

IFRS News

Shedding light on the IASB's activities*

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Issue of the month

EU endorsement – status update

The first year-end for European-listed companies adopting IFRS is fast approaching. Many companies and audit teams are asking which standards can be applied. This article looks at the current status of endorsement of various IFRSs and provides a background to the EU endorsement mechanism. By Peter Hogarth and Ian Wright.

Different companies have different year-ends. Management faces a challenge as it looks at the endorsement status of a number of IFRSs and makes judgements as to whether these standards will have been endorsed by the time their financial statements are signed off, as they will need to advise the market early if they have to change their plans. To clear up any uncertainty, the latest position is explained as follows:

- **IAS 21, The Effects of Changes in Foreign Exchange Rates.** The IASB is due to publish an amendment to IAS 21 imminently. It is expected to require gains and losses on quasi-equity loans that are not in the functional currency of the lender or the borrower to be reported in equity. The current EU-endorsed version of IAS 21 requires those gains and losses to be reported immediately in the income statement. Endorsement of the amendment is not expected to be endorsed before the middle of 2006.
- **Amendments to IFRS 6, Exploration for and Evaluation of Mineral Resources, and to IFRS 1, First-time Adoption of IFRS** changed the basis of preparation of comparatives for first-time application by certain companies in the extractive industries. These companies will only be able to use this change provided that EU endorsement takes place before they sign their accounts and that regulation expressly permits early application. Endorsement is expected before the end of March 2006.
- **IFRS 7, Financial Instruments: Disclosures,** requires companies to present their financial risk disclosures using the information that management uses to manage the business. EU companies can adopt this standard early, but they are not relieved from the current requirement to provide the disclosures under IAS 32 and – for banks and similar entities – IAS 30, unless EU endorsement takes place before they sign their accounts and the regulation expressly permits early application. Endorsement is expected before the end of March 2006.
- **IAS 39 amendment.** The European Commission is hoping to shorten the normal lead time and endorse the IAS 39 amendment for cash flow hedging of currency transactions this month. If they achieve this, EU companies will be able to use this form of hedge accounting in their annual financial statements.

How does the EU endorsement mechanism work?

The 2002 Regulation requires that, from 2005, all EU-incorporated and EU-listed groups prepare their consolidated financial statements using IFRS as adopted for use within the EU. The phrase 'as adopted for use within the EU' describes the outcome of a process by which various European bodies consider each and every standard and decide collectively whether to include it in EU law. This process is complex and involves the Commission, the Accounting Regulatory Committee (ARC), comprising representatives of member states and a private sector body – the European Financial Reporting Advisory Group (EFRAG), which considers IFRS standards from a European viewpoint and advises the Commission – and the European Parliament. See box on next page.

Can a company use standards not yet endorsed?

All EU-listed companies should prepare their consolidated financial statements using EU-endorsed IFRS from 2005. This raises a number of questions, listed below.

What if a standard or amendment is not endorsed?

Companies may only use standards or amendments to standards that have been endorsed. This means they have been published in the *Official Journal of the European Union*. See box on next page.

What if a new standard that requires additional disclosure is not endorsed by year-end?

Companies can adopt unendorsed standards as long as this does not conflict with endorsed standards. IAS 1, Presentation of Financial Statements, permits a company to provide additional disclosures.

What if an IFRIC interpretation is not endorsed by year-end?

IFRIC's role is to interpret existing standards and issue interpretations that fill gaps between standards. However, it cannot by itself amend standards set by the Board. An IFRIC interpretation may be adopted independently of its endorsement status unless it is accompanied by a consequential amendment to a standard. Interpretations do not therefore create conflicts.

Effect of endorsement on foreign private issuers

For the purpose of US filings, the SEC has stated that it will only accept financial statements that are prepared using either IFRS or EU-endorsed IFRS. The SEC is unlikely to accept a qualified opinion in either case. There would therefore be no scope for a company that prepares financial statements in accordance with EU-endorsed IFRS to adopt an unendorsed standard (in other words, it is not permissible to describe the financial statements as being 'in accordance with EU-endorsed IFRS except for ...'). The options available to a foreign private issuer are to:

- comply with extant EU-endorsed standards but provide disclosure about a possible change; or
- comply with IFRS as issued by the IASB in the form of non-statutory supplementary accounts.

There should be an explicit statement about which framework has been applied.

A company that wishes to take advantage of the SEC's accommodation of reporting only one year of comparative information would need to provide a reconciliation from EU-endorsed IFRS to IFRS as issued by the IASB.

Endorsement is also an important consideration when preparing interim

financial information. In some markets it has so far been practice to prepare interim information on the basis of standards that are 'expected' to be endorsed by the year-end; however, where compliance with IAS 34, Interim Financial Reporting, is mandatory, it is not permissible to prepare interim financial information on the basis of 'expected' standards.

When can a standard be adopted if it is endorsed after the balance sheet date but before the financial statements are issued?

The Regulation endorsing a particular standard will appear in all the member states' national languages in the *Official Journal of the European Union*. It comes into force three days later. The standard being endorsed will have its own effective date from when it can be applied. The Regulation may also state, in some situations, when an endorsed standard will come into effect. For example, IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments, was published in the *Journal* dated 7 July 2005, but the *Journal* stated that the standard would be applied to each financial year starting on or after 1 January 2005. This standard therefore had to be applied retrospectively.

The ARC, in its meeting on 30 November 2005, discussed what should be done when a standard is issued before a company's year-end but endorsement occurs after the year-end. It considered whether only those standards that have been endorsed (and are therefore part of the law) at the balance sheet date should be applied, or whether standards that have been endorsed up to the date on which the financial statements are signed could be used. The Commission confirmed the latter view. However, both the standard and the regulation introducing it must expressly permit early adoption.

IFRS endorsement process in the EU

- A new standard issued by the IASB is assessed by EFRAG, which submits a technical recommendation to the Commission and the ARC.
- The standard must be translated into all national languages of the member states before it can be put to a vote.
- The EC has no power to amend the text of an IASB standard. However, the Commission has been advised by its lawyers that it can delete parts of the text.
- The EC submits a proposal to the ARC, which has to pass a vote on whether the standard should be adopted or rejected. A majority is required. If this is not forthcoming, or the ARC votes in favour of rejection, the EC may return the issue to EFRAG or bring the matter before the European Council of Ministers.
- The EC also submits its proposal to the European Parliament. The Parliament has three months in which to hold a vote. If no vote is held, the Parliament is deemed to have voted in favour of the EC's proposal.
- Once the ARC and the European Parliament have approved the standard, a Regulation to that effect appears in the *Official Journal of the European Union*. Three days later, the Regulation (and hence the standard) comes into law.
- The above process will normally take around 10 months, although the time may vary depending on how complex and controversial the issue is. The EC may also be able to reduce this timeframe in special circumstances.

IFRS 7



IFRS 7 – FI for everyone (not just for banks)

Olga Cileckova and Sandra Thompson look at the implications of the new IFRS 7 requirements for all entities.



IFRS 7, Financial Instruments: Disclosures, is a comprehensive disclosure standard that applies to all companies. It provides the market with more information about an entity's financial assets and liabilities, and their associated risks. It requires disclosures about:

- the significance of financial instruments for an entity's financial position and performance, including many of the requirements currently in IAS 32; and
- the nature and extent of risks arising from financial instruments.

Management must identify and consider the key messages it wishes to communicate to the market via the new disclosures. These disclosures provide a significant opportunity for entities to explain their risk management processes. There is the risk of a negative market

reaction if the enhanced and more transparent disclosures reveal weaknesses in those processes. The disclosures (especially those related to risk) will require considerable resources to develop and draft. Management must consider them prior to the standard's effective date of 1 January 2007. The changes brought by the new standard can be split into four key areas:

- disclosing risk 'through the eyes of management';
- expanded quantitative disclosures of risk;
- the introduction of sensitivity analysis; and
- enhanced disclosure of an entity's financial position and performance.

The new disclosure requirements should be applied for annual periods beginning

on or after 1 January 2007; earlier application is encouraged. They apply to all entities. However, the extent of disclosure required will reflect the entity's use of financial instruments. Entities that make more use of financial instruments and have greater associated exposure to risk will need to give more disclosures.

Disclosing risk 'through eyes of management'

IFRS 7 requires quantitative (numbers) and qualitative (financial position and performance) disclosures about an entity's exposure to credit risk, liquidity risk and market risk arising from its use of financial instruments. It requires the following qualitative disclosures for each type of risk:

- the exposures to the risk and how they arise;
- the entity's objectives, policies and processes for managing the risk;

- the methods used to measure the risk; and
- any changes to the above disclosures from the previous reporting period.

The standard also requires summary quantitative data about the entity's exposure to each type of risk at the reporting date. This information is to be given 'through the eyes of management' – ie, based on internal reports provided to management. Certain minimum disclosures are also required to the extent they are not already covered by the 'through the eyes of management' information.

Entities are required to communicate to the market how they perceive, manage and measure risk. This change to a 'through the eyes of management'

The new requirements will mean increased disclosures, but also provide an opportunity for management to improve communications with the market. They will also help align internal processes and external reporting.

– Sandra Thompson, director,
global accounting consulting
services, PwC

approach will enable the market to better evaluate the strength (or otherwise) of an entity's risk management activities.

Expanded quantitative disclosures of risks

The quantitative minimum disclosures of interest rate risk and credit risk have been expanded. In particular:

- the quantitative disclosures for credit risk include the amount of exposure to credit risk at the reporting date by each class of financial instrument

(trade debtors are captured by this requirement); and

- on liquidity risk, disclosure of financial liabilities categorised by their earliest contractual maturity date and a description of how the entity manages the liquidity risk inherent in these financial liabilities is required. For example, an entity that uses a stand-by line of credit to manage their liquidity risk should disclose this fact.

Introduction of sensitivity analysis

The final, and in some respects most challenging, new disclosure requirement is a sensitivity analysis for each component of market risk to which an entity is exposed (currency risk, interest rate risk and other price risk). Every entity should disclose the impact of reasonably possible movements in each relevant market risk variable on profit and loss and equity. The format and presentation of this disclosure is not prescribed in the new standard. The application and implementation guidance, however, offers advice on preparing the analysis. They also include an example illustrating that the analysis can be simple; they show, for example, the effect on post-tax profit of a 10 basis-points increase in interest rates and a 10% weakening of a key exchange rate.

Disclosure of a sensitivity analysis will be new for many entities, in particular those outside of the financial sector. Its preparation may prove challenging for entities without sophisticated risk management systems.

Enhanced disclosure of financial position and performance

IFRS 7 requires enhanced balance sheet and income statement disclosures. Below are three examples:

- disclosure of the carrying amount and net gains/net losses for each of the categories of financial instruments in IAS 39 (ie, held-for-trading, available-for sale, etc). This will provide increased transparency of the financial performance of the various categories

of instruments. Analysts and investors will be interested in this information;

- disclosures when hedge accounting is used. These include the ineffectiveness recognised in profit or loss for each type of hedge (fair value hedges, cash flow hedges and hedges of net investments in foreign operations). These will highlight the performance (including any ineffectiveness) of an entity's hedging activities; and
- disclosure of movements on the allowance account, if an entity uses such an account to record credit losses. This is mainly relevant to the banking industry, where analysts and investors view the level of the provision for credit losses and movements in that provision as key performance indicators.

Adoption of IFRS 7

IFRS 7 contains application guidance and implementation guidance to help entities implement its requirements. The

The sensitivity analysis will be a new way of communicating risk for some, including those with less sophisticated risk management practices. But done correctly, this new disclosure can be a powerful communication tool.

– Sandra Thompson, director,
global accounting consulting
services, PwC

disclosures (especially those related to risk) will require considerable resources to develop and draft. Management should begin to consider the issues prior to the standard's effective date of 1 January 2007. They also need to understand that the disclosures will give the market more information with which to make judgments on risk management strategies and effectiveness.



Equity accounting: practical difficulties

Entities applying the IAS 28 equity method to their associates and joint ventures are finding some difficult areas. Michael Gaull explains some of the issues in this first article in a series on equity accounting.

The equity method of accounting has been around for many years. It is thought to be straightforward and well understood. Equity accounting has received little attention from standard-setters in recent years, despite criticism of it by some as a concept. IAS 28 was part of the improvements project when various changes pushed equity accounting closer to accounting for business combinations and subsidiary accounting by making certain implied requirements explicit and removing some impracticability exceptions. However, problems and inconsistencies are arising in application as more companies move to IFRS. This article examines some of the practical issues that have arisen and some areas of inconsistency in the accounting literature.

Notional purchase price allocation

What accounting is required when an associate is first purchased? IAS 28 states that 'the investment in an associate is initially recognised at cost'. This is straightforward. The standard goes on to say that, 'on acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3, Business Combinations'. The equity investment continues to be recognised on one line in the balance sheet, as the IFRS 3-type purchase price allocation and calculation of goodwill is notional. The notional purchase price allocation (PPA) should include the investor's portion of the fair value of any intangible assets and contingent liabilities (whether or not recognised by the associate) and the investor's share of any fair value step-ups or adjustments to be recorded assets and liabilities.

The practical challenge is that the investor will seldom have access to proprietary information about the

company. Most public companies are prohibited from making information available to shareholders on a selective basis – what one shareholder knows usually needs to be made available to all shareholders. Thus, where the associate is a public company, the investor needs to calculate the notional PPA with publicly available information and a substantial degree of estimation.

Is this notional PPA really required? The answer is yes, and part of the answer is that it is explicitly required by the standard. However, it can also be crucial so that the correct share of the associate's results is recorded post-acquisition. The share of results will not include the correct amortisation if tangible and intangible assets are not recorded at their fair value.

Two other potential problems make the notional PPA important. Purchase of an associate may be the first step in a step acquisition. Goodwill must be calculated at each step, so the contemporaneous information that supports the amount of goodwill present at the date of each transaction is crucial. If an associate is impaired, any notional goodwill written off cannot be reversed, thus the amount of notional goodwill is crucial.

Example

Company A, a large pharmaceutical company, buys 30% of Company B, a small company. B owns a valuable patent that covers a specific prescription drug. The patent will expire in seven years. Assume for the sake of simplicity that there are no other fair value adjustments to be recorded.

B earns revenue by licensing the patent to other companies in each major market. Company A, the investor, must perform a fair value exercise, allocate value to the patent

and amortise it over the remaining life. The charge reduces the income from the associate and the carrying value of the associate. Therefore, as the patent expires, the value of the associate will reduce.

If B winds up operations on expiry of the patent, the value of the associate, as represented by the patent intangible asset, should have been reduced to nil, or close to nil, through periodic amortisation and not an impairment charge.

Negative goodwill arising on the acquisition of an associate

The notional PPA might also result in negative goodwill (technically – excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities – as IFRS describes negative goodwill). Negative goodwill might exist if the associate has a significant unrecorded contingent liability or the investor managed to secure shares at a discount price because of the vendor's need for cash. The negative goodwill should be credited to the investor's income statement in the period that the associate is required. This seems inconsistent with the principle that the associate is recorded initially at cost. The associate will be recorded at an amount greater than cost where negative goodwill exists. The standard is explicit on the requirement to recognise negative goodwill where it exists, and this is the natural extension of the notional PPA concept discussed above.

However, an associate with a carrying value in excess of market value is a trigger for impairment testing. For any associate acquired in a public market, cost was presumably market value. The recognition of negative goodwill may trigger an impairment test, and the

adjustment may well be written off to the income statement. The recognition of negative goodwill is expected to be rare, and any negative goodwill recognised on acquisition of an associate therefore needs to be robustly supported or the investor is exposed to an immediate impairment as well.

What does change in proportionate interest mean?

An associate issues shares to new investors and the group's interest is diluted, although the entity remains an associate. Should the 'gain or loss' arising from dilution be recorded in the

investing group's income statement or directly in equity?

IAS 28 requires changes in an investor's proportionate interest in an associate that don't arise from the net income of the associate to be recognised directly in the equity of the investor. Many have read these words to include gains and losses arising on a dilution of the investor's interest in the associate, with any anti-dilutive transactions also recognised in equity. However, the examples that follow the proportionate interest guidance do not include dilutions but are rather examples of transactions of the associate that might give rise to equity

movements such as fixed asset revaluations or available-for-sale securities. The associate will have debited cash and credited equity in the associate's financial statements: nothing has occurred in its income statement. The text in IAS 28 seems to preclude income statement recognition of gains and losses. However, the lack of dilution in the examples and the fact that IAS 27 permits income statement treatment for dilution of subsidiaries seems to provide some support for gains and losses on associate dilution in the income statement. However, companies may well be exposed to criticism and regulatory comment if they use income statement recognition.



Employer-provided benefits – key differences between IFRS and US GAAP

Marie Kling continues the series of articles on the differences between US GAAP and IFRS, as discussed by the firm's IFRS Working Group (IWG), with a look at employer-provided benefits.

The IASB and the FASB issued comprehensive standards on the accounting for employer-provided benefits several years ago, with subsequent revisions and amendments. The standards have similar principles, but the devil is in the detail. Differences arise in the application of the standards in the areas of scope, classification of arrangements, measurement of plan assets and liabilities, and the treatment of plan amendments.

Practical and business implications

The application of IAS 19 may result in a different amount of employee compensation expense being recognised compared with the amount recognised under FAS 87, FAS 88, and FAS 106 because of differing measurement provisions for pension expense (income), plan assets and liabilities, as well as different recognition and measurement provisions for plan amendments, curtailments and settlements. This may result in a reconciling item between IFRS and US GAAP amounts for foreign private issuers, and the need to separately track and measure employee benefit arrangements. The examples

below illustrate some of the differences that companies may have to deal with.

Treatment of termination benefits

Certain employee benefit plans require immediate payment of any benefits earned by the employee under a defined benefit programme in the event that the employee leaves the company, for any reason, prior to retirement.

Example

Companies in Italy are required to pay benefits to employees upon termination of employment regardless of the reason for termination.

- IFRS: record an obligation for the actuarial present value of the benefits to which the employee is entitled based on the expected date of separation or retirement.
- US GAAP: follow the IFRS treatment or record the obligation based on the amount that the company would pay out if the employee left the company as of the balance sheet date (as a matter of accounting policy choice).

Expected return on plan assets

One component of pension expense (income) under both IFRS and US GAAP is the expected return on plan assets.

Example

The fair value of plan assets at the measurement date differs from the value at the previous measurement date.

- IFRS: fair value at the measurement date should always be used for determining the expected return on plan assets. The use of a calculated value that reflects changes in fair value on a delayed basis is prohibited.
- US GAAP: a calculated value that recognises changes in fair value in a systematic and rational manner over not more than five years can be elected as a matter of accounting policy choice.

Recognition of actuarial gains and losses

Actuarial gains and losses may result from decreases or increases in the

present value of a defined benefit obligation, or increases or decreases in the fair value of any related plan assets relative to the expected return.

The recognition of these actuarial gains and losses may vary according to a company's policy.

- IFRS: the amortisation of any unrecognised gain or loss that falls outside a specified 'corridor' as of the beginning of the plan year needs, at a minimum, to be recognised in the income statement. IFRS also allows, as a matter of accounting policy, the immediate recognition of actuarial gains and losses in the Statement of Recognised Income and Expense, which is broadly equivalent to the Statement of Comprehensive Income under US GAAP (the SORIE option).
- US GAAP: the SORIE option is not permitted. It requires, at a minimum, the amortisation of any unrecognised gain or loss that falls outside a specified corridor in the income statement.

Definition of curtailment

A plan amendment may provide that employees' future service will qualify only for reduced benefits.

Example

A plan amendment provides that all future years of employees' service will qualify only for a pension benefit of 2% of final salary rather than 3% of final salary.

- IFRS: the definition of a curtailment is met because employees' future service will only qualify for a reduced benefit.
- US GAAP: the definition of a curtailment is not met, as the accrual for future benefits is not eliminated but only reduced. Employees continue to accrue pension benefits for all years of future service. The amendment is considered a negative plan amendment.

Implications for convergence?

Convergence on high-level principles has meant that many aspects of accounting for pensions have converged. However, some of the detailed guidance and specific provisions of US GAAP and IFRS can lead to dramatically different results.

The FASB has recently decided to add to its agenda a comprehensive project on pension accounting. The first phase will focus on improving transparency. The board will consider whether to require the funded or unfunded status of defined benefit and other post-retirement benefit plans – measured as the difference

between the fair value of plan assets and the current measure of the benefit obligation incurred for past employee service – to be recognised in the balance sheet.

The second, broader phase will address the remaining issues, including display, measurement of obligations with lump-sum settlement options, measurement assumptions, and consolidation of pension trusts. This project is likely to take into consideration the impact of any changes on convergence.

Conclusion

Entities that report under both IFRS and US GAAP need to understand the differences between IAS 19 and the related US GAAP standards, particularly FAS 87, FAS 88, and FAS 106. The accounting treatment resulting from some of these differences may seem counterintuitive. Management should consider the literatures when designing or amending plans; it may want to design benefit plans that produce the same accounting results under both frameworks, to the extent possible. Users of financial statements need to understand why certain benefit arrangements may produce different accounting results under IFRS and US GAAP. These can be significant and dramatically affect a company's key ratios.



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IASB projects – Tweedie's progress update

IASB chairman Sir David Tweedie talks to IFRS News about the progress of a number of IASB projects, in this second instalment of a two-part interview.

When do you expect the following projects to be completed and what are their main features?

(1) Conceptual Framework

It is ongoing. Some people say you shouldn't issue a single standard until you've done the Framework, but the Framework runs in parallel with the standards. We start off by looking at the objectives. They're already there in the existing standards and have been debated by the two Boards.

It will come out chapter-by-chapter as an ED soon. We can see if there is agreement on who the accounts should be aimed at. Then comes a chapter on qualitative characteristics. It will be different from the existing one, showing that all these characteristics act together so that you end up with a set of statements.

A lot of the other issues will be developed as we deal with the standards, such as liabilities and equity. That consultation will obviously help us with the definition of the two in the Conceptual Framework. Performance Reporting and Presentation will also be done in parallel. The Conceptual Framework is a minimum five-year project.

(2) Performance Reporting

Performance Reporting is in two stages. The first is: which statements should we have? The US has 'other comprehensive income'; we have a 'statement of changes in equity and reserves'. We have to end up with something that looks like the US 'other comprehensive income' statement. Whether it's called that, whether it's a single statement with a profit and loss account, it is too early to say. Let's see what people think.

The second stage is going to be even more controversial: which line items should we have in the profit and loss

account? Which one should be in profit, which one should fall below profit? How do we do the cash flow statement? Do we end up with net debt or cash? Can we tie the line items together with the p&l account so you can read across into the cash flow statement? These will be the main parts of the second stage. Some people will then say they want profit to be sustainable income or recurring income. It will be interesting to see how it's cut. There'll be very little

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agreement because everybody has their own ideas.

If we can agree on the statements, we could work fairly quickly, possibly for the end of 2006. But as to how it's constructed, I think we're looking at three or four years.

(3) Revenue Recognition

The problem with Revenue Recognition at present is that it's a series of little cases. The US literature has 150 different cases. What we're trying to do is find an accepted theory that would run right through this. We haven't found it yet; we spent 18 months or more on this project and it has gone right back to the beginning. We did not like the way the last ideas were heading. We're talking of a four or five-year project.

(4) Measurement

This is part of the Conceptual Framework. The Canadian Standards

Board is writing a document on initial measurement without much input from us. It will be useful to get ideas for a chapter on the subject in the Conceptual Framework. We've added one or two of our own questions that we want people to look at in particular. This chapter will appear some time in the next four or five years.

(5) Control/Joint ventures/SPEs

This is something we'll have a big fight about with the US. The US at present consolidates on 50% plus one of the equity. We think that's wrong. One of the problems of convergence is that it slows you down when you really disagree.

We're not sure about the SPE rules in the US either. We would really like to see if we can have a standard that can run right through – not only control of subsidiaries but special purpose vehicles. We're not very keen on QSPs. Why do we have them? They are exceptions. Maybe there are some orphan companies that nobody seems to control, but let's explore that. We'll debate with the US why they did it their way, and wouldn't it be better if we did it a different way, if we can think of one. This will need a lot of discussion with the FASB.

'Due process inevitably slows us down. And yet people would not like us to work without it. One argument can change a standard, and that's why it's important.'

(6) Leases

I think we probably agree on the answer to leases. If you've got a liability, capitalise it. The problem is, there are so many other subjects we're dealing with. With the present schedule, we'll be bringing it onto the agenda around 2007.

(7) Derecognition

This is an interesting issue. When we look at derecognition, why don't we just use the opposite of recognition? You can recognise an asset when you control the benefits. If you don't control the benefits, presumably you should derecognise the asset. But we're all suspicious. We have what's called 'stickiness' here. I've sold this to you but I've kept this little bit back and guaranteed something. Do we just record that as a guarantee or do we say: if you look at the whole transaction, I've still got all the risks and rewards. That's going to be the big issue. Once we get through that conceptual barrier, it could

be quick, but getting through the arguments is going to take some time. There are billions off balance sheets because of this issue.

How do you plan to improve the IASB's due process?

The Trustees have just changed the Constitution, and we've asked for comments on our due process. When we started, we copied the best of the national standard setters. But being international is different. It's harder – how do you get your views to people? Communication is a major problem for us. We're keen that people understand

what we're up to; that's why our meetings are open and we have them recorded. We also are putting up early stages of drafts on our website now, and showing where changes are starting to take place in EDs.

All this is trying to make things easier, but we're open to suggestions. Due process also inevitably slows us down. One of the problems with IFRIC is, why can't we get a quick answer? You can't have a quick answer if you have due process. And yet people would not like us to work without it. One argument can change a standard, and that's why due process is important.

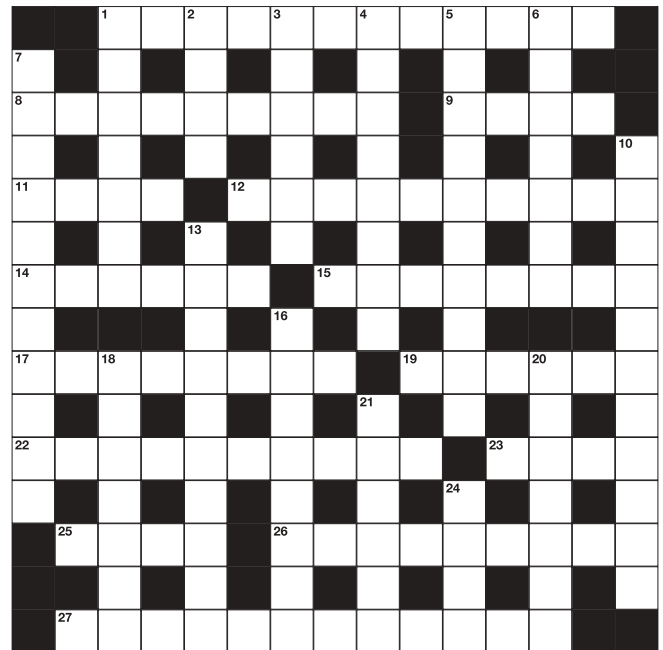
IFRS News Crossword – test your skills

Across

- 1 Payment for services rendered (12)
- 8 Under government supervision (9)
- 9 Bambi's father was one (4)
- 11 Secluded corner (4)
- 12 Financial instrument, eg, futures contract or option (10)
- 14 Be ambitious, seek to achieve (6)
- 15 Swift felines (8)
- 17 Clothes for legs (8)
- 19 Silver coin of ancient Greece (6)
- 22 Fair, honestly speaking (2,3,5)
- 23 Fruit, such as greengage or damson (4)
- 25 Legal document (British English) (4)
- 26 General increase in prices (9)
- 27 A parent company includes all subsidiaries and joint ventures when preparing this type of financial statement (12)

Down

- 1 Form new divisions (7)
- 2 Manipulate or exploit; cow's produce (4)
- 3 Spice from an East Indian tree (6)
- 4 Cautionary sign of danger/stop (3,5)
- 5 Solemn declarations in writing of wills (10)
- 6 Egg-shaped wind instrument (7)
- 7 Single act of business (11)
- 10 Ascertained dimension (11)



- 13 Document offering shares to the public (10)
- 16 Power of self-determination (4-4)
- 18 One of the Great Lakes (7)
- 20 Added up (7)
- 21 _____ up: increased in bulk, put on weight (6)
- 24 Place of trade eg, a market (4)

Solutions available on following page



Energy and utilities – IFRS challenges white paper

PwC's Energy Utilities & Mining (EU&M) group has released a white paper highlighting the issues that face companies applying IFRS in this sector.

The paper, *Implementation Challenge*, brings together the IFRS implementation lessons and dilemmas of 23 oil, gas and utilities companies from 14 different countries.

Contact oleysa.hatop@de.pwc.com for a copy of the white paper.

Solutions to crossword on page 9

ACROSS: 1 Remuneration; 8 Regulated; 9 Stag; 11 Nook; 12 Derivative; 14 Aspire; 15 Cheetahs; 17 Trousers; 19 Stater; 22 On the level; 23 Plum; 25 Writ; 26 Inflation; 27 Consolidated. **DOWN:** 1 Regroup; 2 Milk; 3 Nutmeg; 4 Red light; 5 Testaments; 6 Ocarina; 7 Transaction; 10 Measurement; 13 Prospectus; 16 Free-will; 18 Ontario; 20 Tallied; 21 Beefed; 24 Mart.

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