

Memo

DATE: 2 March 2007
MEMO TO: Members of the IPSASB
FROM: John Stanford
SUBJECT: IASB Update

OBJECTIVE OF AGENDA ITEM

To provide Members, Technical Advisors and Observers with a brief update on activities of the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) with significant implications for the IPSASB.

ACTION REQUIRED

- Members are asked to **note** the update on the activities of the IASB and IFRIC and the latest publicly available version of the IASB work plan.

BACKGROUND

This memorandum provides a brief update of the activities of the IASB and IFRIC since the IPSASB's meeting in Norwalk in November 2006. It also includes some points from the IASB meeting in October 2006, which preceded the IPSASB meeting by about two weeks. The information in this memorandum is drawn from:

- IASB Updates for October, November, December 2006 and January 2007;
- IFRIC Updates for November 2006 and January 2007;
- IASB and IFRIC press releases; and
- Review of the IASB website (www.iasb.org) as at 26 February 2007.

The IASB Updates reflect discussions and decisions of the IASB at its October, November, December 2006 and January 2007 meetings. The IFRIC Updates reflect discussions and decisions of the IFRIC at its November 2006 and January 2007 meetings. The IASB work plan and timetable at Appendix 1 are extracted from the latest work plan available on the IASB website and show the IASB's most recently published expectations about the publication date for projects on its active agenda. This timetable distinguishes:

- Short-term Convergence Projects with the US Financial Accounting Standards Board (FASB);
- Other Convergence Projects;
- The Conceptual Framework;
- Other Projects (such as Small and Medium Sized Enterprises and Insurance Contracts);
- Amendments to Standards; and
- Research Agenda.

A number of the projects on the work program have not been dealt with in this memorandum, because, in the view of staff, they are not of significant public sector relevance, e.g. Accounting Standards for Small and Medium-Sized Entities, Insurance, Financial Statement Presentation and Share-based Payments. This memorandum attempts to focus on areas which have implications for, or a potential impact on, existing IPSASs, current IPSASB projects or planned projects. The most recent IASB Updates and IFRIC Updates are available from the IASB website at www.iasb.org/Updates/Updates.htm. The Updates give considerably more detail on the projects highlighted in this Agenda Item and provide a much fuller exposition of developments on IASB and IFRIC activities.

The IASB's February meeting took place 20-22 February 2007. An update on outcomes from this meeting with significant implications for IPSASB will be tabled at the Accra meeting. The next meeting of the IFRIC is scheduled for 8-9 March 2007. A verbal update will be provided of any outcomes with significant implications for IPSASB.

Members are reminded that the IASB has announced that it will not require the application of new IFRSs under development or major amendments to existing IFRS before 1 January 2009: for example IFRS 8, "Operating Segments", issued on 30 November 2006 applies to the annual financial statements for periods beginning on or after 1 January 2009., although earlier application is permitted. The aim is to provide a period of stability for preparers and provide countries yet to adopt IFRSs with a clear target date for adoption. However, new Standards may be published before 1 January 2009 and it is open to entities to implement standards before their effective date. Interpretations and minor amendments to deal with potential issues identified during implementation would not be subject to this moratorium. The IASB also intends to allow a minimum of one year between the date of the publication of wholly new IFRSs or major amendments to existing IFRSs and the date when implementation is required.

IPSASB Staff acknowledge the continuing assistance of IASB Staff Member Li Li Lian in keeping them up-dated on IASB developments.

DOCUMENTS RECENTLY ISSUED

IFRS, EDs, Discussion Papers IFRIC Interpretations and Draft Interpretations issued by the IASB and IFRIC since the last IASB Update Report include:

Date of Issue	Document
November 2006	Discussion Paper, "Fair Value Measurements"
November 2006	IFRS 8, "Operating Segments"
November 2006	IFRIC 11, "IFRS2-Group and Treasury Share Transactions"
November 2006	IFRIC 12, "Service Concession Arrangements"
February 2007	ED of IFRS, "Small and Medium-sized Entities (SMEs)"
February 2007	Due Process Handbook for the International Financial Reporting Interpretations Committee.

Date of Issue	Document
February 2007	ED of Proposed Amendments to IAS 24, “Related Party Disclosures”

IASB DOCUMENTS ANTICIPATED TO BE ISSUED IN FIRST HALF OF 2007

IASB documents projected to be issued in the first half of 2007, according to the IASB Work Plan are listed in the following table:

Document
IFRS, “Financial Instruments: Presentation and Disclosure, on Puttable Instruments” (IAS 32)
IFRS, “Financial Statement Presentation: Phase A”
IFRS, “Borrowing Costs” (IAS 23)
IFRS, “Share-based Payments: Vesting Conditions and Cancellations”
ED, “First-time Adoption: Cost of Investment in Subsidiary” (IFRS1)
ED, “Earnings per Share: Treasury Stock Method” (IAS 32)
ED, “Income Taxes” (IAS 12)
Discussion Paper, “Insurance Contracts”
Discussion Paper, “Consolidation”
Discussion Paper, “Conceptual Framework: Phase B: Elements, Recognition and Measurement”
Discussion Paper, “Conceptual Framework: Phase D: Reporting Entity”
Discussion Paper, “Financial Statement Presentation :Phase B”

TECHNICAL PROJECTS

This section deals with certain active projects of the IASB and IFRIC on which there have been developments since the IPSASB meeting in Norwalk.

(a) Revenue Recognition

At their joint meeting in October the IASB and the FASB discussed possible models for the implementation of the assets and liability approach for revenue recognition. The “fair value” model initially measures performance obligations at fair value, whilst the customer consideration model obtains an initial measurement by allocating the customer consideration amount. The Boards decided that the Discussion Paper on this subject scheduled for the second half of 2007 will explain, illustrate and compare these models. The outcome of this project may have an impact on IPSAS 9, “Revenue from Exchange Transactions”, which is drawn primarily from IAS 18, “Revenue”. It may also be relevant for the proposed project on fair value, a project brief for which is on the agenda for this meeting.

(b) Conceptual Framework

At its October meeting the IASB discussed the meaning of “elements” and the significance of an element as part of its deliberations for Phase B: Elements and Recognition of the Conceptual Framework project. The Board tentatively concluded that elements should:

- Continue to focus on economic phenomena and changes in them that pertain to a particular entity; and
- Focus on the most basic of real-world phenomena. Distinctions made for the purposes of financial statement display or presentation go beyond the notion of basic elements.

Also in the context of Phase B, at its November meeting the Board discussed staff's draft definition that "an asset is a present economic resource to which the entity has a present right or other privileged access."

In the context of the definition:

- "Present" means that both the economic resource and the right or other privileged access to it exist on the date of the financial statements;
- An "economic resource" is scarce and capable of being used to carry out economic activities and can contribute to producing cash inflows or reducing cash outflows, directly or indirectly, alone or with other economic resources. "Economic resources" include non-conditional contractual promises that others make to the entity such as paying cash, delivering goods or rendering services. "Rendering services" includes standing ready to perform or refraining from engaging in activities that an entity could otherwise perform; and
- A "right or other privileged access" enables the entity to use the present economic resource and precludes or limits its use by others.

The Board suggested improvements to the draft definition, primarily to the explanation of the term "economic resource" and the Board also decided to consult technical experts including the Standards Advisory Council on this issue.

Also at the November meeting the Board considered alternative approaches to reconsidering the existing definitions of liabilities and equity and sharpening the distinction between them. The alternative approaches involve either defining a single element or defining more than two elements. The Board directed staff to undertake such explorations, but indicated that it favored the single element approach and asked staff to consider the implications of such an approach.

At the December meeting the Board discussed issues in the Phase D: Reporting Entity component of the project. These included the relationship between the parent entity and the group entity previously considered at the September meeting. This involves whether the parent entity and the group entity are the same entity or two different entities and the implications for the general purpose external financial reports of the parent entity. Differences of view between IASB and FASB had emerged at the September meetings of the two Boards. Staff was asked to develop material for the Discussion Paper that more clearly articulates the relevant issues, various viewpoints and the rationale for supporting the viewpoints.

Agenda Item 7 contains details of the IPSASB's collaborative project with national standard-setters (NSS) and other bodies on a Public Sector Conceptual Framework. Agenda Item 7.6 contains a summary of issues with public sector and not-for-profit entity implications identified in reports to the NSS-4 Group on the IASB-FASB joint Conceptual Framework Project.

(c) Business Combinations

At its October meeting the IASB made tentative decisions;

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- Not to continue with the proposal in the ED to prohibit the recognition of an assembled workforce separately from goodwill. An assembled workforce is a collection of employees that allows an acquirer to continue to operate immediately following an acquisition. The value of an assembled workforce does not represent the intellectual capital of the workforce of which the acquirer has obtained the benefit as a result of the acquisition;
- To reaffirm the proposal in the ED that the effective settlement of a pre-existing relationship between the acquirer and acquiree that results from a business combination should be accounted for separately from the acquisition of the acquiree;
- To reaffirm the proposal in the ED to account for a reacquired right in a business combination as a separately identifiable intangible asset with the useful life and initial measurement of a reacquired right to be based on the remaining life of the existing contract between the acquiree and the acquirer;
- All identifiable research and development assets, including in-process research and development assets, acquired in a business combination should be recognized separately from goodwill; and
- Measurement period adjustments should be recognized retrospectively rather than prospectively.

At its December meeting the Board tentatively decided:

- That, whilst the standard should state that the principle for the initial measurement of non-controlling interests in business combinations is fair value at the acquisition date, an exception to fair value measurement should be included. Staff was asked to bring back to the Board an analysis of the consequences of allowing such an exception;
- The ED proposal to include mutual entities in the scope of a revised standard, so that combinations of mutual entities would be accounted for by the acquisition method;
- The definition of a mutual entity is an entity other than an investor-owned entity that provides dividends, lower costs, or other economic benefits directly and proportionately to its owners, members or participants;
- The definition of a mutual entity includes co-operatives; and
- To affirm the proposal in the ED to include in its scope business combinations that are effected by contract alone in the absence of a transaction involving the acquirer.

At its January meeting the Board discussed a further range of issues. Amongst these:

- The Board tentatively decided that, in accordance with the control model, once control has been achieved any changes in ownership interests between controlling and non-controlling interests (NCI) are transfers between owners and there should be no adjustment to goodwill;
- Staff was asked to analyze further the basis for permitting or requiring NCI to be measured at fair value in some circumstances;

- The Board considered accounting for contingent assets and contingent liabilities in the light of the project to amend IAS 37. It was tentatively decided to retain the existing IFRS 3 guidance but to reflect improvements affirmed by the Board in the context of the IAS 37 project. This tentative decision means that the terms “contingent asset” and “contingent liability” will not be used in the business combinations standard, in order to make it clear that possible obligations and possible liabilities should not be recognized. It was also tentatively decided that the probability recognition criterion for liabilities should be removed from the business combinations standard. The guidance in the business combinations standard will be reviewed when the Board considers consequential amendments in the IAS 37 project.
- In the first half of 2006 the Board had already tentatively affirmed the ED proposal that post-employment benefit liabilities assumed in a business combination should not be measured at fair value but in accordance with IAS 19. At the January meeting it was tentatively decided to extend this measurement exception to all assets and liabilities assumed in a business combination related to short-term employee benefits, post-employment benefit, other long-term benefits and termination benefits within the scope of IAS 19. Such assets and liabilities would be measured in accordance with IAS 19; and
- The Board tentatively affirmed the ED proposal that receivables acquired in a business combination should be measured at their acquisition date fair values and that, therefore the acquirer would not recognize a separate valuation allowance for uncollectible amounts at the acquisition date because any uncertainty about collections and future cash flows will be reflected in the fair value measure.

The current suite of IPSASs does not include a Standard on Business Combinations. The draft Strategy and Operational Plan on the agenda for this meeting proposes initiating a project to develop a Standard on Business Combinations and a project plan is included in the agenda papers for this meeting.

(d) Financial Instruments

There was considerable discussion of various aspects of accounting for financial instruments at all four IASB meetings covered by this memorandum.

At its October meeting, following submissions made to IFRIC, the IASB acknowledged that further guidance on what qualifies as a hedged portion under IAS 39 is necessary. However, no decision was made on what should be included in that guidance or whether the guidance should be an amendment to IAS 39 or an IFRIC Interpretation.

At the November meeting the Board discussed a number of issues in the context of the “due process” document that the IASB intends to publish with the Financial Accounting Standards Board in January 2008. This document will, as far as possible, include the preliminary views of each Board. Issues considered included:

- Whether the fair value of all financial instruments could be measured with sufficient reliability for financial reporting purposes. It was tentatively decided that, for the purposes of the due process document, the fair value of all items within the scope of the document could be reliably measured;

- The level at which an item should be initially recognized (known as “the item of account” not “the item of measurement”). The Board tentatively decided that the unit of account should be an individual instrument rather than portions of an individual instrument or a “linked” approach recognizing two or more instruments together. It was noted that there may be circumstances in which a “linked” approach is required;
- How items within the scope of the due process document should be initially measured—market exit, transaction price or market entry value (in many cases the latter two will be the same). The Board did not take a preliminary view;
- The level at which the recognized asset or liability should be aggregated for measurement. It was tentatively decided that the measurement objective should be to measure fair value at the individual instrument level. This requirement would not prevent an entity aggregating similar items into a portfolio, as long as the objective in doing so was to estimate the total fair value of the individual instruments within that portfolio;
- The reporting of gains and losses arising from remeasurement. It was tentatively decided that all gains and losses arising on the remeasurement of items in the scope of the document should be reported in profit and loss. This preliminary view will be reconsidered when the Board discusses hedge accounting in the future; and
- The measurement of contractual financial instruments where cash flows depend upon the other party to the contract exercising an option beneficial to the reporting entity. The example discussed was a credit card contract under which the card holder has the option to borrow money from the card company. It was noted that transactions for the sale of credit card portfolios suggest that an asset exists for an entity that holds credit card contracts under which the card holder has the option to borrow money from the card company. The Board will return to this issue in the future and consider whether an entity’s ability to benefit from such contracts is best viewed as the right to benefit from an existing contract, or as part of an existing customer relationship.

In December the Board further discussed issues relating to the “due process” document:

- Returning to the credit card example above it was tentatively decided, that, although the value of the contract could be divided into a financial liability and a non-financial asset, the value of such contracts should not be divided. No decision was made as to whether such contracts should be within the scope of the due process document;
- In the context of loan contracts that include the right for the borrower to repay the loan before its stated contractual maturity the Board discussed whether the holder of such a loan should recognize and report part of the value of the prepayable loan as a non-financial asset: that part being the value to the holder of the loan that arises when the borrower does not prepay when the market level of interest rates indicates that it would be rational to do so. It was tentatively decided that the holder of such a loan should not report part of the value of the loan separately;
- It was tentatively decided that bank deposit agreements should not be included in the scope of the due process document and also that the due process document should include a full discussion of such agreements; and
- It was tentatively decided that, in determining the fair value measurement of recognized liabilities with a demand feature, a discounted cash flow approach should be used.

In January 2007 the Board discussed further issues in the context of the “due process” document. In the context of how debtors should measure guaranteed liabilities the Board tentatively decided that:

- A third-part contractual guarantee does not affect the measurement of a liability by a debtor if the guarantee does not affect the future obligations of the debtor;
- A liability should include any measurement effect arising from the regulatory environment within which the debtor operates, for example, statutory deposit insurance

In the context of hedge accounting the Board discussed whether any exception from normal accounting principles in the form of hedge accounting should be permitted. The Board had previously made a tentative decision that all items within the scope of the document should be measured at fair value with changes being taken to profit and loss. The Board tentatively decided that:

- No exceptions for hedge accounting would be permitted for recognized assets, liabilities and firm commitments within the scope of the document or for any forecast transaction regardless of whether the resulting item would be within the scope;
- The due process document would include a discussion whether some form of hedge accounting would be justified for hedged assets, liabilities and firm commitments outside the scope of the document; and
- The document will discuss issues arising from foreign exchange risks embedded in items outside the scope of the document.

In December the Board discussed a number of issues related to hedge accounting. In particular:

- It was decided to propose an amendment to IAS 39 to specify the risks that qualify for designation as hedged risks. There is no intention to change existing practice and the risks are those commonly hedged in practice. Such risks include;
 - Market interest rate
 - Foreign currency risk
 - Credit risk
 - Prepayment risk
 - Risks associated with the cash flows of a financial instrument that are contractually specified and are independent of the other cash flows of the same financial instrument
- Staff was directed to carry out further research on these issues. The proposed amendment will be developed as a stand-alone project rather than as part of the annual improvements process;
- The Board discussed whether clarification is needed to which portions of a financial instrument are eligible for designation as a hedged item. Certain portions are clearly permitted by IAS 39 i.e. hedges of a proportion of the cash flows of an item and partial term hedges. The Board did not discuss these, but focused on possible approaches to providing guidance on the designation of “other portions” for hedging purposes. It was decided that guidance should restrict the use of “other portions to specified situations; and
- The proposed amendment should be developed by the Board rather than the IFRIC.

The current suite of IPSASs includes IPSAS 15, “Financial Instruments: Disclosure and Presentation”. It does not include a standard on Recognition and Measurement. In the light of the changes to IAS 32, “Financial Instruments: Disclosure and Presentation” (revised 1998), from which IPSAS 15, is drawn IPSAS 15 is now outdated. A project brief for a project on financial instruments is included in the agenda papers for this meeting. The issues highlighted in this section of the Update may have an impact on the proposed IPSASB, although, as identified in some responses to the IPSASB draft Strategic and Operational Plan, the extent to which they have public sector resonance may be questionable, in particular hedge accounting. In addition the timelines for outcomes for a number of these issues are lengthy.

(e) Leasing

As noted in the agenda item for Norwalk, in July the IASB announced the addition of a joint project with FASB on lease accounting to its work program. The project involves consideration of all aspects of lease accounting and is expected to lead to a fundamental revision of the way that lease contracts are treated in the financial statements of both lessees and lessors. There have been reservations about the conceptual underpinning of IAS 17, “Leases” and the differing accounting treatments dependent on whether an arrangement is classified as a finance lease or an operating lease. IPSAS 13, “Leases” is, of course, drawn primarily from IAS 17, so such a fundamental revision would have a significant impact on the IFRS convergence component of IPSASB’s Strategic and Operational Plan. Although it is now on the IASB’s active agenda, this is a long-term project and a revised Standard is likely to be about five years before a revised Standard is issued.

In December the IASB and FASB announced the membership of a new international working group to help them in the joint project. The group consists of individuals with extensive experience in the leasing industry or with responsibility for the preparation, analysis and audit of financial statements of entities with significant leasing transactions.

At its October meeting, in the context of its annual improvements process the Board considered a request from IFRIC to clarify the treatment of contingent rents relating to operating leases in IAS 17. The reason is that a literal interpretation of IAS 17 indicates that contingent rents should be recognized on a straight-line basis over the lease term. Such a treatment is inconsistent with the accounting for contingent rents in finance leases. The Board tentatively decided to require contingent rents relating to operating leases to be recognized as incurred. Confirmation of this tentative view would have a potential impact on IPSAS 13. “Contingent rent” is defined in IPSAS 13 in the same way as in IAS 17-as “that portion of the lease payments that is not fixed in amount but is based on a factor other than just the passage of time (for example, percentage of sales, amount of usage, price indices, market rates of interest)”. Requirements in relation to contingent rents in IPSAS 13 mirror those in IAS 17.

(f) Post-employment benefits

Following its July decision to include the accounting for cash balance plans in the first phase of its project on post-employment benefits, in October the Board held an education session on “cash balance plans”, which it intends to term “intermediate risk plans” in future (also see below for prior IFRIC consideration of this area). At the December meeting the Board held a preliminary discussion on accounting for cash balance and similar plans. Staff was asked to clarify the

definitions of relevant items, such as the definitions of defined benefit and defined contribution plans in IAS 19, so that they might be amended in order that asset-based benefits are not treated in the same way as salary-based benefits.

At its November meeting the Board discussed the recognition and presentation of the components of defined benefit pension plans. The Board tentatively decided that recognition in the period incurred should be required for;

- All actuarial gains and losses subject to finding an acceptable approach to presentation; and
- Unvested past service cost.

ED 31, “Employee Benefits” is based on IAS 19 (2004), “Employee Benefits”. Confirmation of this tentative view will have an impact on ED 31, “Employee Benefits”, ED 31 adopts the same approach as IPSAS 19 (2004) in only requiring entities to recognize actuarial gains and losses where they fall outside the “corridor” and requiring unvested past service cost to be recognized as an expense on a straight-line basis over the average period until the benefits become vested. When ED 31 was developed in 2006 members agreed that there was no public sector specific reason to remove the “corridor” approach.

At its November 2006 meeting the IFRIC received a status report on the outstanding IAS 19 issues that had come before it or been raised with the IFRIC staff. The IFRIC agreed to remove two items-the treatment of cash balance and similar plans and the distinction between defined benefit and defined contribution plans-because these areas will be included in the IASB’s Post-employment Benefits project. There are a number of other outstanding issues. After consultation with the Agenda Committee staff will develop recommendations on these. The issues include: changes to a plan caused by government, treatment of employee contributions and treatment of death in-service and other risk benefits.

Also in the light of the IASB’s Post-employment Benefits Project the IFRIC has agreed to remove from its agenda its project on how IAS 19 should be applied to plans with a promised return on actual or notional contributions (sometimes such arrangements are referred to as cash balance plans). In late 2004 IFRIC had issued a draft Interpretation D9, “Employee Benefits with a Promised Return on Contributions on or Notional Contributions” D9 proposed that such plans should be classified as defined benefit arrangements, and, further, for plans with a combination of a guaranteed fixed return and a benefit that depends on future asset returns, the amount of the liability should be determined by analyzing the benefits into fixed and variable components. Respondents to D9 had supported the view that the types of plans addressed in D9 should be treated as defined benefit arrangements. However, there was some disagreement in respect of the proposed methodology and a number of respondents considered that the issues should be dealt with by amendment to IAS 19 rather than by an interpretation. The work that IFRIC has carried out on these issues will inform the IASB’s project.

At its January meeting the IFRIC considered how to distinguish between plan amendments that are curtailments and negative past service cost. Commentary in IAS 19 states that a curtailment occurs when an entity is either “demonstrably committed to make a material reduction in the

number of employees covered by a plan or amends the terms of a defined benefit plan such that a material element or future service for current employees will no longer qualify for benefits, or will qualify only for reduced benefits.” Past service cost is described in commentary as arising “when an entity introduces a defined benefit plan or changes the benefits payable under an existing defined benefit”. This commentary is mirrored in ED 31, so the outcome of IFRIC’s deliberations is likely to have an impact on the Standard developed from ED 31.

The IFRIC noted that, whilst the Board’s project on IAS 19 is not intended to address the issue, decisions in that project may result in curtailments and past service cost being accounted for in the same way, which would eliminate the need to distinguish them. The IFRIC sees little benefit in developing an Interpretation based on the existing position if the Board’s project might change accounting for post-employment benefits shortly after any Interpretation is finalized. IFRIC will consider further whether it should recommend to the Board that this issue be addressed through the annual improvements process and staff recommendations on possible amendments to IAS 19 will be considered at a future IFRIC meeting.

(g) IAS 24, “Related Party Disclosures”

Following its July 2006 decision to review IAS 24, “Related Party Disclosures” the IASB discussed whether an associate and a subsidiary of the associate’s significant investor are related parties as defined in IAS 24. The Board confirmed that IAS 24 identifies these entities as related parties for both the associate’s individual and the group’s consolidated financial statements. However, under IAS 24 these entities are not related parties for the subsidiary’s individual financial statements. The Board tentatively decided to amend the definition of a related party IAS 24 to reflect this clarification. The definition of a related party in IPSAS 20, “Related Party Disclosures” is drawn from that in IAS 24 but includes related party relationships which are noted only in commentary in IAS 24.

At the January meeting the IASB considered the following issues that had arisen from the pre-ballot draft of the ED of Amendments to IAS 24.

- **Inconsistency of IAS 24 in its consideration of key management personnel:** Whilst IAS 24 identifies as a related party significant investees of the entity’s key management personnel but does identify the entity that the key management personnel manage as related parties to those investees. The definition of a related party will be broadened to include the latter case;
- **Exemptions from specified disclosures for entities that are state controlled or under significant influence by a state:** Paragraph 17 of IAS 24 requires certain minimum disclosures about transactions and balances between related parties. Entities that are state controlled or under significant influence by a state will be exempted from this requirement. However, if influenced exists between the two related parties the exemption will not apply. It was tentatively decided that if any indicators of influence exist the entity is not exempted; and
- **Future commitments:** A related party transaction includes future commitments.

In late February the IASB issued an Exposure Draft of proposed amendments to IAS 24, which reflected much of the above discussion. The Exposure Draft proposes to eliminate the disclosure requirements in paragraph 17 of IAS 24 for some entities that are controlled or significantly influenced by a state in relation to transactions with other entities controlled or significantly influenced by that state. These proposals stem from points raised by China and highlighted in the IASB Update for last November's Norwalk meeting. The Board has used an indicator approach to establish when an entity can apply the exemption.

The proposed indicators of circumstances in which the relationship should not be exempt include:

- The presence of common members of the board;
- The existence of direction or compulsion by a state;
- Related parties transacting business at non-market rates;
- Related parties sharing of resources; and
- Related parties undertaking economically significant transactions.

The Exposure Draft also proposes to amend and clarify the definition of a related party to remove inconsistencies and improve readability. The main amendments to the definition are:

- The inclusion, in the definition of a related party, of the relationship between a subsidiary and an associate of the same entity, in the individual or separate financial statements of both the subsidiary and the associate;
- The removal, from the definition of a related party, of situations in which two entities are related to each other because a person has significant influence over one entity and a close member of the family of that person has significant influence over the other entity. The Board concluded that the definition of IAS 24 does not include two associates of the same entity as related to each other. Therefore, when the investor is a person and a close member of the family of that person, the same conclusion should apply; and
- The inclusion, within the definition of a related party, of two entities where one is an investee of a member of key management personnel (KMP) and the other is the entity managed by the person that is a member of KMP. At present, investees of KMP are related to the entity that the KMP managed but IAS 24 does not include the reciprocal of this.

Due to requests for urgency from constituents and given the nature of the proposed amendments the comment period will be 90 days rather than the 120 days originally proposed and the consultation period expires on 25 May.

IPSAS 20, "Related Party Disclosures" is primarily drawn from IAS 24. However, IPSAS 20 has a different structure from IAS 24 and takes a different approach in a number of areas, so the impact of changes arising from the IASB ED will need to be assessed.

(h) Service Concessions

IFRIC issued IFRIC 12, "Service Concession Arrangements" in late November 2006. It has an effective date of 1 January 2008. The text was developed from the 3 Draft Interpretations issued in 2005-D12, "Service Concession Arrangements-Determining the Accounting Model", D13,

“Service Concession Arrangements-the Financial Assets Model and D14, “Service Concession Arrangements-the Intangible Asset Model”. The IASB Update for the Norwalk meeting highlighted the main modifications to the proposals in D12-D14, whilst noting that the main principles in the draft Interpretations were likely to be unchanged. This proved to be the case.

IFRIC 12 deals only with accounting by operators. The press release accompanying the issuance of IFRIC 12 noted that the IPSASB has initiated a project on service concession arrangements which will consider accounting by grantors. An update on the IPSASB’s Service Concessions project is at Agenda Item 4.

(i) IAS 37, “Liabilities”

The IASB continued its redeliberations of issues associated with the measurement principle in the ED of IAS 37 at its October meeting. The proposed principle would require an entity to measure a liability at the amount that it would rationally pay to settle the obligation or to transfer it to a third party at the balance sheet date. At consultation some respondents considered that the proposed measurement principle permitted choice on the basis that the “amount to settle” might not be the same as the “amount to transfer”. The Board had not intended to propose more than one measurement attribute and therefore preferred to delete one of these phrases. In debating the relative merits of the two phrases the Board identified merits and problems with both. “Amount to settle” is broader than “amount to transfer” and therefore likely to lead to more interpretations. “Amount to transfer” might imply the specification of fair value, which is beyond the scope of the project.

The Board did not reach a conclusion on the issue, but directed staff to develop an example based on guidelines that:

- The measurement principle is “the amount an entity would rationally pay to settle an obligation on the balance sheet date”;
- An entity may settle such a liability either by paying the counterparty to release the entity from its obligation or paying a third party to assume its obligation; and
- An entity should give precedence to market information when available. In the absence of market information, entity-specific information is consistent with the measurement principle provided there is no indication that it is inconsistent with information the market would use.

The outcome of this debate will be relevant to IPSAS 19 and other projects such as Social Benefits. Currently the black letter measurement requirement in paragraph 44 of IPSAS 19 is that “the amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date”. In commentary at paragraph 45 it is stated that “the best estimate of the expenditure required to settle the present obligation is the amount that the entity would rationally pay to settle the obligation at the reporting date to transfer it to a third party at that time.” IPSAS 19 is likely to be more fundamentally affected by outcomes from the IASB, s broader project on Liabilities.

At its January meeting the Board, informed by the roundtables held late in 2006, prioritized six issues for examination in the next stage of the project. These issues are:

- How to distinguish between a liability and a business risk;
- How to handle uncertainty about the existence of a present obligation (including constructive obligations);
- Whether all uncertainty about the outflow of economic benefits required to settle a liability can be reflected in measurement;
- What guidance to provide on the building blocks of an expected value calculation;
- What special considerations might be needed for lawsuits; and
- Disclosure about possible obligations, which do not meet the definition of a liability.

The Board does not expect to begin redeliberations on other issues in the ED, including contingent assets, restructuring provisions, termination benefits and onerous contracts until 2008.

(j) Segment Reporting

The IASB issued IFRS 8, “Operating Segments” in late November 2006. IFRS 8 replaces IAS 14, “Segment Reporting” and aligns requirements for segment reporting in the IASB literature with the requirements of the US Standard, SFAS 131, “Disclosures about Segments of an Enterprise and Related Information”.

The IFRS requires an entity to adopt the management approach to reporting on the financial performance of its operating segments- this contrasts with what is known as the industry approach which underpinned IAS 14. Generally the information to be reported would be that which management uses for internal reporting purposes. Because this information may be different from that used to prepare the income statement and balance sheet, the IFRS requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognized in the primary statements. IPSAS 18, “Segment Reporting” is based on IAS 14, although it does depart quite markedly from IAS 14 in a number of areas, particularly in its definition of segments and its requirements for the reporting of those segments.

As indicated in the IASB Update for the Norwalk meeting the IASB decided, not to extend the scope of IFRS 8 to require additional disclosure on a country-by-country basis as proposed by a coalition of non-governmental organizations, the Publish What You Pay campaign. The Publish What You Pay Campaign is interested primarily in the extractive industries.

(k) Investment Property under Construction

At its October meeting the Board tentatively decided to amend IAS 40, “Investment Property” and IAS 16, “Property, Plant and Equipment” to include investment property under construction within the scope of IAS 40. Currently investment property under construction is within the scope of IAS 16 until construction or development is complete. As a result of the Board decision the IFRIC decided not to take this issue onto its active agenda.

IPSAS 17, “Property, Plant and Equipment” and IPSAS 16, “Investment Property” mirror the current approach in IAS 16 and IAS 40 for the treatment of property that is being constructed or developed for future use as investment property. IPSAS 17 applies to such property until construction or development is complete, at which time the property becomes investment property and IPSAS 16 applies. Therefore, from a convergence perspective, confirmation of the

IASB's tentative decision in October would probably necessitate an amendment to both IPSAS 16 and IPSAS 17 in the future.

(l) Borrowing Costs

At the November and December meetings the IASB discussed comments in the proposal in the ED of Amendments to IAS 23, "Borrowing Costs" to eliminate the option to recognize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as an expense immediately. At the December meeting the Board decided that it would issue the Amendments to IAS 23 as exposed with one change-inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis will be excluded from the scope of IAS 23 for cost-benefit reasons.

It was also clarified that the scope of IAS 23 would exclude assets measured at fair value: Entities are permitted to disclose information about borrowing costs that would have been capitalized if those assets had been measured at historical cost. IPSAS 5, "Borrowing Costs" is drawn primarily from IAS 23. In accordance with the benchmark treatment IPSAS 5 currently allows borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be recognized as an expense in the period in which they are incurred. The elimination of the option to recognize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as an expense immediately would have a direct impact on IPSAS 5.

(m) Intangible Assets

In January 2007 the Board considered a draft proposal developed by staff of the Australian Accounting Standards Board to add a project on intangible assets to the Board's agenda. The Board confirmed its October 2006 decision that the scope of the proposed project should include:

- The initial accounting for intangible assets other than intangible assets acquired in a business combination (including internally generated intangible assets); and
- Subsequent accounting for all intangible assets.

The project would not include the requirements for the initial accounting for intangible assets acquired in a business combination, or the initial and subsequent accounting for goodwill.

Following further consideration by the IASB, jointly by the IASB and FASB, the Standards Advisory Council and the Trustees a final decision is likely to be made by December 2007.

The initial draft of the Strategic and Operational Plan circulated in January 2007 proposed initiating a project on intangible assets in 2007. However, Staff is now proposing that this project be deferred until 2008.

(n) Management Commentary

At its January meeting the IASB discussed a summary of the comments letters received in response to the Discussion Paper, "Management Commentary" prepared by a team of staff of a number of national standard-setters and accountancy bodies. Noting that the overall response was positive the Board asked the team to prepare a draft agenda proposal.

Management commentary is one of the topics to be addressed in the scope component of the IPSASB's Public Sector Conceptual Framework Project, so the forthcoming agenda proposal will be of interest in that context.

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IASB Work Plan - projected timetable as at 31 December 2006

The timetable shows the current best estimate of document publication dates. The effective date of amendments and new standards is usually 6-18 months after publication date. However, except for the items listed in the section 'Amendments to standards', the effective date of IFRSs resulting from the current work plan will be no earlier than financial periods beginning 1 January 2009. In appropriate circumstances, early adoption of new standards will be allowed.

	MoU milestone by 2008	2007				2008	2008	Timing yet to be determined
		Q1	Q2	Q3	Q4	H1	H2	
ACTIVE AGENDA								
Projects in Memorandum of Understanding (MoU) with the FASB ¹								
Short-term convergence projects								
Borrowing costs (IASB)	Determine whether major differences should be eliminated and substantially complete work	IFRS						
Government grants ² (IASB)								Pending work on Liabilities
Joint ventures (IASB)			ED			IFRS		
Impairment (Joint)								Staff work in progress
Income tax (Joint)			ED				IFRS	
Fair value option (FASB)								
Investment properties (FASB)								
Research and development (FASB)								
Subsequent events (FASB)								
Other convergence projects								
Business combinations	Converged standards			IFRS				
Consolidations	Work towards converged standards		DP				ED	IFRS
Fair value measurement guidance	Converged guidance		RT				ED	IFRS
Financial statement presentation ³ Phase A	One or more due process documents		IFRS				ED	IFRS
Phase B			DP					
Revenue recognition	One or more due process documents				DP			ED, IFRS
Post-retirement benefits (including pensions)	One or more due process documents			DP				ED, IFRS
Leases	Agenda decision						DP	

	2007				2008	2008	Timing yet to be determined
	Q1	Q2	Q3	Q4	H1	H2	
Conceptual Framework							
Phase A: Objectives and qualitative characteristics	RT	DP	ED				DP
Phase B: Elements and recognition							DP
Phase C: Measurement							DP
Phase D: Reporting entity							DP
Phase E: Presentation and disclosure							DP
Phase F: Purpose and status							DP
Phase G: Application to not-for-profit entities							DP
Phase H: Finalisation ⁴							
Other projects							
Small and medium-sized entities	ED				IFRS		
Insurance contracts	DP					ED	IFRS
Liabilities ⁵					IFRS		
Emission trading schemes ²							
Amendments to standards							
Financial instruments: puttable instruments (IAS 32)	ED ED IFRS ED		IFRS	IFRS IFRS			
Earnings per share: treasury stock method (IAS 33)							
First-time adoption: cost of investment in subsidiary (IFRS 1)							
Share-based payment: vesting conditions and cancellations (IFRS 2)							
Related party disclosures (IAS 24)							
RESEARCH AGENDA							
projects yet to be added to the ACTIVE AGENDA but included in the MoU with the FASB (except as shown)							
MoU milestone by 2008		DP		RR DP AD			TBD
Derecognition	Consider staff research						
Financial instruments (replacement of existing standards)	One or more due process documents						
Intangible assets	Consider research and make agenda decision						
Liabilities and equity ⁶	One or more due process documents						
Management commentary	Not in MoU						
Extractive activities	Not in MoU						
Abbreviations used in the IASB Work Plan:							
DP Discussion Paper				TBD The type of initial document (DP or ED) is yet to be determined			
ED Exposure Draft				RR Research report			
RT Round-table discussion				AD Agenda decision			
IFRS International Financial Reporting Standard							
Notes:							
1 The Memorandum of Understanding (MoU) sets out the milestones that the FASB and the IASB have agreed to achieve in order to demonstrate standard-setting convergence, which is one part of the process towards removal of the requirement imposed on foreign registrants with the SEC to reconcile their financial statements to US GAAP.							
2 Work on government grants and emission rights has been deferred pending the conclusion of work on other relevant projects.							
3 The Financial Statement Presentation project was formerly known as the Performance Reporting project.							
4 The IASB and the FASB are considering how they will finalise the Conceptual Framework project, once the initial documents on each phase have been subject to public consultation and redeliberation by the boards.							
5 The Liabilities project is the amendments to IAS 37. It was formerly known as the Non-financial Liabilities project.							
6 Project is being conducted as a 'modified joint' project, ie the IASB expects to make a formal agenda decision and begin work when the FASB has completed work on an initial discussion document.							

Memo

DATE: 2 March 2007
MEMO TO: Members of the IPSASB
FROM: John Stanford
SUBJECT: Update on Projects of National Standards-Setters

OBJECTIVE OF AGENDA ITEM

To provide Members, Technical Advisors and Observers with a brief Update on relevant activities of national standards-setters and similar bodies

ACTION REQUIRED

- The IPSASB is asked to:
- **Note** the Update on projects of standards-setters in IPSASB member jurisdictions.

Background

On 1 January 2007 staff circulated a table that provided a broad view of various technical projects on the IPSASB work program and on the work programs of national standards-setters in IPSASB member jurisdictions. IPSASB members were requested to update the relevant columns in the table and respond to staff by 9 February 2007. A further reminder was sent on 10 February 2007.

The table has been updated on the basis of information received from the Swiss Public Member, Australia, Canada, China, Israel, Japan, New Zealand, the United Kingdom and the United States. It is attached to this memorandum.

If staff receives further updates, the attached table will be updated and tabled at the forthcoming IPSASB meeting in Accra.

BROAD OVERVIEW OF PROJECT TYPES – STANDARD-SETTERS IN IPSASB MEMBER JURISDICTIONS

**PUBLIC SECTOR PROJECTS AS AT FEBRUARY 2006
(COMPILED FROM INFORMATION PROVIDED BY IPSASB MEMBERS/TECHNICAL ADVISORS)**

TOPIC	Arg	Aust	Can	Chi	Fra	India		Israel	Italy	Jap	Mex	NZ	N'lands	Nor	SA	UK	Switz	USA	
						ICAI (1)	GASA B (2)											FASAB	GASB
<i>Conceptual Type Projects</i>																			
Performance Reporting – and aspects of including: Non-fin. service/performance indicators Fin. reporting formats and statements and discussion /analysis and economic condition reporting.			#(1) #(2)						✓ ✓ (1) (2) (3) (4) (15)	✓ ✓ (1)	✓ ✓ (1)	✓ ✓ (1)	✓ ✓ (1)	✓ ✓ (1)	✓ ✓ (1)	✓ ✓ (1)		✓ #	✓ ✓ #
Conceptual Framework or aspects thereof, including Financial Reporting Entity	✓		# #			✓	✓		✓		✓	✓				✓ (1)	✓	✓ #	✓ #
Measurement in fin. statements – including valuation and revaluation of property, plant and equipment, present value			#(3)					✓	✓		✓	✓	✓	✓	✓	✓ (1)	✓	✓	✓
Monitor IASB-FASB’s joint project on conceptual framework		✓	✓									✓			✓	✓			
<i>IPSASB Active Programs</i>																			
Non-Exchange Revenues and components thereof - Transfers, Contributions, Contributions in kind, External Assistance Received for accrual accounting		✓	✓					✓				✓	✓	✓	✓		✓	✓	✓ #
Social Policy Obligations		*	*									*			✓			#	

TOPIC	Arg	Aust	Can	Chi	Fra	India		Israel	Italy	Jap	Mex	NZ	N'lands	Nor	SA	UK	Switz	USA	
						ICAI (1)	GASA B (2)											FASAB	GASB
Budgetary Reporting – Compliance															✓		✓	#	#
Development Grants and Other Aid (External Assistance, cash accounting only)						✓	✓												
Heritage Assets		✓	(4)									✓			✓	✓ (2)		# ✓	#
Asset Impairment – Cash-generating Assets											✓				✓		#		#
Other IASB/IPSAS Convergence projects that overlap with IPSASs, including inventories, sale/lease back, property, plant and equipment, joint ventures, consolidated and separate financial statements, associates			#(5)			(3)		✓ (5) (6) (7) (8) (9) (14)				✓		✓	✓				
Employee Benefits (consider IAS 19)			#			✓		✓				✓			✓			#	# ✓
GAAP/GFS Convergence		✓								✓ (2)							✓		
Projects considered by IPSASB not yet actioned																			
Service Concessions (monitor IFRIC, IASB, and/or contribute resources to IPSASB collaborative project)		✓	✓					*				✓			✓	✓			✓ (1)
Public Sector Conceptual Framework (contribute resources to IPSASB collaborative project)		✓	✓									✓			✓	✓			
Other Projects																			
Budget Reporting – prospective information	*								✓			✓ #					✓		

TOPIC	Arg	Aust	Can	Chi	Fra	India		Israel	Italy	Jap	Mex	NZ	N'lands	Nor	SA	UK	Switz	USA	
						ICAI (1)	GASA B (2)											FASAB	GASB
Projects that overlap with existing IPSASs, including segments, rel. parties, liabilities, contingent liabilities, hyperinflation economies, disclosure of fin instruments, exchange revenues (and similar)		✓	#(6) ✓			(4)		✓ (10) (11) (12) (13)		✓		✓		✓	✓		✓	#	#
IASB overlap projects (No IPSAS), including:			✓					✓				✓							
Termination benefits			#					✓							✓				#
Financial Instruments recognition/measurement or aspects thereof – Derivatives and Hedging			✓									✓					#	✓	✓ #
Government / Business Combinations		✓	#					✓				✓			✓				✓
Intangible Assets		✓	(7)					✓							✓				✓
Capital Assets/Infrastructure Asset			#					*						✓				#	✓ #
Simplified/Abbreviated Financial Reporting		✓							✓			✓						✓	✓
Net Assets / Fund Balance Reporting			#(8)																✓
Pollution Remediation Obligations			✓															#	#
Fiduciary Responsibilities																		✓	✓
Disclosures about Administered Items															✓				
Electronic Reporting														#					✓
Securitizations and Other Transfers																			#
GAAP, including hierarchy of guidance			#						✓						✓				

TOPIC	Arg	Aust	Can	Chi	Fra	India		Israel	Italy	Jap	Mex	NZ	N'lands	Nor	SA	UK	Switz	USA	
						ICAI (1)	GASA B (2)											FASAB	GASB
Review of National Standards for Government		✓													✓		✓		
Management Commentary			#													✓			#
Puttable Options (Co-operative Shares)		✓										✓							
Joint Ventures			#																#
Kyoto Protocol/ Emission Rights																			
Natural Resources															✓			✓	
Determining control of public sector entities		✓	#																
Definition of not-for-profit entities		✓	(9)																
Reporting Changes in Assumptions																		✓	
Superannuation Plans		✓																	
Extractive Activities		✓																	

* Consideration of National Standards for Governments (including Local Governments) and Government Departments in a number of jurisdictions is likely to involve at least some consideration of these issues.

Standards have been issued.

Notes

Canada

- (#) Standards have been issued.
- (1) Recommended practice established applicable to preparation of Public Performance Reports
- (2) Reporting model including financial reporting formats, recommended practice standard applies to Discussion and Analysis
- (3) Standard requires historical cost based reporting for tangible capital assets. No provision for revaluation at market
- (4) Tangible capital asset standard excludes recognition of art and historic treasures as assets
- (5) Standards issued for: sale/leaseback, tangible capital assets, joint ventures, consolidated financial statements. No present efforts to converge.
- (6) Standards established for liabilities, contingent liabilities, and disclosure of segment information. Tax revenues project in progress
- (7) Intangible capital assets other than software are not recognized as assets
- (8) Standard limits reporting to net assets. Reporting of fund balances prohibited
- (9) Not-for-profit entities defined. Separate body of national standards applies to entity level reporting by not-for-profits

China

The Ministry of Finance promulgated four relevant accounting systems and standards in 1997 (effective in 1998):

- Accounting System for Fiscal General Budget (generally cash basis)
- Accounting System for Government Departments, (generally cash but accrual for some special issues)
- Accounting Standard for Institutional Units (generally cash basis, but accrual for certain transactions such as revenue recognition); and
- Accounting System for Institutional Units (generally cash basis, but accrual for certain transactions such as revenue recognition).

The above four accounting systems and the Standard are currently under revision.

India

- (1.) The Accounting Standards being formulated by the Institute of Chartered Accountants of India (ICAI) will be applicable to local bodies. These Standards would not apply to the Union Government and State Governments of India which follow cash basis of accounting (refer to footnote 2).
- (2.) Government Accounting Standards Advisory Board (GASAB) constituted by Comptroller & Auditor General (C & AG) of India formulates Accounting Standards for Union Government and State Governments of India.
- (3) The Accounting Standard only on Property, Plant and Equipment is under preparation
- (4) The Accounting Standard only on Segment Reporting is under preparation

Israel

- (1) Adoption of IPSAS 1 *Presentation of Financial Statement*.
- (2) Adoption of IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*.

- (3) Adoption of IPSAS 14 *Events After the Reporting Date*.
- (4) Adoption of IPSAS 2 *Cash Flow Statements*.
- (5) Adoption of IPSAS 12 *Inventories*.
- (6) Adoption of IPSAS 17 *Property, Plant and Equipment*.
- (7) Adoption of IPSAS 9 *Revenue from Exchange Transactions*.
- (8) Adoption of IPSAS 6 *Consolidated financial statements and accounting for controlled entities*.
- (9) Adoption of IPSAS 7 *Accounting for Investments in Associates*.
- (10) Adoption of IPSAS 20 *Related Party Disclosures*.
- (11) Adoption of IPSAS 5 *Borrowing Costs*.
- (12) Adoption of IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*.
- (13) Adoption of IPSAS 11 *Construction Contracts*.
- (14) Adoption of IPSAS 8 *Financial Reporting of Interests in Joint Ventures*.
- (15) In process of adopting guidance on Discussion and Analysis.

Japan

Draft policy paper for public sector financial reporting, which is prepared by Ministry of Finance emphasizes further harmonization with IPSASs. However, concrete plan on individual issues have not been designed.

- (1) A research project is going to start by initiative of statistics authority of the Japanese Government
- (2) Standard format of Financial Statements by Local Governments is now considered by a Deliberation Board within the Japanese Government.
(Ministry of International Affairs and Communication)

Netherlands

- (1) Non-financial service/performance indicators : Non-financial indicators project by Public Sector Committee of Royal Nivra (accountants' institute)
- (2) Measurement in fin. statements –Project on land valuation and project on fixed assets by accounting standard-setting body for municipalities and provinces.
- (3) Non-Exchange Revenues: Recognition and valuation of local sewage taxes by accounting standard-setting body for municipalities and provinces.

Norway

- (1) The Government will propose their follow-up of the 10 pilot projects in Norway in October 2006

United Kingdom

- (1) Consultation on the UK Statement of Principles: Interpretation for Public Benefit Entities has been completed, and further work has been done on Liabilities and Capital Grants. The UK Accounting Standards Board expects to issue a definitive Interpretation by April 2007.
- (2) The UK Accounting Standards Board issued an exposure draft FRED 40, “Accounting for Heritage Assets” on 19 December 2006.

United States

- (1) Private/Public Partnership (Concessions) project is not an IASB/IFRIC monitoring project.



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Agenda Paper
4.5

DATE: March 2, 2007
MEMO TO: Members of the International Public Sector Accounting Standards Board
FROM: Barry Naik
SUBJECT: Country Reports

ACTION REQUIRED

The IPSASB is asked to note developments in the attached country reports.

AGENDA MATERIAL:

Papers

4.5.1	Italy
4.5.2	Canada
4.5.3	China
4.5.4	Israel
4.5.5	South Africa
4.5.6	Australia
4.5.7	Japan
4.5.8	France
4.5.9	United States of America
4.5.10	Switzerland
4.5.11	United Kingdom
4.5.12	India

Country Report – Italy

Firstly, it must be reminded the circumstance that in Italy different levels of government as well as very organised public sectors exist and that the scope of self – government extends also to administrative and accounting regulations, so that what follows should be referred to the expressly mentioned sectors and cannot be taken as having general scope.

Anyway, a pattern towards the harmonisation of accounting rules has been laid down by a fundamental law (Law n. 468/1978), whose main purpose was to review the budget procedures of the old but still existing State General Accounting Law (Royal Decree n. 2440/1923). In fact, Law n. 468/1978 has provided for the consolidation of financial statements of public entities pursuing transparency on costs, outcomes and results.

In the 90' several important provisions of law (or Legislative Decrees) have been adopted to introduce Accounting Standards based in the accrual principles, particularly in order to improve the recognition rules in accounting systems. It should be mentioned art. 64 of Legislative Decree n. 29/1993 (now encompassed into art. 59 of Legislative Decree n. 165/2001), which has provided for the establishment of new procedures aimed at the recognition of costs by the public sector entities in view of new patterns of the financial sheets.

Later on, Law n. 468/1978 has still been deeply amended by Law n. 94/1997. By this Law, the Government was delegated to define a framework of basic Parliament-voted units in the State budget (a modified cash basis budget). The budget structure has been reviewed in order to meet the principles of a more effective and efficient Public Administration envisaged by Law n. 241/1990 and by Legislative Decree 29/1993 (now encompassed into Legislative Decree n. 165/2001). The most relevant changes concerned were:

- the provision of two State budgets: one to be voted by the Parliament that is based on basic units so as to entrust financial resources to management centres (called “responsibility centres”); the second budget articulates the basic units voted by Parliament into the more elementary budget items, for management purposes;

Country Report – Italy

- the costs have been apportioned according to a management-by-objectives method, while activities were related to the different policy sectors and allowed outputs to be properly assessed, in order to point out the performance of services to citizens;
- transfers of financial resources have been allowed between different State budget items when pertaining to the same basic unit (except for expenditure authorised because compulsorily provided by law).

Legislative Decree n. 279/1997 was enacted pursuant to Law 94/1997 and to the principles and guidelines therein provided. It has provided for a plan of the basic, Parliament – voted, units in the State budget and for a reshaping of the State final balance sheet (which results from the execution of the modified cash based budget).

Therefore, the Decree has set up rules concerning:

- the definition of basic appropriation units (art. 1, alinea 1)
- the apportionment also of revenues and of outcomes to basic units (art. 1 alinea 2);
- the flexibility of the basic budget units so that the State budget structure can be (to some extent) purposely modified to meet management needs and the new public organisational framework;
- the relation of the basic budget units to the general tasks assigned to different policy sectors and to the first reform of the method of quantification of financial resources on an increasing expenditure criteria;
- the limit to payments to be carried out during a financial year through cash authorisations, this limit depending on the expendable volume (art. 2 al. 2);
- the level of responsibility of those who, being in charge of administrative centres and entrusted with expenditure decision powers depending on the resources assigned to them, are also liable for the pursuance of their targets;
- the adoption of an accounting system firstly based to some extent on accrual principles and on cost centres, which is supposed to allow for the audit of actual achievements of public managers and for the assessment of the cost of services, through the account plans.

Country Report – Italy

The harmonisation process so started has spread out into other public sectors and has interested other public entities enlarging provisions that have been newly set up for the State itself. The benefits from a timely and accrual based information largely available was the target of that plan.

Art. 1 of Law n. 208/1999, concerning “Provisions for Finance and Accounting“, has established an important key points: public sector entities referred to in art. 1, al. 2 of the Legislative Decree n. 165/2001, with the only exception of Local Governments referred to in Legislative Decree 77/1995 (encompassed now into Legislative Decree n. 267/2000) should conform their financial statements (and the related systems of accounts) to the principles provided by Law n. 94/1994 within one year since the enactment of the Law. In particular:

- principles concerning public sector entities included in the scope of Law n. 70/1975 (national public sector entities) should be amended through the up-dating of their accounting regulations (established with the Decree of the President of the Republic - D.P.R. n. 689/1979), what was carried out with the enactment of a new accounting regulation, DPR 97/2003;
- the Government should emanate one or more legislative decrees in order to adapt the Region's accounting system to the State's, in respect of principles provided by Law n. 94/1997, what was carried out through enactment of Legislative Decree n. 76/2000.

As far as the national public sector entities are concerned, their organisational reform has been started by Legislative Decree n. 419/1999. This Act grants them the faculty to conform their own systems of accounts to the accrual principles (art. 13, al. 1 : *to adopt accounting regulations inspired to accrual principles*), therefore accepting that the core of the public sector accounting standards have to be harmonised and made consistent with the accrual standards provided for by civil law for private enterprises and with the best practices, in order to assess the financial positions and performances as affected by public management.

The faculty for the public entities to conform their accounting regulations to accrual standards may be exercised when their statutes provide :

approbation of budget and of final budget;

an audit board whose members are professionally trained auditors;
the apportionment of previously established financial resources in the budget;
the setting up of internal audit.

Therefore, accrual principles cannot be adopted if the above principles are not implemented, including the setting up of an annual plan, to which the authorisation mechanism, typical of the traditional Italian system based on a modified cash basis, is strictly related. On the other hand, the provision for a statement of the financial position and of the financial performance forces the (national) public entity to refer necessarily to the accrual rules and to the best consolidated business practices, setting aside the traditional authorisation standards to at least a certain extent.

In that context a first scientific survey in public accounting, carried out by State General Accounting Department (RGS, or Ragioneria Generale dello Stato) turned up into the setting of new standards for national public sector entities.

The State General Accounting Department (RGS, or Ragioneria Generale dello Stato) has been working for the harmonisation of national accounting standards on a national scale for a long time now. It should be recollected that the Department is charged with the task of setting up Accounting Standards for public sector entities, that it enjoys a major apparel of outward branches including local units, that it appoints its own auditors in most of the public entities audit boards and that it disposes inspections on public entities. Therefore the Department can and actually does both spread and audit the correct implementation of the Accounting Standards.

So, in the that context, a Committee was appointed on 21st October 2000 and charged with the task to collect, to examine and to order in a text the criteria which public entities usually applied for recognition and management purposes.

The outcomes of that survey turned into a text (2000-2001) about accounting principles for the budget and the final balance sheet of national public entities, to which a set of principles on auditing had been jointed. The text summaries the valuable results of a first experience in the convergence process of public entities towards common schemes for accrual accounting.

The fostered process of harmonisation is still the most important target of other acts. In a time characterised by focus on public finance constraints, an homogenous public system of accounts is expected to assure greater public financial statements transparency as well to allow appropriate auditing and monitoring system.

A reform of the company law has been meanwhile introduced by Legislative Decree n. 6/2003 (so called law “Vietti”) pursuant to a European Union’s directive. It is the most important reform affecting the Civil Code (1942) and completing the framework of important amendments of 1991 (Legislative Decree 127/1991) about financial and consolidated statements, of 1992 (Legislative Decree n. 88/1992 about auditing) and of 1998 (Legislative Decree n. 58/1998, so called law “Draghi”).

The above reform enhances the introduction of international accounting standards for listed business enterprises since 1st January 2004.

A remarkable widening of the tasks of the audit boards also followed, as the new rules of the Civil Code assigned important function to them.

To diffuse also in the public sector these accounting cultural background, a project has been started by a body of the Ministry of economy and finance (the High School of Economy and Finance – “Scuola Superiore dell’Economia e delle Finanze) for discussing and updating such themes as relating to accounting, to the budgets, to the consolidated budgets and to the legal audit in the public entities.

Pursuant to a general Directive on Administrative Action and Management (2004), the Minister of economy and finance set up a Board with the tasks of:

- a) to recognise, to define, to collect and to bring up to date the accounting principles provided for by law and the usual procedures adopted by public entities;
- b) to assess the technical and operational difficulties, and effects on responsibilities;
- c) to lay down the methods complying with the mentioned requirements in respects of needs of updating, particularly of the auditors appointed by the Ministry of economy and finance –General Accounting Department of the State.

Country Report – Italy

To meet these needs, a Decree of the State Accountant General and of the Head of the High School of the Ministry of Economy and Finance provided for a Scientific Board whose several members have been appointed by the State General Accounting Department, by Court of Auditors and by the Prime Ministry. This Committee has set up:

- guidelines concerning the tasks of the audit boards in the public sector entities complying with the accrual principles; (these are audit boards of important public entities whose members are appointed by RGS on a full time basis); these guidelines enhance both strategic and accounting auditing, as provided by art. 2403 and 2409-bis of the Civil Code; these guidelines have been implemented by a Law of Finance (Law n. 311/2004) for public entities managing compulsory pension schemes;
- a project reforming a few dispositions of Decree 97/2003 concerning the tasks of the audit boards and reforming as well the appendixes top the Decree presenting the patterns of the financial statements thereby adopted), embodying the new principles from the corporation law.

Beyond that , the Board started a feasibility study aimed at embodying the rules of the Civil Code into the audit of public finance, as well as at embodying the European Union's regulations on the European System of Accounts (ESA '95) the national and international accounting standards. Further developments could concern:

- the evolution of the Board to become a permanent body, charged with standardisation of the accounting system of public entities other than local governments;
- the assignment to the State General Accounting Department of the task cautiously embodying International Public Sector Accounting Standards, taking into account the guidelines established by the “Organismo Italiano di Contabilità” (a National Standard Setter) jointly with another body on local government finance;
- to assure, through professional training, towards organisations and other subjects the development of ways for professional mastering about the mentioned matters.

The project of the scientific Board went to the National Assembly, firstly in the frame of a bill of law concerning local economic development) whose art. 1 should delegate to the

Country Report – Italy

government the enactment of measures aimed at adapting to the public sector the accounting systems through the technical work of a Board on accounting principles for the public sector entities. This disposition was anyway written off from the bill of law, while presently, instead, art. 1 al. 61 of Law 296/2006 (Law of Finance 2007) provides that within six months since the enactment of the Law of Finance 2007 itself, an act of the Minister of Economy and Finance, after due examination by the competent Parliamentary Committees, should lay down patterns in order to introduce the accrual principles with regards to all public sector entities and within scheduled deadlines, as well as patterns and technical standards to compel all public sector entities (regional and local government included) to transmit electronically their financial statements and accounting data.

Future development are of course strictly linked to the ability of the Government in charge to carry forwards its administrative agenda notwithstanding the crisis in Parliament.

DATE: 20 February 2007

TO: Members of the International Public Sector Accounting Standards Board

RE: Country Report – Canada

INTRODUCTION

This report contains details on the status of public sector accounting activities of the Canadian Public Sector Accounting Board (PSAB).

On-Going Projects

Reporting Model and Tangible Capital Assets (formerly Tangible Capital Assets (Local Government))

Status: Reporting Model – Approved

Approved in November 2006:

- PS 1000, *Financial Statement Concepts*
- PS 1100, *Financial Statement Objectives*
- PS 1200, *Financial Statement Presentation*

The approval of these three Sections means that all levels of government in Canada, federal, provincial, territorial and local, have one GAAP and a common basis of reporting financial position results and cash flows. These Sections represent a full accrual basis of accounting and require budget information to be presented on the same basis of accounting and for the same reporting entity.

Financial Instruments

Status: Comments on First Statement of Principles – Recognition and Measurement of Derivatives being analyzed and a Second Statement of Principles – Financial Instruments under development.

The first SOP – *Recognition and Measurement of Derivatives* (approved in January 2006) set out fundamental principles and key definitions to provide direction for the development of public sector financial instruments standards. Responses supported the definitions as well as the assertion that derivatives represent rights and obligations that meet PSAB's definitions of assets or liabilities.

A second SOP is under development and is proposed to be approved by PSAB at its March 2007 meeting. That SOP addresses initial and subsequent recognition and

Country Report – Canada

measurement of financial instruments, including embedded derivatives; gains and losses; hedge accounting including fair value and cash flow hedges; and anticipated transactions.

Government Transfers

Status: Exposure Draft (ED) approved.

In June 2006 PSAB approved an Exposure Draft, "Government Transfers".

The ED proposals were based on the application of the definitions of assets and liabilities:

- All transfers given out, even if multi-year or related to capital, are to be booked as expenses immediately once they are authorized and recipients have met any eligibility requirements.
- All transfers received, even if multi-year or related to capital, are to be booked as revenue immediately once they are authorized and the recipient government has met any eligibility requirements.

These proposals were based on the fact that transfers are non-exchange transactions and thus create no asset for the transferor and no liability for the recipient when they are provided or received.

Based on the number of unsupportive responses and that IPSASB had subsequently approved IPSAS 23, Non-exchange Revenue, at its November 2006 meeting, PSAB requested additional work to be completed to consider the approach taken in IPSAS 23.

PSAB will consider a re-exposure draft at its March 2007 meeting.

Tax Revenue (formerly Revenue)

Status: Comments on Invitation to Comment (ITC) being analyzed.

At its March 2006 meeting, PSAB approved an ITC, *Tax Revenues*. Consistent with PSAB's intention to leverage off the IPSASB's work in this area, the ITC seeks feedback on the IPSASB's Exposure Draft 29, *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* (ED 29), issued January 2006.

This project has been delayed somewhat due to the issues involved with Government Transfers.

PSAB will likely consider a public exposure draft based on the high level tax principles set out in IPSASB ED 29, *Revenue from Non-Exchange Transactions*, in June 2007

Introduction to the CICA Public Sector Accounting Handbook

Status: Project Proposal Approved

The project will revise the Introduction to the CICA PSA Handbook. The main objective of the project will be to re-evaluate existing guidance in the Introduction as to what basis of accounting should be used by certain government organizations when preparing their own financial statements.

PSAB has the authority to set standards for governments and their organizations. The Introduction to public sector accounting requires that certain organizations within the public sector adopt commercial or not-for-profit GAAP. The Accounting Standards Board (commercial and not-for-profit sectors) has established a strategic plan that has direct effect on how certain organizations within the public sector prepare their own financial statements. The Strategic plan aims to adopt IFRSs for publicly accountable organizations and will study and assess the needs for non-publicly accountable and not-for-profit organizations.

PSAB needs to determine whether this is appropriate for public sector organizations.

New Projects

Trusts

Status: Project Proposal Approved.

Approved in June 2006, the project will prepare a public sector guideline to clarify how to account for trusts.

The main objectives of the project will be:

- To improve the definition of a trust to help ensure consistency and comparability;
- To clarify the difference between ‘trusts under administration’ and government established trusts (other trusts) to help ensure consistency and comparability;
- To clarify other trusts are not precluded from being a government organization;
- To clarify other trusts are assessed being a government organization using ‘control’; and
- To give additional guidance on applying control to other trusts.

Assessments of Tangible Capital Assets (formerly Infrastructure Deficit)

Status: Project Proposal Approved.

Approved in June 2006, the project will result in a Statement of Recommended Practice for reporting tangible capital asset condition. Task force discussions concluded that reporting on the infrastructure deficit was overly complicated because asset performance

Country Report – Canada

and functionality (quality of service) become factors in determining the infrastructure deficit. The scope of the project has been narrowed to address the physical condition of the tangible capital assets.

The engineering profession is directly involved in the discussions and their expertise will provide guidance on how best to reflect condition assessments in the financial reports.

PSAB is expected to approve a Statement of Principles at its March 2007 meeting.

Environmental Liabilities

Status: Project Proposal Approved.

Approved in June 2006, the project will provide guidance to determine when a government could be obligated to address an environmental concern and where an obligation exists, what items need to be considered in determining the breadth of the obligation and the recognition, measurement and disclosure for such liabilities.

The project will address such issues as when should a government recognize a liability, how to measure the liability and the related disclosure requirements.

Foreign Currency Translation

Status: Project Proposal Approved.

Currently, Section PS 2600 permits a deferral and amortization approach to recognizing the foreign exchange gains and losses on long-term foreign currency-denominated monetary items. PSAB

PSAB will be considering whether to continue this project at its March 2007 meeting given the difficulties identified in the Government Transfers related to volatility. Current hedge accounting provisions found in Section PS 2600 would be maintained until PSAB's Financial Instruments Project is completed.

Reference

More detailed information on the work of the Canadian Board can be found at www.psab-ccsp.ca

An overview on China's Current Public Sector Accounting Standards

Chinese Ministry of Finance promulgated four relevant accounting systems and standards in 1997, namely, the *Accounting System for Fiscal General Budget*, the *Accounting System for Government Departments*, the *Accounting Standard for Institutional Units* and the *Accounting System for Institutional Units*. The systems and standards took effect in 1998 and had basically established China's public sector accounting standards system.

Accounting System for fiscal general budget is applicable for each level of fiscal departments, which is used to measure, reflect and monitor the budget execution and the inflow and outflow of fiscal fund. The System is generally designed on cash basis. However, accrual accounting can be used in the treatment of surplus fund at fiscal year end, such as the unrealized budgeted expenditure due to policy and the progress of payment.

Accounting System for government departments is applicable for each level of government departments and other institutions that practice the same set of regulations of financial management with government departments. The System is generally designed on cash basis while accrual accounting can be used on some special issues.

The Accounting Standard for institutional units and accounting system for institutional units are applicable to each level of state-owned institutional units. The former one prescribes the principle of recognition and measurement, while the latter one sets specific accounting treatments and preparation of financial reports based on the former one. Both the Standard and the System are based on cash basis. Accrual accounting can be applied on business type activities, such as the recognition of operation revenues.

The institutions, such as electricity utilities and tele-communication companies, that already practiced as enterprises should follow accounting standards for business enterprises.

Therefore, generally speaking, China's public sector accounting standards are on a modified cash basis except those for state-owned institutional units that practiced as enterprises.

Currently the Chinese Ministry of Finance is actively conducting the research on government accounting reform. Given the government accountability and public finance management, we are planning to establish two sets of systems – standards system for government accounting and accounting system for government. And based on that, we are planning to prepare and publish government comprehensive annual financial report. To achieve this goal, we are actively working on China's government accounting reform

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plan and revising *the Accounting System for Fiscal General Budget, the Accounting System for Government Departments*, to expand the measurement focus, such as to recognize public debt as liability. We are also revising the *Accounting Standard for Institutional Units and the Accounting System for Institutional Units*. During the course of formulating China's government accounting standards and system, we will primarily draw references from advanced international practice in this field, especially the IPSASs.

February 18, 2007

To: IPSASB Members, Technical Advisors, Observers & Staff

Subject: Country Report February 2007

Section I: The process of adopting International accounting standards

(1) Work of the Israel Government Accounting Standards Board

The Israel Government Accounting Standards Board (hereinafter: "the Board"), operates as a professional committee and is made up of six members.

The Board's work is based mainly on the work of IFAC's International Public Sector Accounting Standards Board (the IPSASB), and its goal is to provide for government reporting methods that lead to maximum transparency and comparativeness in relation to previous years and to other countries, in order to provide a reliable tool for evaluating government's financial position.

The Board's professional committee held three meetings during the months of October 2006 through February 2007. The topics discussed at the meetings were:

- (a) Exposure draft of standard no. 4 - *The Effects of Changes in Foreign Exchange Rates*.
- (b) Exposure draft of standard no. 5 - *Borrowing Costs*.
- (c) Exposure draft of standard no. 11 - *Construction Contracts*.
- (d) Preface to International Public Sector Accounting Standards.
- (e) A draft of guidance about Discussion and Analysis.

Country Report – Israel

At each meeting, the committee discussed an Exposure draft, along with a discussion of the implementation issues regarding implementation presented by the Exposure draft, after which the Exposure draft was approved by all the members present at the meeting.

(2) Final Standards

The following became final standards:

- (a) Preface to International Public Sector Accounting Standards (*December 06*).
- (b) Standard no. 1 - *Presentation of Financial Statements (March 06)*.
- (c) Standard no. 2 - *Cash Flow Statements (September 06)*.
- (d) Standard no. 3 - *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies (May 06)*.
- (e) Standard no. 4 - *The Effects of Changes in Foreign Exchange Rates (November 06)*.
- (f) Standard no. 5 - *Borrowing Costs (November 06)*.
- (g) Standard no. 6 - *Consolidated Financial Statements and Accounting for Controlled Entities (August 06)*.
- (h) Standard no. 7 - *Accounting for Investments in Associates (August 06)*.
- (i) Standard no. 9 - *Revenue from Exchange Transactions (July 06)*.
- (j) Standard no. 11 - *Construction Contracts (December 06)*.
- (k) Standard no. 12 - *Inventories (May 06)*.
- (l) Standard no. 14 - *Events after the Reporting Date (March 06)*.
- (m) Standard no. 17 - *Property, Plant and Equipment (June 06)*.
- (n) Standard no. 20 - *Related Party Disclosures (October 06)*.

(3) The Ad - Hoc Teams' Work

During October 2006 through February 2007, a number of Ad-Hoc teams were active. All these teams included representatives from the largest accounting firms in Israel, representatives of the Accountant General's office, government ministry representatives, etc.

Each team is charged with discussing the degree to which an exposure draft is understandable and the degree to which it can be implemented. The technical director of the Board is responsible for the teams' work.

The following is a specification of their work.

October 2006

Construction Contracts - this team was working on the adoption of IPSAS 11.

The team completed its work in November 2006 and the exposure draft was approved at the Board's meeting in November.

December 2006

Guidance about Discussion and Analysis -

The team's objective is to determine requirements for the preparation and presentation of the management report of a government entity, so that users may receive information regarding the entity's goals and areas of activity, including information about the factors influencing the entity.

The team worked for a month and a half, then transferred this topic to the professional committee for discussion. The professional committee decided during its meeting to form a smaller team to continue to discuss this matter.

January 2007

Financial Reporting of Interests in Joint Venture - this team was working on the adoption of IPSAS 8.

The team completed its work in the beginning of February 2007 and the exposure draft is expected to be approved at the Board's meeting in March.

February 2007

Provisions, Contingent Liabilities and Contingent Assets - this team is working on the adoption of IPSAS 19.

The team expects to finish its work in March.

(4) Replacement of a Committee Member

At the beginning of 2007, the Comptroller of the Ministry of Defense, who served as a member of the professional committee in 2006, was replaced by a representative of the Comptrolling Unit at the Ministry of Health.

(5) Objectives for 2007

The professional committee decided to adopt, in 2007, the eleven accounting standards (IPSAS) not yet adopted in 2006.

Section II: Financial statements for 2006

The Hebrew text of the State of Israel's financial statements for 2006 is currently in process, and is scheduled for publication on March 31, 2007.

Section III: A public tender for auditing of the financial statements of a number of government ministries

As part of the abovementioned accounting reform, an assimilation process has been carried out through which a number of government ministries have moved over to the accrual accounting while adopting public sector accounting standards. The Accountant General has published a tender for auditing services for the financial statements of those government departments that use the MERKAVA system ("MERKAVA" is a cross - government ERP system), and in which the first stage of the above-described assimilation process has been completed.

Through the tender, the Accountant General intends to contract with three accounting firms to receive external auditing services for the following three government departments: the Ministry of Justice, the Water Commission and the Courts Administration. These departments will be the pioneers of an overall process of external

Country Report – Israel

auditing of the financial statements of all government ministries and of the government's consolidated financial statements. The results are to be published shortly.

Section IV: Absorption of accounting standardization

- (1) **Course for government ministry comptrollers** -With the recommendation of the professional committee and with the blessing and approval of the Accountant General, a course opened in November of 2006 for the comptrollers of those government ministries that have already assimilated to the MERKAVA system, in order to teach the government accounting standards and to deal with as many issues as possible before those standards are adopted. The course has been taught by members of the professional committee, the professional staff and representatives from the ad hoc teams.
- (2) **Publication of the Book of Israeli Government Standards** - The Book of Israeli Government Standards was published at the end of December. The book includes the twelve Israeli government accounting standards approved by November 2006, as well as the Preface to International Public Sector Accounting Standards, which describes the mode of operation of the international committee. The book was distributed to many officials, including the State Comptroller, comptrollers, and auditors who are participants in the project and will use the book as a work tool.
- (3) **Seminar**
A half-day seminar was held at the end of January 2007 for accountants who are members of the Institute of Certified Public Accountants in Israel, with the aim of introducing the government accounting project and financial reporting in the government sector to the accountants.

(4) **Courses on this subject**

During the second semester of the current academic year, a course in the field of government accounting is offered at the academic track of the College of Management and in the University of Tel Aviv.

Courses on this subject will be offered at additional academic institutions in the next school year.

Sincerely,

Ron Alroy, C.P.A.

Chairman of the Israel Government
Accounting Standards Board

Haya Prescher, C.P.A.

Project Manager - Government Accounting,
Ministry of Finance

COUNTRY REPORT FOR THE IPSASB

SOUTH AFRICA

January 2007

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1. Introduction

This country report deals with events since the last report prepared for the October 2006 meeting.

2. Accounting Standards Board (Board)

At its meeting held on 6 December 2006, the Board approved for issue an exposure draft of the proposed Standard of GRAP on *Borrowing Costs*. This exposure draft is based on the International Accounting Standards Board (IASB)'s equivalent, in that it eliminates the option to expense borrowing costs incurred on qualifying assets.

At the same meeting, the Board approved as final Standards of GRAP on *Intangible Assets* and on *Construction Contracts*.

The approved documents are available on the Board's website at www.asb.co.za

Current projects

Heritage Assets

At its last board meeting held in December 2006, the Board resolved to continue to develop a local exposure draft on Heritage Assets. It is envisaged that the exposure draft will be tabled at its meeting in July 2007.

Public-Private Partnerships (PPPs)

The Board has decided to go ahead with finalising the guideline on PPPs after considering the comment received from the National Treasury and the Interpretation on *Service Concessions* issued by IASB's International Financial Reporting Interpretation Committee (IFRIC) in November 2006. It is envisaged that the guideline will be tabled at its meeting in March 2007.

Transfer of Government Functions

The Board has commenced work on a project that will provide guidelines on how to account for transfers of government functions. According to a

Country Report – South Africa

draft discussion paper, a transfer of government functions is defined as the reallocation or reorganisation of government functions or voted programmes amongst entities under common control that occurs as a consequence of a rearrangement of government's activities and responsibilities under legislation or other authority. It also includes rearrangement of functions between governments where the transaction is not an arms length transaction.

City Improvement Districts (CIDs)

The Board has begun work on a guideline on how to account for CIDs. CIDs are defined as geographic areas in which the majority of property owners in that district determine and agree to fund supplementary and complimentary services in addition to those normally provided by a municipality. The main objective of these CIDs is to maintain and manage the public environment at a superior level and thus maintaining or increasing their investment opportunities.

3. South African Institute of Chartered Accountants (SAICA)

The following exposure drafts were issued for comment:

<i>Title</i>	<i>Comment Date</i>
ED 220 - Headline Earnings	12 March 2007
ED 219 - Proposed Discussion Paper Fair Value Measurements	5 March 2007

South African Statements of GAAP are fully harmonised with IFRS. The international text is used and a South African wrap around is added.

The exposure drafts are available on the SAICA website at www.saica.co.za.

4. Independent Regulatory Board for Auditors (IRBA)

The IRBA has issued an exposure draft on reporting on donor funding engagements (IRBA ED Reporting on Donor Funding Engagements).

The objective of the exposure draft is to provide guidance to auditors that provide audit, assurance and related services to an entity that:

- provides donor funding (donor); or
- receives and distributes donor funding (intermediary); or
- receives donor funding (recipient).

**IFAC INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
IPSASB MEETING – March 2007**

COUNTRY REPORT – AUSTRALIA

(Prepared 26 February 2007)

In general, this Country Report only notes events since the last Report was prepared for the November 2006 IPSASB meeting. For a more comprehensive description of some of the projects on the AASB's work program, see the web site www.aasb.com.au.

STRATEGIC ISSUES

Sector Neutrality

As reported in the November 2006 Country Report, the AASB has agreed a strategy that AASB standards should be 'transaction neutral' as between the for-profit, not-for-profit private and not-for-profit public sectors. That is, no matter in which of the sectors the transaction takes place, the Accounting Standards should require the same accounting treatment. However, the AASB has acknowledged that there are different business models in each sector. Consistent with the approach of the IPSASB, the AASB believes that the IFRSs should provide the core direction for the treatment of transactions and other events. In recognition of the fact that the IASB has written IFRSs specifically for the for-profit sector, and in view of the different business models in the other sectors, the AASB is prepared to modify the IFRSs, where necessary, in order that they are also appropriate for use in the other sectors. The AASB also considers it is responsible for making standards especially for use in the not-for-profit private and not-for-profit public sectors in order to reflect the unique features and unique needs of these sectors.

The Financial Reporting Council (FRC), the Australian body that specifies the strategic direction of the AASB, is considering responses from constituents on a Report issued in June 2006 on the issue of sector-neutral accounting standard-setting in Australia. There is general support for the existing model, although some concerns exist about the extent to which public sector issues have been dealt with.

The AASB is currently undertaking a review of issues arising on the implementation of Australian equivalents to IFRSs in the public sector based on comments from key constituents.

TECHNICAL ISSUES

Specific projects for which substantial progress has been made since the November 2006 Country Report are outlined in the following.

GAAP/GFS Convergence for Whole of Governments and the PNFC and PFC sectors

The AASB issued Australian Accounting Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments* in September 2006, which is applicable to the Australian Government and each State and Territory Government. The Standard has a mandatory operative

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date of years beginning on or after 1 July 2008, with early adoption permitted. The Board is now proceeding to consider the extent to which the principles reflected in AASB 1049 should be extended to other public sector entities' financial reports.

The Standard is a result of the AASB implementing the Financial Reporting Council's (FRC's) broad strategic direction relating to the convergence of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS). By amending GAAP to accommodate GFS, the Standard substantially reduces the number of differences between GAAP and GFS that previously existed.

The AASB noted the FRC's December 2006 decision that clarifies the scope of the GAAP/GFS convergence project. In particular, the project now comprises two phases. Phase 1 includes GGSs (the subject of AASB 1049 *Financial Reporting of General Government Sectors by Governments*), Public Non-Financial Corporation (PNFC) sectors, Public Financial Corporation (PFC) sectors and whole of governments of the States, Territories and the Commonwealth. Phase 2 includes entities within the GGSs of the States, Territories and the Commonwealth. Accordingly, GAAP/GFS convergence will not be pursued for entities originally contemplated to be considered in Phase 3 of the project, which includes local governments, government business enterprises, universities and other multi-jurisdiction entities.

The AASB gave preliminary consideration to the main issues that need to be resolved in developing a GAAP/GFS convergence Standard for whole of governments and the PNFC and PFC sectors of the States, Territories and the Commonwealth.

Broadly, the AASB decided that the manner in which AASB 1049 applies GAAP and accommodates GFS principles should, where appropriate, be adopted for whole of government reporting. This would mean that whole of governments would be required to, for example:

- (a) consolidate all controlled entities (in accordance with AASB 127 *Consolidated and Separate Financial Statements*);
- (b) adopt other GAAP recognition and measurement principles and, where GAAP provides options, adopt the GAAP option(s) that align with GFS;
- (c) prepare a comprehensive income statement (rather than a separate income statement and statement of changes in equity);
- (d) adopt various GFS concepts for presentation purposes (including the presentation of key fiscal aggregates and the presentation of a distinction between transactions and other economic flows);
- (e) disclose reconciliations of key fiscal aggregates between GAAP and GFS;
- (f) disclose disaggregated information on a functional basis; and
- (g) disclose budgetary information, but only where a whole of government budget is presented to Parliament.

The AASB also decided that separate requirements for PNFC sector and PFC sector financial reports should not be developed. However, consideration will be given to requiring the whole of government financial report to include note disclosures of:

- (a) the financial statements of the GGS, PNFC sector and PFC sector, prepared on a GAAP/GFS converged basis;

- (b) a reconciliation of those financial statements to the whole of government financial statements (in the form of an adjustments column); and
- (c) reconciliations of key fiscal aggregates between GAAP and GFS for each sector.

Thus, information about the PNFC sector and PFC sector might be required in notes in whole of government financial reports, but the AASB is not considering requiring separate financial reports to be prepared for either of those sectors (in contrast to the requirement in AASB 1049 for separate financial reports to be prepared for the GGS of each State and Territory Government and of the Commonwealth Government).

Review of AAS 27 Financial Reporting by Local Governments, AAS 29 Financial Reporting by Government Departments and AAS 31 Financial Reporting by Governments

As reported in the November 2006 Country Report, in implementing its strategy of incorporating financial reporting requirements into topic-based rather than industry-based Standards, the AASB is developing an exposure draft proposing the transfer of those requirements of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* that remain relevant into topic-based Standards and the consequential withdrawal of those industry-based Standards.

Since November 2006, the AASB staff has been drafting an exposure draft for Board consideration and discussing related issues with the Board.

Administered Items

In December 2006, the AASB met with public sector constituents to hear and discuss the constituents' views on the appropriate treatment of administered items held by certain not-for-profit public sector entities such as government departments. Based on this discussion, and the fact that the process of undertaking a more fundamental review of issues would have short-term resource implications for more pressing public sector projects, the Board decided that:

- the current requirements relating to administered items in AAS 29 *Financial Reporting by Government Departments* are adequate for the foreseeable future and, therefore, should be retained; and
- the question of accounting for administered items by government departments raises some fundamental conceptual issues relating to users' needs and the concepts of control and reporting entity. Furthermore, these issues should be considered in relation to a wider range of not-for-profit public sector entities than government departments. Accordingly, accounting for administered items should be considered in a broader context rather than as a separate issue.

The focus of the Board's meeting with public sector constituents was an issues paper that compares three views about government departments:

- View 1: a government department undertakes some activities on behalf of its government and other activities in its own right – therefore, there is a distinction between administered and controlled items;

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- View 2: a government department is an arm of government – therefore, there is no distinction between administered and controlled items, and all items are controlled; and
- View 3: a government department undertakes all of its activities on behalf of its government – there is no distinction between administered and controlled items, and all items are administered.

Of significance to the public sector constituents were the differences between View 1, as described in the issues paper, and the current requirements in AAS 29, particularly that View 1 contemplates:

- a designation approach, whereby the government designates whether an item is administered or controlled by a government department by reference to the concept of control articulated in the *Conceptual Framework* and having regard to the financial management framework of the government; and
- administered items being reported with equal prominence to, but separately and readily distinguishable from, controlled items.

During the meeting, a significant number of the constituents present indicated a preference for View 1 and a smaller number of constituents expressed a preference for Views 2 and/or 3. In addition, constituents noted that:

- government departments are currently disclosing administered items in accordance with AAS 29 and users may not necessarily be provided with more useful information than what is currently being disclosed by government departments if View 1 were to be adopted;
- the concept of administered items is currently being applied differently across the various jurisdictions within Australia. These differences could be remedied by aligning the reporting frameworks in these jurisdictions;
- the View 1 proposal that administered items be reported with equal prominence to controlled items could diminish the comprehensibility and transparency of financial statements of some government departments, particularly because of the consequences for the number of columns if budget information is also included; and
- in particular, users would be better served by a more principles-based approach to distinguishing between controlled and administered items than by a designation-based approach.

Revenue from Non-Exchange Transactions

The AASB and the New Zealand Financial Reporting Standards Board have agreed to develop a joint Standard on revenue from non-exchange transactions. The Boards agreed to develop an exposure draft that draws on the best features of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and other Standards (domestic and foreign).

In Australia, that Standard would replace AASB 1004 *Contributions*. The first public consultation document for this project will be a discussion paper. No technical decisions have yet been made.

Segment Reporting

In January 2006, the AASB issued Exposure Draft ED 145 *Operating Segments* for comment by 20 April 2006. The Australian Preface to the exposure draft included questions on the appropriateness and implications of adapting the IASB-proposed ‘management approach’ to identifying segments for application by not-for-profit entities in either or both of the public sector or private sector. Responses to ED 145 from constituents indicated general support for adopting the proposals in respect of for-profit entities but that the management approach would be inappropriate for application by not-for-profit entities in the public and private sectors. The AASB subsequently sought further input from public sector constituents to determine why the management approach is inappropriate before determining the basis of the approach to developing a separate AASB exposure draft.

At its December 2006 meeting, the AASB decided to undertake further work as part of a longer-term review of segment-like reporting by not-for-profit entities and not to use IPSAS 18 *Segment Reporting* as the basis for developing an exposure draft because it is based on a superseded version of IAS 14. The AASB intends to write to the IPSASB to suggest that updating IPSAS 18 be included on its work program.

IASB Convergence

The AASB is continuing to monitor all of the IASB’s projects and makes comment on IASB papers at relevant stages of their development. The AASB is progressing two research projects on behalf of the IASB (Intangible Assets and Extractive Activities) and is assisting with two active projects (Insurance phase 2 and Revenue Recognition).

The AASB has also issued ED 151, which proposes making the requirements in Australian equivalents to IFRSs the same as those in IFRSs in respect of for-profit entities. ED 151 does not deal with the not-for-profit paragraphs included in Australian equivalents to IFRSs, which will be reviewed as part of a separate project in conjunction with the New Zealand Financial Reporting Standards Board.

INTERPRETATIONS

The AASB has now replaced the Urgent Issues Group with a new interpretations model under which the AASB itself has direct responsibility for Australian equivalents of IFRIC Interpretations and for any domestic Interpretations that the AASB considers necessary. Domestic Interpretations may be prepared to address accounting issues of relevance to the private sector and/or the public sector. The AASB decides on a topic-by-topic basis whether to appoint an *ad hoc* advisory panel to make recommendations for its consideration. The AASB has taken the view that a unique domestic interpretation of Australian equivalents to IASB requirements (in respect of for-profit entities) would only be required in rare and exceptional circumstances. The new model commenced on 1 July 2006.

Country Report – Australia

Since the previous Country Report, two Interpretations have been issued: Interpretations 11 *AASB 2 – Group and Treasury Share Transactions* and 12 *Service Concession Arrangements*. These are the Australian equivalents of IFRIC Interpretations 11 and 12.

In view of its transaction-neutral strategy, the AASB has also agreed to address the issues concerning the accounting by grantors for service concession arrangements, since Interpretation 12 deals with only the operator's accounting. An *ad hoc* interpretations advisory panel will be appointed to develop recommendations for the AASB's consideration.

COMMONWEALTH GOVERNMENT, STATES AND TERRITORIES

Current Status

As reported in the November 2006 Country Report, all Australian jurisdictions prepare budgets and budget outcomes using an accrual basis. Most use GFS. Victoria uses GAAP. The Commonwealth uses both GFS and GAAP, but accrual GFS predominates.

In addition, the Commonwealth government prepares general purpose financial reports (GPFRs) at the whole of government level and for individual reporting entities on an accrual accounting basis. All States/Territories prepare GPFRs for the whole of government and for departments and agencies on an accrual basis. The Commonwealth government and each State and Territory government finalised and released their respective audited first full Australian-equivalent-to-IFRSs consolidated GPFRs across the second half of 2006.

Consequently, all jurisdictions seek harmonisation of GFS and GAAP.

HoTARAC (Heads of Treasuries Accounting and Reporting Advisory Committee - essentially the chief accountants from each jurisdiction) meets to discuss and consider accounting and financial reporting matters, and strives to achieve comparability in accounting and reporting across jurisdictions.

Commonwealth Government

As reported in the November 2006 Country Report, the Commonwealth Government's Accounting Policy Branch, established within its Department of Finance and Administration, sets accounting and financial reporting policy for Commonwealth reporting entities. In addition, the Financial Reporting Branch of the Department of Finance and Administration is responsible for all budget-related accounting policy matters, including all GAAP and GFS (and harmonised) reporting.

State & Territory Governments

Each State and Territory Government is autonomous and therefore has similar arrangements residing in its Department of Treasury & Finance.

Country Report – Japan

February 2007

1) Interim Report on “New Turnaround Scheme of the Local Governments”.

“Study Group on new turnaround scheme of the local governments”, which is established under the Ministry of General Affairs issued the interim report on “New Turnaround Scheme of the Local Governments” on December 8, 2006.

In Japan, Yubari City in Hokkaido Prefecture was substantially “bankrupted” in June, 2006. Yubari City has made up huge deficit by borrowing bank loans for about ten years. The Ministry of General Affairs is requested to clarify the deficit of local governments.

Contents of the interim report are summarized as follows;

- a Introducing new financial indexes and thorough disclosure of the financial information.
New financial indexes include “stock” indexes as well as “flow” indexes. Auditing these financial indexes should be discussed about so that local governments thoroughly disclose these indexes.
- b Introducing a restructuring scheme at early stages.
Under the existing legislation, there is a reorganization scheme only. If local government is to be reorganized, the life of residents would be heavily influenced. So, the report recommends introducing a scheme of restructuring scheme at early stages.
- c Introducing new turnaround scheme.
The report recommends local governments whose financial situation is extremely damaged should establish a turnaround plan including tax increase and cost cutting through decision by local assembly.

2) “The Reform of Not-for-profit Corporations” Law Was Approved.

“The Reform of Not-for-profit Corporations” law was approved in May, 2006 and will be enforced in 2008.

Under the existing legislation, a not-for-profit organization needed to obtain permission by a related government ministry when it is incorporated as a “public interest corporations”. After the new law is enforced, a not-for-profit organization can be incorporated only by registration. And then it can apply “public-interest” status to the government. The Government or local government decide whether the incorporated organization should be given “public-interest” status based on an opinion of the committee consisted of well-informed persons,

3) “The Reform of Public Services” Law Was Enforced.

“The Reform of Public Services” Law, known as “Market-testing” Law, was enforced in July, 2006.

The objective of this law is that “market-testing” of public services improves the quality and efficiency of public services. “Market-testing” is also enforced in the United States, the United Kingdom and Australia.

The procedure of “market-testing” is as follows;

- a The public services under market-tested are selected by the Cabinet.
- b The Government (or local government) and firms bid for performing a public service.
- c After performing this service, the necessity of this service is evaluated.

IPSAS Board, March 2007

Country Report France

1 – During 2007, the first financial statements of the French central government complying with new accounting standards shall be issued.

The new central government accounting standards¹ drawn up in 2004 were implemented in France for the first time in 2006. The first financial statements developed in accordance with this frame of reference will be disclosed to the Parliament as part of the Budget review bill in June 2007. During 2004-2006, the new accounting standards were displayed, the accounting system brought up to date, new procedures drawn up, education and information implemented.

The financial statements are composed of a balance sheet set out as a statement of financial position, a surplus/deficit statement set out in three parts (a net expense statement, a net sovereign revenues statement and a net operating surplus/deficit statement for the period), a cash flow statement and notes to the financial statements.

The certification of the compliance, the faithful representation and the true and fair view principles devolves on the State audit office in accordance with the Constitutional bylaw of 1 august 2001. The certification report shall be appended to the Budget review bill.

2 – Several accounting standards have been modified in 2006

The Accounting standard committee wished several central government accounting standards were modified in 2006, in view of either international evolution or the implementation of some of them. The most significant modifications are listed hereafter.

2.1 Civil service pensions commitments

The civil service pension's commitments of the central government are still recognised off-balance sheet. But, the Accounting standard committee adopted a new notion, different from "commitments": in the notes to the financial statements shall be disclosed a measurement of discounted financing requirement which factor in the combined commitments and future cash inflows of the plan.

¹ French language version available here: <http://www.performance-publique.gouv.fr/expert/doc/RNCVersionJO.pdf>
& English language : http://www.performance-publique.gouv.fr/expert/doc/161_central_government.pdf

2.2 Prisons

Prisons were so far assessed at market value. Therefore, a significant and quick impairment of recent prisons occurred. They are converted with more difficulty than the ancient prisons in view of numerous security facilities. The Accounting standard committee decided to adopt the depreciated replacement cost method.

2.3 Paintings and Works of Art

National collections of paintings held by national museums are under the control of the latter and not of the central government. Therefore, they are accounted for in the individual financial statements of the national museums instead of those of the central government.

2.4 Contribution to the European budget

The « computed resources » of the European Union (known as “GNP” resource and “VAT” resource) move from the category of “intervention expenses” to the category of a “decrease in gross revenues”; in addition, a provision stipulate that the notes to the financial statements disclose the whole French contributions to the European budget.

2.5 Financial debts and derivative financial instruments

Two topics in the accounting standard 11 (*“Financial debts and derivative financial instruments”*) have been modified:

- Assumed liabilities: where the central government assume the liability of a third party, the liability is accounted for as a financial debt of the central government subject to the liability was financial from the incept; the counterpart is a financial expense of the period. The former text of the standard 11 would have led to classify those transactions into non financial debts and the counterpart in intervention expenses that would have result in managing them not so easily.
- Micro hedging transactions are accounted for accordingly to the financial and bank regulation suitable for such transactions.

**United States Country Report
Prepared for the IFAC Public Sector Accounting Standards Board
February 2007**

Recent Activity of the Federal Accounting Standards Advisory Board (FASAB)

Statement of Federal Financial Accounting Standards (SFFAS) 31. In October 2006, FASAB issued SFFAS 31, *Accounting for Fiduciary Activities*. SFFAS 31 will be effective for periods beginning after September 30, 2008. A primary objective of this project is to clarify and standardize the reporting of fiduciary activities. In a fiduciary activity, as defined in the standard, a federal entity collects or receives and subsequently manages, protects, accounts for, invests, and/or disposes of cash or other assets in which non-federal individuals or entities have an ownership interest in cash or other assets held by the federal entity under provision of law, regulation, or other fiduciary arrangement. The note that discloses significant accounting policies will include a statement that fiduciary assets are not assets of the federal reporting entity, and are not recognized on the balance sheet. A separate note to the financial statements will include a narrative description of the fiduciary relationship; a Schedule of Fiduciary Activity; a Schedule of Fiduciary Net Assets; and, if applicable, a Schedule of Changes in Non-Valued Fiduciary Assets, which would include beginning quantities, additions, dispositions, and ending quantities of non-valued fiduciary assets such as land held in trust. The FASAB expects that implementation guidance related to these concerns will be forthcoming. A copy of SFFAS 31 is available at: http://www.fasab.gov/pdffiles/sffas_31.pdf.

Proposed Technical Release on Accounting for Space Exploration Equipment. In February 2007, FASAB released an exposure draft (ED) of a Federal Financial Accounting Technical Release titled *Clarification of Standards Relating to the National Aeronautics and Space Administration's Space Exploration Equipment*. The purpose of this ED is to provide technical guidance to the National Aeronautics and Space Administration (NASA) regarding the accounting treatment of its space exploration equipment for financial reporting purposes. The issue is whether it is permissible to treat the acquisition or development costs of any of this equipment as research and development costs. The objective of this technical release is to provide guidance to NASA on the application of the current FASAB standards. To obtain a copy of this ED and view instructions for submitting comments, which are due March 2, 2007, visit: <http://www.fasab.gov/pdffiles/nasatrfinal.pdf>.

Preliminary Views Regarding Accounting for Social Insurance. In October 2006, the FASAB issued a Preliminary Views (PV) document titled, *Accounting for Social Insurance, Revised*. Social Insurance comprises five programs; however, two programs, Social Security and Medicare, are of special significance because of the high rate of participation among citizens, the fiscal challenges related to the programs and the challenges associated with incorporating estimates of future cash flows of this magnitude in financial statements. The Board is presenting two differing views, supported by different Board members, on accounting for social insurance. A key difference between these views is the point in time that a liability for social insurance benefits and related

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expense are recognized. Both views would present a statement of social insurance showing the present values of projected future program revenues and scheduled benefits, changes in such present values during the reporting period, and other sustainability disclosures; although the proposed information presented and presentation format differ. The PV requests comments by April 18, 2007. The PV and specific questions for respondents are available at the FASAB Web site at <http://www.fasab.gov/exposure.html>. In addition, the Board plans to hold a public hearing on the PV at the May 23, 2007, FASAB meeting.

Report on Strategic Directions. In November 2006, the FASAB issued a report titled, *FASAB Strategic Directions—Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting*. This document serves as an update to cover developments in federal financial reporting since the issuance of Statement of Federal Financial Accounting Concepts 1 and to define FASAB's strategic directions by clarifying the Board's near-term role relative to each reporting objective. An electronic version of the report can be found at: <http://www.fasab.gov>.

Establishment of Fiscal Sustainability Task Force. In February 2007 FASAB announced the formation of a new task to develop recommendations for reporting on the fiscal sustainability of the federal government's policies. One of FASAB's federal financial reporting objectives, the stewardship objective, includes enabling readers to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. The task force members include those experienced with economic projections, development of key indicators, and federal budgeting. In addition to the technical experts currently serving on the task force, the Board plans to expand the task force later this year to include advisors on communications. The additional task force members, representing Congress, academia, and the media, will be asked to advise the Board on how to make financial statement reporting on fiscal sustainability understandable and meaningful to readers. The fiscal sustainability effort follows closely behind FASAB's PV, *Accounting for Social Insurance* (see above).

Updated Original Pronouncements. The latest update to the FASAB's *Original Pronouncements* incorporates all pronouncements issued as of June 30, 2006. In addition, the volume now shows the text of each pronouncement as amended by later pronouncements. The *Original Pronouncements* are available on the FASAB Web site at <http://www.fasab.gov/codifica.html>.

Recent Activity of the Governmental Accounting Standards Board (GASB)

GASB Statement No. 49. In December 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The standard requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the

standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. To obtain Statement No. 49 and to view a question and answer document and a plain language article on the new standard, visit: <http://www.gasb.org>.

Exposure Draft on Intangible Assets. In December 2006, the GASB issued an ED that would establish accounting and financial reporting guidance for intangible assets titled, *Accounting and Financial Reporting for Intangible Assets*. The ED describes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. It also provides examples of intangible assets that include easements, computer software, water rights, timber rights, patents, and trademarks. The proposed Statement would be effective for financial statements for periods beginning after June 15, 2009, with early implementation encouraged. Written comments are due by March 23, 2007. To obtain a copy of the ED and to view instructions on how to submit comments, visit: http://www.gasb.org/exp/ed_intangible_assets.pdf.

Exposure Draft on Pension Disclosures. In December 2006, the GASB issued an ED titled, *Pension Disclosures*. The ED would amend GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*. It would bring current pension disclosure requirements for governments and governmental pension plans into line with those recently issued for other post-employment benefits. The requirements of the proposed Statement would be effective for periods beginning after June 15, 2007, with early implementation encouraged. GASB is seeking written comments by February 28, 2007. To obtain a copy of the ED and to view instructions on how to submit comments, visit: http://www.gasb.org/exp/ed_pension_disclosures.pdf.

Invitation to Comment on Fund Balance Proposal. In October 2006, the GASB issued an Invitation to Comment (ITC) titled, *Fund Balance Reporting and Governmental Fund Definitions*. GASB research has identified several issues that may significantly diminish the usefulness of fund balance information reported to users of governmental financial statements, including: (1) the actions taken to set aside fund balance for specific purposes vary from government to government; (2) some governments transfer resources from the general fund to other governmental funds without an intention to use the resources in the receiving fund; and (3) some governments report fund balance as reserved for specific purposes when, in fact, it should be unreserved, perhaps because the current standards are not sufficiently clear. The ITC provides greater insight into these issues and lays out potential remedies. The document considers possible revisions to the definitions of governmental fund types that would clarify their intention and sets forth three alternative models of classifying the components of fund balance. Comments were due January 31, 2007. To view the ITC, visit: <http://www.gasb.org/>.

Recent Activity of the Financial Accounting Standards Board (FASB)

FASB Statement No. 159. In February 2007, FASB issued a standard titled, *Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. The purpose of the new standard is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. SFAS No. 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. The new standard also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*. The new statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157. Visit <http://www.fasb.org> to obtain a copy of the new standard.

Exposure Draft on Derivatives and Hedging Disclosure Issued. In December 2006, the FASB issued an ED titled, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, which would require companies to disclose more details about the effects of derivatives and hedging on their financial statements. Under the proposal, FASB would require companies to discuss their objectives and strategies for using derivatives in terms of underlying risks and accounting designations. Additionally, the ED would require tabular disclosure displaying notional and fair-value amounts of derivatives and gains and losses on derivatives and related hedged items. Furthermore, FASB would require companies to disclose information about counterparty credit risk and contingent features in derivatives. The new rules are proposed to be effective for financial statements issued for fiscal years and interim periods ending after December 15, 2007. The deadline for written comments on the proposal is March 2, 2007. To view proposed amendment and obtain instructions on how to submit comments, visit: http://www.fasb.org/draft/ed_derivatives_disclosure.pdf.

Two Exposure Drafts Issued on Accounting for Mergers & Acquisitions for Not-for-Profit Organizations (NPOs). In October 2006, the FASB released two EDs intended to improve the accounting and disclosures for mergers and acquisitions (M&As) by NPOs. Specifically, *Not-for-Profit Organizations: Mergers and Acquisitions* would eliminate the use of the pooling-of-interests method of accounting by NPOs, in which assets acquired and liabilities assumed are recorded at "carryover" amounts recorded on the books of

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acquired organizations. This proposal would instead require the application of the acquisition method to all M&As by a NPO. The other ED, *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*, proposes accounting guidance for those intangible assets after a merger or acquisition. The proposed guidance is consistent with the accounting for all other acquired intangible assets—whether purchased or donated, or whether acquired individually or as part of a group.

Copies of each of the EDs may be downloaded from the FASB's Web site at <http://www.fasb.org>. The comment deadline for the EDs was January 29, 2007.

FASB Staff Positions. The following final FASB staff positions (FSP) were issued since October 2006 (all are available on the FASB Web site at <http://www.fasb.org>):

FSP EITF 00-19-2. *Accounting for Registration Payment Arrangements* (December 21, 2006)

FSP FAS 126-1. *Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities* (October 25, 2006)

FSP FAS 123(R)-6. *Technical Corrections of FASB Statement No. 123(R)* (October 20, 2006)

FSP FAS 123(R)-5. *Amendment of FASB Staff Position FAS 123(R)-1* (October 10, 2006)

Recent Activity of the AICPA Accounting Standards Executive Committee (AcSEC)

No activity.

Recent Activity of the AICPA Auditing Standards Board (ASB)

SAS No. 114. In December 2006, the ASB issued Statement on Auditing Standards (SAS) No. 114, *The Auditor's Communication with Those Charged With Governance*, which is effective for audits of financial statements for periods beginning on or after December 15, 2006. This SAS supersedes SAS No. 61, *Communication with Audit Committees*, and establishes standards and provides guidance to an auditor on matters to be communicated with those charged with governance. Among other things, the SAS: (1) broadens the applicability of the standard to audits of the financial statements of all nonissuers and establishes a requirement for the auditor to communicate with those charged with governance certain significant matters related to the audit; (2) identifies specific matters to be communicated; and (3) establishes a requirement to document significant matters communicated with those charged with governance. To view a summary of the standard, visit:

http://www.aicpa.org/download/members/div/auditstd/riasai/Recently_Issued_Standards_SAS_No_114.pdf.

SAS No. 113. In November 2006, the ASB issued SAS No. 113, *Omnibus 2006*, which amends various SASs. Its effective date is as follows: Paragraphs 1 through 5 are effective for audits of financial statements for periods ending on or after December 15, 2006; Paragraphs 7 through 14 are effective for audits of financial statements for periods beginning on or after December 15, 2006. Among the various provisions of the SAS, it: (1) revises the terminology used in the ten standards in SAS No. 95, *Generally Accepted Auditing Standards*, to reflect the terminology used in SAS No. 102, *Defining Professional Requirements in Statements on Auditing Standards*; (2) adds a footnote to the headings prior to paragraphs 35 and 46 in SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, to provide a clear link between the auditor's consideration of fraud and the auditor's assessment of risk and the auditor's procedures in response to those assessed risks; (3) replaces, throughout the SASs, the term "completion of fieldwork" with the term "date of the auditor's report;" and (4) changes the convention for dating the representation letter by requiring that it be dated as of the date of the auditor's report. To view a summary of the standard, visit:

http://www.aicpa.org/download/members/div/auditstd/riasai/Recently_Issued_Standards_Omnibus_2006.pdf.

Practice Alert 2007-1. In early 2007, the AICPA Professional Issues Task Force (PITF) issued a Practice Alert titled, *Dating the Auditor's Report and Related Practical Guidance*. A Practice Alert is intended to provide practitioners with information that may help them improve the effectiveness and efficiency of their engagements and practices. It is based on existing professional literature, the experience of members of the PITF and information provided by certain AICPA member firms to their own professional staff. The purpose of this Practice Alert is to provide guidance to practitioners regarding the application of certain provisions of SAS No. 103, *Audit Documentation*, primarily relating to dating the auditor's report. It can be found at: http://www.aicpa.org/download/auditstd/pract_alert/pa_2007_1.pdf.

Practice Guide on Accounting for Uncertain Tax Positions. In November 2006, the AICPA issued a Practice Guide titled, *Accounting for Uncertain Tax Positions Under FIN 48*. FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, was issued in July 2006 and interprets SFAS No. 109, *Accounting for Income Taxes*. Implementing FIN 48 raises important issues for financial-statement preparers, auditors, and tax advisers. Generally, companies seek to legitimately reduce their overall tax burden and minimize or delay cash outflows for taxes. Positions taken in tax returns may be well-grounded and taken in good faith, but with the complexities and varying interpretations of the tax law, these may not ultimately prevail. FIN 48 establishes the accounting for uncertain tax positions, including recognition and measurement of their financial statement effects. This practice guide presents a summary of FIN 48, as well as related accounting, auditing, and tax issues. It can be found at: <http://tax.aicpa.org/NR/rdonlyres/4384C1FD-DF89-46C9-8EE3-ED8CEB12245F/0/FIN48final.doc>.

Recent Activity of the AICPA Accounting and Review Services Committee (ARSC)

Exposure Draft Eliminating SAS References in SSARSs Issued. In December 2006, the ARSC issued an ED of a proposed Statement on Standards for Accounting and Review Services (SSARS) entitled *Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance into Statements on Standards for Accounting and Review Services*. The ARSC is aware that in many instances the SSARSs refer the accountant to Statements on Auditing Standards for guidance. For many practitioners, compilations and reviews are the highest level of service they perform; therefore, those practitioners may be less familiar with the auditing literature. For that reason, the ARSC developed an ED that eliminates from the SSARSs certain references to the auditing literature, and incorporates the relevant concepts and guidance in the SSARSs. The ARSC believes that such revisions to the SSARSs would be in the best interest of practitioners performing compilations and reviews, as well as in the public interest. It is anticipated that the final SSARS would be effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007. The exposure draft is currently available on the AICPA's Web site at <http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Att+est+Standard+s/Exposure+Drafts+of+Proposed+Statements/>. Comments are due no later than May 18, 2007.

Recent Activity of the Public Company Accounting Oversight Board (PCAOB)

Proposed Auditing Standard on Internal Control Issued. In December 2006, the PCAOB issued a proposed new standard titled, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements*. The proposed standard would replace the Board's existing internal control standard, Auditing Standard No. 2. It is a principles-based standard designed to focus the auditor on the most important matters, increasing the likelihood that material weaknesses will be found before they cause material misstatement of the financial statements. The proposed standard also eliminates audit requirements that are unnecessary to achieve the intended benefits, provides direction on how to scale the audit for a smaller and less complex company, and simplifies and significantly shortens the text of the standard. In addition to the proposed internal control standard, the Board also proposed for public comment a new auditing standard on considering and using the work performed by internal auditors, management and others in an integrated audit of financial statements and internal control, or in an audit of financial statements only. This proposed standard is intended to further clarify how and to what extent an independent auditor may use that work to reduce the work the auditor otherwise would have to perform. Furthermore, the Board has proposed to revise the independence requirement that currently is embedded in the text of AS No. 2, which requires the auditor to seek specific pre-approval by the audit committee of any internal control related service. The comment deadline was February 26, 2007. To obtain a copy, visit: http://www.pcaobus.org/Standards/Proposed_Standards_and_Related_Rules.aspx.

Recent Activity of the U.S. Government Accountability Office (GAO)

2007 Revision of Government Auditing Standards Issued. In January 2007, GAO issued the 2007 Revision of *Government Auditing Standards* (also known as the Yellow Book). The 2007 Yellow Book supersedes the 2003 revision and contains the final 2007 revisions to the standards, except for the quality control and peer review sections in chapter 3. Those sections are being re-exposed by the GAO due to the wide range of comments they received. A complete 2007 revision of *Government Auditing Standards* will be available after the quality assurance and peer review sections are finalized and incorporated into the standards. The standards are effective for financial audits and attestation engagements for periods beginning on or after January 1, 2008, and for performance audits beginning on or after January 1, 2008. The transmittal letter to the 2007 revision identifies the following fundamental changes in the standards:

- A heightened emphasis on ethical principles and a description of five key ethical principals that should guide the auditor;
- Clarification and streamlining of the discussion of the impact of non-audit services and their impact on auditor independence;
- An updating of the financial auditing standards based on recent developments in financial auditing and internal control, increased transparency surrounding restatements, and significant concerns uncertainties, or other unusual events that could have a significant impact on the financial condition or operations of a government entity or program;
- Enhancement of the performance auditing standards; and
- Use of standardized language to define the auditor's level of responsibility.

To view and obtain a copy of the 2007 revision of *Government Auditing Standards* visit: <http://www.gao.gov/govaud/ybk01.htm>.

Exposure Draft on Quality Control and Peer Review. As noted above, the GAO is also exposing for comment redrafted sections on quality control and peer review in response to the wide range of comments received on those sections. The transmittal to the ED identifies the following key elements of the proposal:

- A strengthened emphasis on audit quality and expanded descriptions of the overall objectives and elements of an audit organization's system of quality control, including six key elements of quality control;
- Added flexibility for audit organizations to have a peer review cycle of five years for performance audits; and
- A requirement that external peer review reports be made public.

Comments are due March 30, 2007. To view the ED and instructions for providing comments visit: <http://www.gao.gov/govaud/d07431g.pdf>.

Prof. Andreas Bergmann, Dr. oec.

Country Report Switzerland

(Accra Meeting, March 2006, prepared 22 February 2007)

A. Federal Government

The new full accrual accounting and reporting system, based on IPSAS, became operational January 1st 2007. The inception date apparently was rather a challenge in respect of the IT systems than in respect of accounting and reporting issues. However, the migration from the old cash based system was successful. After this technical phase, the remaining accounting and reporting issues will gain more importance, again. Especially the decisions in respect of consolidation, which is part of the second stage of the project, are currently prepared and will be presented to the Federal Council (cabinet of ministers) in April. In the discussions about Employee Benefits, which is a main issue on the state level, the federal level takes a stance for IAS 19 and ED 31. However, the federal government has no constitutional authority in the field public sector financial management on the state and local level. Therefore the federal point of view is not legally binding for any entities on the lower two levels.

B. State (Canton) Governments

While the State of Geneva is still on track for a 2008 implementation of IPSAS based financial statements, the State of Zurich has postponed this step once again (initial inception date 2007, first postponed to 2008, now 2009). The main reason for this decision on the cabinet level is the ongoing dispute about Employee Benefits. The Auditor General's Office is still opposing an adoption of IAS 19 (ED 31), despite clear and unanimous advice from numerous experts. The criticism of the Auditor General's Office is constantly addressing the recognition of a constructive obligation which is – in their view – “remote”. Further criticism is in respect of the actuarial assumptions (cf. Country Report November 2006). The State of Geneva has taken a similar position and decided to adopt Swiss GAAP 16 instead of IAS 19. They are also declining ED 31,

based on the same arguments. Swiss GAAP, the national standard for SMEs, uses different actuarial assumptions and does not require recognition, but disclosure of such constructive obligations.

However, despite the postponement of the inception date on the state level, the State of Zurich has decided to go ahead and initiate the adoption of IPSAS on the local level. A joint project of the State and eight local governments, including the City of Zurich, started in January 2007 and should be terminated within 24 months. Later, the results are supposed to be extended to the remaining 163 local governments as well as the school and church districts throughout the state.

C. Due process for the revised Harmonized Accounting Model (HAM)

The accrual accounting model, which has been authoritative on the state and local level since 1981, is currently reviewed and revised. This improvement project is supposed to reflect the developments since then, including the IPSAS. The Conference of the State Ministers of Finance, which is issuing the accounting model, has now issued a first draft and is requesting comments.

The exposure draft is adopting some aspects of the IPSAS, especially the structure of the financial statements, the recognition and disclosure requirements, but not its main measurement principles. Financial reports under the new HAM are not supposed to present a true and fair view, as hidden reserves are explicitly allowed. This is substantially different from the current reforms on the federal level as well as some larger states, which have decided to adopt IPSAS, and are clearly of the view that financial reports should present a true and the view. Therefore the exposure draft is highly controversial.

The exposure draft of HAM allows the implementation of IPSAS as an option. If this option is taken, HAM is focussing on the Chart of Accounts, while the financial reporting is supposed to be in compliance with IPSAS. This is the pattern large states like Zurich, Geneva and Berne are almost certainly going to follow. Therefore the current reforms in the states adopting IPSAS are not jeopardized. But there will be two tiers of states (and

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local governments), one group adopting IPSAS and a HAM based chart of accounts, and a second group only adopting HAM and maintaining hidden reserves. Large, urban states tend to adhere to the first group, while smaller, rural states are more likely not to adopt IPSAS.

D. Private sector standards

For Swiss private sector entities, there are only very basic statutory accounting requirements in the commercial law. However, if they are listed at the stock exchange or are issuing traded bonds, they have to prepare the financial reports either according to FRS (US-GAAP, large entities listed in the US) or IFRS (large entities not listed in the US) or Swiss GAAP (small and medium sized entities, SMEs). Apparently the SMEs reporting in accordance with Swiss GAAP are likely to be medium sized, because otherwise they would not be listed. The larger entities which have adopted IFRS did so directly, as there is no IFRS based national standard, unlike in the European Union and other similar countries.

With the issue of IFRS views on accounting standards for SMEs, a debate about the future accounting standards for such entities has been started. It's too early to make a forecast about the result of this debate. However, it is likely to raise the issue of unlisted SMEs, which have only been complying with the statutory minimal requirements so far. Similar to the discussion about the new HAM, there are also in the private sector many advocates for hidden reserves. They refuse any accounting and reporting standard following a true and fair view concept. Others would like to see a wider application of Swiss GAAP, which are not based on IFRS but maintain the concept of true and fair view. And yet others are in favour of a wider IFRS or IFRS SME adoption, similar to the member countries of the European Union and other large economies.

Andreas Bergmann

(Financial reporting in the United Kingdom public sector and public benefit sectors is on a full accruals basis, using sector guidance based on UK GAAP. IPSASs have not been adopted.)

A. ACCOUNTING STANDARDS BOARD DEVELOPMENTS

1. New Accounting Standards

Standards Issued/ amended

FRS 17 (amendments to converge with IAS 19) Reporting Statement 'Retirement Benefits - Disclosures'

This revised standard was issued in December 2006, and the non-mandatory reporting statement was issued in January 2007. As noted in the Norwalk update, these seek to improve disclosures in respect of defined benefit schemes by further aligning FRS 17 with IAS 19.

Financial Reporting Standard for Smaller Entities

In January 2007, the UKASB issued a revised FRSSE. This includes a major simplification in terms of FRS 20 'Share-based payment', and a disclosure-only approach for equity-settled arrangements.

Exposure Draft of a Statement 'Half Yearly Financial Reports'

In February 2007, the UKASB issued a draft statement designed to provide guidance for UK or Irish entities that are required or choose to prepare half-yearly financial reports. This updates 1997 guidance in line with the EU Transparency Directive and the Financial Services Authority's (FSA) Disclosure and Transparency Rules (DTR). The DTR provisions allow that UK issuers reporting under UK GAAP can satisfy requirements for half-yearly statements to give a true and fair view by a statement that they have been prepared in accordance with pronouncements by the UK ASB.

Urgent Issues Task Force

UITF 43 on intermediate parent companies

This exempts certain UK 'parent' companies from EU requirements for groups to report under IFRS, subject to IFRS reporting being undertaken by an appropriate larger 'parent' entity.

UITF 44 'FRS 20 (IFRS 2) – Group and Treasury Share Transactions'

This has the effect of implementing IFRIC Interpretation 11. The abstract addresses whether certain share-based payment transactions, including transactions in which a supplier to a subsidiary is provided with equity instruments of the parent, should be accounted for as cash-settled or equity-settled.

UITF 45 'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'

This gives guidance on accounting for liabilities for waste management costs under the EU Directive on waste electrical and electronic equipment (the WEEE Directive).

UITF information sheet 81

UK standards FRS 3 and FRS 26 include guidance on the recording of changes in the value of financial instruments. This information sheet recommends a minor amendment to FRS 3, aligning guidance to be consistent with FRS 26 for relevant entities.

2. Exposure Draft of revised SORP “Financial Reports of Pension Schemes”

The UK Pensions Research Accountants Group (PRAG) issued the ED SORP “Financial Reports of Pension Schemes” in December 2006. This update reflects developments in UK pension scheme legislation and changes in accounting standards since the last major re-write in 2002.

In particular the ED SORP reflects the replacement of a general Minimum Funding Requirement with scheme specific funding arrangements; the implications of the Pensions Protection Fund; and changes to measurement and disclosure of financial instruments set out in FRS25, FRS26 and FRS29 (although these standards are not adopted in full in this update). Valuations will be made at bid price, rather than mid-market price as a result.

3. UKASB exposure draft FRED 40 Accounting for Heritage Assets

This exposure draft was issued in December 2006. In contrast to earlier proposals to amend FRS 15, this proposes a separate standard on accounting for Heritage Assets, with application generally restricted to public benefit entities. Unlike the 2006 Discussion Paper, the decision on capitalisation is made at *collection* level, rather than entity.

B. AUDITING PRACTICES BOARD DEVELOPMENTS

1 Revised ISAs (UK & Ireland)

The UKAPB has revised no ISAs (UK & Ireland) subsequent to those included in the report for the November 2006 meeting. It is currently consulting on

- ISRE (UK and Ireland) 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’

This will replace guidance currently in APB Bulletin 1999/4.

2 APB Practice Notes

Since the Norwalk update, the UKAPB has issued

Practice Note 16: ‘Bank reports for audit purposes’.

Practice Note 19: The audit of banks and building societies in the United Kingdom (Revised)

Practice Note 20: The audit of insurers in the United Kingdom (Revised),

Practice Note 24: The audit of friendly societies in the United Kingdom (Revised).

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Practice Note 12 (Revised), 'Money Laundering - Interim guidance for auditors in the United Kingdom'

Practice Note 16 is an interim revision, on which further work is being carried in consultation with the banking sector. Practice Note 12 is also interim guidance, which the APB plans to publish in final form once approval under the Proceeds of Crime Act 2002 has been received from HM Treasury. The updated guidance reflects the implementation of section 102 of the Serious and Organised Crime and Police Act.

Consultations

Current consultations include:

- The need for guidance to aid the implementation of Auditing Standards on smaller entity audits
- Draft Guidance on Smaller Entity Audit Documentation.

These seek views on draft guidance on the application of documentation requirements of ISAs (UK and Ireland) to smaller entity audits. They also ask whether Practice Note 13: 'The audit of small businesses' should be updated, and whether additional guidance should be issued and by whom.

3 Bulletins

Bulletin 2006/06 Auditors Reports on Financial Statements in the United Kingdom

This provides illustrative examples of unmodified and modified auditor's reports of financial statements of companies incorporated in the UK for periods commencing on or after 1 April 2005. It reflects UK Companies Act changes to require the auditor to give a positive opinion as to the consistency of the directors' report with the financial statements, and the revised standard formulation for expressing compliance with IFRSs as adopted by the EU.

Bulletin 2007/1 Example Reports by Auditors Under Company Legislation in Great Britain

This related Bulletin was issued in January 2007. It provides updated illustrative examples of reports by auditors, under the Companies Act 1985, originally published in Appendix 1 of Practice Note 8 "Reports by auditors under company legislation in the United Kingdom". Further changes are likely to be needed when the Companies Act 2006 comes into force, and the APB may need to update the whole of Practice Note 8.

C. LOCAL GOVERNMENT

Local Authority Statement of Recommended Practice (SORP) 2007 Consultation

CIPFA/LASAAC joint committee completed these consultations on 14 February 2007 and has begun to review responses.

The main changes proposed are:

- new requirements for financial instruments based on FRS 25, 26 and 29
- other changes resulting from recent accounting standards developments, and resulting from legislative developments
- additional disclosure requirements where a local authority consolidates trust funds into its group accounts
- reclassifying the main Northern Ireland pension scheme from defined contribution to defined benefit
- to require a zero balance on the newly established Revaluation Reserve at 1 April 2007

D. REGISTERED SOCIAL LANDLORDS

The National Housing Federation and the Welsh and Scottish Federations of Housing Associations completed these consultations on 14 September 2006. Further work is currently being carried out in the area of shared ownership sales.

E. FURTHER AND HIGHER EDUCATION SECTOR

Universities UK issued an exposure draft of a revised SORP in January 2007. The structure of the SORP has been improved, and detailed and improved guidance is provided on a number of subjects. The SORP includes guidance on narrative reporting through an Operating and Financial Review (OFR), but does not specify the form or the content of the OFR.

F. FINANCIAL REPORTING COUNCIL

FRC booklet “The UK approach to corporate governance” (November 2006)

In November 2006, the FRC published this booklet, which outlines the UK’s principles based approach to business regulation, based on a unitary board, specific checks and balances, emphasis on director objectivity, transparency on appointment and remuneration, effective shareholder rights, and a code of good practice underpinned by ‘comply or explain’.

Discussion Paper: Promoting Audit Quality

In December 2006, the FRC published and sought comments on this discussion paper, which considers the factors that contribute to audit quality, and those that might detract from it (not all of which are within the auditors control).

Ian Carruthers

Technical Advisor, United Kingdom

Steven Cain

CIPFA secretariat, United Kingdom.

26 February 2007

February 2007

Country Report - India

INTRODUCTION

This report contains details on the status of activities of (i) Accounting Standards Board (ASB), and Committee on Accounting Standards for Local Bodies (CASLB) established by the Council of the Institute of Chartered Accountants of India and (ii) Government Accounting Standards Board (GASAB) established by the Comptroller & Auditor General of India.

ASB and CASLB formulate accounting standards within the framework of accrual basis of accounting. GASAB formulates accounting standards within the framework of cash basis of accounting.

In general, this Country Report only notes events since the last Report was prepared for the November 2006 IPSASB meetings. For a more comprehensive description of some of the projects on the ASB and CASLB work program, please see the website www.icaigov.org. Similarly for GASAB work program, please see the website www.gasabgov.in.

ACCOUNTING STANDARDS BOARD (ASB) DEVELOPMENTS

The main function of the Accounting Standards Board is to formulate Accounting Standards so that such standards may be established in India. The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to actively promote the International Accounting Standards Board's (IASB) pronouncements in the country with a view to facilitate global harmonisation of accounting standards. Accordingly, while formulating accounting standards in India, the ASB considers the International Financial Reporting Standards/International Accounting Standards issued by International Accounting Standards Board and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. Although convergence with IFRSs has always been the endeavour of the ICAI and changes made in ASs are only minimum, recently, a view is being expressed that there should be total convergence with IFRSs in India. IASB has also suggested to the ICAI that in order to obtain the benefits of convergence, the ICAI should aim for having total convergence with IFRSs, without any exception. For this purpose the ASB of ICAI has constituted a Task Force on convergence with IFRSs. The Task Force will, *inter alia*, examine:

- Various obstacles in achieving full convergence and suggest possible ways to overcome these obstacles, e.g. changes in laws and regulations.
- Whether IFRSs can be adopted for all entities or for certain classes of entities.

Task Force is preparing a Concept Paper on the above aspects, which would also include a road map for convergence.

With the objective of promoting the process of Convergence with IFRSs, a team from IASB, consisting of Sir David Tweedie, Chairman, International Accounting Standards Board (IASB), Mr. Warren McGregor and Ms. Tracia O'Malley, members of IASB, and Ms. Elizabeth Hickey, Director of Technical Activities, visited India on February 13-15, 2007 for discussing various issues relating to convergence with IFRSs in India including the legal and regulatory issues. ICAI apprised the IASB team of its approach towards Convergence with IFRSs, major departures in Indian Accounting Standards from IFRSs and various obstacles in achieving full convergence with IFRSs e.g. Legal and Regulatory issues. ICAI also took up various conceptual issues regarding the adoption of IFRSs with IASB team. The team promised to look into those areas in respect of which the relevant IAS/IFRS may require a revision. IASB team also interacted with the various legal and regulatory authorities including Ministry of Company Affairs, Ministry of Finance, Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI) for removing various legal and regulatory impediments regarding the Convergence with IFRSs. IASB team also apprised the ICAI of IASB Work Plan projected as at 31 December 2006, so that the ICAI may formulate its convergence plan accordingly.

So far, the Institute of Chartered Accountants of India has issued 29 Indian Accounting Standards. The ASB also provides guidance on issues arising from Accounting Standards. The ASB also reviews the Accounting Standards at periodical intervals and, if necessary, revises the same.

A. New Releases

The following announcement has been issued during the period

- Deferment of Applicability of Accounting Standard (AS) 15, Employee Benefits (revised 2005)

B. Imminent Releases

1. Revision of the Accounting Standards:

The following revised Accounting Standard (AS) is likely to be issued soon:

- Revised Accounting Standard (AS) 10, *Property, Plant and Equipment*

2. Limited Revisions to Accounting Standards:

A limited revision to the following Accounting Standard is likely to be issued soon:

- AS 2, *Valuation of Inventories*

C. Drafts being prepared for their Public Exposure

- Revised AS 1, Presentation of Financial Statements
- Revised AS 5, Accounting Policies, Changes in Accounting Estimates and Errors
- Consequent to above revised Accounting Standards, Limited Revisions to the following Accounting Standards are also being prepared for their public exposure:
 - Accounting Standard (AS) 3 (revised 1997), Cash Flow Statements
 - Accounting Standard (AS) 17 (Issued 2000), Segment Reporting
 - Accounting Standard (AS) 20 (Issued 2001), Earnings Per Share
 - Accounting Standard (AS) 23 (Issued 2001), Accounting for Investments in Associates
 - Accounting Standard (AS) 25 (Issued 2002), Interim Financial Reporting

D. Exposure Drafts issued

- Proposed Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement
- Proposed Accounting Standard (AS) 31, Financial Instruments: Presentation
- Consequent to above proposed Accounting Standards, Exposure Drafts of the Limited Revisions to the following Accounting Standards have been issued:
 - Accounting Standard (AS) 2 (revised 1999), Valuation of Inventories

- Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates
- Accounting Standard (AS) 21 (issued 2001), Consolidated Financial Statements and Accounting for Investments in Subsidiaries in Separate Financial Statements
- Accounting Standard (AS) 23 (issued 2001), Accounting for Investments in Associates
- Accounting Standard (AS) 26 (issued 2002), Intangible Assets
- Accounting Standard (AS) 27 (issued 2002), Financial Reporting of Interests in Joint Ventures
- Accounting Standard (AS) 28 (issued 2002), Impairment of Assets
- Accounting Standard (AS) 29 (issued 2003), Provisions, Contingent Liabilities and Contingent Assets

E. Drafts of new/ revised Accounting Standards being finalised for circulation among the Council Members of ICAI and specified outside bodies

- a. Non-Current Assets Held for Sale and Discontinued Operations (corresponding to IFRS 5)
- b. Revised AS 12, Accounting for Government Grants and Disclosure of Government Assistance

F. Drafts of new/ revised Accounting Standards and revised Guidance Note under consideration of the Board

- Insurance Contracts (corresponding to IFRS 4) Agriculture (corresponding to IAS 41)
- Guidance Note on Terms Used in the Financial Statements (revised)

G. New Accounting Standards under preparation

The drafts of the following proposed accounting standards are under preparation:

- Financial Instruments: Disclosures (corresponding to IFRS 7)
- Share-based Payment (corresponding to IFRS 2)
- Accounting and Reporting by Retirement Benefit Plans (corresponding to IAS 26)
- Investment Property (corresponding to IAS 40)

H. Accounting Standards under revision

The following accounting standards are under revision:

- AS 4, Contingencies and Events Occurring After the Balance Sheet Date
- AS 9, Revenue Recognition
- AS 14, Accounting for Amalgamations

COMMITTEE ON ACCOUNTING STANDARDS FOR LOCAL BODIES (CASLB) DEVELOPMENTS

The Committee on Accounting Standards for Local Bodies was constituted in March 2005 primarily for formulation of Accounting Standards for Local Bodies. Apart from formulation of Accounting Standards for Local Bodies it would also take steps in facilitating improvement in accounting methodology and systems of Local Bodies, and would act as a forum to receive feedback from Local Bodies regarding problems faced by them in the adoption of accrual accounting and in application of the Accounting Standards as set out in its Preface to the Statements of Accounting Standards for Local Bodies.

The Governmental Level Technical Committee constituted by the Ministry of Urban Development (MoUD) would recommend the Accounting Standards for Local Bodies, issued by ICAI, for acceptance by the state governments. Apart from accounting standards, the ICAI will also support the Technical Committee in its endeavours towards various other aspects of financial reporting including preparation of asset registers, performance measurement, budgeting, costing, internal control and audit.

A. New Release

- Preface to the Accounting Standards for Local Bodies

The Preface sets out the objectives and operating procedures of the Committee on Accounting Standards for Local Bodies (CASLB) and explains the scope and authority of the Accounting Standards for Local Bodies.

B. Draft being prepared for its public exposure

- Framework for the Preparation and Presentation of Financial Reports by Local Bodies

C. Drafts of Proposed Accounting Standards for Local Bodies being finalised for circulation among the Council Members of ICAI and specified outside bodies (limited exposure)

- Presentation of Financial Statements
- Borrowing costs
- Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.

D. Subjects on which Accounting Standards for Local Bodies are under preparation

- Cash Flow Statements
- Construction Contracts
- Revenue from Exchange Transactions
- Revenue from Non-Exchange Transactions
- Property, Plant and Equipment
- Segment Reporting
- Accounting for Grants
- Events After the Reporting Date
- Inventories
- Provisions, Contingent Liabilities and Contingent Assets

E. Other projects under progress

- Study on Transition from Cash basis to Accrual Basis
- Booklet highlighting the benefits of accrual accounting in Local Bodies.

ABOUT THE GOVERNMENT ACCOUNTING STANDARDS ADVISORY BOARD (GASAB)

The Government of India has undertaken various initiatives for implementation of accrual accounting in Union Government, State Governments and Union Territories with Legislatures. The recommendation of the Twelfth Finance Commission of India also highlights the benefits of accrual accounting

The Office of the Comptroller and Auditor General of India (C & AG) constituted Government Accounting Standards Advisory Board (GASAB) in August 2002 “in order to establish and improve standards of governmental accounting and financial reporting and enhance accountability mechanisms for Union and the State Government accounts.

Consequent upon the recommendation of the Twelfth Finance Commission (hereinafter referred to as the TFC) for adoption of accrual accounting, the Central Government has accepted the recommendation in principle. In its explanatory memorandum as to the Action Taken on the recommendation of the TFC, Finance Minister had stated that the Government Accounting Standards Advisory Board (hereinafter GASAB) in the Office of the Comptroller and Auditor General of India would recommend an operational framework and detailed road map for its implementation. GASAB’s Report on Road Map and Transition path of accrual accounting has already been forwarded to the Government for further consideration.

The Government Accounting Standards Advisory Board (GASAB) had constituted a Committee under the convenorship of the President, ICAI for finalisation of ‘Operational Framework for implementation of accrual accounting in Government’. The draft Operational Framework was circulated by the GASAB Secretariat amongst the State Governments for their comments. The GASAB has considered draft Operational Framework modified on the basis of the comments received and decided that the draft Operational Framework modified on the basis of the deliberations at the meeting would be forwarded to the Government of India for consideration and further action.

Apart from the Central Government, so far eighteen State Governments have accepted the idea of accrual accounting in principle.

Status of various Indian Government Accounting Standards being prepared by GASAB under cash basis of accounting

First Indian Government Accounting Standard awaiting notification

The first Indian Government Accounting Standard (IGAS 1) on ‘Guarantees given by Governments: Disclosure Requirements’ proposed by the Board and approved by the Comptroller and Auditor General of India is under consideration by the President of India for notification.

Draft Standards under preparation after considering responses on the Exposure Drafts of the stakeholders

- Accounting and Classification of Grants-in-aid
- Cash Flow Statements

Exposure Drafts issued for comments of the stakeholders

- Presentation of Financial Reports
- Components of the Financial Reports

Exposure Drafts/ Documents under consideration of Board

- Preface to the Indian Government Accounting Standards
- Loans and Advances made by Governments
- Foreign Currency and Loss / Gain by Exchange Rate Variations

Invitation To Comment (ITC) & Exposure Drafts under preparation by the GASAB Secretariat

- Classification of Transactions in Accounts
- Public Debt and Other Liabilities of Govt. – Disclosure Requirements
- Government Investment
- Contingent Liabilities (other than Guarantees and Letter of Comfort) and Contingent Assets: Disclosure Requirements