

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

In this Issue

October 2001

Published Quarterly, Issue No. 5

IASB INITIAL AGENDA

IASB MEETING DECISIONS

- July 2001
- September 2001

WORKING WITH NATIONAL STANDARD SETTERS

PROPOSED CHANGES TO SIC

FIRST MEETING OF IASB'S ADVISORY COUNCIL

UPCOMING MEETINGS OF IASB, ADVISORY COUNCIL

NEWLY EFFECTIVE IAS, SIC

SIC UPDATE:

- D33, D34 issued in September
- D27 is close to finalisation
- D28-D32 issued in July
- Five SIC projects halted

NEW IAS 39 GUIDANCE BOOK

BOOKS BY DELOITTE AUTHORS

- Full Fair Value Accounting of Financial Instruments
- Hong Kong GAAP Guide

IOSCO SURVEY ON IAS

VALUATION STANDARDS

EUROPEAN UNION UPDATE

FIRST-TIME APPLICATION

USA UPDATE: SEC, FASB

LONG LEASES OF LAND

ACCOUNTING UPDATES IN THE ASIA-PACIFIC REGION

IAS PLUS WEB SITE

We're getting thousands of visitors each week. Join us at www.iasplus.com. You will find the latest IASB and SIC news, summaries of all proposed and final Standards and Interpretations, updates on ongoing projects, reports about IASB meetings, reference materials, disclosure checklists, IAS links, and lots more.

IASB NEWS

IASB sets an initial technical agenda. The nine projects are Insurance Contracts, Business Combinations, Performance Reporting, Share-Based Payments, First-Time Application of IFRS, Financial Institutions: Disclosure and Presentation, Preface to IFRS, Improvements to Existing IFRS, and Amendments to IAS 39. See page 2.

IASB July and September meetings. Decision summaries on pages 3 and 5, respectively. A few noteworthy items:

- ❑ **Share-based payments.** IASB will use G4+1 paper as its starting point on this project. See page 5.
- ❑ **Insurance contracts.** Company field visits are planned. See page 5.
- ❑ **Improvements project.** LIFO, fundamental errors, spreading initial lease costs, translating goodwill at historic rates, interest capitalisation, and proportionate consolidation of joint ventures all might be history. See page 9.
- ❑ **Business combinations and goodwill.** IASB is leaning toward eliminating uniting of interests and switching to a non-amortisation/impairment model for goodwill. See page 6.
- ❑ **First-time application of IAS.** SIC 8 will be revised. See page 19.

Meeting with national standard-setters. The goal of the 10-11 September meeting was to agree an approach and agenda for convergence. See page 8.

SIC structure and procedures will be changed. SIC to become IFRIC. Interpretations to be Abstracts. IASB to clear drafts. See pages 11 and 12.

IASB's first meeting with its Standards Advisory Council. See page 12.

Meeting dates set. Complete list of dates for meetings of IASB, SAC, SIC, and IASC Foundation Trustees. See page 13.

Two new SIC draft Interpretations. SIC has invited comment on Draft Interpretations D33 (potential voting rights) and D34 (puttable instruments). Comment deadline on both is 5 November 2001. See page 14.

SIC removes five projects from its agenda. Including common control transactions and special purpose entities. See page 16.

IASB combines IAS 39 and IGC guidance in one volume. See page 16.

IOSCO will survey members on implementation of IAS. See page 17.

Events in Europe. Endorsement of IAS by EU Economic and Social Committee (page 18). Consultation on Transparency (page 18). Integrated Securities Market by 2003 (page 18). Pan-European prospectus (page 19).

Comments about IAS from the SEC Chief Accountant. See page 20.

Japan has a new accounting standard setter. See page 21.

Hong Kong GAAP will move closer to IAS. See page 21.

New Deloitte book of guidance on IAS 39. 164 Q&As, 151 examples, 52 US GAAP comparisons. See page 24.

For information about the content of IAS PLUS please contact:

Stephen Taylor: stetaylor@deloitte.com.hk

Paul Pacter: paupacter@deloitte.com.hk

IASB'S INITIAL TECHNICAL AGENDA

At its meeting in July 2001, the International Accounting Standards Board approved its initial agenda of nine technical projects as set out in the table below. In addition, the Board identified 16 further “partnership” projects on which national standard-setters will be taking the lead with IASB in a participatory or monitoring role.

Prior to adopting the agenda, the Board had consulted with national standard-setters at a meeting in May and with its Standards Advisory Council at a meeting in July. Agenda suggestions had also been received from the former IASC Board, national regulators, and other interested parties.

IASB INITIAL TECHNICAL AGENDA – APPROVED JULY 2001	
Nine Initial Agenda Projects	Partnership Projects
<p>Projects intended to promote leadership and convergence:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Accounting for Insurance Contracts <input type="checkbox"/> Business Combinations <input type="checkbox"/> Performance Reporting <input type="checkbox"/> Accounting for Share-based Payments <p>Projects intended to provide for easier application of International Financial Reporting Standards:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Guidance on First-Time Application of International Financial Reporting Standards <input type="checkbox"/> Activities of Financial Institutions: Disclosure and Presentation <p>Projects intended to improve existing International Financial Reporting Standards:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Preface to International Financial Reporting Standards <input type="checkbox"/> Improvements to Existing International Financial Reporting Standards <input type="checkbox"/> Amendments to IAS 39, Financial Instruments: Recognition and Measurement 	<p>Other issues being worked on by partner national standard-setters. IASB will be working with, or monitoring the efforts of, its partners on these projects:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Accounting Measurement <input type="checkbox"/> Accounting by the Extractive Industries <input type="checkbox"/> Accounting for Financial Instruments, Comprehensive Project <input type="checkbox"/> Accounting for Leases <input type="checkbox"/> Accounting by Small and Medium-Sized Entities and in Emerging Economies <input type="checkbox"/> Accounting for Taxes on Income (Convergence Topics) <input type="checkbox"/> Business Combinations – Phase Two <input type="checkbox"/> Consolidation Policy <input type="checkbox"/> Definition of the Elements of Financial Statements <input type="checkbox"/> Derecognition Issues Other Than Those Addressed in IAS 39 <input type="checkbox"/> Employee Benefits (Convergence Topics) <input type="checkbox"/> Impairment of Assets <input type="checkbox"/> Intangible Assets <input type="checkbox"/> Liabilities and Revenue Recognition <input type="checkbox"/> Management’s Discussion and Analysis <input type="checkbox"/> Revaluations of Certain Assets

IASB DISCUSSION AND DECISIONS IN JULY

As the use of IAS grows worldwide, guidance on first-time application of IAS becomes increasingly important. There is a consensus within the IASB that SIC 8 needs revision.

IASB decided not to put a project on comprehensive measurement concepts on its initial agenda.

A project on whether expense should be recognised for stock options and other share-based compensation is one of IASB's nine initial agenda projects. This issue was discussed further at IASB's September 2001 meeting.

A battle may be looming on this project. In a 21 September 2001 press release, Financial Executives International (www.fei.org) said: "Requiring expense recognition for employee stock options could well undermine any chance that we will see harmonization of accounting standards. Further, the priority given to this bitter issue, and the manner in which the IASB press release treated expense recognition as a foregone conclusion, has disturbing implications about the fairness of the IASB deliberation process going forward."

Based on discussions at the July and September IASB meetings, there is strong sentiment within the Board to abolish pooling and move to a non-amortisation plus impairment model for goodwill.

First-time Application of IAS

The Board added this project to its technical agenda, after having consulted with the Standards Advisory Council. The project includes a review of SIC 8. IASB staff highlighted the key issues and a proposed approach for the project (see separate story on page 19).

Measurement

The Board debated the relationship between fair value and the three components of deprival value: replacement costs, value in use, and net realisable value. Members debated various measurement criteria and concluded that the papers presented should be amended and resubmitted to the Board to reflect the differing views presented. No conclusions were reached.

Share-based Payments

A presentation by the IASB project manager identified the two fundamental issues in the project:

- Should a transaction paid for in shares be accounted for the same way as a transaction paid for in cash?
- If so, how should it be measured?

A key argument for recognition is that such a transaction is a purchase transaction like any other where resources are acquired and consideration is given in exchange for the resources.

Arguments against recognition include: The company is not party to the transaction (it is a transaction with owners); no added services are received (employees paid a salary already); no cost and therefore no charge; EPS would be hit twice; and that there are adverse effects to such a charge (reduction in share schemes). The IASB discussed each of these, and rejected the arguments in each.

Share-based payments can be measured at historic cost, intrinsic value, minimum value, or fair value. Each was discussed. Practical problems encountered with measurement include unlisted companies. Measurement date can either be grant date, service date, vesting date, or exercise date. The merits of each were discussed, with no conclusion reached as to which is preferred by Board members.

IASB will analyse the responses received by the national standard setters who exposed the G4+1 Paper.

The Board concluded that it should address this project. A paper will be presented and discussed with the SAC at the October SAC meeting.

Business Combinations

IASB identified four aspects of a project on business combinations:

- Scope and plan for the project.
- Definitions that determine the scope of IAS 22.
- The methods of accounting for business combinations.
- Acquired intangible assets.

continued...

IASB DISCUSSION AND DECISIONS IN JULY, continued

Issues related to the scope of the project

- The method or methods of accounting for business combinations.
- Definitions of such terms as business combination, joint ventures, and transactions among entities under common control.
- Acquired intangible assets other than goodwill.
- Goodwill amortisation and impairment testing.
- Negative goodwill – definition, recognition, and amortisation.
- Acquisition provisions.
- In-process research and development – is it a recognisable intangible asset and, if not, should it be charged to expense at acquisition or included in goodwill.
- Improvements – should the business combinations issues under consideration in the Improvements Project be addressed in this project?
- Disclosures and transition.

Definitions

The reason that definitions of the terms business combinations, joint ventures, and transactions among entities under common control are important is that the definitions determine whether particular transactions do or do not come under the scope of IAS 22.

Methods of accounting for business combinations under consideration

- Purchase method.
- Pooling of interests method.
- Fresh start method.

Acquired intangible assets

This aspect of the project would focus on intangible assets other than goodwill acquired in a business acquisition.

Improvements Project

- First-Time Application of IAS will be carved out as a separate agenda project (see description above and discussion on page 19).
- Limited revisions to IAS 39 will be a separate agenda project. However, the Improvements Project will include IAS 32 and IAS 21.
- Elimination of the following alternatives will be considered:
 - IAS 2 choice of FIFO and LIFO.
 - IAS 8 choice of benchmark vs. allowed alternatives for changes in accounting policies and fundamental errors.
 - IAS 17 option to expense or allocate initial direct cost on operating leases of the lessor.
 - IAS 21 option to expense or capitalise exchange losses in certain severe devaluation situations (SIC 11 also is relevant).
 - IAS 21 option to translate goodwill at closing rate or historical rate.
 - IAS 23 option to expense or capitalise borrowing costs.
 - IAS 27 and IAS 28 choices of cost, equity method, or available-for-sale under IAS 39 for investments in subsidiaries and associates in the parent's/investor's separate financial statements.
 - IAS 31 option to account for joint ventures using proportionate consolidation or the equity method.

Initial Technical Agenda

After having heard the views of the Standards Advisory Council, IASB agreed on an initial technical agenda as set out in the table on page 2 of this newsletter.

A sub-committee of four IASB members has been working to identify areas in which alternatives presently permitted under IAS should be eliminated. Several of these, such as elimination of LIFO and capitalisation of borrowing costs, could result in fundamental changes of accounting principle for many companies.

The tally: Nine IASB initial agenda projects plus working with national standard-setters on 16 others.

IASB DISCUSSION AND DECISIONS IN SEPTEMBER

IASB is inviting additional comments on the G4+1 discussion paper. The G4+1 paper had proposed:

*– expense recognition of stock options and other SBPs;
– measurement date is vesting date;*

*– measure at fair value of the shares or options issued;
– if shares or options are granted before vesting date, begin measuring at grant date, then “true up”.*

IAS 19 does not require recognition or measurement of equity compensation benefits, but it does require some disclosure (not including fair value).

The Steering Committee is finalising a Draft Statement of Principles to submit to the Board. Deloitte Touche Tohmatsu and others will sponsor a two-day Forum on The Insurance Industry and IAS: Challenges and Opportunities, in Paris 9-10 October. Info: www.iasforum.org

Share-based Payments (SBPs)

The Board had decided at its July meeting that it would not issue a discussion paper on SBP but, rather, an exposure draft. That was because IASB had already published the G4+1 Paper on SBPs. The Board debated whether a decision to bypass normal due process was a good idea and decided the following:

- ❑ IASB will re-issue the G4+1 SBP discussion paper. [This was done 20 September, with a comment deadline of 15 December 2001.]
- ❑ The paper will explain why this is on the IASB agenda, that IASB is using the G4+1 paper as an IASB issues paper, that previous comment letters need not be re-submitted, and that IASB is seeking comments specifically on measurement issues relating to SBPs.
- ❑ Comment deadline: 15 December 2001.
- ❑ The Board will continue to discuss the issues surrounding SBPs in the interim.

IASB staff presented a paper on SBPs to the Board:

- ❑ After discussing arguments for and against recognition of SBPs as an expense, the paper recommends that the payments are expenses that should be deducted in measuring net profit or loss.
- ❑ The Board tentatively agreed with this proposal, subject to comments received on the discussion paper.
- ❑ Four measurement bases were discussed:
 - Historical cost.
 - Intrinsic value.
 - Minimum value.
 - Fair value.
- ❑ Fair value appeared to receive the most support.
- ❑ The paper will be redrafted to address concerns and comments by IASB members, including treatment for unlisted companies and the use of option pricing models.

Insurance

- ❑ IASB briefly addressed, and accepted, the Steering Committee proposal to carry out field visits with insurance companies in 2001 to discuss practical issues on the basis of the current proposals in the Draft Statement of Principles, particularly the measurement of insurance contracts at entity-specific or fair value.
- ❑ The aim is to cover companies in as many as possible of the liaison countries plus, most likely, several additional countries.
- ❑ The Steering Committee has also proposed that IASB also should carry out a more comprehensive field test of the proposals in 2002.

First Time Application

DTT partner Laurence Rivat made a presentation to the Board on this issue. See separate story on page 19.

continued...

IASB is moving in the same direction as the recent standards adopted in Canada and the United States. Australia and New Zealand had already abolished pooling. It remains a practice in the UK and France.

Business Combinations

Presentation by IASB Member Tatsumi Yamada

At its July meeting, the Board tentatively agreed that all business combinations should be accounted for as acquisitions using purchase accounting. Tatsumi Yamada (Japanese Liaison Member) felt that in Japan there were examples of transactions where it was not possible to identify an acquirer. He identified five examples. In each of the cases, the pooling method was used.

The Board concluded that the five cases did not have any characteristics unique to Japan and that similar cases had been examined in reaching the conclusions implemented in the US and Canada. The Board indicated that the position unique in Japan is a cultural one, where it is not acceptable to portray an acquiree and an acquirer. The Board will address this by providing specific guidance for identifying an acquirer.

Definitions and Scope

- ❑ The definition of business combination from the previous meeting was discussed. It was felt necessary to tighten up exclusions, since those combinations scoped in would all be required to use purchase accounting. On that basis, it was felt appropriate to remove the word ‘acquisitions’ as it may result in misinterpretation. It was also felt that ‘reporting entity’ must be defined.
- ❑ The Board will amend IAS 22 rather than issue a new IFRS. Therefore, conclusions reached on presentation of standards issued by the new IASB will not apply.
- ❑ The exposure draft should include the guidance that SIC has been developing on defining common control.
- ❑ The Board discussed whether mergers by contract should be included in the scope of the standard or dealt with in phase two of the project. No decision was reached.
- ❑ The Board discussed the linked subjects of step-acquisitions and presentation of minority interests. Discussion centred on whether step-acquisitions should be scoped in or put in to the consolidation project in phase two, and whether an increased holding in a subsidiary should be accounted for as a step-acquisition or as treasury stock. These issues will be discussed further in October.
- ❑ The Board concluded that minority interest is an equity item, not a liability.
- ❑ The Board discussed fresh-start accounting, particularly for circumstances in which an acquirer is clear but for tax/legal/practical reasons a new company is set-up to acquire both parties. In Australia, the new company is always regarded as the acquirer (even if the substance is clearly to the contrary), with the combining parties both revalued to fair value. The Board had planned to consider fresh-start accounting in phase two, but it does not want to amend IAS 22 in a way that stops countries already using the method from using it, only to re-introduce the method at a later date. Concerns were expressed about (1) the potential abuse of such a method if it was permitted without clear criteria for its use and (2) whether it is inconsistent with the guidance in IAS 22.12 on reverse acquisitions. The Board tentatively decided to remove IAS 22.12 from the exposure draft, to explain the discussion held, and to invite comment.

Intangibles other than goodwill and IPR&D

- ❑ The illustrative list of potential acquired intangibles from FAS 141 will be included in the standard.
- ❑ Accounting for intangibles with a finite useful economic life should follow IAS 38.

continued...

IASB DISCUSSION AND DECISIONS IN SEPTEMBER, continued

- ❑ The Board agreed that intangible assets can have an indefinite (but not infinite) useful economic life, even if this requires subsequent actions. The exposure draft will include guidance for identifying such assets. Such intangibles should be reviewed for impairment rather than amortised over an arbitrary period, but once the life of the asset becomes determinable, amortisation should commence. The IAS 36 impairment test should be applied annually for unamortised intangibles.
- ❑ Revaluation should be allowed for intangible assets that (a) have an indefinite useful life and (b) are acquired in a business combination, even if no active market exists for them. Otherwise this would be inconsistent with recognising the asset in the first place. IAS 38 may subsequently be amended to allow this for all acquired intangibles.

In-process research and development (IPR&D)

The Board's tentative view: All R&D acquired in an acquisition must be recognised as an asset if it satisfies the normal acquired intangibles criteria – even though an asset would not be recognised if such costs are incurred directly by the acquirer. Subsequent accounting will follow IAS 38.

The Board debated whether subsequent R&D expenditure relating to acquired IPR&D should be treated under IAS 38.42 and IAS 38.45 (no capitalisation of any research and capitalisation of development only after strict commercial viability criteria are met) or whether IAS 38.60 should apply (all subsequent expenditure adds to the original IPR&D asset, subject to impairment). Under the second option, if a minimal amount, say \$20, of research is acquired and capitalised, then a further expenditure of \$20 billion can be capitalised. The \$20 billion would not have been capitalised if the initial \$20 not been acquired. The Board saw this as a potential abuse and concluded that paragraphs 42 and 45 should apply.

Goodwill

Initial discussion considered whether goodwill is an asset. Most standard-setters say that it is (but UK and Germany capitalise the cost without stating whether it is an asset). Under IAS it is considered an asset although it does not appear to meet the criteria in the Framework. The Board concluded that it is an asset, because the purchase price was paid for a reason, although it is not a separately measurable asset.

The Board concluded that non-amortisation was the correct treatment for goodwill, with an impairment test that is stringent but does not create an onerous implementation workload. The Board noted that this conflicted with the 4th EU Directive.

Issues relating to the impairment test were debated. Board conclusions:

- ❑ The test should be applied at the 'cash generating unit' (CGU) level. The existing definition of CGU should be strengthened to mean the lowest level possible within the existing management structure, to minimise the cost of performing the exercise.
- ❑ The value-in-use measure in IAS 36 will be retained.
- ❑ The IAS 36 guidance on the assumptions permitted in assessing the worth of goodwill (budgets, growth rates, etc.) will also be retained, but the expected value notion will now be required, not just permitted.
- ❑ The comparison should include assets and liabilities that were unrecognised at the date of acquisition but that would be recognised if the purchase took place on the date the test is being performed. However, this is necessary only if an initial review at the unit level has indicated impairment. This effectively means a two-step test.
- ❑ Detailed impairment calculations should be reviewed in subsequent periods to ensure that they are comparable with the actual results achieved. The frequency of such tests is to be further debated at the next meeting.

The purpose of these meetings is to develop shared goals with respect to areas of convergence and to enable IASB – and the national standard setters as well – to leverage their resources to their mutual benefit. IASB has scheduled a third meeting with the eight national standard setters on 21-22 January 2002.

IASB MEETS WITH NATIONAL STANDARD SETTERS

IASB's second meeting with representatives of eight national accounting standard setters was held in London on 10-11 September 2001. The goal is to continue to develop a programme of partnership on certain technical agenda projects leading to convergence of national and international accounting standards.

At the earlier meeting in May, discussion centred on the following possible partnership approach:

- ❑ IASB and the national standard setters would agree on convergence projects and, to the extent possible, each would place them on their agendas.
- ❑ One national standard setter would be the leader on a project, one or more others would agree to provide project support resources, and one or more others would agree to be consultants.
- ❑ Flexibility would be needed to accommodate the varied due processes of the national standard setters.

At the September meeting, the following projects were discussed:

Business combinations: The Japanese standard setter presented a paper about transactions in which an acquirer cannot be identified. They accept that these situations are rare but believe that a standard is needed for them. They believe that the 'fresh start' approach is not appropriate for these true merger situations. The treatment adopted affects the Japanese taxation system. The matter was discussed and issues such as the definition of these special circumstances were considered.

Share-based payments: IASB staff presented a paper on share-based payments. The key points are as follows:

- ❑ The only existing standard is FAS 123, but this requires recognition only in limited circumstances.
- ❑ The German standards board hopes to issue a draft standard soon that will require recognition and expensing of the payments.
- ❑ The Danish standards board is issuing a similar draft standard and will continue to monitor international developments.
- ❑ US analysts are not content with the information provided by FAS 123, and FASB recognises that something further needs to be done to provide transparent, comparable, and high quality information in relation to share-based payments.
- ❑ All standard setters voiced concerns about being seen to 'go it alone', that is, they all want to pursue the project on an international basis.
- ❑ The project will cover all SBP issues including recognition, timing and methodology for measurement, and lapsed/forfeited options.
- ❑ The Canadian ASB expects to issue a final standard strongly encouraging the FAS 123 approach in the near future.
- ❑ UK ASB reported considerable support for the G4+1 paper from the user community, but there remains a huge difference of opinion on how the payments should be measured.
- ❑ Concern was raised in relation to the communication process and the fact that IASB intends to go straight to an exposure draft as opposed to issuing a discussion paper.
- ❑ Australian ASB reported that they are happy to put this on their agenda and to work with the IASB on this project. They also reported that there is currently significant legislative pressure in relation to disclosure of directors' remuneration in Australia.
- ❑ Japan reported that this is not now on their agenda, but the issue should be pursued. They are concerned about the process and commented that the G4+1 paper is not a substitute for an IASB discussion paper.

continued...

NATIONAL STANDARD-SETTERS MEETING, continued

Improvements project: The IASB project leader reviewed the background to this project and asked liaison standard setters for their comments on the proposals to eliminate choices within existing IASs:

- ❑ FIFO/LIFO–IAS 2: The Sub-committee proposes that the LIFO alternative be prohibited. Comments: Many of the standard setters reported tax complications that would arise if LIFO were banned. The possibility of using IASs only for group accounts and allowing individual entities to use LIFO was discussed.
- ❑ Fundamental errors–IAS 8: The Sub-committee proposes that all errors (whether or not fundamental) should be corrected by restating prior period financial statements. Comments: The Japanese commercial code does not permit restatement of financial statements; and the UK ASB reported adverse reaction in the UK to trying to drop the ‘fundamental’ element of the requirement.
- ❑ Change in accounting policy–IAS 8: The Sub-committee proposes a requirement to restate prior period financial statements for all changes in accounting policy. No comments were raised.
- ❑ Leases–IAS 17: The Sub-committee proposes to prohibit allocating initial direct costs over the lease period. Comments: Japan commented that it was expensing that should be prohibited. The UK commented that there were many more fundamental issues that should be addressed in relation to IAS 17 and that it could send out the wrong signals to issue a minimally revised standard. Canada supported these comments.
- ❑ Translation of goodwill and fair value adjustments–IAS 21: The Sub-committee proposes the use of the closing rate. It was suggested that there were many other issues that need to be dealt with in IAS 21.
- ❑ Borrowing costs–IAS 23: The Sub-committee proposes to prohibit capitalisation. Comments: Australia said this is a big question not really suitable for a quick fix, as there are likely to be diverse views. FASB commented that if capitalisation is allowed to remain, adequate guidance on how to capitalise is important.
- ❑ Investments in subsidiaries and associates–IAS 27 and 28: The Sub-committee proposes the use of the equity method only. Many comments were made about whether IASs should apply only to group accounts or also to individual entities. IASB plans to discuss this further.
- ❑ Joint ventures–IAS 31: The Sub-committee proposes the use of the equity method only. The UK commented that the committee needs to think carefully about joint ventures in all circumstances, including those where the joint venture is not an entity.

IAS 39 excluding derecognition: IASB staff plans to present proposed revisions to IAS 39 to the Implementation Guidance Committee in September and then to the Board in November.

Derecognition (financial instruments): IASB staff has identified the differences between FAS 140 and IAS 39 and is developing a proposal for convergence. Staff plans to report to the Board in November.

Banking activities: The IASB advisory committee has been broadened to include non-bankers. Expanded committee will meet later this month.

Performance reporting: IASB staff hopes to present a draft statement of principles and a project plan to the November meeting.

continued...

NATIONAL STANDARD-SETTERS MEETING, continued

Business combinations phase two: FASB has put this on its agenda. The principal focus is purchase accounting procedures and purchase price allocation. The Canadian ASB is working with the IASB and FASB toward a converged standard.

Consolidation policy: The UK Accounting Standards Board (ASB) sent out a questionnaire in August requesting data on six consolidation issues.

Derecognition (other than financial instruments): The UK ASB is developing a project plan.

Financial instruments–Joint Working Group proposal: IASB has received many responses to date, and an analysis is underway. Staff hopes to report to the Board in January.

Leasing: The UK ASB hopes to be able to share its project plan with IASB soon.

Small and medium-sized businesses/emerging economies: The Board was challenged as to why these projects had been combined.

Management’s discussion and analysis: The UK ASB is currently updating its statement on operating and financial reviews and is liaising with the FASB.

Discontinuing operations: FASB has completed its deliberations, and a new statement (FAS 144) will be issued later this month, effective 15 December 2001.

Agriculture: The Australian standard is very similar to IAS 41, and AASB has been monitoring implementation experience with a view to reporting back to the IASB on findings.

First-time application of International Financial Reporting Standards (IFRS): The IASB working group has concluded that SIC 8 needs modification to provide true comparability. The proposals for a new standard are as follows:

- On first-time application entities should apply the standards that are in existence at that time.
- IFRS should be applied both to the current year and a required number of prior years.
- The date of adoption is the commencement of the first year of presentation.
- There will be a ‘look back’ period (length to be determined) for which significant events should be disclosed, but not restated.
- The impracticability exemption permitted by SIC 8 will be removed.

Initial proposals also suggest that this new standard should replace all transitional rules provided in IFRSs. This proposal raised some concerns among the Board, and further discussion is expected. In addition, the Board will give further consideration to the use of hindsight when applying standards retrospectively, for instance, knowing that a provision should have been recognised at a particular point.

PROPOSED CHANGES TO SIC

At its meeting with its Standards Advisory Council 23 July, IASB presented a paper that proposed major changes to the structure of the Standing Interpretations Committee (SIC). The changes are set out in the following table:

PROPOSED CHANGES TO STANDING INTERPRETATIONS COMMITTEE	
<p>Name of committee:</p> <ul style="list-style-type: none">❑ SIC will be renamed the International Financial Reporting Issues Committee (IFRIC).❑ This would be consistent with the proposed new name of IASB pronouncements, International Financial Reporting Standards, and with the new mandate (below). <p>Name of pronouncements:</p> <ul style="list-style-type: none">❑ IFRIC's output would be known as 'Abstracts' rather than 'Interpretations'.❑ This change is consistent with the new mandate and is in line with other standard setters' interpretative committees and would aid in convergence. The US EITF and UK UITF both release 'Abstracts'. <p>Mandate:</p> <ul style="list-style-type: none">❑ The scope of IFRIC's activities would be broadened to allow the IFRIC to address issues beyond interpretations of existing standards.❑ This would allow IFRIC to answer questions that would otherwise be answered ad hoc by external parties, which could lead to divergent practices. <p>IFRIC members and chairman:</p> <ul style="list-style-type: none">❑ The new IFRIC would have 12 members and a non-voting chairman.❑ This would allow the voting members of IFRIC to concentrate on the technical issues while the chairman can deal with the running of the meeting.❑ The chairman would be either an IASB liaison member, a senior IASB staff member, or an outside party – most likely to be a senior member of IASB staff.	<p>IFRIC Procedures:</p> <ul style="list-style-type: none">❑ An IFRIC agenda committee will recommend proposed agenda items. This will increase IFRIC's efficiency by screening issues submitted by the public. Sources of questions posed to the committee will remain confidential. The agenda committee will make recommendations on an agenda, but IFRIC will make the final decision.❑ IASB will review Draft Abstracts by a process of negative clearance. This would help prevent, at an early stage, the possibility of IFRIC issuing a Draft Abstract to which IASB is opposed.❑ IASB will vote on a final Abstract in a public meeting. <p>Other matters set out in the draft paper:</p> <ul style="list-style-type: none">❑ IFRIC should take a principle-based approach to developing interpretive guidance, rather than a case-specific approach.❑ The proposed IFRIC structure will also have the ability to reconsider a member's membership should that person not attend meetings regularly.❑ The proposal makes provision for meeting electronically. These must still be public meetings.❑ Issues where consensus is not reached within three meetings will be automatically referred to the Board.❑ Regular IFRIC review of the mandate and operating procedures.❑ IFRIC will meet every two months.

Peter Wilmot, retired Deloitte & Touche partner from South Africa, was elected vice chairman of SAC. He will chair the SAC meetings.

A comparison of IASB's initial agenda as adopted (see page 2) with the proposed projects discussed with SAC indicates that the Board was influenced by the comments of SAC members. Among the proposed "first priority" projects that did not make the final cut are (a) the JWG proposal for full fair value of all financial instruments, (b) a comprehensive project on accounting measurement, and (c) a comprehensive derecognition project.

The proposed changes to SIC are both cosmetic (change of name of the body and its pronouncements) and fundamental (IASB negative clearance of drafts, IASB staff person to chair SIC, authority to issue guidance in areas not covered by an IAS/IFRS, and a principle-based approach to guidance).

IASB MEETS WITH ADVISORY COUNCIL IN JULY

IASB held its first meeting with its Standards Advisory Council on 23-24 July 2001. The three principal items on the agenda were:

- IASB's initial technical agenda
- Standing Interpretations Committee structure and procedures
- Preface to International Financial Reporting Standards

Proposed Initial Technical Agenda

At its meeting with the Standards Advisory Council, IASB presented the following as its proposed initial technical agenda:

First Priority Projects

- Preface to International Financial Reporting Standards
- Transition and First-Time Application of IAS
- Improvements Project
- Financial Instruments, including Limited Revisions to IAS 39, Derecognition, and the Joint Working Group Proposal
- Disclosure of Banking Activities
- Insurance Contracts
- Business Combinations
- Measurement
- Share-based Payments
- Derecognition of Assets and Liabilities - both financial and non-financial assets
- Performance Reporting

Second Priority Projects

- Impairment
- Intangible Assets
- Lease Accounting
- Research and Development

Research Projects

- Revaluations
- Extractive Industries
- Framework, especially definitions of assets, liabilities, equity, income, and expenses
- Liabilities and Equity
- Accounting for Small and Medium-Sized Enterprises (SMEs) – whether special guidance is needed for small and medium sized unlisted entities
- Management Discussion and Analysis – whether IASB should provide guidance on the preparation and presentation of information outside of the normal financial statements.

Standing Interpretations Committee

At its meeting with its Standards Advisory Council 23 July, IASB presented a paper that proposed major changes to the structure of the Standing Interpretations Committee (SIC). The proposed changes are set out in the table on the preceding page. SAC member comments:

SAC members raised concerns about conflicts between the IASB's and IFRIC's agendas. SAC members also expressed concerns that the new IFRIC would be setting new 'mini-standards' with the same status as IFRS.

SAC members expressed concerns about a non-voting chairman. It was also proposed that the Big 5 firms should all have a permanent seat on IFRIC as they see the practical issues daily.

continued...

An exposure draft of the revised Preface was approved in July but has not yet (late September) been issued.

IASB MEETS WITH ADVISORY COUNCIL, continued

Preface to IASB Standards

At its July meeting, IASB has approved an Exposure Draft of a revised Preface to IASB Standards for a public comment period of 90 days.

Proposed provisions:

- New IASB standards will be called International Financial Reporting Standards (IFRS).
- IFRS will apply to general-purpose financial statements of profit-oriented entities.
- All paragraphs in a standard are of equal authority (no more 'black-letter' and 'grey-letter').
- An objective of IASB is to reconsider allowed alternatives.
- Due process for interpretations will include negative clearance of draft interpretations by the IASB and approval of final interpretations by at least 8 votes.
- Due process for standards will normally include an advisory group, a discussion document, an exposure draft (at least 8 votes required), and approval of a final standard (again at least 8 votes).
- Both EDs and final Standards will include dissenting views of IASB members and a basis for conclusions.

UPCOMING MEETINGS

International Accounting Standards Board

- 16-20 October 2001, Washington (includes meeting with the Standards Advisory Council 16-17 October)
- 27-29 November 2001, London
- 18-20 December 2001, Paris
- 21-25 January 2002, London (includes meeting with national standard setters 21-22 January)
- 19-23 February 2002, London (includes meeting with the Standards Advisory Council 19-20 February)

International Accounting Standards Advisory Council

- 16-17 October 2001, Washington
- 19-20 February 2002, London
- 17-18 June 2002, Berlin
- 21-22 October 2002, London

Standing Interpretations Committee

- 12-13 November 2001, London

Trustees of the IASC Foundation

- 15 October 2001, Washington

NEWLY EFFECTIVE IAS, SIC

IAS 39, *Financial Instruments: Recognition and Measurement*, and IAS 40, *Investment Property*, went into effect on 1 January 2001, as did certain limited revisions to IAS 12, 19, and 39. IAS 41, *Agriculture*, will take effect 1 January 2003, although earlier adoption is encouraged.

Also effective as of 1 January 2001 was SIC 19, *Reporting Currency – Measurement and Presentation of Financial Statements Under IAS 21 and IAS 29*.

This will be the last SIC meeting pending reorganisation.

For the first time, a portion of the Trustees' meeting will be open to public observation.

STANDING INTERPRETATIONS COMMITTEE

On 12 September 2001, IASB's Standing Interpretations Committee issued two Draft Interpretations for comment. Copies are available at www.iasb.org.uk. Comment deadline on both is 5 November 2001:

In assessing whether control or significant influence exists, options, warrants, and convertibles (potential voting rights) must be considered. Control is defined in IAS 27.6. Significant influence is defined in IAS 28.3.

If the holder can put an 'equity instrument' back to the issuer, the issuer must report the instrument as a liability, not equity. IAS 32.20 states that "the critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation... to deliver cash or another financial asset.... When such a contractual obligation exists, that instrument meets the definition of a financial liability regardless of the manner in which the contractual obligation will be settled."

- **SIC D33, Consolidation and Equity Method–Potential Voting Rights.** An enterprise may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to either give the enterprise additional voting power or reduce another party's voting power over the financial and operating policies of another enterprise (potential voting rights). SIC D33 addresses whether the existence and effect of potential voting rights are considered when assessing whether control under IAS 27 or significant influence under IAS 28 exists. SIC D33 proposes that their existence and effect, if presently exercisable or convertible, should be considered. SIC D33 also addresses whether the proportion allocated to the parent and minority interest in preparing consolidated financial statements under IAS 27, and the proportion allocated to an investor that accounts for its investment in an associate using the equity method under IAS 28, should be determined based on present ownership interests or ownership interests that would be held if the potential voting rights were exercised or converted. D33 proposes that the proportion allocated should be determined solely based on present ownership interests.

- **SIC D34, Financial Instruments–Instruments or Rights Redeemable by the Holder.** A puttable instrument is a financial instrument or a right that gives the holder the right to put the instrument or right back to the issuer for cash or another financial asset. The amount payable upon redemption is determined based on an index or other item that has the potential to increase and decrease. In some circumstances, the legal form of such an instrument or right includes a right to a residual interest in the assets of the enterprise after deducting certain of its liabilities. For example, open-ended mutual funds and certain co-operative enterprises may provide their unitholders or members with a right to redeem their interests in the enterprise at any time for cash equal to their proportionate share of the net asset value of the enterprise. SIC D34 addresses how the issuer should classify a puttable instrument. SIC D34 proposes that the entire instrument should be classified as a liability. SIC D34 also addresses whether a puttable instrument is a hybrid financial instrument that consists of both a host contract and an embedded derivative that should be measured separately, and if so:
 - (a) how the issuer should measure each component;
 - (b) whether the issuer should present the components separately or on a net basis in the balance sheet; and
 - (c) how the issuer should present any gain or loss arising from remeasurement in the income statement.

D34 proposes that a puttable instrument is a hybrid financial instrument consisting of two components: (a) a host contract that is similar to a deposit repayable for a fixed amount and (b) an embedded non-option derivative that represents a principal payment indexed to an underlying variable. When recognised initially, the host debt component should be measured at cost, net of transaction costs, and the embedded derivative should be measured at zero. Subsequent to initial recognition, the host debt component should be measured at amortised cost, and the embedded derivative should be measured at fair value.

continued...

STANDING INTERPRETATIONS COMMITTEE, continued

As regards presentation, D34 proposes that an issuer should present the host contract and embedded derivative components of a puttable instrument on a net basis in the balance sheet, and may present any gain or loss arising from remeasurement on a net basis in the income statement. In the extreme circumstance when an issuer has no equity as a result of issuing a puttable instrument, the issuer may also amend the descriptions in its income statement and present the net gain (net loss) separately with an appropriate description on the face of the income statement before profit or loss from ordinary activities.

The consensus in SIC D34 will affect open-ended mutual funds and certain co-operative organisations by requiring them to present their unitholders' funds as liabilities.

The following Draft Interpretations remain outstanding:

- ❑ **SIC D26, Property, Plant and Equipment – Results of Incidental Operations.** At its meeting in February 2001, SIC approved a final Interpretation without any substantive changes to the proposed consensus, subject to approval by the IASB. A final Interpretation was submitted to the IASB for approval. However, at its April 2001 meeting, IASB did not approve the proposed Interpretation, concluding that the issue should, instead, be addressed in the Improvements Project. Consequently, SIC is not pursuing a final Interpretation at this time, but it has not withdrawn D26.
- ❑ **SIC D27, Transactions in the Legal Form of a Lease and Leaseback.** SIC has completed its discussions of SIC D27, Transactions in the Legal Form of a Lease and Leaseback, including comments received from the IASB. The SIC reaffirmed its consensus and is redrafting the Interpretation to focus on the principles involved rather than on a specific fact pattern.
- ❑ **SIC D28, Business Combinations – Measurement of Shares Issued as Purchase Consideration.** SIC D28 addresses when the date of exchange occurs in an acquisition in which shares are issued as the purchase consideration. If the acquisition is achieved in a single exchange transaction, the date of exchange is the date on which the acquirer obtains control over the net assets and operations of the acquiree. If the acquisition is achieved in stages by successive share purchases, the fair value of the shares is determined at the date that each exchange is recognised. D28 also addresses when it is appropriate to use a price other than a published price at the date of exchange to determine the fair value of an acquirer's shares that are quoted in an active market. D28 proposes another price should be used only if it can be demonstrated that a price fluctuation is undue, and the other price provides a more reliable measure of the shares' fair value.
- ❑ **SIC D29, Disclosure – Service Concession Arrangements.** Specifies disclosures appropriate under IAS 1 about arrangements by which a private sector enterprise agrees to provide services of the type normally considered public (government) services.
- ❑ **SIC D30, Reporting Currency – Translation from Measurement Currency to Presentation Currency.** How to translate financial statements from a measurement currency to a different currency for presentation purposes. D30 proposes:
 - Assets and liabilities should be translated at the closing rate at the date of each balance sheet presented, except when an enterprise's measurement currency is the currency of a hyperinflationary economy, in which case assets and liabilities should be translated at the closing rate existing at the date of the most recent balance sheet presented.

Comment deadline on SIC D28-32 ended 10 September. SIC next meets on 12-13 November.

continued...

STANDING INTERPRETATIONS COMMITTEE, continued

- Income and expense items should be translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates, except when the measurement currency is the currency of a hyperinflationary economy, in which case income and expense items for all periods presented should be translated at the closing rate existing at the end of the most recent period presented.
- All resulting exchange differences are reported in equity.
- A pure ‘convenience translation’ of all balance sheet and income statement amounts using the closing rate is permitted. However, the resulting financial statements cannot be labelled as ‘in conformity with IAS’.

- **SIC D31, Revenue–Barter Transactions Involving Advertising Services.** How revenue from a barter transaction involving advertising should be measured. The basic principle is an enterprise providing advertising should measure revenue from a barter transaction based on the fair value of the advertising services it receives from its customer unless it is impracticable to measure reliably, in which case the enterprise should use the fair value of the advertising services it provides to the customer. If the fair value of the advertising services of both enterprises is not reliably measurable, the seller should recognise revenue only to the extent of the carrying amount of assets given up.
- **SIC D32, Intangible Assets–Web Site Costs.** Application of IAS 38 to costs incurred to develop and maintain a web site for an enterprise’s own use. D32 proposes that costs incurred during the planning stage of web site development are similar to research costs, which must be charged to expense under IAS 38. Costs incurred during the application and infrastructure development stage and the graphical design and content development stage are similar to development costs, which are eligible for recognition as an intangible asset under IAS 38 only if they satisfy certain tests. D32 provides guidance in applying those tests to web site costs.

Common control transactions is part of phase two of IASB’s business combinations project, so accounting for those is not likely to be addressed for several years. However, defining common control is part of phase one, and this will affect whether the transaction is covered by IAS 22.

SIC 12 does not provide a consolidation exclusion for ‘qualifying SPEs’ as FAS 140 does.

Deloitte Touche Tohmatsu has published a book of IAS 39 guidance (over 350 Q&A, examples, and comparisons). See page 24.

FIVE SIC PROJECTS WILL NOT BE PURSUED

SIC has removed two projects from its agenda because they are being addressed in IASB projects and has decided not to pursue three other potential projects that it had been discussing. The two cancelled projects are those on:

- Transactions Among Enterprises Under Common Control
- Earnings Per Share–Preference Dividends

The potential SIC projects that are not now being pursued are:

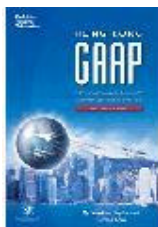
- Indefeasible Right of Use of Assets
- Financial Instruments–Classification of Preference Shares
- Consideration of SIC 12: Consolidation of Special Purpose Entities

PROGRESS ON IAS 39 GUIDANCE

IASB has issued a consolidated book that includes IAS 39 and with the 200 questions and answers approved in final form by the IAS 39 Implementation Guidance Committee (IGC) as an appendix. Within the body of IAS 39 itself, each of the Q&A is cross-referenced from the relevant paragraph. The publication clarifies that the IGC Q&A have an authoritative status on par with that of appendixes to other International Accounting Standards.

IGC has exposed a sixth batch of questions and answers for comment. Publication of these in final form is expected shortly.

“Fair value accounting for all financial instruments will happen sooner or later. This book will allow the reader to understand the changes and prepare for the effects of the regime.”



In May 2000, IOSCO endorsed IAS for use in cross-border capital raising.

The IVSC standards become increasingly important as accounting relies on measurement of assets and liabilities at fair value.

NEW BOOK ON FULL FAIR VALUE ACCOUNTING FOR FINANCIAL INSTRUMENTS WRITTEN BY DELOITTE & TOUCHE PARTNERS

Veronica Poole and Ken Wild of Deloitte & Touche, United Kingdom, have co-authored *A Practitioner's Guide to Full Fair Value Accounting of Financial Instruments*. Their aim is to explain the Joint Working Group Proposal including practical examples of how it would work. More information may be found at the Publisher's Website: www.cityandfinancial.com.

DTT PARTNERS AUTHOR SECOND EDITION OF HONG KONG GAAP GUIDE

The second edition of *Hong Kong GAAP* has been published. Written by DTT partners Stephen Taylor and Norma Hall, this 1,440-page book includes 43 chapters and five appendices. Each chapter has a comparison with International Accounting Standards and with the standards in the United States, United Kingdom, and People's Republic of China. One appendix is a comprehensive comparison of Hong Kong SSAPs and IAS. For more information about *Hong Kong GAAP*, please see the publisher's website: www.smlawpub.com.hk/other/gaap.asp

IOSCO TO SURVEY MEMBERS ABOUT IMPLEMENTATION OF IAS

IOSCO intends to survey its members by the end of 2001 regarding their implementation of the Resolutions Adopted by the IOSCO Presidents' Committee in May 2000 relating to the use of international accounting standards for cross-border offerings and listings. Nearly 110 national securities regulatory commissions are members of IOSCO. More information from the IOSCO website: www.iosco.org.

INTERNATIONAL VALUATION STANDARDS AND IAS

The International Valuation Standards Committee (IVSC) is an independent body that develops valuation standards that support standards being developed by other international bodies. IVSC works closely with the IASB. IVSC has just published a comprehensive volume of its standards, IVS 2001, which includes revised guidance on Valuation for Financial Reporting that has been developed with the assistance of the IASB. For information: www.ivsc.org

FINANCIAL REPORTING IMPLICATIONS OF TERRORIST ATTACKS IN THE US

At its regularly scheduled meeting on 20 September, FASB's Emerging Issues Task Force discussed the financial reporting implications of the 11 September terrorist acts. In addition to the tragic loss of thousands of lives, businesses are now faced with the challenge of providing meaningful financial information to the public reflecting changes precipitated by recent events. EITF discussions focused on three issues:

- how losses or other costs caused by the incident should be reported in financial statements;
- when those losses or costs should be recognized (on 11 September or some later date); and
- whether other information about the economic effects of the incident should be provided in financial statements.

For details: www.fasb.org/eitf/eitf091101.html. The SEC (www.sec.gov) has also taken steps (some of which have financial reporting and independence implications) to provide relief to market participants.

In February 2001, the European Commission proposed a Regulation that would require all EU companies listed on a regulated market, including banks and insurance companies (about 7,000 companies in all), to prepare consolidated accounts in accordance with International Accounting Standards by 2005, at the latest. EU Member States would have the option to extend this requirement to unlisted companies and to individual company accounts.

European financial markets are consolidating. Euronext, a cross-border European stock exchange, is now functioning. The Austrian stock exchange has formed an alliance with Deutsche Börse and has created NEWEX in co-operation with the Central and Eastern European securities exchanges. The NASDAQ has acquired a majority shareholding in EASDAQ ('NASDAQ Europe').

EU ECONOMIC AND SOCIAL COMMITTEE ENDORSES IAS FOR EUROPE

In response to a request from the European Council, by vote of 97 to one the EU Economic and Social Committee (ESC) has endorsed the Proposal for a Regulation of the European Parliament and of the Council that would adopt IAS in Europe by 2005. ESC concurred with an IAS 'endorsement mechanism' in which the Accounting Regulatory Committee, chaired by the Commission and with representatives of all Member States, will play a critical role. In that regard, ESC said that it "strongly supports the Commission's intention that each IAS will either be adopted or rejected in total. To introduce partial approval or modified versions of IAS would be extremely confusing and would undermine the fundamental decision to use IAS."

EU LAUNCHES CONSULTATION ON TRANSPARENCY OBLIGATIONS OF PUBLIC COMPANIES

The European Commission has launched an open Internet consultation on the transparency obligations of issuers whose securities are traded on regulated markets. This is the first consultation set up by the Commission in accordance with the recommendations of the February 2001 report of the Lamfalussy Committee. The Committee recommended that all new legislation in the securities field should be preceded by an early, broad, and systematic consultation of all interested parties in the securities area, and this was endorsed by the Stockholm European Council. The consultation document provides first indications of the views of the Commission as to the possible structure and content of a new regime on disclosure requirements and asks for contributions from interested parties by 30 September 2001. The preliminary orientations contained in the consultation document are without prejudice to any future decisions by the Commission in finalising its proposals. This consultation was followed in late July by another on the revision of the Investment Services Directive.

For further information:

http://europa.eu.int/comm/internal_market/en/finances/mobil/transparency.htm

EUROPEAN GOAL: AN INTEGRATED EUROPEAN SECURITIES MARKET BY 2003

The European Commission has created two key committees as part of its financial services action plan: a European Securities Committee (ESC) and a Committee of European Securities Regulators (CESR). The ESC will be composed of high-level representatives of the Member States. It will advise the Commission on issues relating to securities policy. At a future date, it will also act as a regulatory committee. The CESR is set up as an independent advisory body composed of representatives of the national public securities regulatory authorities to advise the Commission on the technical details of securities legislation. The Commission's goal is to achieve an integrated European securities market by the end of 2003.

For further information:

http://europa.eu.int/comm/internal_market/en/finances/mobil/01-792.htm

EC Internal Market Commissioner Frits Bolkestein said: "This proposal would make it considerably easier and cheaper for companies of all sizes to raise capital across frontiers in Europe. At the moment, widely varying national rules render the process expensive, complex and inefficient."

EUROPEAN COMMISSION PROPOSES "SINGLE PASSPORT" TO EUROPEAN FINANCIAL MARKETS

The European Commission has issued a Proposed Directive on Prospectuses prescribing the structure and minimum disclosure content of securities offering documents (prospectuses). The proposal would introduce a 'single passport' to raising capital in Europe. There would be only one prospectus approved by the home country authority of the issuer, which would have to be accepted throughout the EU for public offer and/or admission to trading on regulated markets.

For further information:

http://europa.eu.int/comm/internal_market/en/finances/mobil/prospectus.htm

DECISIONS IN FIRST-TIME APPLICATION PROJECT

At its September meeting, the Board focused on certain key principles that would be applicable over time and regardless of the location of the company adopting IFRS for the first time. Some tentative principles, to be explored at the IASB meeting in October, were discussed as follows:

- ❑ An IASB Standard should deal with the issues of first-time application of IFRS. The Standard would replace SIC 8 and override the transitional requirements in IFRS in cases of first-time application of IFRS.
- ❑ When performing the exercise of adoption of IFRS for the first time, some key dates need to be distinguished:
 - the date when an enterprise presents its financial statements under IFRS for the first time; and
 - the date when an enterprise applies IFRS for the first time to transactions and balances. A tentative view is that this latter date would be the beginning of the earliest financial year presented in the first set of IFRS financial statements. For example, any transitional employee benefit obligation under IAS 19 might be calculated at that date.
- ❑ As for the number of comparative periods to be presented under IFRS, the Board tentatively supported the idea that a reference should be made to IAS 1, which requires that comparative information should be disclosed at least in respect of the previous period. The Board felt that it was not within its mandate to interfere with securities regulators' requirements for additional comparative periods.
- ❑ In restating balances and prior transactions, an enterprise would use the standards that are applicable in the year when the enterprise presents its financial statements under IFRS for the first time. It would not use superseded or amended standards that may have been applicable at the time a transaction prior to the adoption of IFRS took place.
- ❑ There was some support that certain transactions occurring before the beginning of the earliest year presented need not be restated. A business combination accounted for as a pooling-of-interests under local GAAP, which might have been classified as an acquisition under IFRS, was one of the examples that was discussed.
- ❑ The Board discussed whether, if a significant transaction or event that took place during a 'look-back' period occurring before the beginning of the earliest year presented (length as yet undefined), disclosure should be made of (a) the non-restatement and (b) the accounting treatment applied under local GAAP. No decision was reached.
- ❑ In restating estimates at the end of the financial periods to be presented under IFRS for the first time, an enterprise would use hindsight – that is, it would use the best information available at the time it presents its financial statements under IFRS for the first time. However, if a change in estimate can be associated with an identifiable discrete event (such as a change in a tax rate), the change of estimate would be reflected in the period when this discrete event took place.

One of the first issues the new Chairman and Chief Accountant will have to deal with is the SEC's concepts release on International Accounting Standards.

NEW SEC CHAIRMAN AND CHIEF ACCOUNTANT

The US Senate has confirmed Harvey Pitt, 56, as chairman of the US Securities and Exchange Commission for a term expiring 5 June 2007. Mr. Pitt was a partner in the New York law firm of Fried, Frank, Harris, Shriver & Jacobson and was SEC General Counsel 1975-78. He replaces Arthur Levitt.

Robert K. Herdman, partner at Ernst & Young, has been appointed SEC Chief Accountant effective 8 October 2001. He replaces Lynn E. Turner, who stepped down in early August to join the faculty at Colorado State University, where he also will be the Director of the Center for Quality Financial Reporting. Mr. Turner was the Chief Accountant for the Commission since July 1998.

COMMENTS ABOUT IAS FROM LYNN TURNER

Lynn Turner made his final speech as Chief Accountant of the US SEC at the annual meeting of the American Accounting Association in Atlanta, Georgia, on 13 August. Comments relating to IAS included these:

- Regarding possible changes to the existing requirement that IAS registrants reconcile IAS earnings to US GAAP, Mr. Turner said: "I don't see a lot happening there.... Investors need to have information on an 'apples-to-apples' basis. We should do nothing at this point in time."
- The SEC has sent a letter to IASB asking IASB to add revenue recognition to its agenda. IASB Chairman Sir David Tweedie has replied that he would present the request to the IASB at its next meeting.
- The SEC has prepared an analysis of reconciling items in IAS filings and has sent it to IASB.
- Mr. Turner expressed concern about a letter written to IASB by a major Swiss multinational corporation stating that if the IASB adopts a standard that is more rigorous than a US standard, for example, in the area of business combinations or stock option accounting, then the company would propose to abandon IAS and switch to US GAAP. Commenting further on this letter in another presentation at the same meeting, Mr. Turner said:

I find this disappointing as it means that there are some out there who believe we should have standards based on the lowest common denominator (or some would say based on what gives them the answer they most desire) rather than international standards that are the 'best of breed'. However, I am not surprised. I always wondered if some of those advocating the use of international standards failed to recognize and give appropriate credit to the fact that we in the US have the world's largest, most liquid capital markets because we do in fact have the 'best of breed' financial reporting today. This in turn has provided companies with capital at the lowest possible cost that has been used to generate jobs and an improved global economy.

But ultimately, it will be the market that determines whose product works the best. I hope the IASB avoids the race to the 'bottom' with its product, as some have recommended. I also hope that those people whose foresight seems myopic and shortsighted, who believe that no standard should be any 'tougher' or more rigorous than what we establish in the US, realize they are really saying, 'Let's be done with the IASB now that it appears they are going to develop higher quality standards, and just look to the FASB for standard setting.'

NEW SEC RULES ON LOAN LOSS PROVISIONS APPLY TO IAS FILERS

The US SEC has issued Staff Accounting Bulletin 102, *Selected Loan Loss Allowance Methodology and Documentation Issues*. It sets out SEC staff views on loan and lease losses, focusing particularly on the documentation the SEC normally would expect registrants to maintain in support of their allowances for loan losses. Concurrently, US federal bank regulatory agencies issued essentially identical guidance. The guidance would apply to international registrants as well as domestic ones.

SAB 102 is available for download without charge:
www.sec.gov/interps/account.shtml

FASB PROPOSES NEW CONVERGENCE PROJECTS

FASB is proposing to add to its technical agenda two projects that relate to issues under consideration by IASB: Reporting Financial Performance and Disclosure about Intangibles. Detailed project proposals can be found on FASB's Website (<http://www.fasb.org/project/proposals.html>). In seeking views on whether to undertake these projects, FASB noted:

In attempting to promote high-quality international standards, the Board also considers (a) the possibility that resolution of the issues addressed would increase convergence of standards worldwide, (b) the opportunities the topic presents for cooperation with the International Accounting Standards Board or other standard setters, and (c) whether appropriate and sufficient resources are available for a joint project or other cooperative effort.

JAPAN'S NEW ACCOUNTING STANDARD SETTER IS NOW IN PLACE

A consortium of 10 private sector organisations, including Keidanren, JICPA, and the Tokyo Stock Exchange, have created a new Japan Accounting Standards Board (ASB) and related oversight foundation known as the Financial Accounting Standards Foundation (FASF). Thirteen persons were appointed to ASB, of whom three serve full time. An Advisory Council will also be created. The organisation is expected to be self-funding through membership fees. Stated objectives:

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.

Further information can be found at:

- ❑ Japanese Accounting Standards Board website:
www.fasf.jp/english/index.html
- ❑ **IAS PLUS** website: www.iasplus.com/country/japan.htm

HONG KONG GAAP TO MOVE CLOSER TO IAS

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..

Long-leases of land is not just a Hong Kong issue. It is relevant in China, United Kingdom, and many other countries as well.

The International Federation of Accountants (IFAC) comprises 153 national professional accountancy organizations in 113 countries, representing 2 million accountants.

Thank you for visiting. Comments are always welcome.

IAS 17 AND IAS 40: LONG LEASES OF LAND

As a result of IAS 40, Investment Property, Hong Kong Land Company, which prepares IAS financial statements, has switched to a cost/depreciation reporting model for investment properties from its prior full fair value model. IAS 40, in combination with IAS 17.11, prohibits the revaluation of leased land. The effect of the change was to eliminate US\$4.2 billion (81%) of shareholders' equity at 31 December 2000. In Hong Kong (and elsewhere, including China) nearly all land is leased from the government under long-term leases rather than owned outright. Hong Kong Land says it cannot reliably value the buildings apart from the land. In its first-half 2001 financial report, Hong Kong Land presented, in addition to its primary cost/depreciation model financial statements, supplementary financial information prepared "in accordance with IAS as modified by the revaluation of leasehold properties", with value changes reported in net profit or loss. This method increased net profit for 2000 from US\$0.3 billion to US\$2.2 billion. Revaluation of long leases of land was an issue considered by the IASC in developing IAS 40, but IASC concluded that it should reconsider IAS 17.11 separately and not as part of the investment property project. IASB has indicated that it will be addressing long leases of land as part of its Improvements Project.

IFAC ISSUES FOUR NEW PUBLIC SECTOR ACCOUNTING STANDARDS BASED ON IAS

IFAC's Public Sector Committee (PSC) has released four new International Public Sector Accounting Standards (revenue, inventories, hyperinflation, and construction contracts) and two new exposure drafts (related party disclosures and provisions). PSC is developing a comprehensive body of international accounting standards for governments and other public sector entities "based to the extent appropriate" on International Accounting Standards. For further information: <http://www.ifac.org/News/>

VISITORS TO WWW.IASPLUS.COM

Some facts about our last 21,000 visitors to the **IAS PLUS** website:

- ❑ **Which browser do they use?**
 - 89% use Internet Explorer (nearly 90% of those version 5.x)
 - 10% use Netscape (nearly all of those version 4.x. Netscape 6.x is just 0.08%)
- ❑ **Which operating system?**
 - Windows 98: 50%
 - Windows NT: 19%
 - Windows 2000: 15%
 - Windows 95: 14%
 - Total for Windows: 98%
 - Macintosh: 0.3%
 - Others: 2%

Interest in International Accounting Standards is gaining momentum in the United States.

FEI CONFERENCE TO HIGHLIGHT IAS

The *Current Financial Reporting Issues Conference* organised by Financial Executives International is one of the major annual US symposiums on accounting and finance. The programme for this year's conference, to be held 12-13 November in New York, includes:

- Keynote Address: "Global Accounting Standards" by Paul Volcker, Chairman, Trustees, IASC Foundation
- A General Session on "Implications of IAS for U.S. Companies and Capital Markets".

Conference information can be found at FEI's website:
www.fei.org/confsem/default.cfm#cfri

In its response to the SEC Concepts Release on IAS, FEI said:

FEI believes that U.S. capital markets are better served by having foreign registrants use an investor-oriented accounting model like IAS in the primary financial statements rather than providing bits and pieces of financial data that reconcile to U.S. GAAP supplementally. We also believe that the expanded use of IAS in world markets, which is much more likely to occur with SEC acceptance in the U.S., will further improve the comparability of financial results between U.S. and foreign companies. We would therefore support the Commission's acceptance of IAS for use in U.S. capital markets, provided that the following additional steps are taken:

- *Limit the choices of GAAP available to foreign registrants to two: U.S. GAAP or IAS.*
- *Require that foreign registrants comply fully with the same regulations that apply to U.S. public companies, including reporting U.S. or IAS GAAP financial statements for all interim periods.*
- *Actively support processes that will accelerate the development of a single set of global accounting standards that will be used in all securities markets.*
- *Ensure that U.S. and foreign registrants are treated equally in all respects under federal securities laws, including the right of all registrants to follow IAS standards.*
- *Require that these changes be effected over a time frame of no greater than five years and do not 'grandfather' existing foreign registrants.*

Two partners of Deloitte Touche Tohmatsu, Mr. Joseph El Fadel (D&T, Beirut) and Mr. Abbas Ali Mirza (D&T, Dubai), participated in this meeting, and in subsequent meetings Mr. Musa Dajani (D&T, Dubai) will also represent the firm on this Committee.

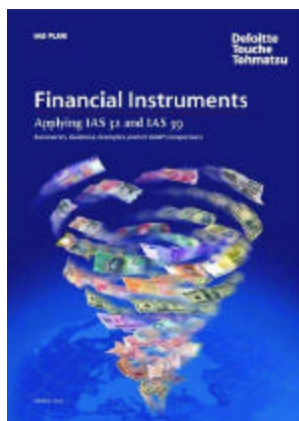
OFFICIAL ARABIC TRANSLATION OF IAS IS BEING DEVELOPED

- The IASB has appointed a review committee to undertake an official Arabic translation of International Accounting Standards. The Big-Five accounting firms along with the Accounting and Auditing Organization for Islamic Financial Institutions (AOFI) were invited to join this Committee. The Committee's first meeting was held in Beirut, Lebanon on 22 March, 2001. D&T Middle East has already produced an Arabic translation of IAS. The Committee has chosen this unofficial version as one of the versions to be used in finalising the official Arabic translation of IAS approved by the IASB.

NEW BOOK FROM DELOITTE TOUCHE TOHMATSU:

FINANCIAL INSTRUMENTS: APPLYING IAS 32 AND IAS 39

Summaries, Guidance, Examples, and US GAAP Comparisons



No accounting issue generates as much emotion as measuring financial instruments at fair value— not pooling, not stock compensation. No accounting issue is as complex.

And no accounting issue is as pervasive. Every enterprise has financial instruments – perhaps just cash and receivables and payables, but frequently investments, long-term debt, and derivatives. For many companies, financial instruments are the majority of their balance sheet – and this is true not only for the obvious entities like banks and insurance and leasing companies but also for many service and commercial enterprises and holding companies.

IAS 39 was IASC's most difficult standard. It was preceded by three exposure drafts and an issues paper that contained additional proposals. It took 10 years to develop.

IAS 39 is a radical standard for many companies:

- It calls for mark-to-market for many financial instruments.
- It puts all derivatives on the balance sheet and marks them to market.
- It sets out for when a transfer of financial assets is a sale and when it's just a collateralised borrowing.
- And – for the first time – it puts discipline in hedge accounting.

It takes effect in 2001.

When it was issued in December 1998, IASC knew that implementation would be even more difficult than developing the standard. They created a special IAS 39 Implementation Guidance Committee (IGC) charged with developing interpretations and guidance. In less than three years, the IGC has issued over 200 final guidance questions and answers – that's eight times the number of Interpretations that the SIC has issued on all of the other IAS put together. And more ICG Q&A are on the way.

Deloitte Touche Tohmatsu is in a very unique position with regard to IAS 39. The chairman of IASC during the development of IAS 39, Stig Enevoldsen, is a partner in our Copenhagen office and chairs our firm's IAS Policy Committee. John T. Smith, the IGC chairman and a former IASC Board member, is a partner in our US practice and heads up the firm's global financial instruments group. And Paul Pacter, the project manager and author of IAS 39, is technical director in our Hong Kong office.

Together, John and his staff and Paul have developed clear and comprehensive guidance on IAS 39. The book is nearly 250 pages in length and contains:

- ✓ **164 Questions and Answers,**
- ✓ **151 Examples (many with journal entries),**
- ✓ **52 US GAAP Comparisons**
- ✓ **Comprehensive summaries of IAS 39 and its companion disclosure standard, IAS 32.**

These are linked back to the IAS 32 and IAS 39 paragraphs. The book also contains a paragraph-related list of the 200+ IGC questions and answers.

ACCOUNTING STANDARDS UPDATE IN THE ASIA-PACIFIC REGION

AUSTRALIA

Contact: *Bruce Porter*

The Australian Accounting Standards Board (AASB) is continuing its policy of harmonising Australian Accounting Standards with IAS.

In July 2001, the AASB issued a revised AASB 1041, Revaluation of Non-current Assets. The revised AASB 1041 supersedes AASB 1041/AAS 38 Revaluation of Non-current Assets (issued in December 1999). The revised standard applies to annual reporting periods ending on or after 31 September 2001.

AASB 1041 has been reissued to deal with implementation issues relating to the superseded AASB 1041/AAS 38. The key changes in the revised standard are:

- ❑ The revised standard limits the requirement to disclose reconciliations of the carrying amount at the beginning and end of a reporting period to property, plant, and equipment instead of all non-current assets.
- ❑ The revised standard allows entities to revert from the cost basis to the fair value basis or to discontinue applying the fair value basis, if such a change satisfies the requirements of AASB 1001/AAS 6, Accounting Policies. AASB 1001/AAS 6 permits a voluntary change in accounting policy if it results in an overall improvement to the relevance and reliability of financial information.

The Urgent Issues Group (UIG), a sub-committee of the AASB, issues Abstracts that give interpretations of existing AASB Accounting Standards. The UIG is responsible for reviewing SIC Interpretations to determine whether they should apply to Australian reporting entities. Since the last **IAS PLUS** newsletter, the UIG issued:

- ❑ UIG Abstract 39, Effect of Tax Consolidation Proposals on Deferred Tax Balances.

In addition, the UIG has agreed on a consensus relating to the fair value of equity instruments issued as purchase consideration. The consensus will be subject to veto by the AASB at its meeting on 27 September 2001.

The AASB has issued a number of exposure drafts, which are currently being considered for issue as Standards. The topics of those exposure drafts are as follows:

- ❑ Provisions and Contingencies (IAS 37)
- ❑ Impairment of Assets (IAS 36)
- ❑ Provision of Public Sector Infrastructure by Other Entities (this project deals with accounting for build-own-and-operate and build-own-operate-and-transfer infrastructure arrangements)

At its meeting in August 2001, the AASB considered ED 99, Impairment of Assets, and agreed that the approach in IAS 36 is preferable. Therefore, a further ED based on the requirements of IAS 36 will be developed.

The AASB has also issued ED 102, International Convergence, and Harmonisation policy, which proposes revisions to Policy Statement 4, Australia – New Zealand Harmonisation Policy, and Policy Statement 6, International Harmonisation Policy.

CHINA

Contact: *Patrick Tsang*

In September, the Ministry of Finance issued an exposure draft of a proposed new Accounting System for Financial Institutions. It is similar in scope to the Accounting System for Business Enterprises that was adopted in January. The new accounting system includes a requirement to recognise impairment losses on loans, investments, and other assets. While the scope of application is not yet specified, it is expected to apply initially to listed banks and insurance companies in the PRC.

HONG KONG

Contact: *Stephen Taylor*

The Hong Kong Society of Accountants has issued the following revised Accounting Standards and Exposure Drafts:

- ❑ SSAP 1, Presentation of Financial Statements
- ❑ SSAP 25, Interim Financial Reporting
- ❑ SSAP 26, Segment Reporting

Following the issue of revised Accounting Guideline 2.302, Financial Statement of Retirement Schemes (see below), the above standards have been revised to remove the option of preparing a statement of movements in net assets as an alternative to a cash flow statement.

- ❑ Exposure Draft, Accounting for Government Grants and Disclosure of Government Assistance. This proposed standard is closely modelled on IAS 20 of the same title.
- ❑ Accounting Guideline, Financial Statement of Retirement Schemes. The guideline was revised primarily to incorporate guidance on the financial statements of Mandatory Provident Fund schemes.

The second edition of *Hong Kong GAAP* has been published. Written by DTT partners Stephen Taylor and Norma Hall, this 1,440-page book includes 43 chapters and five appendices. Each chapter has a comparison with International Accounting Standards and with the standards in the United States, United Kingdom, and People's Republic of China. One appendix is a comprehensive comparison of Hong Kong SSAPs and IAS. For more information about *Hong Kong GAAP*, please see the publisher's website: www.smlawpub.com.hk/other/gaap.asp

INDIA

Contact: *Narendra P. Sarda*

Recent standard setting activity of the Institute of Chartered Accountants of India:

- ❑ **Accounting Standard on Accounting for Investments in Associates in Consolidated Financial Statements (AS 23).** The ICAI has issued AS 23 on Accounting for Investments in Associates in Consolidated Financial Statements. The Standard comes into effect in respect of accounting periods commencing on or after 1 April 2002. An enterprise that presents consolidated financial statements should account for investments in associates in the consolidated financial statements in accordance with this Standard.
- ❑ **Exposure draft on proposed limited revision to Accounting Standard AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.** AS 5 is under revision. Until AS 5 is completely revised, a limited revision to AS 5 is proposed. A change in accounting policy resulting from adoption of an Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, contained in that Standard.
- ❑ **Exposure draft on proposed Accounting Standard AS 7, Construction Contracts.** The objective of the proposed Standard is to prescribe the accounting treatment of revenue and costs associated with construction contracts. The present AS 7 gives the option to use either the percentage of completion method or the completed contract method. The proposed Standard states that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. Proposed effective date: accounting periods beginning on or after 1 April 2002.

INDIA, continued

- ❑ **Exposure draft on proposed Accounting Standard on Discontinuing Operations.** The objective of the proposed Standard is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings-generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations. The proposed Standard defines the initial disclosure event. It requires that when that event occurs, the enterprise should estimate the net realisable value of the assets attributable to the discontinuing operation and, if it is lower than the carrying amount of the assets, recognise the estimated loss. The proposed Standard also lays down the various disclosures required with regard to discontinuing operations. The proposed Standard will come into effect in respect of accounting periods commencing on or after 1 April 2002.

INDONESIA

Contact: *Lianny Leo*

The Financial Accounting Standards Board (Dewan Standar Akuntansi Keuangan, or DSAK) of the Indonesian Institute of Accountants is continuing its policy of harmonising Indonesian Financial Accounting Standards (PSAK) with IAS.

The following Standards are effective for periods beginning on or after 1 January 2001 (their equivalent IAS is indicated for reference):

- ❑ PSAK 19 (Revised 2000), Intangible Assets (IAS 38)
- ❑ PSAK 31 (Revised 2000), Accounting for Banking (including disclosure requirements in IAS 30)
- ❑ PSAK 46, Accounting for Income Tax (IAS 12). This Standard is effective for periods beginning on or after 1 January 1999 for companies issuing publicly traded securities, while for other companies, this Standard is effective for periods beginning on or after 1 January 2001.
- ❑ PSAK 55 (Revised 1999), Accounting for Derivatives and Hedging Activities
- ❑ PSAK 57, Estimated Liabilities, Contingent Liabilities, and Contingent Assets (IAS 37)

The following Standards will be effective for periods beginning on or after 1 January 2002 (their equivalent IAS is indicated for reference):

- ❑ PSAK 5 (Revised 2000), Segment Reporting (IAS 14)
- ❑ PSAK 58, Discontinuing Operations (IAS 35)

Exposure drafts of PSAK issued and outstanding are as follows:

- ❑ Conceptual Framework for the Preparation and Presentation of the Financial Statements of Shariah-based Banks. This standard is largely based on the conceptual framework of IAS, but adjusted to reflect Islamic laws and philosophies.
- ❑ Accounting for Shariah-based Banks. This standard is largely based on the Accounting, Auditing, and Governance Standards for Islamic Financial Institutions promulgated by the Accounting and Auditing Organization for Islamic Financial Institutions (based in Bahrain).

MALAYSIAContact: *Hiew Kim Tiam*

The following new MASB standards (their equivalent IAS is indicated for reference) are effective for accounting periods beginning on or after 1 January 2002:

- MASB 22, Segment Reporting (IAS 14)
- MASB 23, Impairment of Assets (IAS 36)
- MASB 24, Financial Instruments: Disclosure and Presentation (IAS 32)

New exposure drafts issued for comments:

- ED 19 (revised), Borrowing Costs
- ED 29, Income Taxes
- ED 30, Interim Financial Reporting
- ED 31, Investment Property
- ED 32, Discontinuing Operations
- ED 33, Employee Benefits

PHILIPPINESContact: *Melissa S. Delgado*

Philippine Accounting Standards Council Outstanding Exposure Drafts			
ED No.	Title	Related IAS	Proposed Effective Date (periods beginning)
43	Discontinuing Operations	IAS 35, Discontinuing Operations	1 January 2002
44	Impairment of Assets	IAS 36, Impairment of Assets	1 January 2002
45	Provisions, Contingent Liabilities and Contingent Assets	IAS 37, Provisions, Contingent Liabilities and Contingent Assets	1 July 2002
46	Events After the Balance Sheet Date (revised)	IAS 10, Events After the balance Sheet Date (revised 1999)	1 July 2002
47	Business Combinations (revised)	IAS 22, Business Combinations (revised 1998)	1 January 2003
48	Intangible Assets (revised)	IAS 38, Intangible Assets	1 January 2003

Auditing Standards and Practices Council (ASPC)

In an effort to establish and improve generally accepted auditing standards (GAAS) in the Philippines, the ASPC, the body authorized to establish and promulgate GAAS, is undertaking a major project to adopt International Standards on Auditing (ISAs) issued by the International Auditing Practices Committee (IAPC) of the International Federation of Accountants. ASPC's objective is to attain uniformity of the local GAAS with ISAs. This harmonization is expected to enhance the reliability and acceptability of audited financial statements of Philippine companies. The adopted standards, which will be called *Philippine Standards on Auditing* (PSAs), will supersede the counterpart local Statements of Auditing Standards of Philippines (SASPs) previously issued by the ASPC.

The PSAs issued by the ASPC shall apply whenever an independent examination of financial statements of any entity, whether profit oriented or not, irrespective of size or legal form, when such examination is conducted for the purpose of expressing an opinion thereon. The PSAs may also have application, as appropriate, to other related activities of auditors. Following are the first two PSA exposure drafts:

PHILIPPINES, continued

- ❑ **Exposure Draft No. 1: Framework of Philippine Standards on Auditing.** ED 1 contains the framework of the basic principles and essential procedures that provide guidance for their application in the audit of the financial statements, financial reporting, levels of assurance, other information, and related services.
- ❑ **Exposure Draft No. 2: Terms of Audit Engagements.** ED 2 addresses the terms of audit engagements. It is intended to assist the auditor in preparing engagement letters for audits and related services, principles and procedures applicable to recurring audits, and acceptance of a change in engagement.

The above draft PSAs differ from ISA 210 with respect to the deletion of the section on Public Sector Perspective included in ISA 210.

PAKISTAN

Contact: *Usman Ghani Akbani*

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

The April 2001 issue of **IAS PLUS** (available at www.iasplus.com) included a complete list of IAS adopted in Pakistan to date. The only change since then is that ICAP has sent IAS 40, Investment Property, to its members for the adoption by SECP. The following IASs are in process of adoption by SECP:

- ❑ IAS 22, Business Combinations (1998)
- ❑ IAS 36, Impairment of Assets (1998)
- ❑ IAS 39, Financial Instruments: Recognition and Measurement (1998)
- ❑ IAS 40, Investment Property

SINGAPORE

Contact: *Dinyar Framjee*

The following standards have been adopted for financial statement periods beginning on or after 1 October 2001. Both are identical to IAS:

- ❑ SAS 30, Interim Reporting
- ❑ SAS 39, Agriculture

The following exposure drafts of proposed standards were issued:

- ❑ ED/SAS 44, Proposed Limited Revisions

This ED would amend numerous existing standards to make them identical to IAS, thereby eliminating most of the differences between SAS and IAS.

- ❑ ED/SAS 45, Share-based Compensation

This will be a proposed interim measure pending the issuance of a standard on accounting for share-based compensation from the IASB. It will be applicable to all listed companies and those in the process of being listed. The ED proposes following the fair-value measurement principles found in the US accounting standard FAS 123.

– For share-based compensation provided to employees, ED/SAS 45 proposes that the effect of applying FAS 123 be shown by way of a pro forma presentation of the impact on income and EPS. It does not propose recognition of an expense.

– For share-based compensation provided to non-employees, ED/SAS 45 proposes that an expense be recognised equal to either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

The following exposure draft issued in 2000 is still outstanding:

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

TAIWAN

Contact: *William B. Lin*

The current Taiwan GAAP No. 24, Earnings Per Share, is being revised and is expected to be reissued in October 2001. The purpose of the revision is to bring it more in line with IAS 33 and FASB 128. The significant differences between the current standard and expected standard are as follows:

- ❑ The notion of common stock equivalents is eliminated.
- ❑ Basic EPS replaces the current Primary EPS, and Diluted EPS replaces the current Fully Diluted EPS.
- ❑ Potential shares will be redefined as in IAS 33.
- ❑ Basic EPS will be calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share will be consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period.
- ❑ Potential ordinary shares will be treated as dilutive when, and only when, their conversion to ordinary shares would decrease net profit per share from continuing ordinary operations. That is, the effects of anti-dilutive potential ordinary shares must be ignored.
- ❑ Companies will be required to use net profit from continuing ordinary activities as 'the control number' in determining whether potential ordinary shares are dilutive or anti-dilutive.
- ❑ Contracts that require that the reporting entity repurchase its own stock, such as written put options and forward purchase contracts, will be reflected in computing diluted EPS if the effect is dilutive. If the exercise price is above the average market price for the period, the potential dilutive effect on EPS will be computed using the reverse treasury stock method of FASB 128.17-24.
- ❑ The revised standard will include provisions for restating EPS that are consistent with IAS 33.
- ❑ The EPS disclosure requirements will be expanded to be consistent with those in IAS 33 and FASB 128. Among other things, the revised standard will require a company to disclose the following:
 - a. The amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.
 - b. The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.
 - c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented.

THAILANDContact: *Russell Toy*

The Institute of Certified Accountants and Auditors of Thailand (ICAAT) has issued the following seven new Thai Accounting Standards (TAS). These new accounting standards are based on IAS. However, they do not necessarily conform to the standards upon that are based on in every respect.

RECENT THAI ACCOUNTING STANDARDS		
TAS Number	Title and Related IAS Number	Effective for Periods Beginning On or After
50	Segment Reporting (IAS 14)	1 January 2002
51	Intangible Assets (IAS 38)	1 January 2004
52	Events After the Balance Sheet Date (IAS 10)	1 January 2004
53	Provision, Contingent Liabilities, Contingent Assets (IAS 37)	1 January 2004
54	Discontinuing Operations (IAS 35)	1 January 2006
55	Accounting for Government Grants and Disclosure of Government Assistance (IAS 20)	1 January 2004
56	Income Taxes (IAS 12)	1 January 2007

The ICAAT has also issued the following Thai Accounting Standard Interpretations (TASI). All are effective 1 January 2004:

- TASI No. 5, Classification of Financial Instruments – Contingent Settlement Provisions.
- TASI No. 6, Jointly Controlled Entities – Nonmonetary Contributions by Venturers.
- TASI No. 7, Property, Plant and Equipment – Compensation for the Impairment or Loss of Items.
- TASI No. 8, Operating Leases – Incentives.

ABOUT DELOITTE TOUCHE TOHMATSU

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

More than 92,000 people in over 130 countries serve almost one-fifth of the world's largest companies as well as large national enterprises, public institutions, and successful fast-growing companies. Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate. Our mission is to help our clients and our people excel.

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

SUBSCRIBE TO IAS PLUS

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

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

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

Here are my contact details:

NAME	
COMPANY	
ADDRESS	
CITY, COUNTRY, POST CODE	
EMAIL ADDRESS	

You may:

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

Electronic editions of **IAS PLUS** are available at: www.iasplus.com

This newsletter has been written in general terms and is intended for general reference only. The application of its contents to specific situations will depend on the particular circumstances involved. Accordingly, we recommend that readers seek appropriate professional advice regarding any particular problems they encounter. This newsletter should not be relied on as a substitute for such advice. The partners and managers of Deloitte Touche Tohmatsu will be pleased to advise on any such problems. While all reasonable care has been taken in the preparation of this newsletter, no responsibility is accepted by Deloitte Touche Tohmatsu for any errors it might contain, or for any loss, howsoever caused, that happens to any person by their reliance on it.