International Accounting Standards Board®

# Press Release

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## INTERNATIONAL ACCOUNTING STANDARDS BOARD ISSUES WIDE-RANGING IMPROVEMENTS TO STANDARDS

The International Accounting Standards Board (IASB) today published 13 revised International Accounting Standards (IASs) and gave notice of the withdrawal of another IAS. The revised standards mark the near-completion of the IASB's Improvements project. The project addressed concerns, questions and criticisms raised by securities regulators and other interested parties about the existing set of IASs. Improved versions of two further standards, dealing with the complex issue of financial instruments, were issued on Wednesday 17 December.

The Improvements project is a central element of the IASB's strategy to raise the quality and consistency of financial reporting generally and of the body of existing IASs in particular. In the interests of better reporting through convergence the project has drawn on best practice from around the world. It removed a number of options contained in IASs, whose existence had caused uncertainty and reduced comparability. The project benefited from input received from a broad range of market participants, including regulators through the International Organization of Securities Commissions (IOSCO), national standard-setters, the IASB's Standards Advisory Council and other commentators.

The completion of these improved standards brings the IASB closer to its commitment to have a platform of high quality, improved standards in place by the end of March 2004. The IASB has set itself this deadline to ease the implementation of its standards in the many countries, including those of the European Union, that will be adopting international standards from 2005. The IASB's intention was that, by making these essential changes now to the standards it inherited, it would avoid the prospect of many companies having to make changes twice when they adopt international standards.

Introducing the revised standards, Sir David Tweedie, IASB Chairman, said:

> "The Improvements project has raised the quality and enhanced the consistency of international accounting standards. The Board has devoted much time and resources during its first two years of operation to ensuring that we have a solid base on which we can build. From this improved set of standards, we shall move forward on the many complex issues facing accounting today and pursue our longer-term goal of global convergence. There have been those who doubted that we could meet our very demanding schedule for improving international standards, but the publication of these improvements means that the IASB is on schedule to meet its March 2004 deadline."

The primary means of publishing International Financial Reporting Standards is now by electronic format through the IASB's subscriber Website. Subscribers are able to access the standards published today through "online services". Those wishing to subscribe should contact:

IASCF Publications Department, 30 Cannon Street, London EC4M 6XH,
United Kingdom. Tel: +44 (0)20 7332 2730, Fax: +44 (0)20 7332 2749,
email: publications@iasb.org Web: www.iasb.org.

Printed copies of the *Improvements to International Accounting Standards* (ISBN 1-904230-32-6) will be obtainable, priced £20.00 (€32/US$31) including postage, from IASCF Publications Department when stocks become available in January.

# END

**Press enquiries:**

Sir David Tweedie, Chairman, IASB,
telephone: +44 (0)20 7246 6410, email: dtweedie@iasb.org.uk

Kevin Stevenson, Director of Technical Activities, IASB,
telephone: +44 (0)20 7246 6460, email: kstevenson@iasb.org.uk

***NOTES TO EDITORS***

1 A list of the improved standards and the withdrawn standard is attached, together with notes on the more important changes to each standard.

2. The International Accounting Standards Board (IASB), based in London, began operations in 2001. It is funded by contributions from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 Board members (12 of whom are full-time) reside in nine countries and have a variety of functional backgrounds. The Board is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the Board cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

3. Upon its inception the IASB adopted the body of International Accounting Standards (IASs) issued by its predecessor, the International Accounting Standards Committee.

**IAS Improvements project**

Revised Standards being issued:

**IAS 1** *Presentation of Financial Statements*
**IAS 2** *Inventories*
**IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors*
**IAS 10** *Events after the Balance Sheet Date*
**IAS 16** *Property, Plant and Equipment*
**IAS 17** *Leases*
**IAS 21** *The Effects of Changes in Foreign Exchange Rates*
**IAS 24** *Related Party Disclosures*
**IAS 27** *Consolidated and Separate Financial Statements*
**IAS 28** *Investments in Associates*
**IAS 31** *Interests in Joint Ventures*
**IAS 33** *Earnings per Share*
**IAS 40** *Investment Property*

Decision to withdraw **IAS 15** *Information Reflecting the Effects of Changing Prices*

**Examples of the changes made by the Improvements project**

**REMOVAL OF OPTIONS**

- LIFO (last in, first out)—an inventory valuation method sometimes used in the US and elsewhere—has been eliminated. (IAS 2—see paragraph IN13)

- Exchange differences resulting from severe devaluation or depreciation of a currency against which there is no means of hedging can no longer be capitalised. (IAS 21—see paragraph IN10)

- Initial direct costs of finance lessors can no longer be charged as expenses as incurred. Instead, they are included in the carrying amount of the leased asset and recognised as an expense over the lease term. Manufacturer-dealer lessors recognise costs of this type as an expense when the selling profit is recognised. (IAS 17—see paragraphs IN10-IN12)

- Entities are required to present minority interests in the consolidated balance sheet within equity, separately from the parent shareholders' equity. (IAS 27—see paragraph IN12)

- IAS 8 now requires retrospective application of voluntary changes in accounting policies and retrospective restatement to correct all material prior period errors. Previously IAS 8 contained an alternative, for both situations, of including the effects in the profit or loss for the current period. When this alternative was applied, comparative information was not amended. Under the improved standard comparatives are restated. (IAS 8—see paragraphs IN8-IN9)

## CONVERGENCE

- The definition of related parties and the disclosure requirement for related parties have both been expanded by adding parties (eg joint ventures and post-employment benefit plans) and by requiring disclosure of transactions, balances, terms and conditions, details of guarantees. (IAS 24 —see paragraphs IN8 and IN11-IN13)

- It has been clarified that land and buildings elements of a lease of land and buildings need to be considered separately. The land element is normally an operating lease unless title passes to the lessee at the end of the lease term. The buildings element is classified as an operating or finance lease by applying the classification criteria. (IAS 17—see paragraph IN9)

- When financial statements of an associate used in applying the equity method are prepared as of a reporting date that is different from that of the investor, the difference must be no greater than three months. (IAS 28—see paragraph IN12)

- Investors must consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognising its share of losses of the associate. (IAS 28—see paragraph IN14)

## OTHER SIGNIFICANT CHANGES

- Disclosure is required of critical judgements made by management in applying accounting policies. (IAS 1—see paragraph IN12)

- Disclosure is required of those assumptions made by management that are important in determining accounting estimates and could cause material adjustment to the carrying amounts of assets and liabilities. (IAS 1—see paragraph IN12)

- Consolidation, if required, is regardless of the nature of the parent entity. Thus the requirement to consolidate controlled subsidiaries applies to parent entities that are venture capital organisations, mutual funds and unit trusts. (IAS 27—see paragraph IN8) (See also the note *below* on this important issue.)

- Entities are required to disclose the compensation of key management personnel. (IAS 24—see paragraph IN5)

- An entity is required to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless the exchange transaction lacks commercial substance. (IAS 16—see paragraph IN8)

- Entities are permitted to account for a property interest held under an operating lease as investment property if certain criteria are met and the lessee accounts for the lease as if it were a finance lease and measures the resulting lease asset at fair value. (IAS 40—see paragraph IN5)

- Investments in subsidiaries, jointly controlled entities and associates, when an entity elects to present separate financial statements, are to be accounted for at cost or in accordance with IAS 39. (IAS 27—see paragraph IN13)

- Additional guidance and illustrative examples have been provided on the following selected complex matters related to earnings per share (IAS 33):
    - contingently issuable shares
    - potential ordinary shares of subsidiaries, joint ventures or associates
    - participating equity instruments
    - written put options
    - purchased put and call options
    - mandatorily convertible instruments.

**Note: Consolidation of Controlled Entities**

The requirement for entities such as venture capital companies to consolidate controlled entities is controversial. The existing standard, which dates from around 1990, already requires such consolidation except when a subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. That Standard has been endorsed by the EU. The phrase "in the near future" has now been clarified to require disposal within twelve months. It seems from reactions to this change that some companies have been interpreting "in the near future" very liberally, perhaps meaning as much as 5-7 years. The IASB is in no doubt that this was never the intention of the existing standard. The decision to clarify the issue follows from its exposure in September 2002.

Separately from clarifying what "in the near future" means, the Board is monitoring related US developments. In the US, investment companies (a broad classification that includes some venture capitalists) do not have to consolidate controlled companies if they meet the requirements of specialised industry guidance and if they mark their investments to market through the income statement. There has been controversy in the US over which entities are entitled to regard themselves as an investment company, and the FASB has sought the advice of the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) on this matter. The AcSEC is due to report to the FASB early in 2004. The IASB will be monitoring US developments and will decide any future course of action in the context of the convergence programme and its ongoing project on consolidations, a project that is a candidate for joint work by the IASB and the FASB.