolidated accounts in accordance with IAS from 1 January 2005.

The compelling reason for the change to IAS is the desire to develop an integrated financial services market in the EU. The European Commission sees the change to IAS as the means of achieving transparency in company accounts in the EU, which should increase market efficiency, reduce the cost of raising capital and thereby eliminate barriers to cross-border trading. This is seen as a priority measure under the Financial Services Action Plan.

The EU Regulation requiring adoption of IAS was issued on 7 June 2002. The Regulation has the force of law in the UK and no further action is required by the UK parliament.

This impacts the 3000 UK listed companies and a further 4000 in the rest of the EU. The Department of Trade and Industry has consulted on the application of IAS to unlisted companies and individual company accounts. The outcome of this consultation will not be known until later this year.

In 2002, the ASB proposed an IAS convergence program. It proposed that in future, as the IASB change standards or implement new standards, that they should be incorporated into UK GAAP. These standards would automatically apply to all UK companies and therefore the convergence to IAS would need to be tackled by all businesses and would no longer be limited to listed companies as was initially thought.

There is uncertainty surrounding the progress of these proposals; however, the ASB has clearly signalled its intention to converge UK GAAP with IAS. The planning and approach to IAS implementation needs to be considered by all companies now.

We cannot overestimate how wide the business implications are and the amount of work involved.

Your profits and EPS will change. Your balance sheet will look very different. These are not just accounting numbers. They are the means of communication, they form the basis of contractual arrangements and regulatory controls, and underlie many business transactions. Knowing the scale of the change in these numbers is essential in planning your future business strategy.

As an indication, we performed our quick and dirty conversion exercise on two companies with the following results:

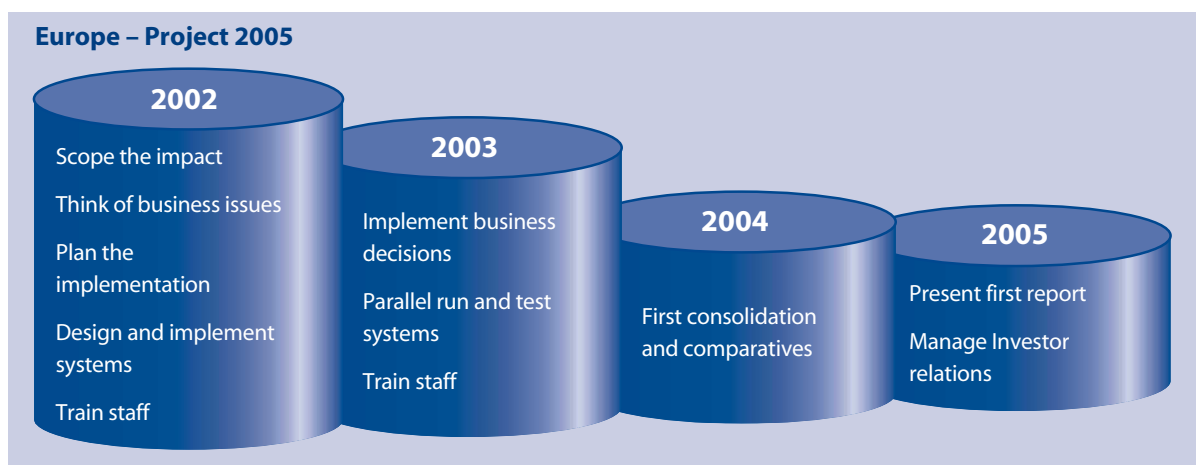
Property and construction company
8% increase in profit

Financial services company
35% reduction in profit

IAS 2005 – What's the deal?

The Stages

The diagram below demonstrates the necessary implementation stages and timings prior to consideration of the UK convergence program. Clearly, if you have not made the steps identified for 2002, action is required...



IAS 2005

– Business issues

Some of the key business issues that will need to be addressed if implementation is to be successful are outlined below:

Treasury Management

Certain financing and hedging policies will no longer achieve the desired accounting effect and will instead create volatility in reported profits. The challenge will be to find good economic strategies that will produce the right accounting treatment.

Management Compensation

Changes may cause share option performance targets to be met immediately even when the underlying performance has not changed. Alternatively, share options and other incentive plans could become unachievable. Any adjustment to a directors' remuneration scheme is a sensitive issue. Careful management of investor relations is essential.

Distributions

Distributable reserves will change, hence the current dividend policy may no longer be sustainable. Such a change in policy will directly impact the share price.

Product Development

The accounting outcome for some revenue generating activities under IAS will be very different. With certain financial products the business objective will no longer be achievable under the new treatment and the product may need to be abandoned. Conversely, new business opportunities may arise from the new treatment.

Debt Covenants & Financing

Where debt covenants do not provide for changes in accounting regulations, changes to the balance sheet may cause these covenants to be breached. This will impact the company's ability to ensure continuity of financing arrangements. Financing strategies may no longer achieve the desired accounting effect, e.g. securitised assets may need to be brought back onto the balance sheet. Comparative figures for years earlier than 2004 may be required when seeking to raise finance on an EU exchange.

Management Information

Forecasts and internal performance measurements will no longer be comparable with the results reported in the statutory accounts. Increased volatility of earnings, e.g. through fair value adjustments, will make forecasting more difficult. Also, internal performance measurements will have to be structured in a way that avoids penalties for fluctuations outside the direct control of management. Subsidiary companies are likely to experience changes in group reporting schedules.

Mergers & Acquisitions

The valuation of potential acquisitions will be altered by the adoption of the new accounting standards. The amount of goodwill recorded on the balance sheet will also be affected. Proposed group structures may no longer achieve the intended accounting outcome, e.g. merger accounting is unlikely to be available.

IAS 2005 – Business issues

Statutory Accounts & Taxes

The Inland Revenue has indicated that they will consider basing tax on financial statements prepared using IASs. Certain tax efficient structures may no longer produce the desired effect. Tax planning is an important part of forecasting future results.

Human Resources and Training

Finance staff will need to be able to comply with the new regime, but, awareness will be needed in more than just the finance department. Existing skills may not be adequate to tackle IAS related issues and may need to be supplemented externally or by recruitment. Appropriately qualified and experienced candidates are likely to be scarce, so competition will be fierce.

IT systems

New accounting treatments for financial instruments may require Treasury systems to be integrated with financial reporting systems. Some current ERP solutions may not be capable of producing the relevant information under IAS.

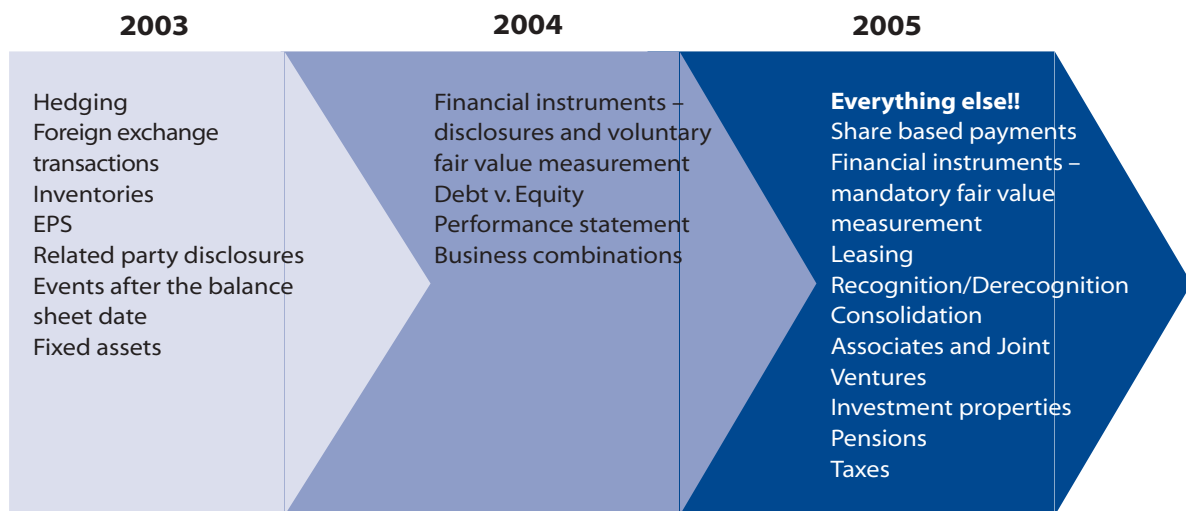
Investor Relations

Investors will challenge the changes in reported profits and EPS with a view to understanding what has happened to underlying performance. They will form their own expectation on new accounting policies and expect certain accounting outcomes – they will not like many surprises.

IAS – UK Convergence

The ASB has proposed to bring the UK into line with IAS by 2005 via a program of phased implementation. The first phase, planned for 2003, would involve the issue of new UK standards based on the equivalent international standards in a number of areas. The second and third phases would follow in 2004 and 2005. The end result would be that by 2005 the transition to IAS would already have happened in many areas:

Original proposed phasing



Progress on phasing

At present, the progress of these proposals is uncertain. As a consequence of the IASB's current agenda projects, many of its standards are likely to be amended before 2005. The ASB has signalled its unwillingness to impose two sets of change on UK companies and is unlikely to pursue its planned 'phased' implementation if the equivalent international standards are likely to change in the short term.



Share options and other incentive plans could become unachievable financing strategies may no longer achieve the desired effect.

Your implementation healthcheck

Some practical questions?

The table below sets out some key questions which need to be considered in deciding if your organisation will be in a position to adopt International Accounting Standards in 2005.

Planning for IAS implementation	Ready?
● Have you carried out a high level scoping exercise for the Board?	<input type="checkbox"/>
● Is there a detailed conversion project plan and timetable?	<input type="checkbox"/>
● Does the plan cover all the wider business issues?	<input type="checkbox"/>
● Have you taken into account the need for comparative disclosures and time for parallel running of new systems?	<input type="checkbox"/>
Board level acknowledgement and support	
● Has IAS been discussed at board level?	<input type="checkbox"/>
● Has the board communicated to staff the importance and scope of this issue and its support for the plans?	<input type="checkbox"/>
● Has the Board successfully delegated the responsibilities for the implementation project?	<input type="checkbox"/>
Awareness of the new standards and associated implications	
● Is there a clear understanding of IAS?	<input type="checkbox"/>
● Is the impact on particular functions clearly understood?	<input type="checkbox"/>
Product/services and other revenue generating activities	
● Has the impact on current derivative and structured finance products been assessed, and a view taken on whether they still meet strategic objectives?	<input type="checkbox"/>
● Have the new accounting requirements been incorporated into the process for evaluating potential new products?	<input type="checkbox"/>
Management Compensation	
● Do you have share options and other incentive plans tied to reported profits, EPS, or other performance targets that are affected?	<input type="checkbox"/>
● Have you assessed the extent to which these will be affected by the proposal of FRED 31 (proposed to be effective from 2004)?	<input type="checkbox"/>
● What is the process for changing the provisions of any share option schemes?	<input type="checkbox"/>
● If changes cause performance targets to be met immediately, how will this be explained to shareholders?	<input type="checkbox"/>

Your implementation **healthcheck**

Treasury and financing

Ready?

- Has a process been established to identify all financial instruments including embedded derivatives in for example, leasing/commodity/property contracts? ☐
- Has the classification of financial instruments and the potential volatility in the profit and loss account and balance sheet resulting from those carried at fair value, been determined? ☐
- Has the impact on the current hedging strategy been assessed and a revised hedging and risk management strategy been formulated? ☐
- Have you scoped the necessary changes to information systems to address the hedge documentation requirements (effectiveness testing, identification of individual transaction hedged etc.)? ☐
- If you have financing arrangements in place with covenants linked to reported profits or net assets, have these been assessed to determine whether these will be breached? ☐
- What plans have been put in place to renegotiate finance arrangements as necessary? ☐

Mergers & Acquisitions

- Have the consequences of implementation of IAS on for example, potential earn out provisions and pricing, been considered? ☐
- Will merger and acquisition activities continue to achieve the desired accounting treatment? ☐

Investor Relations and Dividend Policy

- Have you identified the impacts on your key performance indicators that need to be communicated to shareholders? ☐
- Have you determined the appropriate timing and means of communication in order to manage expectations? ☐
- How will you explain that these changes have arisen through no change in underlying performance? ☐
- Have you considered benchmarking against competitors to understand the impact across your industry sector and on your comparative position? ☐
- Have you assessed the potential impact on your dividend policy if your earnings number is expected to be significantly affected or to be volatile? ☐
- Will it make planned dividend payments prior to adoption of IAS appear imprudent? ☐

Your implementation **healthcheck**

Systems, controls and information

Ready?

- Have existing processes and systems been reviewed to establish whether they will support IAS financial statements? ☐
- Have necessary enhancements to processes and systems been identified? ☐

Human resources and training

- Have you assessed the available knowledge and the training needs of personnel? ☐
- Have you assessed whether there is available internal resource to engage in all aspects of the project or identified a suitable external provider? ☐
- IAS is a moving target, how are you going to keep on top of developments? ☐



*Some areas will be
impacted significantly.*

Areas of significant change

There are many differences between IAS and UK GAAP including disclosure differences: the areas of major impact are discussed below. If any of these are relevant to your organisation expect significant changes.

Business combinations

- UK** The use of pooling of interests is restricted.
- IAS** The use of pooling of interests (merger) accounting is restricted and proposed to be banned outright following the new US treatment.
- UK** Proportional consolidation for joint ventures is not permitted; the 'gross equity' method must be used.
- IAS** Joint ventures can be presented using either proportional consolidation or the equity method.
- UK** Restructuring provisions are not allowed in the fair value exercise.
- IAS** Some restructuring provisions are allowed to be included in the fair value exercise. Current proposals would bring IAS into line with the UK in this area.
- UK** The principles in FRS 5 are used to determine whether a vehicle is a quasi-subsiary.
- IAS** There is a specific pronouncement that requires the consolidation of special purpose entities where the substance of the relationship indicates control. A project to re-consider this issue is planned.

Goodwill and Intangibles

- UK** Goodwill can be carried indefinitely with impairment reviews or amortised over a period up to 20 years.
- IAS** Indefinite life is currently not permitted in any circumstances; amortisation of goodwill is mandatory in all circumstances. However, the US treatment, banning amortisation and requiring annual impairment reviews, is proposed for adoption in IAS.

- UK** Only purchased intangibles that are identifiable, i.e., can be separated from the business, and can be reliably measured are recognised. The treatment of goodwill and other intangibles is consistent and few other intangibles are recognised in practice.
- IAS** Proposals are likely to lead to a standard that requires separate recognition of intangible assets arising from contractual or legal rights, that are not separable from the business. More intangibles are likely to be identified and assigned relatively short lives, with resulting consequences for the profit and loss account.

Financial instruments

- UK** FRS 13 prescribes the disclosure requirements for derivatives and other financial instruments, however, there is no standard on recognition and measurement of financial instruments in the UK.
- IAS** All derivative financial instruments (including embedded derivatives) are required to be recognised on the balance sheet at fair value. All changes in fair value are recognised in the income statement.
- UK** There are no rules governing hedging.
- IAS** Prescriptive rules including those on documentation, designation and effectiveness testing, determine whether an item can be a hedge and how to account for a hedging item.
- UK** Long-term investments must be carried at cost (less impairment losses) or revalued amounts. Surpluses on revaluation are recognised in the STRGL. Current asset investments are carried at the lower of cost and net realisable value or at current cost.
- IAS** Measurement of a financial asset depends on its classification, if it is held to maturity or is an originated loan or receivable then it is carried at amortised cost, otherwise it is carried at fair value.

Areas of significant **change**

UK Where an instrument is not a share, it is classified as a liability when an obligation to transfer economic benefit exists. Convertible debt is always treated as a liability.

IAS Financial liabilities are classified according to the substance of the obligations of the issuer, e.g. convertible debt is accounted for on a split basis, with proceeds split between equity and debt.

UK Assets are recognised and derecognised on the basis of risks and rewards, focusing on substance rather than just legal form.

IAS Financial assets are derecognised when an entity loses control of those assets. A proposed amendment would change this approach and require derecognition when contractual rights that constitute the asset are transferred and the transferor entity has no continuing involvement in those rights.

Pensions

UK FRS 17, if and when fully implemented, will require immediate recognition of actuarial gains and losses in the SRTGL.

IAS Actuarial gains or losses of defined benefit pension schemes within a 10% corridor are ignored under IAS with those outside the corridor spread over the expected service life. The quantum is 10% of the greater of the defined benefit obligation or the fair value of the plan assets. The IASB has tentatively agreed to propose immediate recognition of actuarial gains and losses.

Deferred tax

UK UK GAAP requires provision for all timing differences, being the differences between accounting and taxable profit.

IAS IAS 12 requires full provision for temporary differences, being the difference between carrying amount and tax base of assets and liabilities.

UK FRS 19 does not permit deferred tax to be provided on revaluations even when the revalued asset is expected to be sold. On sale no deferred tax is required if it is 'more likely than not' that rollover relief will be obtained.

IAS Under IAS, provision would be required whether or not it is intended that the asset will be sold and whether or not rollover relief could be claimed.

UK Reporting entities are permitted, but not required, to discount deferred tax assets and liabilities to reflect the time value of money.

IAS IAS 12 does not permit discounting of deferred tax.

Investment properties

UK Investment properties are carried at open market value without depreciation. Changes in fair value are recognised in the SRTGL.

IAS Investment properties are measured at depreciated cost or fair value with changes in value recognised in the income statement.

Leases

UK The definition of a finance lease is based on the transfer of substantially all the risks and rewards of ownership to the lessee, however, SSAP 21 adds a rebuttable presumption that this is assumed to have occurred if the present value of minimum lease payments amounts to 90 per cent or more of the fair value of the leased asset.

IAS The definition is also based on transfer of risks and rewards. IAS 17 does not contain a '90% test', so classification decisions can be more judgmental than under UK GAAP.

The IASB will be taking forward the G4+1 discussion paper 'Leases: implementation of a new approach' (issued in the UK in December 1999), but it is not one of their high priority projects.

Areas of significant **change**

Foreign currency

- UK** SSAP 20 requires the use of closing rates to translate the foreign currency financial statements of independent foreign entities and the recognition of the resulting exchange differences in the STRGL. Under UK GAAP it is not permissible to recycle translation gains and losses to the income statement on disposal.
- IAS** IAS 21 also requires the use of closing rates to translate the foreign currency financial statements of independent foreign entities and the recognition of the resulting exchange differences in equity. On disposal of a foreign entity, the appropriate amount of cumulative translation difference relating to the entity should be transferred to the income statement and included in the gain or loss on sale.
- UK** Transactions may be recorded at a contracted rate of exchange.
- IAS** All transactions must be translated at the spot rate of exchange.

Exceptional items

- UK** FRS 3 requires disclosure of exceptional items by way of note or, where necessary to give a true and fair view, on the face of the income statement under the appropriate statutory format headings to which the items relate.
- IAS** IAS 8 does not use the term exceptional items but requires the separate disclosure of items of income and expense that are of such size, nature or incidence that their separate disclosure is necessary to explain the performance of the entity for the period.
- UK** Paragraph 20 of FRS 3 sets out three specific exceptional items, which must be shown immediately below operating profit or loss.
- IAS** IAS 8 does not have a similar requirement and therefore all such items will be included within operating profit.

Discontinued activities

- UK** FRS 3 requires analysis of discontinued and continuing operations for turnover and operating profit. To be 'discontinued' the sale or termination must be completed within a specified period.
- IAS** IAS 35 requires disclosure of all material amounts attributable to a discontinuing operation for revenue and expenses as well as pre-tax profit or loss from ordinary activities.
- Most significantly IAS 35 does not set a time limit for the completion of the discontinuance.

Cash flow statements

- UK** Cash flows are defined as increases or decreases in cash with the definition of cash restricted to cash in hand plus deposits, less overdrafts, repayable on demand. FRS 1 requires the cash flows to be reported under nine headings.
- IAS** Cash flows are defined as inflows and outflows of cash and cash equivalents, which include short-term highly liquid investments. Only three headings are required in the cash flow statement: operating, investing and financing. IAS 7 is similar to pre-1996 FRS 1.

Segmental Reporting

- UK** The requirements come from the Companies Act 1985 and SSAP 25. Disclosure is required of: turnover, profit/loss before tax and net assets by class of business and geographical market and segmental associate information. Classes of business and geographical markets are based on differing risks and returns.
- IAS** Primary and secondary segments must be reported on with disclosures for primary segments being more extensive than UK requirements. Segment identification is based on how the business is managed.

Areas of significant **change**

Presentation of P&L/STRGL

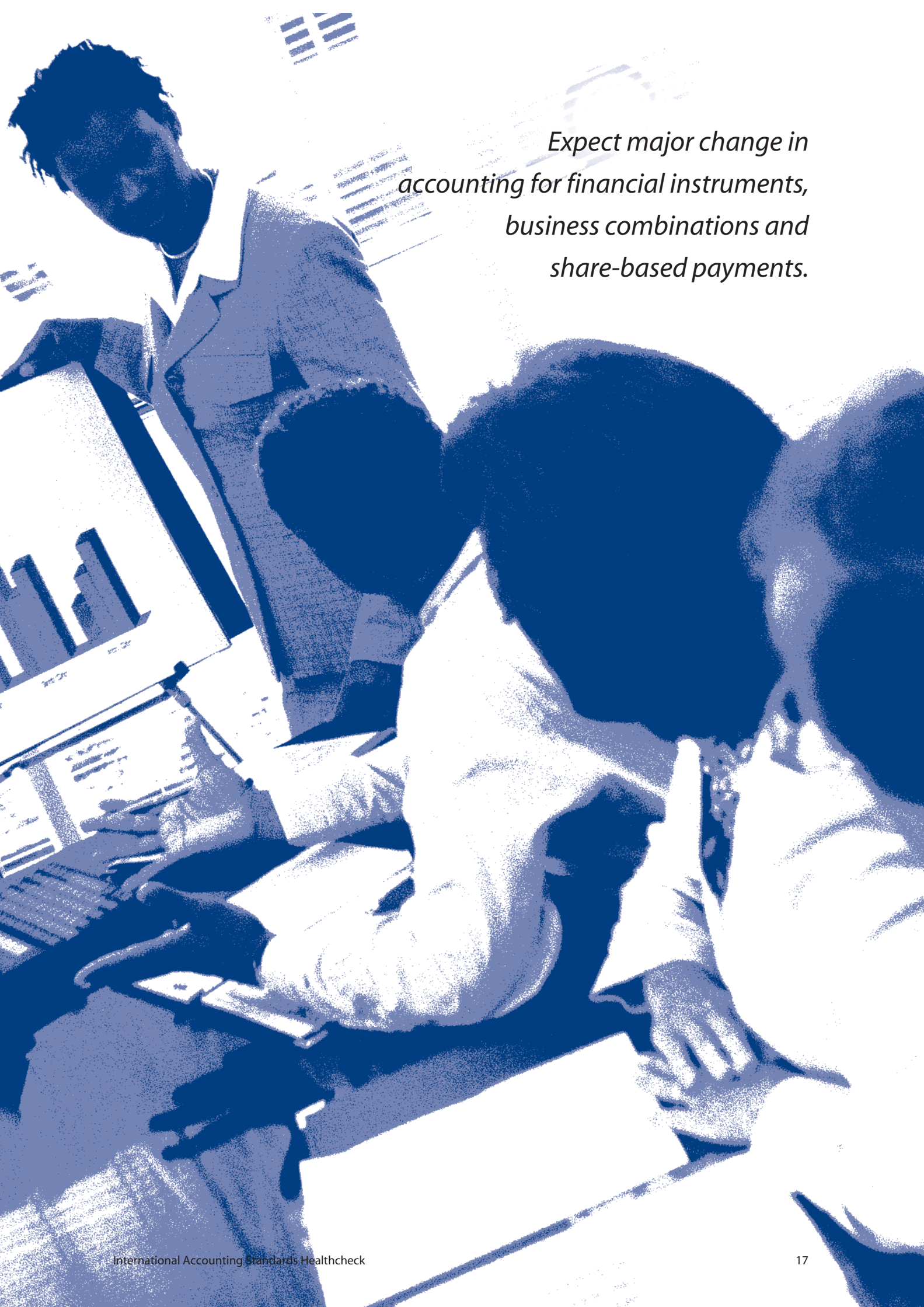
- UK** FRS 3 requires entities to produce two performance statements, the profit and loss account and the statement of total recognised gains and losses. Gains and losses in the period are recognised in the P&L account if realised or in the STRGL if unrealised.
- IAS** Presentation is required of a profit and loss account but there is no primary statement under IAS equivalent to the STRGL. Unrealised gains and losses are presented within changes in equity retained in a note to the accounts. Reporting performance is a current project on the IASB agenda. It is likely that proposals will favour a single performance statement presenting all recognised changes in assets and liabilities arising from transactions or other events. An exposure draft is expected in late 2003.

Share based payments

- UK** Current guidance in the UK is provided by UITF 13 *Accounting for ESOP trusts and UITF 17 Employee share schemes (revised 2001)*. Under UITF 17 only the difference between the exercise price and the market value at the date of grant should be recognised as a charge in the profit and loss account. The new IASB proposals (exposed as FRED 31) are likely to become UK GAAP at the same time they are adopted by the IASB.
- IAS** There is no existing guidance on this topic. An IASB exposure draft has proposed that share based payments should be measured using the fair value at the grant date of the shares or options issued. This may be significantly greater than the intrinsic value used in the UK.

Consolidations and equity accounting

- UK** FRS 2 requires an undertaking to be consolidated based on actual exercise of dominant influence. Similarly an investment is considered an associate based on the actual exercise of significant influence.
- IAS** IAS 27 and IAS 28 refer to the ability to control, or exercise significant influence rather than actual exercise of control or influence. The IASB are currently undertaking research into the criteria for determining whether an investment should be consolidated or equity accounted.



*Expect major change in
accounting for financial instruments,
business combinations and
share-based payments.*

Headline impact by business sector

Property and construction

- Revaluation gains taken direct to profit & loss account – investment property revaluations are taken to a revaluation reserve in the UK.
- On completion of construction of own properties there will be large gains to the income statement when fair valuing on classification as investment properties.
- A proposed amendment to IAS 40 will take away the prohibition on properties purchased under a long leasehold being classified as investment properties if they are fair valued, and bring it into line with the current UK practice.

Utilities

- Mark to market for most commodity contracts – IAS 39 requires subsequent measurement of all derivatives within its scope at their fair value, with changes in the value recognised in the income statement as they arise.
- No hedge accounting for many instruments – IAS 39 is restrictive in allowing hedge accounting and allows its use only in accordance with strict criteria.
- Embedded derivatives are separately recognised – under IAS all derivatives are recognised on the balance sheet as either financial assets or liabilities.

Consumer business

- Recognition of more intangibles – Under IAS intangibles just have to be 'identifiable' but not necessarily 'separable' from the underlying businesses as is required under UK GAAP.
- No linked presentation – IAS does not permit showing non-recourse finance on the face of the balance sheet as a deduction from the asset to which it relates, it has to be shown in the liabilities section of the balance sheet instead.

Manufacturing

- No linked presentation – IAS does not permit showing non-recourse finance on the face of the balance sheet as a deduction from the asset to which it relates, it has to be shown in the liabilities section of the balance sheet instead.

- No hedge accounting for many instruments – IAS 39 is restrictive in allowing hedge accounting and allows its use only in accordance with strict criteria.
- Cumulative foreign exchange gains and losses on the net investments in foreign entities taken through the STRGL will be recycled through the profit and loss on sale of the entity. Recording of foreign exchange transactions must be at the spot exchange rate, not at any contracted rate.

Financial services

- No linked presentation – IAS does not permit showing non-recourse finance on the face of the balance sheet as a deduction from the asset to which it relates, it has to be shown in the liabilities section of the balance sheet instead.
- Embedded derivatives are separately recognised – under IAS all derivatives are recognised on the balance sheet as either financial assets or liabilities.
- More mark-to-market – IAS requires subsequent measurement of all derivatives at their fair value, with changes in the value recognised in the income statement as they arise.
- Net cash investment method of income recognition not allowed for lessors – IAS 17 requires the use of the pre-tax net investment method to allocate rentals receivable under operating leases.
- IAS 32 will result in most preference shares being classified as liabilities and most preference share dividends being treated as interest expense.
- No hedge accounting for certain well-established risk management strategies, for example, macro hedging.

Technology, Media and Telecoms

- Unlike SSAP 13 under which entities may capitalise development costs, IAS 38 requires them to be capitalised if the criteria are met.
- IAS is proposed to be amended to require indefinite life and impairment testing for goodwill and recognition of more classes of intangible assets with shorter amortisation periods.

*We can help plan and
aim at the moving target.*



How we can help

Deloitte & Touche can assist with the transition to IAS in several ways and have done so for a number of UK and overseas clients. The first step in the process is scoping the impact of IAS. Our assurance and advisory practice has assisted the finance teams of a number of multinationals identifying and quantifying the detailed differences. Examples of how we can help in other specific areas, and the appropriate contacts, include:

Treasury Management

We can assist in scoping the impact of IAS on internal hedging strategies and help revise existing risk management frameworks. Our experience of implementing IAS 39 (and its US equivalent, SFAS 133) in several large organisations, has stressed the importance of strong internal controls across the company, not just in treasury. We are able to help management implement controls to ensure that suitable risk policies are in place.

Adoption of IAS is not only likely to impact the way financing structures are accounted for, it may also have a corresponding effect on their recognition for tax purposes. We can provide a review of existing tax efficient financing and hedging strategies including assessing their continuing efficacy, quantifying the tax impact of IAS implementation and offering bespoke solutions to any problems identified.

Debt Covenants & Financing

The terms of a number of financial instruments are dependent upon audited accounts. Such terms may include covenants attaching to debt, hurdle rates for earn-outs, bonuses or options and conversion rates. We can both advise companies on the effect of the move to IAS, and help ensure

controls are in place to monitor and correctly report on for example, loan covenants, but also assist in the renegotiation of relevant instruments as necessary.

Mergers & Acquisitions

Well before 2005, deals will need to be structured to take account of the move to IAS. We can assist in the negotiation of deals taking into account the consequential effects of IAS on pricing, future earnings and dividend policy, earn-out provisions and terms of convertible instruments. Certain major transactions will look very different under IAS as opposed to UK GAAP. We can advise on the appropriate timing and accounting for transactions e.g. is merger accounting still a viable option after IAS or indeed before its introduction?

We can also provide tax structuring advice for deals including mergers, acquisitions, joint ventures and private finance initiatives focusing on the impact of IAS.

Management Compensation

Typically long term incentive and option plans set targets of at least three years, so any awards made or options granted now, will be tested at a time when the accounts are drawn up under IAS. We can assist companies to review and test the targets now to ensure that they will still be relevant under the new accounting rules. We can help you to consider what business objectives the employee benefit plans need to meet, what new arrangements might look like and how to implement, administer and communicate these.

How we can help

Product Development

We have worked with a number of investment banks and corporate institutions advising on the accounting and regulatory impact of IAS 39 and SIC 12 on existing and proposed derivatives and structured finance transactions considering whether they will be viable products under the IAS regime.

Management Information

Our Management Solutions team has extensive experience in building, delivering and updating consolidation, financial reporting and management information systems. We have carried out work for a number of international and global organisations dealing with requirements under IAS, in particular with differences between local and international standards.

Statutory Accounts & Taxes

Companies seeking to list their shares will usually need to publish a three-year track record on a consistent and comparable basis. After 2005, this will involve the restatement to IAS of the company's financial track record for the three previous years. We can assist both in the proper determination of a company's track record and its presentation and explanation in public documents. **Any company seeking to float in 2005 or thereafter should start tracking its results under IAS now!**

As the United Kingdom moves towards a closer alignment between accounting profits and taxable profits any change in accounting standards is likely to give rise to a corresponding impact on taxable

profits. We can evaluate the impact of such a change on tax cash-flows and identify any tax planning opportunities that might be available to a business on adoption of the alternative standards.

Training

We have assisted many clients with embedding new reporting requirements across their companies. These projects have included training key personnel through workshops and e-learning mechanisms, identifying the critical path for implementation and key dependencies.

IT Systems

We can assist our clients by mapping the current group financial and management reporting business cycles, identifying key controls over the processes and where these will need to be enhanced to allow for IAS parallel running (2003) and full implementation (2004). This process would also identify key members of staff that will require specific IAS training.

The move to IAS may require clients to update or replace their existing financial or ERP systems. We can provide advice to clients on selecting and implementing appropriate systems replacements or enhancements.

Investor relations and dividend policy

The transition to IAS will require careful explanation to shareholders, especially where results differ substantially under IAS or where the restatement of a company's results is not in line with market expectations. This could affect many factors including valuation, earnings and distribution policy.

We can advise on interpretation of the changes and their disclosure to shareholders in relation to listed companies and any acquisitions, disposals or restructuring. We can assist with the revision and development of your dividend policy and can gather benchmark comparator group information.

If you would like to talk to us about IAS implementation issues your local office contacts will be happy to help. Alternatively, you can speak to our London IAS centre of excellence which is part of our IAS global expert network. Please e-mail us at iasplusuk@deloitte.co.uk or contact:

Veronica Poole	020 7438 2446
Elizabeth Chrispin	020 7438 2255

Project/change management

We have experienced project management teams who have been involved in implementing major business and technology change for a wide range of organisations across all sectors. We would be pleased to discuss how our services can help mitigate business risk through effective project and programme management.

Insurance contracts

Our actuarial consultancy practice, BWD, is an active participant in the development of the proposals for insurance contracts through sharing our knowledge and expertise in financial markets and advanced actuarial techniques used for market consistent valuations in insurance & other financial service businesses. This includes ongoing discussions with clients, the IASB staff, national accounting bodies and actuarial profession. We can help you evaluate how the proposals on insurance contracts will affect you.

Appendix 1

– A quick guide to IAS

Who sets the standards?

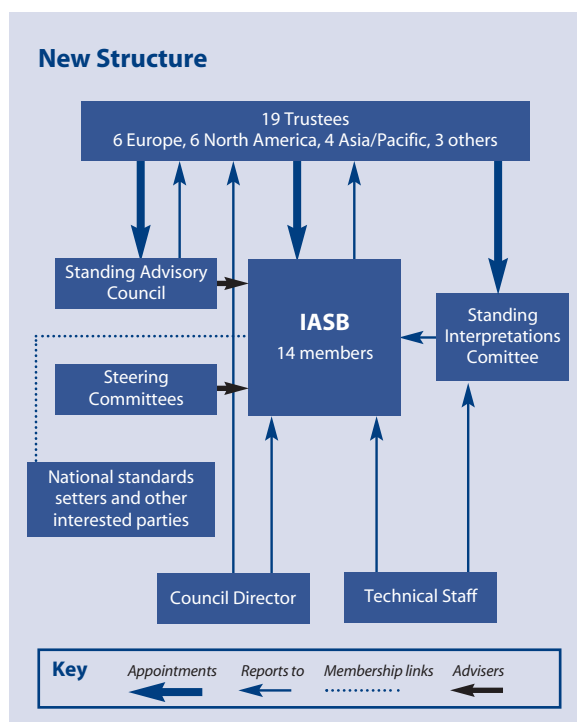
IASB

Background

The IASB is based in London having been set-up earlier this year. It is funded by a combination of Central Banks, major accounting firms, financial institutions and industrial companies. There are 12 full-time and 2 part-time board members from 9 countries and a variety of back grounds. Its mandate is to promote convergence on a single set of high quality, understandable and enforceable global accounting standards, which will give transparent and comparable information.

Responsibilities

- Preparing and issuing standards and exposure drafts which include dissenting opinions, and approval of IFRIC abstracts.
- Publishing exposure drafts on all projects for public comment.
- Full discretion over technical agenda and project assignments.
- Reviewing public comments received in reasonable time frame.
- Consultation with Standards Advisory Council (SAC).
- Consideration of field-tests to ensure that standards are practical and workable.



IASB

Auditors

Sir David Tweedie
(UK – **Chairman**)

Gilbert Gelard
(France)

John Smith
(USA)

Tricia O'Malley
(Canada)

Tatsumi Yamada
(Japan)

Preparers

Hans-Georg Bruns
(Germany)

Tom Jones
(UK/USA – **Vice Chairman**)

Harry Schmid
(Switzerland)

Users

Tony Cope
(UK/USA)

Robert Garnett
(South Africa)

Geoffrey Whittington
(UK)

Others

Jim Leisenring
(USA)

Warren McGregor
(Australia/NZ)

Mary Barth
(USA – Academic)

Key

Full time
Part time

Appendix 1 – A quick guide to IAS

IFRIC

As part of the restructuring process The Standing Interpretations Committee was renamed the International Financial Reporting Issues Committee (IFRIC). Its pronouncements are now known as “Abstracts” rather than “Interpretations.” This reflects the broadening of its mandate to address issues beyond pure interpretations of existing standards.

SAC

The Standards Advisory Council (SAC) was originally intended to have around 30 members but currently has 49. It is a forum for organisations and individuals with an interest in international financial reporting. SAC meets 3 times each year in a public meeting to advise on priorities, inform on implications and give other advice as required. Its membership is geographically and professionally diverse, covering 6 continents and 29 countries. The SAC Chairman is constitutionally the Chairman of the IASB. Peter Wilmot the Deputy Chairman was formerly a Deloitte Touche Tohmatsu partner in South Africa.

The IASB and IOSCO

Background

The International Organisation of Securities Commissions (IOSCO) is the association of worldwide national regulatory commissions. It has approximately 100 members including all the major stock exchanges and is governed by an Executive Committee. IOSCO would like a single set of accounting standards which can be used for all international offerings.

IOSCO endorsement of IAS

1993 IOSCO and IASC agreed a list of the minimum core standards that should be applied to enterprises involved in cross-border offerings and listings. Whilst standards had already been established for most core areas, a number of gaps were identified and this determined the IASC's work program.

1995 The 2 bodies review the progress and agreed that completion of the IASC work program would achieve this comprehensive set of standards.

1998 The approval of IAS39 represented the completion of the work program established in 1993. A standard on accounting for investment property was added to the program and was completed in March 2000.

1999 IOSCO reviewed the core standards and concluded that IAS could be endorsed for the purpose of multinational offerings and cross-border listing, with the addition of some supplementary information. This supplementary information may take the form of reconciliation (to compare to an alternative method), additional disclosure, or interpretation (either specifying use of a particular alternative in the standard or clarifying the adopted interpretation where the standard is silent or unclear).

The IASB and the US Securities and Exchange Commission (SEC)

The US SEC issued a Concept Release on International Accounting Standards. The SEC plans to issue a proposal, based on comments received, in the near future.

The Financial Accounting Standards Board strongly and actively support the internationalisation of accounting standards. Almost every FASB project is a matter of interest in some other country or with the International Accounting Standards Committee. In October 2002, the IASB and FASB jointly issued a ‘Memorandum of Understanding’ each acknowledging their commitment to the development of high quality, compatible accounting standards. Numerous organisations have announced their support for the agreement, including the US SEC and the European Commission.

Appendix 1 – A quick guide to IAS

IAS around the world

Hong Kong

The Council of the Hong Kong Society of Accountants has decided that Hong Kong's approach to IASs should change from harmonisation (basing Hong Kong accounting standards on IAS with occasional differences) to adoption. This means that Hong Kong would not change the IASB standards but could add additional guidance for applying the Standard in a Hong Kong context.

Australia

The Australian Accounting Standards Board (AASB) is continuing its policy of harmonising Australian Accounting Standards with IAS and will require IAS to be applied by 1 January 2005.

Japan

On 27 July 2001, a consortium of 10 private sector organisations formally created a new Japan Accounting Standards Board (ASB) and related oversight foundation, known as the Financial Accounting Standards Foundation (FASF).

ASB's role is to develop standards and implementation guidance. The ASB has 13 members of whom three serve full time.

The objectives of the FASF are to promote progress of corporate finance disclosure and soundness of the capital markets in Japan by developing generally accepted accounting standards. The FASF will also contribute to the development of a high quality set of internationally accepted accounting standards.

South Africa

The Accounting Standards Board (ASB) in South Africa (SA) has a policy of harmonising SA Statements of Generally Accepted Accounting Practice (GAAP) with IAS.

SA Statements are similar to IAS, other than their effective date and often include increased disclosure requirements.

The concept release highlights the need for high quality financial reporting standards which are internationally accepted and therefore the question posed by the SEC is whether IAS would provide investors with comparable, transparent and reliable information and whether some conditions should be attached to the agreement to accept foreign registrants preparing financial statements in accordance with IAS.

Current use of IAS

Region	Require IAS	Allow IAS	Based on IAS	Moving towards IAS
Europe	EU member states as from 1/1/2005 Czech Republic Greece (from 01/01/02)	Poland Romania Switzerland	Russia/CIS	Norway
Latin America	Costa Rica Ecuador El Salvador Honduras Panama Peru	Cayman Islands	Argentina Brazil Guatemala Uruguay	Chile Mexico Venezuela
Asia-Pacific	Australia	China	New Zealand Hong Kong India Indonesia Philippines	Japan Korea Singapore
Africa - Middle East	Egypt	South Africa	Zimbabwe	Israel

Appendix 2

– The IASB agenda

Towards global standards

On 31 July 2001 the IASB issued a press release announcing its initial agenda of technical projects. This was as a result of its consultation with SAC, national accounting standard-setters, regulators and other interested parties. The initial agenda consists of 9 core projects.

Projects providing leadership and promoting convergence:

- Accounting for insurance contracts.
- Business combinations.
- Performance reporting.
- Accounting for share-based payments.

Projects intended to provide for easier application of International Reporting Standards:

- Guidance on first-time application of IFRS.
- Activities of Financial Institutions: Disclosure and Presentation.

Projects intended to improve existing International Financial Reporting Standards:

- Preface to IFRS.
- Improvements to existing IFRS.
- Amendments to IAS39.

In addition to these projects, there are a number of other issues being worked upon in conjunction with national standard-setters. This kind of partnership should allow pooling of resources, mutual monitoring and also accelerate the development of new standards.

Further projects have been added since that date on:

- Revenue, liabilities and equity.
- Convergence.
- Consolidation.

Also, a second phase has been added to the projects on insurance and business combinations.

Moving Target

IASs are a moving target. Exposure drafts proposing changes to existing standards have been issued. We will also see new standards. For a one-stop source for all the latest developments go to:

www.iasplus.com

- Full range of links
- IASB decisions
- Quarterly newsletters
- Country comparisons

High priority projects

Share-based payments

In November 2002, the IASB published ED2, Share-based Payment, a draft IFRS exposed in the UK as FRED 31. The exposure draft would require all entities to recognise the cost of all share-based payment transactions based on their fair value at grant date. This includes grants of share options to employees. Comments on the proposals are requested by 7 March 2003. If the IASB issues a final standard by the end of 2003, they expect it to be effective for periods beginning on or after 1 January 2004.

Business combinations

The IASB has proposed major revisions to its standards on accounting for business combinations and intangible assets. These have been issued as a consultation paper in the UK. The most significant proposals are to prohibit the use of the pooling of interests method of accounting for business combinations (merger accounting in a UK context) and to require goodwill (and intangible assets with indefinite lives) to be tested for impairment but not amortised.

Appendix 2 – The IASB agenda

A second phase to this project is underway. Phase II is a joint project with the FASB. It focuses on the specific accounting procedures related to the application of the purchase method. Additionally, the IASB and FASB will explore the merit of fresh-start or new-basis accounting for business combinations. This phase will also address certain issues outside the scope of the phase I project, such as combinations of entities under common control, combinations of entities to form a joint venture, and combinations to form a reporting entity by contract only without the obtaining of an ownership interest.

Performance reporting

The IASB intends to propose that all items of income and expense should be presented in a single statement of comprehensive income. This project has the objective of designing the statement in such a way as to maximise its usefulness to the reader. The IASB has tentatively agreed that the statement should include a primary distinction between 'financing' and 'business' income and also that re-measurements of assets and liabilities should be presented separately from other income and expenses. The cash flow statement is also included within the scope of the project.

An exposure draft is scheduled for late 2003.

Insurance contracts

There is currently great diversity in accounting practices for insurers and this makes comparison very difficult. The IASB has adopted this as one of its priority projects and hopes to lead global thinking in this area. In May 2002, it was decided that the project should be split into two phases, so that European (and other) insurance companies that will be adopting IFRS for the first time in 2005 will have some guidance on how to apply existing international standards to insurance contracts. Phase II is a comprehensive project on accounting for insurance contracts, taking a fresh look at all issues.

An exposure draft on phase I is planned for the first half of 2003, with a final standard in 2004. The IASB has not yet set a timetable for phase II.

First-time application

In July 2002, the IASB issued ED 1 containing proposals on first-time application of IFRS. Retrospective application is proposed with some exceptions:

- Previous business combinations would be revisited, although goodwill would be subject to an impairment review and the classification of other intangibles revisited.
- Property, plant and equipment could be included at its previous carrying amount as 'deemed cost'.
- Employee benefits – reset any unrecognised actuarial gains and losses to zero.
- Accumulated translation reserves not previously recorded are set to zero.
- Hedging – conditions to qualify for hedge accounting to be applied from the opening balance sheet date.

Deloitte & Touche offices

Aberdeen 2 Queens Terrace, Aberdeen AB1 6YE	Tel: 01224 625888	Fax: 01224 625025
Belfast 19 Bedford Street, Belfast, Northern Ireland BT2 7EJ	Tel: 02890 322861	Fax: 02890 234786
Birmingham Four Brindleyplace, Birmingham B1 2HZ	Tel: 0121 632 6000	Fax: 0121 695 5678
Bristol Queen Anne House, 69-71 Queen Square, Bristol BS1 4JP	Tel: 0117 921 1622	Fax: 0117 929 2801
Cambridge Leda House, Station Road, Cambridge CB1 2RN	Tel: 01223 460222	Fax: 01223 350839
Cardiff Blenheim House, Fitzalan Court, Newport Road, Cardiff CF24 0TS	Tel: 02920 481111	Fax: 02920 482615
Edinburgh Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN	Tel: 0131 225 6834	Fax: 0131 225 4049
Glasgow Lomond House, 9 George Square, Glasgow G2 1QQ	Tel: 0141 204 2800	Fax: 0141 314 5893
Leeds 1 City Square, Leeds LS1 2AL	Tel: 0113 207 7000	Fax: 0113 244 5580
Liverpool Martins Building, 4 Water Street, Liverpool L2 8UY	Tel: 0151 236 0941	Fax: 0151 236 2877
London Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR	Tel: 020 7936 3000	Fax: 020 7583 1198
London North 3rd Floor, Verulam Point, Station Way, St. Albans, Herts AL1 5HE	Tel: 01727 839000	Fax: 01727 831111
Manchester P.O. Box 500, 201 Deansgate, Manchester M60 2AT	Tel: 0161 832 3555	Fax: 0161 829 3800
Newcastle upon Tyne Gainsborough House, 34-40 Grey Street, Newcastle upon Tyne NE1 6AE	Tel: 0191 261 4111	Fax: 0191 232 7665
Nottingham 1 Woodborough Road, Nottingham NG1 3FG	Tel: 0115 950 0511	Fax: 0115 959 0060
Reading Abbots House, Abbey Street, Reading RG1 3BD	Tel: 0118 950 8141	Fax: 0118 950 8101
Southampton Mountbatten House, 1 Grosvenor Square, Southampton SO15 2BE	Tel: 02380 334124	Fax: 02380 330948
South East Regional Office Global House, High Street, Crawley, West Sussex, RH10 1DL	Tel: 01293 510112	Fax: 01293 533493
Guernsey PO Box 137, St. Peter's House, Le Bordage, St. Peter Port, Guernsey GY1 3HW, Channel Islands	Tel: 01481 724011	Fax: 01481 711544
Isle of Man Grosvenor House, PO Box 250, 66-67 Athol Street, Douglas, Isle of Man IM99 1XJ	Tel: 01624 672332	Fax: 01624 672334
Jersey PO Box 403, Lord Coutanche House, 66-68 Esplanade, St Helier, Jersey JE2 3QB, Channel Islands	Tel: 01534 824200	Fax: 01534 734037



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

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