

**In the January 2003 issue**

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## Two Years to Go!

For accounting periods beginning on or after 1 January 2005, the UK's listed companies must use EU-adopted international accounting standards in their group financial statements. Ministers are currently considering whether the use of these standards should be extended to other financial statements. The following pages list extant UK accounting standards and provide brief comments on the status, at the beginning of 2003, of the IASB's corresponding standards.

**SSAP 4**

**'Accounting for Government Grants'**

The IASB is reconsidering the equivalent international standard, IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' as part of the short-term US/IAS convergence project (see Inside Track 33, page 1).

**SSAP 5**

**'Accounting for Value Added Tax'**

The effect of this standard is achieved in IAS 18 'Revenue', IAS 2 'Inventories' and IAS 16 'Property, Plant and Equipment'. All are currently under revision.

**SSAP 9**

**'Stocks and Long-term Contracts'  
UITF 34 'Pre-contract Costs'**

The corresponding international text to SSAP 9 is split between IAS 2 'Inventories', IAS 11 'Construction Contracts' and IAS 18 'Revenue', as explained in the ASB's FRED 28, issued in May 2002.

FRED 28 includes the IASB's proposals to amend IAS 2; the IASB has since indicated its intention to revisit both IAS 2 and IAS 11, in its short-term US/IAS convergence project. As part of this latter work, the ASB has encouraged the IASB to consider UITF 34, which was issued subsequent to FRED 28. IAS 18 is also in process of revision in a joint project between the US standard-setter and the IASB.

**SSAP 13 'Accounting for Research and Development'**

Research and development expenditure was scoped out of the UK's FRS 10 'Goodwill and Intangible Assets'; guidance is, however, included in the international equivalent, IAS 38 'Intangible Assets'. Proposals to amend IAS 38 were issued by the IASB in December 2002 and were published at the same time in an ASB consultation paper.

The Australian standard-setter is now conducting a review of research and development accounting on behalf of IASB; it is unclear whether this is intended to give rise to a further change to the international standard before 2005.

**SSAP 17 'Accounting for Post Balance Sheet Events'**

Proposed amendments to the equivalent international standard, IAS 10 'Events After the Balance Sheet Date', were published by the IASB in May 2002 and at the same time by the ASB in FRED 27. The IASB has not yet concluded its discussion of the responses to that consultation.

**SSAP 19 'Accounting for Investment Properties'**

The relevant international material is set out in IAS 40 'Investment Property'. Proposals for amendment to IAS 40 were issued in May 2002 (and included in the ASB's consultation paper of the same date); the IASB has not yet completed its consideration of responses received.

**SSAP 20**

**'Foreign Currency Translation'  
UITF 9 'Accounting for Operations in Hyperinflationary Economies'**

Most of the equivalent international material is in IAS 21 'The Effects of Changes in Foreign Exchange Rates' and IAS 29 'Financial Reporting in

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Hyperinflationary Economies', as explained in the ASB's FRED 24, issued in May 2002. FRED 23, issued at the same time, sets out complementary material from IAS 39 'Financial Instruments: Recognition and Measurement' to replace and extend the hedge accounting guidance in SSAP 20. The IASB is currently considering responses to its proposals to revise IAS 21 and IAS 39; it has also indicated its intention to reconsider IAS 29 and IAS 39, as part of the short-term US/IAS convergence project.

## **UITF 21 'Accounting Issues arising from the Proposed Introduction of the Euro'**

The equivalent international material is in SIC 7 'Introduction of the Euro'.

## **SSAP 21 'Accounting for Leases and Hire Purchase Contracts'**

**UITF 28 'Operating Lease Incentives'**  
Equivalent international material is largely set out in IAS 17 'Leases' and the related interpretation SIC 15 'Operating Leases - Incentives'.

Proposals for amendment to IAS 17 were issued in May 2002 (and included in the ASB's consultation paper of the same date); the IASB has not yet completed its consideration of responses received.

The IASB has since indicated a keen interest in the ASB's work to carry out a more fundamental review of IAS 17; however, it now seems unlikely that the IASB will be in a position to issue a major revision to the international standard before 2005.

## **SSAP 24 'Accounting for Pension Costs'**

**UITF 6 'Accounting for Post-Retirement Benefits other than Pensions'**

See FRS 17 below.

## **SSAP 25 'Segmental Reporting'**

It seems likely that the project on Reporting Financial Performance (see FRS 3 below) will have implications for the equivalent international standard, IAS 14 'Segment Reporting'. The IASB has also noted IAS 14 for 'convergence' in due course.

## **FRS 1 'Cash Flow Statements'**

The IASB has indicated its desire to reconsider the equivalent international standard, IAS 7, as part of its work on Reporting Financial Performance (see FRS 3 below).

## **FRS 2 'Accounting for Subsidiary Undertakings'**

Equivalent international material is largely set out in IAS 27 'Consolidated Financial Statements and Accounting for Investments in Subsidiaries'. Proposals for minor amendments to IAS 27 were issued in May 2002 (and included in the ASB's consultation paper of the same date). The IASB has since started a more fundamental review of the international material on consolidation procedures.

## **FRS 3 'Reporting Financial Performance'**

The current IASB/ASB project on Reporting Financial Performance is relevant to much of the material in FRS 3. An exposure draft is expected this year.

FRS 3's guidance on discontinued operations has its international equivalent in IAS 35 'Discontinuing Operations'. The IASB has recently decided to align the presentational aspects of IAS 35 with the US equivalent (FAS 144); an IASB exposure draft is expected this year.

Material on changes in accounting policies has its international equivalent in IAS 8 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies'. Proposals for minor amendments to IAS 8 were issued in May 2002 (and included in the ASB's consultation paper of the same date); the IASB has not yet completed its consideration of responses received. Meanwhile, IAS 8 is being reconsidered as part of the US/IAS short-term convergence programme.

## **FRS 4 'Capital Instruments'**

**UITF 11 'Capital Instruments: Issuer Call Options'**

**UITF 33 'Obligations in Capital Instruments'**

In June 2002, the ASB issued FRED 30, which explained how IAS 32 'Financial Instruments: Disclosure and Presentation' would replace FRS 4 and related standards and requirements. FRED 30 includes the IASB's proposals to revise IAS 32 (though see also FRS 13 below).

Responses to the IASB's consultation on IAS 32 are now being considered. Meanwhile, this standard is listed for review as part of the short-term US/IAS convergence project; further changes may also arise from the joint project between the US standard-setter and the IASB (see IAS 18 below) which will consider concepts of liabilities and equity.

## **FRS 5 'Reporting the Substance of Transactions'**

Material in the IASB's June 2002 proposals to revise IAS 39 'Financial Instruments: Recognition and Measurement' (published in the ASB's document on FRED 30) would replace much of the guidance in FRS 5 concerning the recognition and derecognition of financial instruments. The approach set out in IAS 39 is fundamentally different from that in FRS 5.

The IASB is currently considering responses to its IAS 39 consultation; it has subsequently listed IAS 39 for review as part of the short-term US/IAS convergence project.

Guidance on the treatment of quasi-subsidiaries is included in FRS 5. The IAS equivalent is in SIC 12 'Consolidation - Special Purpose Entities', which seems likely to be reviewed and revised as part of the IASB's review of consolidation procedures (see FRS 2 above).

There is no international standard on the recognition and derecognition of non-financial assets and liabilities, to replace material such as that given in the FRS 5 application notes on sale

and repurchase agreements and PFI. An international interpretation SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease' develops a number of concepts similar to those in FRS 5 but would not replace the FRS 5 material. The international interpretation SIC 29 'Disclosure - Service Concession Arrangements' does not deal with the recognition and derecognition of assets and liabilities.

The IASB has indicated a strong interest in the ASB's current work on the recognition and derecognition of non-financial assets and liabilities and has asked the ASB to lead a research team comprising standard-setters in Australia, France, Spain and the UK on the accounting treatment of service concessions. It is unclear, however, whether the IASB intends this to result in an international standard before 2005.

#### **UITF 13**

##### **'Accounting for ESOP Trusts'**

##### **UITF 32 'Employee Benefit Trusts and Other Intermediate Payment Arrangements'**

There is no equivalent IASB material.

##### **FRS 6 'Acquisitions and Mergers'**

##### **FRS 7 'Fair Values in Acquisition Accounting'**

##### **UITF 15 'Disclosure of substantial acquisitions'**

##### **UITF 22 'The acquisition of a Lloyd's business'**

In December 2002, the IASB published ED 3, which constitutes Phase I of the IASB's Business Combinations project. An exposure draft of Phase II is due this year; both parts of the project are needed to provide equivalent material to the UK standards. The ASB's December 2002 consultation paper on Business Combinations provides further explanation.

##### **UITF 31 'Exchanges of Businesses or Other Non-monetary Assets for an Interest in a Subsidiary, Joint Venture or Associate'**

The UK material on joint venture formation is largely paralleled in the international interpretation, SIC 13 Jointly Controlled Entities — Non-

Monetary Contributions by Venturers'. Other aspects of UITF 31 may be considered by the IASB as part of the business combinations project (see FRS 6 above).

##### **FRS 8 'Related Party Disclosures'**

Proposed amendments to the equivalent international standard IAS 24 'Related Party Disclosures' were published by the IASB in May 2002 and at the same time by the ASB in FRED 25. The IASB has not yet concluded its discussion of the responses to that consultation.

#### **FRS 9**

##### **'Associates and Joint Ventures'**

Equivalent international material is largely set out in IAS 28 'Accounting for Investments in Associates' and IAS 31 'Financial Reporting of Interests in Joint Ventures'. Proposals for minor amendment to IAS 28 were issued in May 2002 (and included in the ASB's consultation paper of the same date); the IASB has since proposed a small amendment to the definition of a joint venture (in its December 2002 Phase I Business Combinations project). IAS 31 is due for review as part of the US/IAS short-term convergence project. The IASB may also decide to effect a more fundamental revision of accounting for both associates and joint ventures.

#### **FRS 10**

##### **'Goodwill and Intangible Assets'**

##### **FRS 11 'Impairment of Fixed Assets and Goodwill'**

##### **UITF 27 'Revisions to Estimates of the Useful Economic Life of Goodwill and Intangible Assets'**

#### **UITF 24**

##### **'Accounting for Start-up Costs'**

Proposals to amend the corresponding international standards, IAS 38 'Intangible Assets' and IAS 36 'Impairment of Assets' were issued by the IASB in December 2002. Commentary on the principal differences from current UK standards is included in the ASB consultation paper on Business Combinations, issued at the same time.

The international material on start-up costs, included in IAS 38, is similar to UITF 24.

##### **FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'**

IAS 37 (of the same name as FRS 12) is virtually identical to the UK standard. The international standard has recently been listed by the IASB for reconsideration as part of the short-term US/IAS convergence project. The IASB has tentatively agreed to change the definition of a 'constructive obligation' and revise the guidance on provisions for restructuring costs.

##### **FRS 13 'Derivatives and other Financial Instruments: Disclosures'**

Proposals to revise IAS 32 'Financial Instruments: Disclosure and Presentation' were issued by the IASB in June 2002. At the same time, the ASB issued FRED 30, which explains how this material would replace FRS 13 and related standards and requirements. Responses to the IASB's consultation on IAS 32 are now under consideration; the standard is also due to be reviewed as part of the short-term US/IAS convergence project.

Further material on the disclosure of financial instruments, which may result in amendment to IAS 32, seems likely to arise from the IASB's current consideration of IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'.

##### **FRS 14 'Earnings per Share'**

Proposals to amend the IASB's equivalent standard, IAS 33 'Earnings per Share' were issued in May 2002 and included in the UK's FRED 26, published at the same time. The IASB has not yet concluded its discussion of the responses to that consultation.

##### **FRS 15 'Tangible Fixed Assets'**

##### **UITF 23 'Application of the Transitional Rules in FRS 15'**

The equivalent international text is split between IAS 16 'Property, Plant and Equipment' and IAS 23 'Borrowing Costs', as explained in the ASB's FRED 29, issued in May 2002.

FRED 29 includes the IASB's proposals to amend IAS 16, although the IASB has not yet completed its consideration of fixed asset revaluations, part of IAS 16. It has in addition indicated its

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intention to revisit IAS 16 as part of the short-term US/IAS convergence project.

## **UITF 29 'Website Development Costs'**

An international interpretation SIC 32 'Intangible Assets - Web Site Costs' is similar to UITF 29, although it requires websites to be treated as intangible fixed assets.

## **FRS 16 'Current Tax'**

See FRS 19 below.

## **FRS 17 'Retirement Benefits' UITF 35 'Death in Service and Incapacity Benefits'**

The IASB has included the corresponding international standard, IAS 19 'Employee Benefits' in its short-term US/IAS convergence project. It is, at the same time, carrying out a more fundamental review of IAS 19, which it hopes will result in an exposure draft this year.

## **FRS 18 'Accounting Policies'**

Equivalent, though less detailed, material is included in IAS 1 'Presentation of Financial Statements' and IAS 8 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies'. Proposals for improvement to IAS 1 and IAS 8 were issued in May 2002 (and included in the ASB's consultation paper of the same date); the IASB has not yet completed its consideration of responses received. IAS 1 and IAS 8 are also due to be reconsidered as part of the US/IAS short-term convergence programme.

## **FRS 19 'Deferred Tax'**

## **UITF 19 'Tax on Gains and Losses on Foreign Currency Borrowings that Hedge an Investment in a Foreign Enterprise' FRS 16 'Current Tax'**

Both IAS 12 'Income Taxes' and its US equivalent require rather more provision for deferred taxation than the UK standard. The IASB has listed IAS 12 for review as part of its short-term US/IAS convergence project. Two international interpretations seem likely to be considered during this work - SIC 21 'Recovery of Revalued Non-depreciable Assets' and SIC 25

'Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders'.

## **UITF 25 'National Insurance Contributions on Share Option Gains'**

There is no IASB equivalent.

## **UITF 26 'Barter transactions for advertising'**

The international interpretation SIC 31 'Revenue - Barter Transactions Involving Advertising Services' is comparable.

## **UITF 17 'Employee Share Schemes' UITF 30 'Date of Award to Employees of Shares or Rights to Shares'**

New international proposals for accounting for share-based payment were published by the IASB as ED 2 and by the ASB as FRED 31 in November 2002. These would result in substantial change to accounting for employee, and other, share-based payments.

## **UITF 4 'Presentation of Long-term Debtors in Current Assets'**

Similar material is in IAS 1 'Presentation of Financial Statements'. The IASB has not yet completed its consideration of responses to its May 2002 consultation to improve IAS 1; it is also due to reconsider that standard as part of the US/IAS short-term convergence programme.

## **UITF 5 'Transfers from Current Assets to Fixed Assets'**

There is no IASB equivalent.

## **Financial Reporting Standard for Smaller Entities [FRSSE]**

There is presently no international equivalent, although an IASB Advisory Panel has now started work to consider the use of IAS by small and medium-sized entities and in emerging economies.

## **Other IASB standards and projects**

### **IAS 18 'Revenue'**

The IASB's standard is more extensive than relevant UK material (though see SSAP 9 above), but is widely acknowledged to need improvement. It is due to be substantially revised as part of a joint project between the US standard-setter and the IASB. This project is also scheduled to consider concepts of debt and equity and may thus affect earlier IASB proposals on the presentation of financial instruments.

### **First-time Application of International Financial Reporting Standards**

The IASB's ED 1 on this topic was issued in July and included in an ASB consultation paper. Responses to that consultation are currently being considered.

### **Insurance contracts**

This critical international project is now being split into two phases, as explained in Inside Track 33, page 3. An exposure draft of the first phase is due this year.

### **IAS 34 'Interim Financial Reporting'**

The IASB has signalled its intention to review and potentially to revise this international standard, which closely corresponds with non-mandatory ASB guidance, as part of the short-term US/IAS convergence project.

### **IAS 39 'Financial Instruments: Recognition and Measurement'**

This IASB standard includes material on the measurement of financial instruments and on hedge accounting for which there is no present UK equivalent. Amendments to IAS 39 were published for comment in June 2002 (and by the ASB in FRED 30). The IASB is currently considering responses received; it has also indicated an intention to reconsider IAS 39 in the short-term US/IAS convergence project.

### **IAS 41 'Agriculture'**

There appear to be no plans to revise the IASB's standard on accounting for agricultural products, which requires biological assets to be reported at fair value.

## Transitional arrangements for FRS 17 extended

In November the Board issued an amendment to FRS 17 'Retirement Benefits' extending the transitional arrangements for the standard until accounting periods beginning on or after 1 January 2005. The Financial Reporting Standard for Smaller Entities was simultaneously amended to implement FRS 17 with full effect for financial statements relating to accounting periods ending on or after 22 June 2006.

With slight adjustment to the implementation dates, the amendments largely reflect the proposals in the exposure draft published in July, which were supported by nearly all respondents.

The IASB announced in June 2002 that it had adopted a project to reconsider certain aspects of IAS 19 (revised 2000) 'Employee Benefits', and has subsequently indicated that it hopes to have an agreed revised standard by 2004. The extension to the transitional arrangements of FRS 17 will allow the ASB to effect an orderly transition to revised standards aligned with those of the IASB without mandating two changes in accounting for retirement benefits in a short period.

The deferral of the mandatory full implementation of FRS 17 reflects no weakening of the ASB's view that the UK standard is the best approach to pensions accounting. The Board continues to encourage early adoption of all the requirements of FRS 17 on a voluntary basis. Where FRS 17 is not adopted early, information prepared in accordance with FRS 17 will continue to be disclosed in the notes.

# Revised Statement 'Operating and Financial Review'

The ASB has now considered the comments received in response to its exposure draft 'Review of the Statement "Operating and Financial Review"', which was published in June.

The proposals of the Exposure Draft were widely welcomed by commentators. In particular, there was support for its broad framework approach and the inclusion of a series of principles that directors should apply when preparing an Operating and Financial Review ('OFR').

Commentators also welcomed the proposal to include a section dealing with 'the business, its objectives and strategy' and the increased prominence given to the strengths and resources of the business. The change in focus from 'results' to a wider notion of 'performance', assessed in the context of the business' long-term objectives and using financial and non-financial measures, also received a large measure of support.

In the light of these comments, the ASB has moved ahead swiftly and has published the revised Statement.

Particular changes from the 1993 version include recommendations:

- where information from the financial statements has been adjusted for inclusion in the OFR (often called 'pro forma information'), to highlight that fact and provide a reconciliation; and
  - to identify and comment on the measures that are used by the directors as key performance indicators in managing the business.
- The Statement makes clear that the directors' discussion should include the main influences on performance, including the expected effect of known trends and the potential effect of risks facing the business.
- The Government is currently considering responses to its July 2002 White Paper 'Modernising Company Law' which proposes that, in due course, the publication of an OFR should be mandatory for large companies. Meanwhile, the ASB's Statement is a formulation and development of best practice, intended to have persuasive effect.
- Given the level of support for the exposure draft, the ASB hopes that companies will have regard to this Statement in the preparation of their next annual reports.
- to highlight accounting policies which have required the particular exercise of judgement in their application and to which the results are most sensitive;

# Update on Current projects

## Revenue recognition

Work is continuing on the Board's project on revenue recognition, which addresses the question of when sales (or 'turnover') is recognised and at what amount it should be stated. This builds on the Discussion Paper issued in 2001 and the comments received in response to it. A primary focus is linking revenue recognition to the recognition of assets and liabilities that are created through contractual arrangements between a seller and its customer in the course of the seller's business activities.

It is hoped that this work will provide a useful contribution to the IASB and FASB joint project on the subject, although that is unlikely to result in a standard for some time. In the meantime, questions concerning revenue recognition continue to arise. The UITF has issued a draft Abstract 'Contracts for sales of capacity' which addresses one issue related to revenue recognition (see back page). The Board is considering whether it should issue more general guidance as an interim measure.

## Performance Reporting

The joint ASB/IASB project on reporting financial performance continues to progress. As previously reported, the main focus of this project is the development of a single statement of comprehensive income, which would report total recognised gains and losses for the period.

The proposed format for this statement would allocate items into one of four categories in a matrix format defined by two main distinctions. The first of these is a 'business/financing' distinction, which would create a 'financing' section reporting the return to providers of finance (ie interest and the unwinding of discounts). The 'business' section would then provide a measure of financial performance that

is independent of the way the entity finances its operations.

The second distinction would require gains and losses that result from the re-measurement of assets and liabilities to be presented separately. This section would include items such as fixed asset revaluations and actuarial gains and losses on defined benefit pension schemes.

Comments on a paper summarising the tentative decisions reached to date have been received from liaison standard-setters. These comments are being used to prepare a document for the boards' further discussions and for high-level external field-testing. An exposure draft is scheduled for publication in mid-2003.

## Measurement

The ASB is taking an active part in two separate groups that are developing proposals relating to measurement for the IASB.

Standard-setters and IASB members from those countries that currently permit revaluation of fixed assets (Australia, New Zealand, South Africa and the UK) are represented on the 'Revaluation Group'. This Group has been considering a convergence model to provide a consistent basis of revaluation internationally. The Group presented its recommendations to IASB at a public meeting in October, when it was asked to develop the text of a possible amendment to IAS 16.

A separate group led by the Canadian standard-setter has been asked by IASB to consider the conceptual foundation that should underpin the measurement of assets. Its work is initially focusing on the basis that should be used when assets are first recognised. The first meeting of the Group was held in London in October.

## Leases and service concessions—Rights of use

The ASB has been continuing its work on leases. More recently, it has been asked by the IASB to lead an international research team looking at the accounting treatment of service concessions. Although both projects raise a range of important issues, there is one key issue that underpins them both: how does one differentiate between the provision of a service and the right to use an asset?

The ASB's work on leases is seeking to develop an approach that would eliminate the distinction in existing accounting standards between operating leases and finance leases. In the ASB's view, both types of lease convey a right to use a property item, and that right meets the definition of an asset and should therefore be recognised as an asset. However, removing the significance for accounting purposes of the distinction between operating and finance leases would mean increasing the significance of distinguishing transactions that involve a lease from those that do not.

This is precisely the issue that is at the heart of the debate about PFI contracts, public/private partnership arrangements and other service concessions. When the owner of a property item (Entity A) contracts for another party (Entity B) to refurbish, maintain and operate that item of property for the next twenty years, is Entity B simply providing a service to Entity A or has a right to use some part of the property item been transferred to it? And, if Entity B is required to operate the property item exclusively for the purposes of Entity A, what is the position then?

# ASB's response to IASB's proposals in its improvements project

Taking account of the comments received in response to the ASB consultation document and FREDs 24-29 (inclusive) issued in May 2002, the ASB has written to the IASB setting out its views on the IASB's proposed improvements to certain IASs. The following summarises the main points the ASB has made.

## *Materiality*

The final version of the IASB's Preface to International Financial Reporting Standards does not include the statement that was in the exposure draft that 'IFRS need not be applied to immaterial items'. This principle should be clearly stated in IASB literature, preferably in the Preface or in the rubric to each standard.

## *IAS 1 Presentation of Financial Statements*

The retention of the override in order to achieve a fair presentation is strongly supported. However, the proposal that the availability of the override should be dependent on whether or not the override is permitted by the relevant regulatory framework is questionable.

The requirements in relation to the classification of long-term liabilities should be made more rigorous. Only an agreement to refinance with the same lender and on substantially the same terms should result in a short-term liability being reported as a non-current liability.

## *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

The exposure draft proposes that all errors be dealt with retrospectively. This creates a risk of a large number of restatements and may increase the risk of manipulation.

## *IAS 16 Property, Plant and Equipment*

The standard should clarify that it would not be appropriate to recognise gains or losses on an exchange of property, plant and equipment if the transaction is artificial or lacks substance.

The residual values used in the calculation of depreciation should not reflect estimates of current prices where assets are carried at historical cost.

The revaluation debate should be a priority for the IASB and should be concluded before the revised standard is issued. 'Existing use value' is, in general, an appropriate basis for the valuation of property, plant and equipment that is held for continuing use in the business rather than for resale.

## *IAS 17 Leases*

The proposal to separate leases of properties into a land element and a buildings element is inappropriate and will add a considerable burden in countries such as the UK where many properties are held on leases.

The proposed basis for allocating the minimum lease payments between land and buildings may not result in an allocation that reflects economic reality.

## *IAS 21 The Effects of Changes in Foreign Exchange Rates*

The recycling of previously recognised cumulative exchange differences on the disposal of a foreign operation reduces the transparency of financial information and should not be permitted.

The currency in which funds from financing activities are generated and the currency in which receipts from operating activities are retained is not particularly relevant to the determination of the functional currency.

The proposed standard allows an unrestricted choice of presentation currency for an entity's primary financial statements. Guidance on the choice of a presentation currency is required.

## *IAS 24 Related Parties*

In the light of current interest in governance and transparency, accounting standards should seek to ensure that there is full disclosure of any relationships that may affect the way in which the business is conducted. The proposed standard should be strengthened to require disclosure of the identity of any controlling parties and, in some circumstances, of the names of transacting related parties.

## *IAS 28 Accounting for Investments in Associates*

In applying the equity method, the investor's interest should not include items such as long-term receivables. When a debt is impaired, it should be written down to reflect economic circumstances prevailing at the balance sheet date.

## *IAS 33 Earnings per Share*

When calculating the year to date diluted EPS, the number and fair value of the shares used should be based on the figures for the year to date rather than an average of those used in each interim period.

There is a lack of clarity regarding how diluted EPS is calculated in respect of a loss-making entity. The detailed requirements would benefit from a reconsideration with a view to ensuring that they are clear, consistent and, if appropriate, compliant with the principles underlying FAS 128.

## *IAS 40 Investment Property*

The ASB strongly supports the recognition that an interest in a property that is held under an operating lease may qualify as an investment property. However, the proposal that such leases be accounted for as a finance lease requires some clarification particularly where the rental payable is variable or contingent.

**The full text of the ASB's letters may be downloaded from:**  
[www.asb.org.uk/public/downloads.cfm](http://www.asb.org.uk/public/downloads.cfm)

## Urgent Issues Task Force

### Draft abstract on contracts for sales of capacity

Entities in some industries (such as telecommunications and electricity) sell rights to use capacity on their networks, sometimes entering into exchange or reciprocal transactions, referred to as 'capacity swaps'. A draft abstract, published in November in Information Sheet 56, addresses issues concerning the recognition and reporting of revenues from such contracts.

Applying the principles of FRS 5 'Reporting the Substance of Transactions', the draft abstract sets out the limited circumstances under which a transaction in capacity should be reported as the immediate sale of a component of a network, where income is recognised immediately rather than over the life of the contract. It goes on to propose that the proceeds of such sales should be reported as turnover (ie as part of operating results) rather than as fixed asset disposals only if the assets were classified as stock rather than fixed assets when they were acquired or constructed.

The draft abstract also proposes that revenues or gains on capacity swaps should be recognised only if the assets or services provided or received have a readily ascertainable market value, and that no accounting recognition should be given to transactions that are artificial or lacking in substance. Comments are requested by 28 January.

### Abstract 10 'Disclosure of directors' share options' withdrawn

Abstract 10 was withdrawn with effect for accounting periods ending on or after 31 December 2002. The abstract has served its purpose because new legal requirements for directors' remuneration reports (the Directors' Remuneration Report Regulations 2002), applicable to quoted companies, include equivalent disclosures to those recommended in Abstract 10.

## Appointments

There have been several changes in the membership of the Public Sector and Not-for-profit Committee. **Professor John Arnold, Michael Dallas, Professor Irvine Lapsley and Vernon Soare** have left the committee. **David Creed** of the Housing Finance Corporation, **Virginia Grace** of the Moat Housing Group, **Sean Nolan** of East Sussex County Council and **John Stanford** of CIPFA have joined.

**Geoff Poulter** has left the Committee on Accounting for Smaller Entities.

## Staff Changes

**Andrew Buchanan** has come to the end of his short secondment working on the revenue recognition project. He returns to KPMG.

### ASB Publications since October 2002

FRED 31 'Share-based Payment', November 2002 (comments invited by 7 March 2003).

Amendment to FRS 17 'Retirement Benefits' and Financial Reporting Standard for Smaller Entities (effective June 2002), November 2002.

Consultation Paper 'IASB Proposals on Business Combinations and Intangible Assets', December 2002 (comments invited by 4 April 2003).

Statement 'Operating and Financial Review', January 2003.

*Share-based Payment and Business Combinations were discussed extensively in edition 33 of Inside Track (October 2002). The other two publications are discussed on page 5.*

## Further Information

For further information on any of these topics please contact Charles Bridge at Holborn Hall.

Email [c.bridge@asb.org.uk](mailto:c.bridge@asb.org.uk)

## The Board's Publications

Copies of the Board's publications may, except where otherwise stated, be obtained from ASB Publications 145 London Road Kingston upon Thames KT2 6BR

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## Accounting Standards Board

Holborn Hall  
100 Gray's Inn Road  
London WC1X 8AL

Tel: +44(0) 20 7611 9700  
Fax: +44(0) 20 7404 4497

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**A full account of the Board's current agenda, and of the changing shape of international standard-setting, is given in the 2002 annual review of the Financial Reporting Council. This will be available on the FRC's website [[www.frc.org.uk](http://www.frc.org.uk)] or in hard copy from Holborn Hall from 16 January 2003.**