

IFAC PUBLIC SECTOR COMMITTEE
IFAC PSC MEETING – March 2004

COUNTRY REPORT – AUSTRALIA
(Prepared 29 January 2004)

This Country Report only notes events since the last Report was prepared for the November 2003 PSC 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.

Current AASB projects that have particular implications for public sector entities for which no further substantial progress has been made since the November 2003 Country Report was prepared include:

- Prospective Financial Information
- Fair Value and Deprival Value
- Statement of Financial Performance/Performance Reporting
- Related Party Disclosures (although see the section below relating to director and executive disclosures).

Projects for which substantial progress has been made are outlined in the following.

GAAP/GFS Convergence

The AASB has made substantial progress on implementing the Financial Reporting Council's strategic direction to give urgent priority to GAAP/GFS harmonisation. The AASB has modified its plan for implementing the strategic direction (see www.aasb.com.au) by breaking the task into three phases:

Phase 1 – focused on general purpose financial reporting by State, Territory and Commonwealth governments (commonly referred to as whole-of-government). This includes consideration of sector reporting issues (in particular General Government Sector [GGS] financial reporting) included in whole-of-government general purpose financial reports. It is planned that Phase 1 will result in a revised AAS 31 "Financial Reporting by Governments". The review of AAS 31 is also addressing a number of issues that do not arise directly out of the GAAP/GFS project, including guidance on determining when control over entities exists in the public sector.

Phase 2 – (being progressed concurrently with Phase 1, to the extent that resources allow) is focusing on general purpose financial reporting by entities within the GGS (including government departments currently within the scope of AAS 29 "Financial Reporting by Government Departments"). It is planned to issue a standard that replaces AAS 29 and incorporates a GAAP/GFS convergence solution as soon as possible after the Phase 1 solution is issued. The review of AAS 29 is also addressing a number of non-GAAP/GFS convergence issues, as noted in the AAS 29 section below.

Phase 3 – will be considered once Phases 1 and 2 are sufficiently progressed and will focus

on general purpose financial reporting by local governments, and other public sector entities (such as universities and government business enterprises).¹

The AASB has received two comprehensive submissions from Heads of Treasuries (HOTs) on a wide range of GAAP/GFS convergence issues. They note that some issues will be resolved through the adoption of IASB standards in Australia by 1 January 2005, and the IASB Reporting Comprehensive Income Project that anticipates a comprehensive single performance reporting statement that splits total performance into its two significant parts (whether on the emerging IASB basis of before remeasurements/remeasurements or on the GFS basis of transactions/other economic flows). Other issues will not be “naturally” resolved, but the HOTs submissions support the view that current GAAP should be retained for general purpose financial reporting for some of those issues (such as the treatment of dividends and defence weapons platforms). However, on other issues, HOTs advocate a change to GAAP, and therefore a difference between for-profit GAAP and not-for-profit public sector GAAP.

In considering an underlying guiding principle for dealing with GAAP/GFS convergence issues, the AASB has formed the preliminary view that, consistent with its policy of issuing sector neutral standards, unless there are compelling reasons to do otherwise, GAAP definition, recognition and measurement principles should be retained.

Following its consideration of the two HOTs submissions, the AASB has prepared two Project Advisory Panel Consultation Papers – the first issued to Panel members on 18 November 2003 and the second on 17 December 2003. These Consultation Papers contain preliminary AASB views on the main issues identified in the HOTs submissions. Panel members’ comments on the issues (requested by 31 January 2004) will be considered by the AASB in making its final decisions for inclusion in an Exposure Draft. Copies of Consultation Papers Nos. 1 and 2, together with the relevant HOTs submissions, are available on the AASB web site (http://www.aasb.com.au/workprog/board_papers/hot_subs/index.html).

Review of AAS 27 “Financial Reporting by Local Governments”

The AASB has issued ED 125 “Financial Reporting by Local Governments”, containing proposals that will replace AAS 27, with a comment period ending 27 February 2004.

Review of AAS 29 “Financial Reporting by Government Departments”

The AASB decided that the scope of the application of the proposed Standard to replace AAS 29 “Financial Reporting by Government Departments” should be extended to apply to all entities within the General Government Sector (as defined by Government Finance Statistics) of a jurisdiction. The Board considered that this would promote consistency across jurisdictions.

A review of AAS 29 is being undertaken concurrently with the GAAP/GFS Convergence project (see the comment above under GAAP/GFS Convergence), initially with the preparation of issues papers on disclosure of administered items and compliance with appropriations.

¹ At its December 2003 meeting the AASB expressed the preliminary view that it is unlikely that GAAP/GFS convergence will be applicable to government-owned business enterprises, or Government owned financial institutions.

Public Infrastructure Arrangements

Local Issues

As reported in the November 2003 Country Report, it was expected that all jurisdictions would formally implement their policy to apply Application Note F to FRS 5 via a Financial Reporting Direction (as part of the Ministerial Directions, issued by the Minister for Finance) or some similar mechanism for the 2003-2004 reporting period. Further, it was reported that guidance material (additional to that developed in the UK) was being developed in two stages for completion in December 2003. It is now expected, subject to any jurisdiction deciding to early adopt, that:

- for 2003-04 and 2004-05 reporting periods,
 - jurisdictions will use FRS 5 and the associated material as guidance only as best practice to be applied to newly commissioned PPPI projects; and
 - during this time, the relevant international developments will be monitored, and each jurisdiction will undertake a thorough analysis of how FRS 5 would impact on the accounting treatment of existing PPPI's and other agreements (including Budget impacts);
- for the 2005-06 reporting period and beyond,
 - subject to not being overtaken by international developments, all jurisdictions will adopt the FRS5 approach and accounting treatment by means of treasury instruction/ministerial direction.

International Issues

As reported in the November 2003 Country Report, the IFRIC has added Accounting for Service Concessions to its agenda to consider the need to clarify, before 2005, how certain aspects of the IASB's standards are to be applied in accounting for service concessions and similar arrangements. The IFRIC has considered the topic at its September and December 2003 meetings and has commenced its deliberations by considering a number of examples illustrating different services, and the extent to which the existing lease accounting model is relevant to service concessions and the extent to which other models might also be relevant.

A submission has been made to the IFRIC on clarifying the application of IASB standards to PPPI by a team of national standard setters – representing Spain, France, UK and Australia.

IASB Convergence (by 2005)

The AASB is continuing its program of aligning Australian accounting standards to the IASB standards that will be applicable on or after 1 January 2005 (see the AASB Plan for Adopting IASB Standards by 2005 on www.aasb.com.au). As part of this program, the AASB has recently issued the following Exposure Drafts:

- ED 110 “Request for Comments on IAS 7 Cash Flow Statements”
- ED 111 “Request for Comments on IAS 23 Borrowing Costs”
- ED 112 “Request for Comments on IAS 29 Financial Reporting in Hyperinflationary Economies”
- ED 113 “Request for Comments on IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions”
- ED 114 “Request for Comments on IAS 41 Agriculture”

- ED 115 “Request for Comment on IAS 19 Employee Benefits”
- ED 116 “Request for Comment on IAS 2 and IPSAS 12 Inventories”
- ED 117 “Request for Comment on IASB ED 4 Disposal of Non-current Assets and Presentation of Discontinued Operations”
- ED 118 “Request for Comment on IAS 11 Construction Contracts”
- ED 119 “Request for Comment on IAS 14 Segment Reporting” – for-profit sector only
- ED 120 “Request for Comment on IAS 16 and IPSAS 17 Property, Plant and Equipment”
- ED 121 “Request for Comment on IAS 31 Financial Reporting of Interests in Joint Ventures”
- ED 122 “Request for Comment on IASB ED 5 Insurance Contracts”
- ED 123 “Request for Comment on IASB ED of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk”
- ED 124 “Request for Comment on: · The Definition of Reporting Entity; IASB *Framework for the Preparation of and Presentation of Financial Statements*; IAS 18 *Revenue*; and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*”
- ED 126 “Request for Comment on IAS 34 Interim Financial Reporting”
- ED 127 “Request for Comment on IAS 37 Provisions, Contingent Liabilities and Contingent Assets”
- ED 128 “Request for Comment on IAS 12 Income Taxes”
- ED 129 “Disclosing the Impact of Adopting AASB Equivalents to IASB Standards”

Broadly, the AASB equivalents of IASB standards will, subject to AASB due process, adopt the IASB standards word-for-word. Specific guidance for not-for-profit entities will be “embedded” in the AASB standards (for example, to address non-cash flow generating assets issues in relation to inventories, and property, plant and equipment for impairment purposes), clearly identified as only applying to not-for-profit entities. Where available and suitable in an Australian context, the not-for-profit entities text will be based on relevant IPSASs. Furthermore, the AASB standards may limit the options likely to be retained in IASB standards, and may also include requirements (such as disclosures) that are additional to the disclosures in IASB standards.

The Board proposes in ED 124 that IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, be applied by for-profit entities but that the existing Australian requirements continue to apply to not-for-profit (including public sector) entities. As part of its project to review AAS 27 “Financial Reporting by Local Governments”, ED 125 includes commentary clarifying the existing Australian requirements relating to revenue recognition, including guidance on the accounting for government grants.

Self-Generating and Regenerating Assets (SGARAs)

The AASB considered at its December 2003 meeting draft Pending Standard AASB 141 *Agriculture* that reflected the decisions made by the AASB at its September 2003 meeting.

At its December 2003 meeting, the AASB also discussed the implications of the first-time adoption of AASB 141 which includes a rebuttable presumption that allows biological assets to be carried at cost less accumulated depreciation and accumulated impairment losses where the fair value of the biological asset cannot be measured reliably. The AASB noted that

entities currently measuring SGARAs at net market value in accordance with AASB 1037 / AAS 35 *Self-Generating and Regenerating Assets* may attempt to apply the rebuttable presumption on first-time adoption of AASB 141, arguing that the net market value calculated to comply with AASB 1037 / AAS 35 was not reliable. The AASB took the view that because AASB 1037 / AAS 35 requires a SGARA to be recognised only when the SGARA possesses a value that can be measured reliably, entities that have been measuring SGARAs at net market value in accordance with AASB 1037 / AAS 35 must continue measuring these assets (if they are in the scope of AASB 141) at their fair value less estimated point-of-sale costs on first-time adoption of AASB 141. Accordingly, on first-time adoption of AASB 141, the rebuttable presumption would not apply to such entities. Consequently, the AASB directed that specific guidance be included in the forthcoming Implementation Guidance to accompany AASB 1 *First-time Adoption of Australian International Financial Reporting Pronouncements*.

The AASB approved the draft Standard as a Pending Standard, which is included on the AASB website.

Employee Benefits

The AASB considered at its October 2003 meeting submissions on ED 115 *Request for Comment on IAS 19 Employee Benefits* and decided that:

- (a) the Australian equivalent of IAS 19 will apply the same requirements to both private and public sector entities;
- (b) the corridor approach will not be allowed in the Australian equivalent of IAS 19. Consequently, full recognition of actuarial gains and losses associated with a defined benefit liability will be required;
- (c) the market yield on high quality corporate bonds at the reporting date will be required in measuring long-term employee benefits. Members agreed that consistent with IAS 19 in the absence of a deep market in corporate bonds, the market yield on government bonds is to be used. The Board noted that those responsible for measuring long-term liabilities will need to apply professional judgement to determine whether Australia has a deep, high quality corporate bond market but that the Board should note in guidance that the market is not deep.

A draft Pending Standard on AASB 119 “Employee Benefits” is expected to be discussed at the AASB February 2004 meeting.

Director and Executive Disclosures

The AASB has issued AASB 1046 “Director and Executive Disclosures by Disclosing Entities” that will be effective for years ending on or after 30 June 2004. The main aim of the new Standard is to improve the quality and comparability of disclosures by listed companies about the remuneration of those responsible for its governance. As is evident from the title of the Standard, the public sector has been scoped out. This is not because the principles were not applicable, but because of some earlier AASB debates over disclosures of Ministerial remuneration. Questions relating to disclosures in a public sector context will be considered in due course by the AASB as part of a separate project.

URGENT ISSUES GROUP (UIG)

The UIG deals with accounting issues of relevance to the private sector and/or the public sector. Consensus views agreed by the UIG are subject to veto by the AASB before they can be issued as Abstracts.

Since the November 2003 Country Report was prepared, the UIG has issued one Abstract, which is relevant to some entities in the public sector:

- Abstract 52 “Income Tax Accounting under the Tax Consolidation System” (revised December 2003)

Abstract 52 covers the general accounting requirements for entities applying the tax consolidation system, under which the parent entity has responsibility for the tax consequences of the transactions of its wholly-owned subsidiaries in the tax-consolidated group. The parent entity recognises both current and deferred taxes arising in relation to those subsidiaries.

The UIG will begin to consider accounting for earthworks, particularly whether earthworks forming part of roads are depreciable assets, early in 2004. This topic is of significance to the Federal, State and local governments as the owners of the public road network in Australia. Another topic recently added to the UIG’s agenda is the accounting for commodity pooling arrangements, which will be relevant to public sector entities involved in the marketing of commodities.

COMMONWEALTH GOVERNMENT, STATES AND TERRITORIES

Current Status

As reported in the November 2003 Country Report, most Australian jurisdictions prepare budgets and budget outcomes using an accrual GFS basis. Victoria and the ACT use GAAP. The Commonwealth uses both GFS and GAAP, but accrual GFS predominates.

In addition, the Commonwealth government prepares general purpose reports at the whole of government level and for individual reporting entities on an accrual accounting basis. All States/Territories prepare general purpose financial reports for the whole of government and for departments and agencies on an accrual basis.

Consequently, all jurisdictions seek harmonisation of GFS and GAAP.

Commonwealth Government

As reported in the November 2003 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, it is responsible for reviewing accounting policies for all GAAP and GFS reporting.

State & Territory Governments

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

DATE: 6 February 2004

TO: Members of the Public Sector Committee

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).

Financial Statement Discussion and Analysis (FSD&A)

Comments have been received and are currently being analysed. All respondents have supported the preparation of FSD&A information.

The exposure draft recommended that FSD&A information accompany the financial statements in a financial report. A small number of respondents have indicated that this information is available in a number of reports and that presenting with the financial statements will delay publication of the financial statements. Further, there was concern that information such as variance explanations may not be available.

Respondents agreed with PSAB's approach to issue FSD&A as Statements of Recommended Practices (SORP) as opposed to GAAP or required supplementary information.

The 2003 Public Accounts of Canada has implemented the exposure draft and provides a useful illustration of the application of the SORP.

Funds and Reserves

At its June 2003 meeting, PSAB approved a draft PUBLIC SECTOR GUIDELINE PSG-5, FUNDS AND RESERVES for public exposure. Key discussion points of the guideline were raised in Canada's country reports of June 25 and September 22, 2003 .

PSAB is scheduled to approve a final Guideline in February 2004.

Generally Accepted Accounting Principles (GAAP)

This project clarifies that the CICA PSA Handbook is the primary source of GAAP for the public sector.

The primary sources of GAAP are those accounting pronouncements that must be referred to first in determining the treatment for an accounting issue. Only if the primary sources are silent on a particular accounting issue, would a preparer seek to find an alternative or 'other source' of GAAP to address the accounting issue in question.

Responses to the Statement of Principles (closing date for responses - October 17, 2003) provided overall strong support for the CICA PSA Handbook being the primary source of GAAP for the public sector but also raised a number of points:

- The need to have an identical definition of GAAP for both the public and private sector;
- The importance of providing sufficient directive guidance as to 'other sources of GAAP' in order to maintain financial statement comparability; and
- Questioning the proposal to elevate the status of non-italicized text within PSA Handbook Sections to equal that of 'italicized'. At present, italicized text constitutes the 'recommendation' while non-italicized is supportive guidance.

A public exposure draft is being presented to the Board for approval in March 2004.

Government Reporting Entity

In May 2003, PSAB approved revisions to CICA PSA Handbook, GOVERNMENT REPORTING ENTITY (GRE), Section PS 1300 regarding the definition of the GRE (see Canada's country report of 25 June, 2003 for information about the revisions).

Under the new definition, there will be organizations included in the government's financial statements that previously were not. Some concerns were raised as to whether any change in how these organizations are accounted for is needed.

Currently the standards would require full consolidation of all government organizations except government business enterprises (GBEs). GBEs are accounted for on a modified equity basis. Some of PSAB's constituents have wondered whether modified equity basis might also be appropriate for some other government organizations particularly those in the SUCH sector (schools, universities, colleges and hospitals).

While the Board favors full consolidation for these organizations, they recognize that from a practical stand-point, fully consolidating SUCH sector organizations could be a challenging task due to the volume of these organizations.

Therefore they have proposed transitional provisions that would allow modified equity accounting for certain organizations for a two year period. After the transitional period all government organizations except for government business enterprises would be fully consolidated.

A public exposure draft was approved in October 2003 and a final standard is scheduled for March 2004.

Government Transfers

A successful Forum on *Objectives Based Standard Setting, Accounting Concepts and Government Transfers* was held in Toronto, Canada on October 29, 2003. Close to 60 representatives from the Canadian senior government financial and audit community as well as several municipal government representatives and other experts in government financial reporting attended.

One of the objectives of the Forum was to encourage the government community to argue the issue of multi-year funding within the parameters of the new conceptual framework (issued in January 2003).

The issues discussed at the Forum included:

- how the use of each of the accounting options for a transferring government (deferral or expensing of multi-year funding) would improve or impair a user's understanding of the financial statements;
- which accounting option might discourage the management of operating results and might be considered most neutral in standard setting terms (ie: standards should not be designed to prevent or encourage a particular type of behaviour);
- how each option might impair or contribute to the representational faithfulness of the financial statement information;
- how each option might be assessed in light of the definition of an asset; and
- whether the reasoning underlying the areas of apparent consensus, such as unconditional grants and prepaid shared cost agreements, might provide some insights into the appropriate accounting for less straightforward grant scenarios.

At the end of the Forum, there appeared to be consensus that PSAB should consider the deferral of prepaid government transfers in some instances. Evaluating the nature and extent of the indicators that would need to be present in order for deferral of a transfer to be appropriate would be an important next step. PSAB's Government Transfers Task Force is developing revised standards on this basis.

An Associates' Draft of revised standards for government transfers is scheduled to be approved at PSAB's March 2004 meeting.

Liabilities, Contingent Liabilities and Contractual Obligations

This project does not address contingent assets.

A Public Exposure Draft was approved by PSAB in October 2003. The comment deadline is February 20, 2004.

The respondents to the Statement of Principles (SOP) supported the definitions and recognition requirements. A number of respondents indicated that additional guidance

was needed to help apply the concepts of constructive and equitable obligations. Additional guidance was included in the exposure draft. Most respondents to the SOP supported the recognition of contingent liabilities when it was likely that the future confirming event would occur and limiting the disclosure requirements that relate to commitments to contractual obligations.

Sale-Leaseback Transactions

Current public and private sector Canadian GAAP for sale-leaseback transactions are based on the view that the terms of the sale and the lease are not able to be separated objectively ie: there is 'interdependence'.

The proposed approach of the sale-leaseback task force is to account for the sale and leaseback in accordance with its 'components' most notably 1- the sale, and 2- the subsequent leaseback.

This approach differs from the interdependence approach as it is based on the principle that it is possible to separate the sale-leaseback transaction into its components parts. Comparison of the terms and conditions of the sale and leaseback to related fair value information enables the transaction to be separated and each of the component parts to be accounted for separately according to its economic substance.

A draft guideline is scheduled to be presented to PSAB for approval in October 2003.

Revenue

On January 20, 2004, the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) issued an Invitation to Comment (ITC) on *Revenue from Non-Exchange Transactions (including Taxes and Transfers)*. In April 2003, PSAB approved a project proposal on revenue that will leverage and build on the work being done on this topic by the PSC. PSAB is asking its Associates group to provide input to the PSC on the proposals in its ITC - input that will also be useful for the Canadian project.

The CICA PSA HANDBOOK does not currently include a definition of revenue for governments though a general revenue recognition principle is included in the general standards of financial statement presentation for both senior and local governments.

The Handbook has specific Sections regarding restricted assets and revenues (Section PS 3100) and government transfers (Section PS 3410 - which is currently being revised – see *Government Transfers* above).

However, the existing standards do not specifically address many other types of government revenue, such as income and property taxes. This project will address the gap.

PSAB is closely monitoring the international proposals and, where appropriate, ensuring that the final Canadian standards are consistent.

Accounting in Senior Government Budgets – Research Report

The objective of this study is to provide a “state of the union” comparative and descriptive look at the accounting bases and policies used by Canadian federal, provincial and territorial governments in their budgets and appropriations as compared to their summary financial statements. The accounting relationships between these three sets of documents and how the budgets are reconciled to the financial statements in order to provide the budget to actual comparisons required by the CICA PSA Handbook would be key issues.

The information garnered from this research could be used as the basis for additional research on consolidated accrual budgeting.

The study is continuing and is expected to be published in 2004.

NEW PROJECTS

The first three projects listed below were approved by PSAB in April 2003 and were briefly introduced and discussed in the June 25, 2003 Canada country report. Recruitment for task force members for each project is almost completed. The segmented reporting project was approved by PSAB in January 2004 and is discussed further below.

Local Government Financial Statement Reporting Model
Financial Instruments
Performance Reporting

Segmented Reporting

This project will focus on disclosure of additional information about segments of the government reporting entity in the summary financial statements of governments. The objective of requiring disclosures on governmental segments is to help users of financial statements better understand the different types of activities that government engage in.

20 Questions on Government Financial Reporting

A brochure on government financial reporting, a copy of which is attached, is being distributed across federal and provincial governments to help explain financial statements. Also attached is a presentation made by the Auditor General of Canada.



DATE: 5 February 2004

MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE

FROM: Greg Schollum
NEW ZEALAND REPRESENTATIVE

SUBJECT: UPDATE ON RECENT DEVELOPMENTS IN NEW ZEALAND

Introduction

This memorandum updates Members of the IFAC Public Sector Committee (PSC) on recent developments in New Zealand, specifically relating to:

- Generally Accepted Accounting Practice;
- Auditing and Professional Standards;
- Central Government;
- Local Government; and
- Other Developments.

Generally Accepted Accounting Practice

Adoption of International Standards in New Zealand

The Financial Reporting Standards Board (FRSB) continues working to convert IASB standards into new set of NZ standards. A list of all exposure drafts issued for comment is included at Appendix 1. The following table summarises FRSB progress to date.

EDs of IASs issued	20
EDs of NZ IFRSs/NZ IFRICs issued	10 ¹
Other NZ specific EDs/ITC issued	4 ²
EDs of IASs yet to be issued	13 ³

¹ Including the ED on *Proposed amendments to IAS 39: Financial Instruments: Recognition and Measurement - Fair value hedge accounting for a portfolio hedge of interest rate risk*.

² ED FRS 34A, ED FRS 35A, ITC Proposed Amendments to FRS-29 and ED Guidance Notes on Application of GAAP by Trusts.

³ Including the IASB Preface and IASB Framework documents.

The Accounting Standards Review Board (ASRB) decided that NZ should continue to develop standards that apply to all sectors. In adopting IFRS/IAS one of the main issues is the extent to which additional material is required in order to ensure that IFRS/IAS can be applied by public benefit entities. The FRSB has established a number of working groups to assist it in adopting IFRS/IAS in the New Zealand environment.

- Conversion Working Group.

The Group is chaired by Ken Warren, Chief Accounting Advisor to The Treasury, and a member of the PSC's Non-Exchange Revenue Steering Committee. The Conversion Working Group is considering all IASB standards not being considered by the specialist working groups outlined below.

- Insurance Contracts Working Group

ED FRS-34A: *Life Insurance Activities* (ED FRS-34A) and ED FRS-35: *Financial Reporting of Insurance Activities* (ED FRS-35A) were issued for comment together with the relevant discussion papers. The comment period has now closed and these standards are expected to be issued/approved by the FRSB in May 2004 and submitted to the ASRB in June 2004.

The main issue with the Insurance suite of standards, in particular with IASB ED 5, is the corresponding Australian position on the issues. Given the close relationships between the Australian and New Zealand Insurance industries the group is keen to have a clear view of what the Australians plan to do before it subjects NZ IFRS 5 through the approval process.

- Business Combinations Working Group (BCWG)

The BCWG is working on the following standards:

- NZ IFRS ED 3 *Business Combinations* (Issued December 2002)
- NZ IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (ED expected February 2004)
- NZ SIC 12 *Consolidation – Special purpose entities* (ED expected February 2004)
- NZ IAS 28 *Accounting for Investments in Associates* (ED expected February 2004)
- NZ IAS 31 *Financial Reporting of Interests in Joint Ventures* (ED expected March 2004)

The BCWG is also dealing with the on-going IASB projects on Business Combinations Phases II and III and contributing to those projects.

The June 2004 deadline for having the three NZ IASs (NZ IAS 27, 28 and 31) in place will be tight. There are issues relating to how much of existing FRS and IPSAS material to incorporate into the proposed NZ IASs, the extent to which public benefit issues are addressed in the proposed NZ IASs and the extent to which the scope of a SIC can be extended. There are also other difficult issues to deal with, for instance, the concept of “control”.

- Financial Instruments Working Group

This working group is considering the financial instruments and related standards:

- IAS 32 *Financial Instruments: Disclosure and Presentation* (ED expected Feb 2004)
- IAS 39 *Financial Instruments: Recognition and Measurement* (ED expected Feb 2004)

- IAS 21 *The Effects of Changes in Foreign Exchange Rates* (ED issued December 2003)
- IAS 29 *Financial Reporting in Hyperinflationary Economies* (ED issued December 2003)

There are unlikely to be any significant changes necessary to adopt these standards in New Zealand. New Zealand currently has an equivalent standard to IAS 32, but does not have an equivalent standard to IAS 39. A significant effort will be required to educate constituents on the requirements of IAS 39. The FRSB plans to issue exposure drafts in February 2004.

▪ Tax Working Group

The Tax working group is considering IAS 12 *Income Taxes*. Adoption of IAS 12 will significantly change the approach to accounting for income tax in New Zealand. The main focus will be to educate constituents on the new approach. The FRSB will consider a draft ED NZ IAS 12 at its meeting in February.

Auditing and Professional Standards

Auditing Standards

The Professional Practices Board (PPB) is continuing its work on moving to adopt International Standards on Auditing.

Central Government

Crown Consolidation

The method of consolidation within the Crown financial statements has formally changed.

From the introduction of accrual accounting in 1992 to 2002, the Crown financial statements have consolidated all Government departments and the Central Bank and 100% equity accounted state-owned enterprises and Crown entities (for example, schools, universities, hospitals).

As at 30 June 2003, the first audited set of full line-by-line consolidation of all entities making up the Crown financial statements has occurred (following an amendment to the New Zealand accounting standard on combinations).

Full line-by-line consolidation was first published in the 2002 Budget forecasts (May 2002) to establish budgets and comparatives.

Treasury Guidance

Recent Treasury Guidance available on Treasury's website (www.treasury.govt.nz) includes updated Valuation Guidance for Property, Plant and Equipment including specialised items in the Health and Education sectors (March 2003) and An Overview of Crown Reporting Requirements (January 2004) which provides an overview of the reporting requirements of government sub-entities.

Public Finance Act Update

An amendment to the Public Finance Act was presented to Parliament in September. The main aims of the amendment are to provide additional flexibility to the public service and to establish clearer governance arrangements for government entities. Provisions in the Act regarding accrual accounting remain unchanged.

Adoption of IFRS

The Government has announced that it will produce forecast and actual Crown financial statements in accordance with NZ IAS/NZ IFRS from 2007 (first audited set 30 June 2008). Until that date, the Government will continue to comply with NZ GAAP represented by the sector-neutral standards produced by the single New Zealand accounting standard setter.

Local Government

No developments to report.

Other Developments

Sustainable Development Reporting (SDR)

The Institute of Chartered Accountants has established a Sustainable Development Reporting Committee (SDRC) to lead the work program outlined in the report of the SDR Taskforce.

Work on the development of two research bulletins (covering preparation of SDR reports and verification) is continuing.

If you have any questions about any of these matters please feel free to raise any issues with me.

A handwritten signature in dark ink, consisting of a stylized 'G' followed by a horizontal line.

Greg Schollum
NEW ZEALAND REPRESENTATIVE

Appendix 1

Adoption of IASB Standards: Exposure Drafts Issued to Date:

- IASB Exposure Draft 6 Exploration for and Evaluation of Mineral Resources (IASB ED 6)
- IFRIC Draft Interpretation D4 Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC Draft Interpretation D3 Determining whether an Arrangement contains a Lease
- ED NZ IAS 21: The Effects of Changes in Foreign Exchange Rates and NZ SIC-7 Introduction of the Euro
- ED NZ IAS 29: Financial Reporting in Hyperinflationary Economies
- ED NZ IAS 18: Revenue
- ED NZ IAS 38: Intangible Assets
- ED NZ IAS 36: Impairment of Assets
- ED NZ IAS 34: Interim Financial Reporting
- ED NZ IAS 16: Property, Plant & Equipment
- ED NZ IAS 19: Employee Benefits/ED-95: Employee Benefits
- ED NZ IAS 11: Construction Contracts
- ED NZ IAS 14: Segment Reporting
- Exposure Draft Guidance Notes on the Application of Generally Accepted Accounting Practice by Trusts
- ED NZ IFRS 1: First-time Adoption of International Financial Reporting Standards
- ED FRS-35A: Financial Reporting of Insurance Activities
- ED FRS-34A: Life Insurance Activities
- Proposed International Public Sector Accounting Standard: ED 23 Impairment of Assets
- ED NZ IAS 17 Leases, ED NZ SIC-15 Operating Leases — Incentives, and ED NZ SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease
- ED NZ IAS 40: Investment Property
- ED NZ IAS 33: Earnings Per Share
- IFRIC Draft Interpretation D2 Changes in Decommissioning, Restoration and Similar Liabilities
- ED Proposed Amendments to IAS 39: Financial Instruments: Recognition and Measurement — Fair value hedge accounting for a portfolio hedge of interest rate risk
- ED NZ IASB 5: Insurance Contracts
- ED NZ IAS 1: Presentation of Financial Statements and ED NZ SIC-29 Disclosure Service Concession Arrangements
- ED NZ IAS 23: Borrowing Costs
- ED NZ IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- ED NZ IAS 2: Inventories
- ED NZ IAS 7: Cash Flow Statements
- ED NZ IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- ED NZ IAS 10: Events After the Balance Sheet Date
- IASB ED 4: Disposal of Non-current Assets and Presentation of Discontinued Operations
- IASB ED-94/ED 3: Business Combinations
- ED-93: Share-Based Payment

All EDs are be posted to the Institute's website at www.icanz.co.nz.

Exposure drafts to be issued:

- IAS 26 *Accounting and Reporting by Retirement Benefit Plans*
- IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*

Country Report – Norway

Medio December the Parliament approved the Draft from the Government to introduce accrual accounting in the Central Government and its agencies. This does not mean that it will be an immediate and total switch to accrual accounting. Both the Parliament and the Government want to have a change step by step starting with areas (reporting entities?) where accrual accounting will have largest impact. Fixed assets like properties, roads and railways and long term liabilities like employees pension liabilities are mentioned as examples on items where it would be of large interest to account for under accrual accounting.

The consolidated financial statements of the Central Government will not be prepared on an accrual basis, neither will the Budget nor Budget decisions.

It is not said what kind of accounting standards that should be the basis for accrual accounting in central government (national private sector standards, IPSAS, nationally developed public sector standards or others). The Government has 1. January 2004 established a new agency with the responsibility for preparing financial statements. Whether this new agency also will set the accounting standards, is not known.

The financial statements for municipalities are not part of the reform. But the parliament has observed that there could be the same reasons to change to accrual basis of accounting in municipalities as in central government. It is assumed that a change to accrual accounting will be considered also in this sector.



COUNTRY REPORT FOR THE IFAC PSC

SOUTH AFRICA

January 2004

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1. Accounting Standards Board (ASB)

The ASB commenced its review of the comment letters received on the following documents:

- Preface to the Standards of Generally Recognised Accounting Practice
- Presentation of Financial Statements
- Cash Flow Statements
- Accounting Policies, Changes in Accounting Estimates and Errors

Board Members: Ms Z Bassa, Mrs M Brown, Mr R Cottrell, Ms B Hogan,
Mr S Kana, Dr L Konar, Mr I A Mamoojee, Mr J J Njeke, Mr T Nombembe, Mr I Sehoole

It was agreed that the draft on Presentation of Financial Statements and the draft on Accounting Policies, Changes in Accounting Estimates and Errors be re-issued for a limited re-exposure. The other two documents were approved for issue. The limited re-exposure will result in the board re-considering those papers at the April meeting and it is anticipated that the standards would be approved for issue at that meeting.

The following exposure drafts are open for comment:

<i>Title</i>	<i>Comment Date:</i>
Framework For the Preparation and Presentation of Financial Statements	15 February 2004

The following exposure drafts were issued for use by local government as an interim measure until the Board has considered each subject:

- Preface to statements to gamap
- The effects of changes in foreign exchange rates
- Consolidated financial statements and accounting for controlled entities
- Accounting for investments in associates
- Financial reporting of interests in joint ventures
- Revenue
- Inventories
- Property, plant and equipment
- Segment reporting
- Provisions, contingent liabilities and contingent assets
- Proposed transitional guidance on the implementation of the statement of GRAP on presentation of financial statements

The Board will be considering the comments received at its February meeting.

2. Auditing Standards Committee

The following exposure drafts based on exposure drafts issued by the International Audit and Assurance Board, applicable to audits in the private and public sectors are open for comment:

<i>Title</i>	<i>Comment Date:</i>
IFAC ED Group Audits	15 March 2004
IFAC ED ISA 700	15 March 2004

3. South African Institute of Chartered Accountants (SAICA)

The following exposure drafts are open for comment:

<i>Title</i>	<i>Comment Date:</i>
ED 173 Decommissioning Restoration and Environmental Rehabilitation Funds	4 March 2004
ED 172 Determining when an Arrangement Contains a Lease	4 March 2004
ED 171 Exploration for and Evaluation of Mineral Resources	1 April 2004

4. Ministerial Panel for the Review of the Draft Accountancy Profession Bill

The Panel charged with the responsibility to review the regulation of accountants and auditors released their report on 30 September 2003. Their key findings were:

Background

- The Panel has considered the matters based upon an overriding intention to advance and maintain the probity of financial markets.

- It has been recognised that there is an inherent potential conflict, which exists as a consequence of the appointment of auditors being practically controlled by directors although the auditor's true client is the shareholder body with whom the auditor normally has no direct contact. This is an important concern, which has underpinned many of the recommendations made.
- It is necessary that steps be taken to enhance the regulatory framework relating to accountability of directors and the appropriate corporate governance practices pertaining to companies and auditors.

Regulatory Framework

- The Accountancy Profession Bill should be renamed the Auditors' Act as it should deal solely with the auditing profession. Statutory regulation of those involved in accounting functions as contemplated in the Bill is considered impractical and unnecessary at the present time.
- The new regulatory body contemplated should subsume the Public Accountants' & Auditors' Board and be properly empowered to overcome certain inadequacies in existing legislation.
- In order to ensure proper factual and perceived independence, auditors should comprise a minority of the members of the board of the regulatory body controlling the audit profession.
- Since the regulatory body controlling the auditing profession will not be controlled by auditors and will require to be properly resourced, it will be necessary that all stakeholders and in particular government, provide funding for that body.
- The disciplinary arm of the regulatory body controlling the audit profession is a matter of particular concern. The disciplinary body should be chaired by a retired Judge or senior counsel and legislation should provide for the proper empowerment for investigative procedures including the power of subpoena to compel the production of documents and the rendering of evidence.

- The legislation should provide for the mandatory de-registration of auditors in respect of findings relating to fraud or other serious dishonesty.
- An auditor should be statutorily obliged to report to the regulatory body any false representations or material non-disclosures by executive management and the regulatory body should be properly empowered to disclose such information to relevant parties if considered in the public interest.
- A proper review needs to be performed in order to resolve the disjuncture, which exists between the Accountancy Professions Bill, the Financial Reporting Bill and the Companies Act to ensure more efficient and effective corporate governance and a single arm of government to deal with such issues.

Audit committee

- The establishment of audit committees comprised exclusively of independent non-executive directors should be made mandatory for all listed and other relevant entities.
- Audit committees should not be considered as a panacea for all corporate ills and it must be recognised that there are practical limitations as to what can be achieved by an audit committee. The existence of an audit committee should not be used as exculpatory by directors of their responsibility to apply their minds properly in relation to the relevant issues.
- Matters concerning the appointment of auditors and the approval of audit fees should lie exclusively within the power of the audit committee. Other statutory responsibilities of the audit committee should include a consideration of all financial reports issued by an entity, the independence of the auditor and setting parameters for non-audit services, which may be conducted by the external auditors. Outside of the appointment and fees issues, the audit committee should have no executive authority or exclusive responsibility. It is not considered practical to limit the non-audit

services offered or performed by an auditor to an entity statutorily. The nature and extent of such services is a matter, which specifically requires consideration and pre-approval of the audit committee.

- It is not considered efficient to introduce statutory term limits for auditors or statutory auditor rotation as these are practical resource constraints and it is unlikely that such legislation would achieve its desired objective, as is evident from international experience in this regard. The specific consideration of the independence of auditors by an audit committee should particularly cover matters pertaining to the continued relationship with an existing audit firm and, importantly, the length of time which a particular audit partner / audit team may conduct the audit of an entity.
- Relevant legislation must be amended to require a formal report back from an audit committee in the annual financial statements dealing with the matters addressed by the audit committee.

Accountability

- Legislation should be amended to require the auditor to be statutorily obliged to meet at least once per annum with the full board of listed and other relevant entities to discuss matters of relevance in relation to the financial statements and affairs of the company.
- Legislation should be amended in order to preclude the appointment of an auditor who has any financial interest in the entity being audited.
- Legislative amendments are required to make it a statutory offence for an auditor who knowingly or recklessly reports on financial statements.
- The existing civil remedies against negligent auditors are considered adequate. The utilisation of the existing provisions relating to the establishment of a fund to compensate parties suffering loss as a consequence of audit negligence needs to be explored, particularly for parties that are financially inhibited from launching a civil action.
- Appropriate legislation should be introduced to make it a statutory offence for executive management who make false representations or material non-disclosures to auditors.

- Appropriate legislation should be introduced to provide for a statutory offence for all parties who are knowingly party to the preparation or presentation of financial statements which fail to fairly present (including those who may assist in that process thus including advisers, merchant bankers and others).
- The reporting deadline for listed and other relevant entities should be shortened so that the financial statements must be issued within 4 months of the financial year end, in accordance with international norms.

Internal audit

- Matters concerning internal auditing lie appropriately with the audit committees and cannot sensibly be legislated. Having regard to the nature of the internal auditing function, no regulation of internal auditing is considered practical or necessary.

The comment period has now closed and we are awaiting the final report.

United States Country Report Prepared February 2004

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

Technical Release 3. In January 2004, the FASAB (based on the recommendation of its Accounting and Auditing Policy Committee) issued Statement of Federal Financial Accounting and Auditing Technical Release 3 (TR3), *Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*. TR3 amends the guidance in the previous TR3 for auditors to audit credit subsidy estimates. The most significant changes made in the amended TR3 are (1) the removal of the guidance for the preparation of credit subsidy estimates to only include audit guidance and (2) procedural changes updating the document to reflect the new guidance and changes in terminology in the area of credit reform. The guidance in TR3 is effective immediately.

Technical Release 6. In January 2004, the FASAB (based on the recommendation of its Accounting and Auditing Policy Committee), issued Federal Financial Accounting and Auditing Technical Release 6 (TR6), *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*. The purpose of TR6 is to amend the implementation guidance for agencies to prepare and report credit subsidy estimates provided in the original TR6. The most significant changes made in the amended TR6 are (1) the removal of the audit guidance to only include guidance for preparation of credit subsidy estimates; (2) clarification of OMB's role in the credit subsidy estimation and re-estimation process; and (3) credit subsidy re-estimates may now include 6 months of actual data and 6 months of projected estimates. The guidance in TR6 is effective immediately.

Earmarked Funds Exposure Draft. In October 2003, the FASAB issued a proposed standard, *Identifying and Reporting on Earmarked Funds*. The proposed standard defines earmarked funds as being financed by statutorily dedicated revenues, often supplemented by other financing sources, which remain available over time. These dedicated revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the government's general revenues. The proposed standard would require that the financial statements of component federal entities show separately the portion of cumulative results of operations attributable to earmarked funds. At the government-wide reporting level the financial statements would show separately the net position attributable to earmarked funds.

Recent Activity of the Governmental Accounting Standards Board (GASB)

GASB Statement No. 42. In November 2003, the GASB issued Statement No. 42 titled, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Statement 42 requires governments to evaluate major events affecting capital assets to determine whether they are impaired. Those events include physical damage,

changes in legal or environmental factors, technological changes or obsolescence, changes in manner or duration of use and construction stoppage. Impairment is measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment. Several disclosures are required that will assist users of financial statements in understanding the nature and impact of impairment of capital assets. Statement 42 also includes guidance on accounting for insurance recoveries. It is effective for financial statements for periods beginning after December 15, 2004.

Tobacco Exposure Draft. In January 2004, the GASB issued a proposed Technical Bulletin (TB) titled, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. The proposed TB clarifies asset and revenue recognition guidance for tobacco settlement transactions, including payments made to settling governments pursuant to the 1998 Master Agreement between major tobacco companies and state governments (settling governments). In addition, the proposed TB would clarify guidance on whether a tobacco settlement authority (TSA) is a component unit of the government that created it. TSAs are legally separate entities created by settling governments to issue debt to obtain the rights to all or a portion of the settling government's future tobacco settlement resources.

OPEB Exposure Draft. In January 2004, the GASB issued a proposed standard titled, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This proposal is a re-exposure of a previous exposure draft of the same title (originally issued in February 2003). The main reason for the re-exposure relates to the treatment of "implicit rate subsidies." The original ED stated that if retirees pay 100% of the average premium for both retirees and current workers, without a direct contribution from the employer on their behalf, the employer would not have to treat the implicit rate subsidy as an OPEB cost. After considering the comments received on the original ED, the GASB has tentatively decided that implicit rate subsidies should not be exempted from a government's calculation of its OPEB costs and obligations, because exempting such subsidies could significantly understate those costs and obligations.

GASB Statement 40 Implementation Guide. In September 2003, the GASB issued an Implementation Guide titled, *Guide to Implementation of GASB Statement 40 on Deposit and Investment Risk Disclosures*. The Guide addresses implementation questions that have been posed to GASB staff regarding the application of Statement 40, *Deposit and Investment Risk Disclosures*.

Recent Activity of the Financial Accounting Standards Board (FASB)

FASB Statement No. 132 Revision. In December 2003, the FASB issued a revision to FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The revision retains the required disclosure of the previous Statement No. 132, and adds several additional requirements. The revision does not change how companies must measure or recognize postretirement benefit obligations. Further, it applies to defined benefit pension plans and other postretirement benefits, but

does not apply to defined contribution plans or multi-employer plans. The revised Statement 132 requires, among other things, a disclosure of a breakdown of plan assets held in equity securities, debt securities, real estate, and other assets and a description of the plan's investment strategies, policies, and target investment allocations. The guidance is effective for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003.

Convergence Exposure Drafts. In December 2003, the FASB issued four exposure drafts to propose several changes to existing U.S. accounting rules to bring them in line with global accounting standards. The EDs propose the following accounting requirements:

- Voluntary changes in accounting policies would be required to be applied by retrospective application rather than by cumulative effect adjustment as currently required.
- Three changes to the calculation of earnings per share;
- Asset exchanges that would require a gain or loss to be recognized on the exchange of similar productive assets based on the fair value of the exchange unless the exchange lacks commercial substance; and
- Unusual ("abnormal") amounts of idle capacity and spoilage costs would be excluded from the cost of inventory and expensed as incurred.

An additional proposed standard on the classification of liabilities is expected in the near future.

Revision to Interpretation 46. In December 2003, the FASB issued a revision to FASB Interpretation 46, *Consolidation of Variable Interest Entities*. In the revision, FASB clarifies some provisions of the Interpretation and exempts certain entities from its requirements. Under the new guidance, special effective date provisions apply to enterprises that have fully or partially applied Interpretation 46 prior to issuance of the revised Interpretation. Otherwise, application of the revised Interpretation is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of variable interest entities is required in financial statements for periods ending after March 15, 2004. Application by small business issuers to variable interest entities other than special-purpose entities and by nonpublic entities to all types of variable interest entities is required at various dates in 2004 and 2005. In some instances, enterprises have the option of applying or continuing to apply Interpretation 46 for a short period of time before applying the revised Interpretation.

FASB Staff Positions. The following final staff positions were issued since September 2003:

- Accounting and Disclosure Requirements Related to Medicare Prescription Drug, Improvement and Modernization Act of 2003
- Exclusion of Certain Decision Maker Fees from Paragraph 8(c) of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*
- Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions about an Entity's Activities through

Voting Right or Similar Rights under FASB Interpretation No. 46, Consolidation of Variable Interest Entities

- Effective Date of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*
- Whether FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value
- Determination of Cost Basis for Foreclosed Assets under FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, and the Measurement of Cumulative Losses Previously Recognized under Paragraph 37 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
- Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*
- Accounting for Mandatorily Redeemable Shares Requiring Redemption by Payment of an Amount that Differs from the Book Value of Those Shares, under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*
- Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*
- Issuers' Accounting for Employee Stock Ownership Plans under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*

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

SOP 03-3. Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer is generally effective for loans acquired in fiscal years beginning after December 15, 2004. The SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired in business combinations and applies to all nongovernmental entities, including not-for-profit organizations. The SOP does not apply to loans originated by the entity.

SOP 03-4. In December 2003, AcSEC issued SOP 03-4, Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships. The SOP provides guidance on reporting financial highlights and schedule of investments by nonregistered investment partnerships. The SOP is effective for annual financial

statements issued for fiscal years ending after Dec. 15, 2003, and for interim financial statements issued after initial application. However, the provisions that require certain nonregistered investment partnerships to compute and disclose internal rate of return would be effective for annual financial statements issued for fiscal years beginning after December 15, 2003 with early application encouraged.

SOP 03-5. In December 2003, AcSEC issued SOP 03-5, *Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide Audits of Investment Companies*. The SOP provides guidance on reporting financial highlights by separate accounts of insurance enterprises. This SOP is effective for annual financial statements issued for fiscal years ending after December 15, 2003, and for interim financial statements issued after initial application. Presentation of previously issued financial highlights on a comparable basis is permitted, but not required. The provisions of this SOP should be applied prospectively from the beginning of the year of adoption. However, if adopting this SOP results in presentation different from prior periods, companies should explain the effects of adoption on their financial highlights calculations.

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

The PCAOB has issued the following proposals and Final Rules since September. Additional information on these items can be found on the PCAOB web site at www.pcaobus.org.

- Release No. 2003-026: Technical Amendments to Interim Standards Rules (Final Rule)
- Release No. 2003-025: References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board (Final Rule)
- Release No. 2003-024: Oversight of Non-U.S. Firms (Proposed)
- Release No. 2003-023: Audit Documentation and Proposed Amendment to Interim Auditing Standards (Proposed)
- Release No. 2003-019: Inspections of Registered Public Accounting Firms (Final Rule)
- Release No. 2003-018: Certain Terms Used in Auditing and Related Professional Practice Standards (Proposed)
- Release No. 2003-017: Audits of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements (Proposed)
- Release No. 2003-016: Withdrawal from Registration (Final Rule)
- Release No. 2003-15: Investigations and Adjudications (Final Rule)