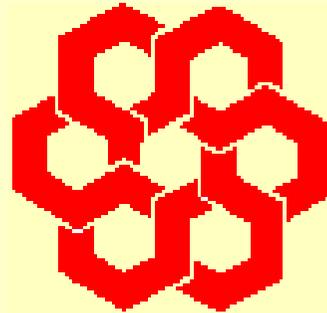


***International Accounting
Standards Committee***



***Financial Reporting in the
New Millennium***

Presentation by
PAUL PACTER
International Accounting
Standards Committee
May 2000

WHAT IS THE IASC?

- **Independent**
- **Began 1973**
- **Mission: Improve and Harmonise
Global Accounting Standards**
- **Location: London**
- **Sponsors: 143 Professional
Accounting Bodies in 104 Countries**

IASC BOARD

- **Develops the Standards**
- **16 Seats (1 vote each)**
- **2-3 persons per seat**
- **Exposure Draft: 11 votes**
- **Standard: 12 votes**
- **Generally meets 4 times a year**

16 MEMBER BOARD

- **Australia** • **Canada**
- **France** • **Germany** • **Japan**
- **India-Sri Lanka** • **Malaysia**
- **Mexico** • **Netherlands**
- **Nordic Federation**
- **South Africa-Zimbabwe**
- **Swiss Companies** • **UK** • **USA,**
- **Financial Executives**
- **Financial Analysts**

OBSERVER MEMBERS:

- **IOSCO**
- **China**
- **European Commission**
- **FASB**

**Meetings open to public
observation**

OTHER GROUPS WITHIN IASC STRUCTURE

- **Project Steering Committees**
- **Interpretations Committee**
- **Advisory Council: Oversight and Funding**
- **Consultative Group: Advises the Board on agenda projects**

IASC'S GOAL: GLOBAL ACCOUNTING STANDARDS

All large businesses worldwide report according to a single set of high-quality 'global accounting standards'.

Not that far off – 10-20 years?

IASB INTERMEDIATE GOALS:

- **Acceptance of IAS for use by multinational companies for cross-border capital raising, *and***
- **Provide a body of standards for countries that choose not to develop their own.**

WHY ARE GLOBAL STANDARDS NEEDED?

*On many stock exchanges,
foreign listings are a large
percentage of the total:*

- **NASDAQ (US): 429 foreign out of 4,829 companies**
- **NY Stock Exchange: 405 foreign out of 2,592 companies**

WHY ARE GLOBAL STANDARDS NEEDED?

*Foreign companies registered
with the **US SEC:***

- **1,100 non-US companies**
- **From 56 countries**
- **Total SEC: 13,000 companies**

WHY ARE GLOBAL STANDARDS NEEDED?

*Capital raised by foreign
companies in **US**:*

- 1990 \$**8** billion
- 1998 \$**170** billion

*New foreign companies
registering with **US SEC**:*

- 1990 **45** companies
- 1998 **160** companies

WHY ARE GLOBAL STANDARDS NEEDED?

*On the London Stock Exchange,
foreign companies are:*

- **20% of number of all listed companies and**
- **66% of market value of all listed companies**

WHY ARE GLOBAL STANDARDS NEEDED?

*% of companies listed on these
stock exchanges that are **foreign**:*

- Amsterdam **40%**
- Brussels **42%**
- Switzerland **42%**
- New Zealand **34%**
- Germany **88%**

WHY ARE GLOBAL STANDARDS NEEDED?

- **Investors seek investment opportunities all over the world**
- **Companies seek capital at the lowest price anywhere**
- **Cross-border mergers**
- **Accounting differences can completely obscure comparisons**

STOCK EXCHANGES ALLOW IAS FOR FOREIGN COS. (D=DOMESTIC ALSO)

Argentina	Denmark D	Italy D
Australia	EASDAQ	Japan
Austria D	Egypt D	Jordan D
Bangladesh D	Estonia D	Kenya D
Belgium D	Finland D	Korea
Cayman Is D	France D	Latvia D
China D	Georgia D	Lithuania D
Costa Rica D	Germany D	Luxembourg
Croatia D	Hong Kong D	Macedonia
Cyprus D	Hungary D	Malaysia

STOCK EXCHANGES ALLOW IAS FOR FOREIGN COS. (D=DOMESTIC ALSO)

Malta D	South Africa
Netherlands	Sweden
Norway	Swiss D
Pakistan D	Thailand D
Panama D	Turkey
Poland	Ukraine D
Romania	UAE D
Singapore	UK
Slovak Rep.	US with Reconciliation
Slovenia D	Zimbabwe

EXPRESSED SUPPORT FOR IASC

- **US SEC**
- **US Congress**
- **European Commission**
- **European Accounting (FEE)**
- **G7 Finance Ministers**
- **World Bank**
- **Basel Committee**
- **Big-5 Accounting Firms**

EXPRESSED SUPPORT FOR IASC

- **International Federation of Stock Exchanges (FIBV)**
- **International Federation of Accountants (IFAC)**
- **Euroasian Stock Exchanges**
- **OECD**
- **APEC**
- **IMF**
- **World Trade Organization**

G7 FINANCE MINISTERS:

“We welcome the completion by the International Accounting Standards Committee of its core set of international accounting standards, and we look forward to IOSCO, IAIS and the Basle Committee completing their reviews.”

IOSCO

- **Association of 100 securities regulators world-wide**
- **1995 IOSCO Agreement:**
 - **IASC complete core standards**
 - **IOSCO review and decide whether to endorse**
- **Core Standards finished 1998**
- **IOSCO review is under way, possibly finish June 2000**

US SEC

- **Supports IASC's objectives**
- **Work through IOSCO to achieve international harmonisation**
- **Today: reconciliation of IAS to US GAAP required**
- **Is considering whether to allow IAS without reconciliation**

US SEC

Two-step review:

- 1 Concepts release (2000)
- 2 Rule making (by 2001 or 02?)

Possible outcomes:

- 1 NO SEC does not accept IAS
- 2 YES SEC fully accepts IAS
- 3 YES EXCEPT for some IAS
- 4 YES PLUS some additional
SEC requirements
- 5 YES PLUS US GAAP if no IAS

OTHER MATTERS:

- **European Commission: IASC as basis for harmonizing within EU**
- **New laws in France, Germany, Italy, Belgium, Austria allow IAS for *domestic* companies**
- **UK considering similar law**
- **National standards are like IAS: Australia, South Africa, Sweden**
- **World Bank and IMF: IAS as a condition for a loan**

COMPANIES USING IAS

Many More: www.iasc.org.uk

Nestle	Deutsche Bank	Gucci
Olivetti	Jilin Chemical	Roche
SAS Airlines	Lufthansa	Alianz
Air France	Statoil Norway	MAN
Fiat	Volkswagen	Gazprom
Moulinex	BHP	Swatch
Renault	Ashanti Gold	Novartis
Adidas	Jardine	Hoechst
Fujitsu	Cap Gemini	World Bank

ENFORCEMENT:

IASC does not have enforcement power. As a private sector body, IASC must look to others for that:

- **Auditors**
- **National Laws**
- **Securities Regulations**
- **Stock Exchanges**
- **Accountancy Bodies**

IASC STANDARDS:

IAS 1 Presentation

IAS 2 Inventories

IAS 4 Depreciation

IAS 7 Cash Flow

IAS 8 Reporting Profit and Loss

**IAS 10 Events after Balance Sheet
Date**

IAS 11 Construction

IASC STANDARDS:

IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 15	Changing Prices
IAS 16	Property
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Grants & Assistance
IAS 21	Foreign Exchange

IASC STANDARDS:

IAS 22 Business Combinations

IAS 23 Borrowing Costs

IAS 24 Related Parties

IAS 25 Investments

IAS 26 Retirement Plans

IAS 27 Consolidation

IAS 28 Associates

IAS 29 Hyperinflation

IASC STANDARDS:

IAS 30 Banks

IAS 31 Joint Ventures

**IAS 32 Financial Instruments:
Disclosure**

IAS 33 Earnings Per Share

IAS 34 Interim Reporting

IAS 35 Discontinued Operations

IASB STANDARDS:

IAS 36 Impairment of Assets

IAS 37 Provisions

IAS 38 Intangible Assets

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

IAS 40: Investment Property

RECENT IASC STANDARDS

IAS 36 Impairment of Assets

Recognise loss on an asset that you still own if its current value is below its recorded amount

IAS 37 Provisions

Recognise a liability only when (a) obligation from a past event, (b) high probability of payment, and (c) amount reasonably estimated.

RECENT IASC STANDARDS

IAS 38 Intangible Assets

Recognise an intangible asset only if (a) identifiable, (b) controlled, (c) future benefits specifically attributable to the asset are probable, and (d) cost is reliably measurable.

Amortize over useful life, not normally more than 20 years.

RECENT IASC STANDARDS

IAS 39 *Financial Instruments*

Recognition and Measurement

- All financial instruments on the balance sheet (derivatives).
- Measure all financial assets at fair value except (a) originated loans and (b) investments in bonds you will hold to maturity.

RECENT IASC STANDARDS

IAS 39 *Financial Instruments*

Recognition and Measurement

- Measure most financial liabilities at amortized original amount.
- Some changes in fair value must be in net profit or loss, others in equity until the asset is sold.
- Strict hedge accounting and impairment rules.

RECENT IASC STANDARDS

IAS 40 Investment Property

- Investments in real estate may be measured at:
 - Cost, with depreciation, or
 - Fair value, with value changes in net profit or loss.

WORK PLAN:

Agriculture

- **E65 July 1999**
- **Final IAS – 2000**

Business Combinations

- **Discussion Paper – 1998**
- **Steering Committee working**

Discounting

- **Issues Paper 2000**

WORK PLAN:

Emerging Economies

- **Steering Committee working**

Extractive Industries (Mining, Oil & Gas)

- **Issues Paper 2000**

WORK PLAN:

Financial Instruments – Comprehensive Project

- **Joint Working Group Study 2000.**
- **IASC get comments.**

Insurance Companies

- **Discussion Paper 1999**

Performance Reporting

- **Steering Committee working**

WORK PLAN:

Internet Reporting

- **Research report 1999**
- **Steering Committee**

Transition – new project

Bank Disclosures – new project

ADVANTAGES OF IAS

FOR ANALYSTS, INVESTORS

- **Understandability**
- **Comparability**
- **Transparency**
- **Confidence**
- **Reduced cost of analysis**

ADVANTAGES OF IAS

FOR COMPANIES

- **Lower cost of capital – less uncertainty**
- **One accounting system**
- **No reconciliations**
- **Credibility of reporting**
- **Consistency of internal and external reporting**

ADVANTAGES OF IAS

FOR AUDITORS

- **No “standards-shopping”**
- **Enforcement**
- **Global training**

ADVANTAGES OF IAS

FOR NATIONAL STANDARD-SETTERS

- **Sharing of ideas**
- **Leveraging resources**
- **Building block for national standards**
- **Global convergence**
- **Credibility of national standards**

ADVANTAGES OF IAS

FOR DEVELOPING COUNTRIES

- **Save costs of standard-setting**
- **Credibility of financial reports in the market**
- **Ability to attract investors**

PROBLEMS WITH CURRENT IASB STRUCTURE

- **Weak relationships with national standard setters**
- **Part-time Board, full-time work load**
- **Need broader sponsorship than accounting profession**
- **Resources**

NEW IASC STRUCTURE

- **Nominating Committee to select initial Trustees**
- **New Foundation: 19 Trustees appoint, oversee, raise funds**
- **Board: 14 members, will set Standards**
- **Advisory Council**
- **Interpretations Committee**

NEW IASC STRUCTURE

NOMINATING COMMITTEE - 7 Members, Select Initial Trustees

19 TRUSTEES
Appoint, Oversee, Funding

BOARD - 14 MEMBERS
Approves Standards, Exposure Drafts, Interpretations

ADVISORY COUNCIL
20-30 Members

STEERING COMMITTEES
For Major Agenda Projects

INTERPRETATIONS COMMITTEE
Develops Interpretations

NEW IASC STRUCTURE

BOARD OF TRUSTEES:

- **Appoint Board, Interpretations Committee, and Advisory Council**
- **Monitor effectiveness**
- **Raise funds**

19 TRUSTEES-BACKGROUND:

- At large 11
- Accounting Profession 5 (IFAC)
- Users 1
- Preparer 1
- Academic 1

19 TRUSTEES - GEOGRAPHY:

- North America 6
- Europe 6
- Asia/Pacific 4
- Others 3 (maintain balance)

NEW IASC STRUCTURE

BOARD

Approve Exposure Drafts, Final Standards, Interpretations

14 BOARD MEMBERS:

- **Full time 12**
- **Part time 2**

NEW IASC STRUCTURE

BOARD MEMBERS:

- Auditor 5
- Preparer 3
- User 3
- Educator 1
- Others 2

LIAISON WITH NATIONAL STANDARD SETTER

- Up to 7 Board Members

QUALITIES OF BOARD MEMBERS

- Analytical
- Communicate
- Make decisions carefully
- Good knowledge of financial reporting
- Work in collegial atmosphere
- Integrity, objectivity, discipline
- Commitment to IASC's mission and public interest

**Board selection based on expertise,
not geography**

NEW IASC STRUCTURE

BOARD VOTING

- **8 of 14 for Exposure Draft or Final Standard**

NEW IASC STRUCTURE

STANDARDS ADVISORY COUNCIL

- **20 – 30 Members**
- **Allow groups and individuals with diverse geographic and functional backgrounds to give advice to the Board**

CONCLUSION

“Global investors and companies are impatient for regulators to converge on a global accounting standard... For reflecting economic substance in most industries, IAS is easily of comparable quality to US GAAP, if auditors do their jobs.”

Morgan Stanley Dean Witter

CONCLUSION

“To succeed, global accounting rules must be the product of an international consensus... The US has played a key role in developing the IASC's rules to date. If those rules are good enough for the rest of the world, they should be good enough for New York.”

Editorial, Financial Times, 1999

**International Accounting
Standards Committee**

166 Fleet Street

London EC4A 2DY, UK

Phone: +44-20-7353-0565

Fax: +44-20-7353-0562

Web: www.iasc.org.uk

Email: iasc@iasc.org.uk