

REPORT ON DISCLOSURE AND ACCOUNTING

TECHNICAL COMMITTEE OF IOSCO



**REPORT OF THE
TECHNICAL COMMITTEE OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS**

October 1994

Report of the Chairman of Working Party No. 1
IOSCO Technical Committee
Disclosure and Accounting
IOSCO Annual Meeting - Tokyo

Working Party No. 1 and its Subcommittee on Accounting and Auditing have focused their efforts for the last year on international accounting standards and international auditing standards. Significant progress has been made in the area of international accounting standards. In the area of international audit standards, on the other hand, developments have been disappointing.

International Accounting Standards

The goal of the Working Party's efforts in the International Accounting Standards area is the implementation of the second recommendation included in the Working Party's 1989 Report on Cross Border Equity Offerings. That recommendation, which was endorsed by IOSCO at its Annual Meeting in Santiago, Chile November 1990 stated:

"A critical factor in the evolution of reliance on a single disclosure document is the acceptability of financial statements in multiple jurisdictions. Development, or recognition, of adequate internationally acceptable accounting, auditing and independence standards would greatly facilitate the development of the use of a single disclosure document."

The Working Party's plan of work, ratified by the Technical Committee in June 1993, provides for the Working Party to:

1. continue to review and comment on each international standard during each phase of its development by the IASC.
2. identify for the IASC those standards that will be reviewed by the Working Group in determining whether it can recommend to the Technical Committee that there is an acceptable comprehensive body of International Accounting Principles that could be used in cross-border offerings. The goal would be to enumerate those standards for the IASC no later than the end of 1993.
3. advise the IASC of the Working Party's views with respect to each standard as finalized. The view will be determined by consensus. If there is not a consensus on a final standard, the Working Group would not express a view on the final standard, but would

transmit to the IASC opinions expressed in the meeting, that will be considered in finalizing standards by the IASC. The timing will be dictated by the IASC.

4. upon the IASC's completion of the comprehensive body of standards identified as indicated in paragraph (2), to advise the Technical Committee as to the Working Party's recommendation with respect to the use of such standards in cross-border offerings.

Thus, a recommendation by the Working Party to endorse IASC standards will be based on a consideration of a comprehensive body of core accounting standards.

By letter dated August 16, 1993 to the IASC, the IOSCO Working Party identified those core standards it found to be necessary components of a comprehensive set of international accounting standards.

Over the last year, the Working Party has reviewed the current International Accounting Standards to assess the acceptability of each standard for purposes of cross-border listings and offerings into each of the member regulators home jurisdictions. ^{1/} That review culminated in two letters to the IASC, dated June 17, 1994, advising the IASC of issues that need to be addressed or improved in the International Accounting Standards before the Working Party could consider recommending the use of International Standards in cross-border listings and offerings.

The letters divided the issues into three categories:

- o essential issues - those issues that required a solution prior to any endorsement.
- o suspense issues - issues that are encountered infrequently, often are complex and may be particularly difficult to resolve. Rather than delaying an endorsement until these narrower issues are resolved, the issues would be put into suspense; if there were an endorsement the suspense items could be dealt with by member countries in several ways: members could simply accept the

^{1/} The Working Party had earlier reviewed IAS 7 - "Cash Flow Statement" as revised and advised the IASC that it would recommend its endorsement to the Technical Committee. IOSCO endorsed use of the standard in cross-border listings and offerings at its 1993 Annual Meeting in Mexico City.

international standard with no reservation, accept the issuer's home country treatment or require specific host country treatment or equivalent disclosure.

In addition, there are several suspense issues that represent various member countries reservations about the need for certain IAS reconciling disclosures to benchmark treatments.

- other issues and long-term projects:

These items identify areas where the Working Party believe improvement could be made to IASs, but that do not need to be addressed before the Working Party would consider an endorsement of the standards.

The letters also reiterated those areas not subject to existing standards that need to be addressed in the core standards before an endorsement could be considered.

The Working Party distinguished in its analysis between those standards that were the subject of the E32 Improvement Project and the remaining existing IASs. As to the 10 standards included in the Improvement Project, the Working Party identified only two as to which there were essential issues that needed to be addressed.

IAS 9 - Research and Development Costs

The Working Party took issue with the standard on the provisions governing capitalization of development costs

IAS 19 - Retirement Benefit Costs

This standard is already on the IASC's work plan for further improvement. The Working Party concurred on the need for further improvement.

As to the 14 other existing IASs, the Working Party identified 8 standards with essential issues, 5 of which the IASC already has put on its work agenda for improvement, specifically:

IAS 1, 5 and 13 - Presentation of Financial Statements

A Draft Statement of Principles is being developed by the IASC.

IAS 10 - Contingencies

IAS 12 - Accounting for Income Taxes

The IASC currently has an Exposure Draft out for comment.

IAS 14 - Reporting Financial Information by Segment

The IASC has a Draft Statement of Principles out for comment.

IAS 17 - Accounting for Leases

IAS 25 - Accounting for Investments

The IASC financial instruments project will affect this standard.

Items not covered by existing standards but identified by the Working

Party as essential components of the core standards are:

- financial instruments

The IASC currently has E48 out for comment.

- intangible assets

The IASC currently has a Draft Statement of Principles out for comment.

- earnings per share

The IASC currently has a Draft Statement of Principles out for comment.

- employee benefits

- interim reporting

- discontinued operations

- hedging for commodities

The Working Party also formally commented generally on the IASC's Draft Statement of Principles on Intangible Assets by letter dated June 17, 1994. Among other issues, the letter raised concerns about the issues that

would result from the difference between the provisions governing goodwill amortization in IAS 22 and a standard on intangibles that permits useful lives for intangibles in excess of 20 years.

The Working Party is continuing its review of E48 - Financial Instruments, and has commenced consideration of the appropriate disclosure of derivative transactions. Work in this area is being coordinated with the efforts on derivatives in Working Party No. 2 - Regulation of Secondary Markets - and Working Party No. 3 - Regulation of Market Intermediaries - of the Technical Committee.

The Working Party will continue to work closely with the IASC through the development of new standards and improvement of existing standards. 2/
International Auditing Standards

The Working Party spent considerable time analyzing the IAPC's Codification of International Standards on Auditing. The codified standards replace the body of standards provisionally endorsed by IOSCO at its 1992 Annual Meeting in London. As the codified standards replace the old standards, the provisional endorsement is no longer effective, and it is necessary to evaluate the codified standards to determine whether the Working Party would be able to recommend an endorsement of the new codified standards.

As I reported at the last Annual Meeting in Mexico City, the codification introduced the use of blacklettering into the standards. The blacklettering is used in the codification to distinguish between those items that are "basic principles and essential procedures" and those that constitute guidance. The Working Party advised the IAPC by letter dated October 25, 1993 that:

"the introduction of blacklettering in its present form and certain other changes proposed to be made to the existing ISAs would change

2/ Copies of the correspondence referred to above are attached behind Tab A.

substantively the standards that were considered by IOSCO in connection with its previous movement toward endorsing the ISAs for cross-border offerings and listings.

As a result of these changes, the Working Party advised the IAPC that it would not recommend the final endorsement of the ISAs, if the codification was adopted by the IAPC in the form proposed for comment. The Working Party identified specifically all those additional items that it believed should be blacklettered, if blacklettering was to be retained.

A series of meetings of representatives of the Working Party and Subcommittee and IAPC took place following the letter. It became clear during these meetings that there was a substantive difference of views as to what constituted basic principles and essential procedures.

The IAPC at its June 1994 meeting, adopted the codification largely as proposed. Those items identified by the Working Party as necessary to be blacklettered if blacklettering were retained were largely left out of the blacklettering.

The Working Party did not recommend to the Technical Committee that the codified standards be endorsed for use in cross-border offerings and listings at its meeting this week. I do not expect that the Working Party will reach a consensus and recommend such an endorsement, given that some of the Working Party members who have completed their assessment of the standards have concluded that they would not support an endorsement.

The developments over the last year are very disappointing. Considerable amounts of work and effort by IOSCO and the IAPC went into the amendments to the international audit standards that led to the provisional endorsement of 1992. At a time of increased cooperation between the IASC and

IOSCO and progress in improving international accounting standards, the experience in the audit area is particularly disheartening. 3/

Disclosure

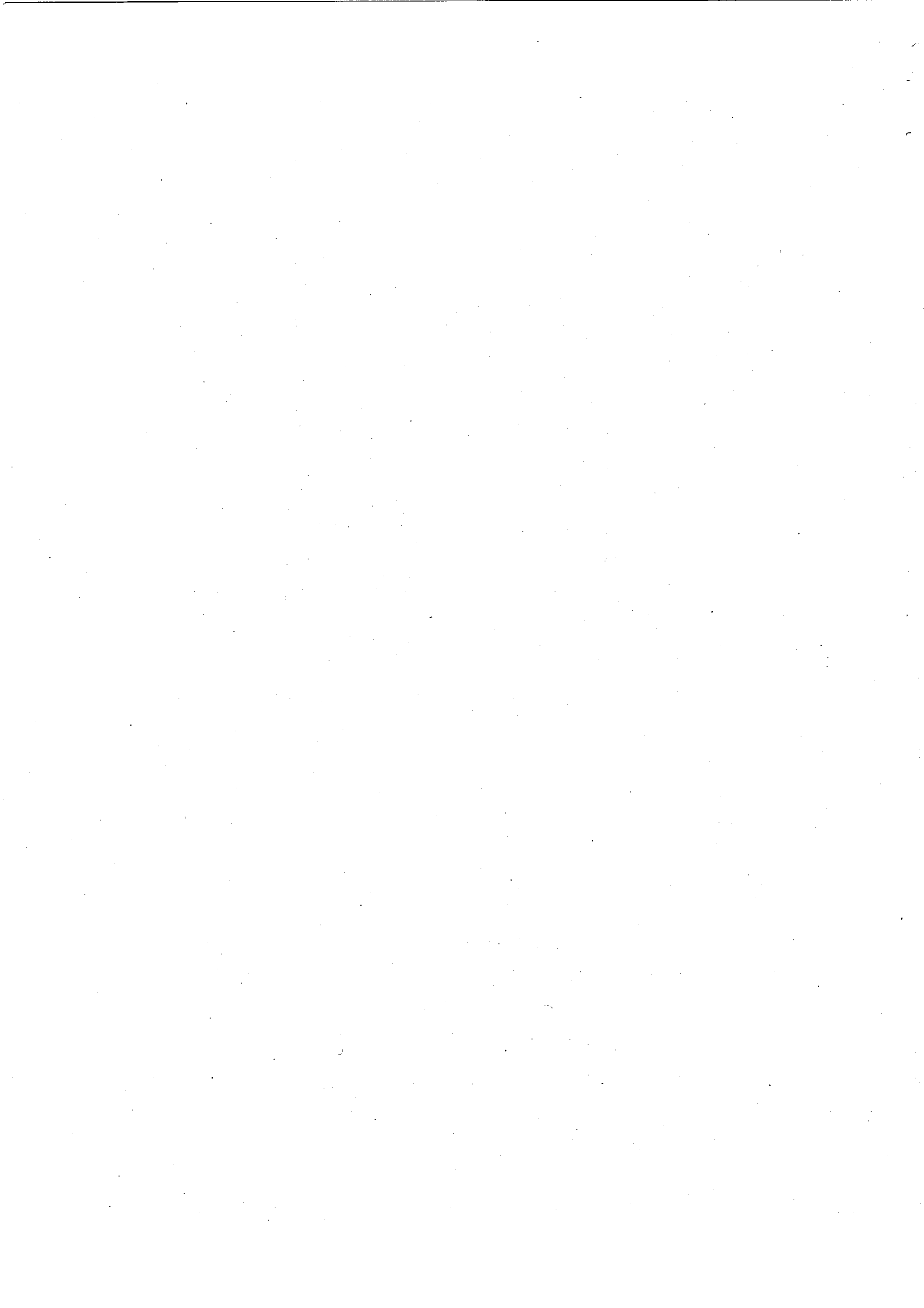
The Working Party focused most of its efforts over the past year on accounting and auditing issues. At its meeting this past week in Tokyo, it resumed its work on disclosure issues. The Working Party has set out to develop disclosure recommendations for facilitating cross-border offerings and listings and continuous disclosure. At its Tokyo meeting, the Working Party began consideration of the following disclosure areas:

- o derivatives
- o business description
- o financial statements
- o management's discussion and analysis

Finally, the Working Party prepared a report of the developments in the Working Party's member jurisdictions that could affect cross-border offerings and listings over the last two years; the report is an update to the 1989 Report on International Equity Offerings. The report is being distributed to attendees of the Annual Meeting.

Attachments

3/ Copies of the correspondence referred to above are attached behind Tab B.



APPENDIX A



August 16, 1993

Mr. Eiichi Shiratori, Chairman
International Accounting Standards
Committee
167 Fleet Street
London EC4A 2E5, England

Dear Mr. Shiratori:

On June 21, 1993, the International Organization of Securities Commissions (IOSCO) Working Party No. 1 on Disclosures and Accounting met in Amsterdam with its Accounting and Auditing Subcommittee to consider the acceptability of IAS 7 (revised 1992), Cash Flow Statements, for purposes of crossborder offerings and listings. On June 22, 1993, the Chairman of Working Party No. 1 reported to the IOSCO Technical Committee that the Working Party had reached a consensus as to the acceptability of the standard for use in crossborder offerings and listings.

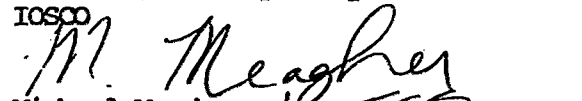
We are pleased to advise you that on the basis of the Working Party's findings, the Technical Committee will recommend that IOSCO endorse IAS 7 for use in crossborder offerings and listings. Of course, any IOSCO recommendation is advisory and the determination to implement a specific recommendation is within the prerogative of each regulatory body as provided in their national laws and legislative or regulatory procedures. We will advise you when this endorsement has been finalized.

We look forward to continuing working with you on developing quality international standards for use in crossborder offerings and listings.

Sincerely,



Linda C. Quinn
Chairman, Working Party No. 1
IOSCO



Michael Meagher
Chairman, Accounting and
Auditing Subcommittee
IOSCO

cc: David Cairns, Secretary General
International Accounting Standards Committee

Members of Working Party No. 1
Members of Subcommittee on Accounting and Auditing



August 16, 1993

Mr. Eiichi Shiratori, Chairman
International Accounting Standards Committee
167 Fleet Street
London EC4A 2E5, England

Dear Mr. Shiratori:

On June 21, 1993, the International Organization of Securities Commission (IOSCO) Working Party No. 1 on Disclosures and Accounting met in Amsterdam with its Accounting and Auditing Subcommittee to consider the necessary components of a reasonably complete set of accounting standards (core standards) that would comprise a comprehensive body of principles for enterprises undertaking crossborder offerings and listings. The objective of establishing core standards is to cover the accounting issues that an enterprise (not in a specialized industry) would likely encounter in preparing its financial statements for use in crossborder offerings and listings. On June 22, 1993, the Chairman of Working Party No. 1 reported to the IOSCO Technical Committee that a Working Party consensus had been reached on the necessary core items.

We thought it would be helpful for your planning purposes to advise you of the conclusion of the Working Party. In brief, the Working Party has determined that the necessary components of a core set of standards should comprise accounting guidance for at least the following:

General

Disclosure of accounting policies
Changes in accounting policies
Information to be disclosed in financial statements

Income Statement

Revenue recognition (including construction contracts)
Production and purchase costs
Depreciation
Taxes
Extraordinary items
Government grants
Retirement benefits
Employee benefits

Research and development
Interest
Impairment (this item may be dealt with in other standards)
Hedging (this item may be dealt with in other standards)

Balance Sheet

Balance sheet impact of income statement items listed above
including deferred income taxes
Property, plant, and equipment
Leases
Inventories
Foreign currency
Investments
Financial instruments/off balance sheet transactions
Joint ventures
Contingencies
Events occurring after the balance sheet date
Current assets and current liabilities
Business combinations (including goodwill)
Other intangibles

Cash Flow

Cash Flow

Other Standards

Consolidated financial statements (including adjustments for
subsidiaries operating in hyper-inflationary economies)
Associated/equity accounting
Segments
Interim reporting
Earnings per share
Related party disclosures
Discontinued Operations
Fundamental errors/changes in estimates

We have attached a copy of the Working Party's Plan of Work that was presented to, and approved by, the Technical Committee. As outlined in the Plan of Work, the Working Party is currently in the process of evaluating existing and proposed IASC accounting standards to determine their suitability as components of the core standards.


Mr. Eiichi Shiratori, Chairman
Page 3

We look forward to continuing working with you on developing quality international accounting standards for use in crossborder offerings and listings.

Sincerely,



Linda C. Quinn
Chairman, Working Party No. 1
IOSCO

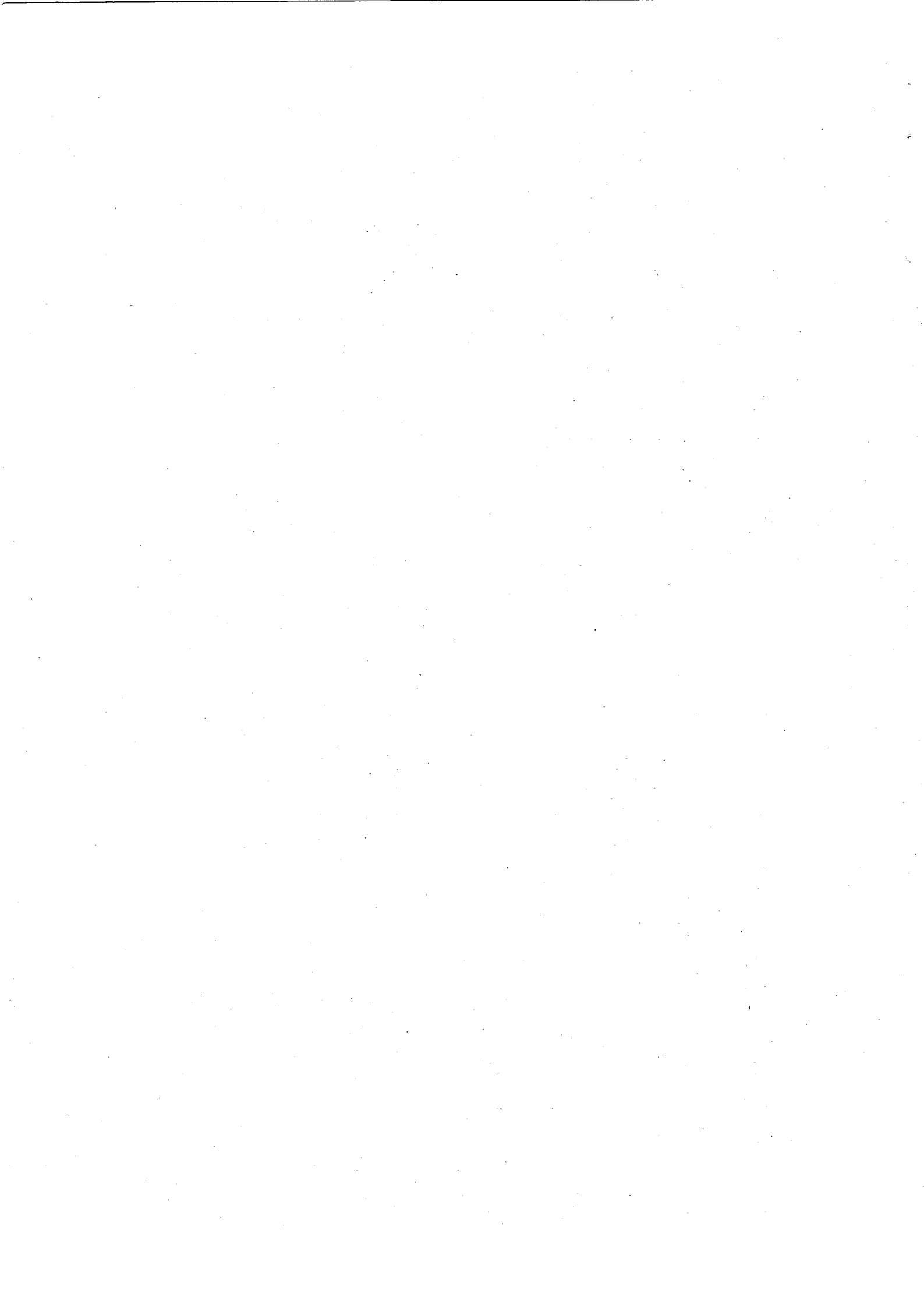


Michael Meagher
Chairman, Accounting and Auditing
Subcommittee
IOSCO

Attachment

cc: David Cairns, Secretary General
International Accounting Standards Committee

Members of Working Party No. 1
Members of Subcommittee on Accounting and Auditing



cc:

IOSCO WORKING PARTY NO. 1

<u>Australia</u>	Stuart Grant
<u>Belgium</u>	Claude Lempereur Martine Nemry
<u>Canada</u>	Pamela Hughes
<u>France</u>	Hervé Philippe
<u>Germany</u>	Herbert Biener Jürgen Oberfrank Susanne Bergsträsser
<u>Hong Kong</u>	Ermanno Pascutto
<u>Italy</u>	Carlo Biancheri
<u>Japan</u>	Nobuhiro Tsunoda
<u>Luxembourg</u>	Charles Kieffer
<u>The Netherlands</u>	Wietse de Jong
<u>Spain</u>	Rafael Sanchez de la Pena
<u>Switzerland</u>	Michel Dérobert
<u>United Kingdom</u>	Barbara Muston Patrick Morton
<u>United States</u>	Sandra Folsom Kinsey

Accounting and Auditing Subcommittee

<u>France</u>	Pierre Chaput
<u>United Kingdom</u>	Geoffrey Mitchell
<u>United States</u>	John Riley Richard Reinhard



April 22, 1993

Plan of Work
Working Party No. 1

Working Party No. 1 has adopted as its plan of work through the 1994 Annual Meeting of IOSCO a three prong program.

International Audit Standards

1. To review and analyse the revised standard on the detection of illegal acts and assess whether the Working Group believes that the revisions to the standard made by the IFAC in response to comment should be endorsed by the Working Group.
2. To review and analyse in detail the proposed codification of the International Audit Standards to determine whether the revisions resulting from such codification require a reconsideration of the merits of each of the Audit Standards.
3. To determine on the basis of its conclusions with respect to the prior two items whether it can advise the Technical Committee that the conditions to the endorsement of IOSCO for the International Audit Standards have been met. The goal would be to advise the Technical Committee of the Working Party's conclusion at the 1993 IOSCO Annual Meeting.
4. To review and comment on the proposed standard on Auditors Report. This standard is new, outside the scope of the prior Working Party analysis.
5. To continue to review revisions and new standards developed by IFAC.

International Accounting Standards

1. To continue to review and comment on each international standard during each phase of its development by the IASC.
2. To identify for the IASC those standards that will be reviewed by the Working Group in determining whether it can recommend to the Technical Committee that there is an acceptable comprehensive body of International Accounting Principles that could be used in cross-border offerings. The goal would be to enumerate those standards for the IASC no later than the end of 1993.

3. To advise the IASC of the Working Party's views with respect to each standard as finalised. The view will be determined by consensus. If there is not a consensus on a final standard, the Working Group would not express a view on the final standard, but would transmit to the IASC opinions expressed in the meeting, that will be considered in finalizing standards by the IASC.

The timing will be dictated by the IASC. Currently, the IASC has finalised one standard - Cash Flow statements, and has scheduled ten standards for final action in November 1993.

4. Upon the IASC's completion of the comprehensive body of standards identified as indicated in paragraph (2), to advise the Technical Committee as to the Working Party's recommendation with respect to the use of such standards in cross-border offerings.

Disclosure and Offering Project

1. Based on the 1991 CADRE Report prepared by the Working Party, to develop disclosure recommendations for facilitating cross-border offerings and continuous reporting. The goal would be to report its recommendations to the Technical Committee at the 1994 IOSCO Annual Meeting.
 - a. Each member of the Working Party will prepare a report on a specific subject matter with a recommendation of a standard for disclosure for both prospectus/listing purposes and for continuous reporting purposes, and an analysis, based on the information in the CADRE Report, of how it will affect companies subject to each of the jurisdictions as to which information is provided in the CADRE report. Each delegation will provide an update of the information in the CADRE report with respect to its jurisdiction at the June meeting in Amsterdam. The report and recommendation will provide the basis for the Working Party's discussion of each disclosure area and its development of a group recommendation.

b. The assignments are as follows:

- | | | |
|-------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Italy | - | Description of Business
General Development of Business |
| Japan | - | Industry Segments and Subsidiaries
Financial Information About Foreign and Domestic Operations and Export Sales |
| Canada | - | Description of Property
Legal Proceedings
Taxation |
| France | - | Information About a Company's Stock
Security Ownership |
| Australia | - | Description of Matters Submitted to Vote of Securityholders
Information About Exchange Rate
Exchange Controls
Restrictions on Foreign Security Holders |
| Netherlands | - | Statement of Prospects/Discussion and Analysis of Financial Condition and Results of Operations
Changes in and Disagreements with Accountants |

Germany	-	Financial Statements Selected Financial Data
Belgium	-	Directors and Officers Executive Compensation Related Party Transactions
Luxembourg	-	Documents on Display Incorporation by Reference Risk Factors Ratio of Earnings to Fixed Charges Use of Proceeds Determination of Offering Price Dilution
Spain	-	Selling Securityholders Plan of Distribution and Underwriters Interests of Named Experts and Counsel Material Changes Prior Performance
United Kingdom	-	Industry-Specific Disclosure -Oil and Gas and Mining Operations

United States	-	Industry-Specific Disclosure -Banks
		Industry-Specific Disclosure -Real Estate Companies and Limited Partnerships
Switzerland	-	Industry-Specific Disclosure -Insurance

2. In addition, a separate project has been undertaken with respect to coordination of offering timetables. The French delegation has undertaken a survey and preliminary report on the issue. The goal would be to complete this project for presentation to the Technical Committee at the 1994 IOSCO Annual Meeting.





Organisation internationale des commissions de valeurs

International Organization of Securities Commissions

Organización internacional de comisiones de valores

Organização internacional das comissões de valores

OICV / IOSCO

October 23, 1993

Mr. David H. Cairns
Secretary-General
International Accounting Standards Committee
167 Fleet Street, 5th Floor
London EC4A 2ES
England

Dear Mr. Cairns:

At its meeting in Mexico City on October 22-23, 1993, members of IOSCO Working Party No. 1 on Accounting and Disclosure considered the recent proposals of the IASC on E40, Financial Instruments. Members expressed various substantive concerns about the proposals. As to one issue, however, there was unanimity; E40 requires further opportunity for public comment in light of the revisions being considered to the standard proposed in the Exposure Draft. The Working Party strongly recommends that the IASC reexpose E40 as proposed to be revised.

Sincerely,

Linda C. Quinn
Chairman
Working Party No. 1

Michael Meagher
Chairman
Accounting and Auditing
Subcommittee

cc: Members of IOSCO Working Party No. 1
Members of Accounting & Auditing Subcommittee





Organisation internationale des commissions de valeurs

International Organization of Securities Commissions

Organización internacional de comisiones de valores

Organização internacional das comissões de valores

OICV / IOSCO

June 17, 1994.

Mr. Eiichi Shiratori, Chairman
International Accounting Standards Committee
167 Fleet Street
London EC4A 2ES
England

Dear Mr. Shiratori:

The International Organization of Securities Commissions (IOSCO) Working Party No. 1 on Multinational Disclosures and Accounting and its Accounting and Auditing Subcommittee ("Working Party") have reviewed the standards recently revised in the E32 Comparability/Improvements Project of the International Accounting Standards Committee (IASC). This review has been undertaken in the context of the Working Party's assessment of the IASC standards as one alternative to the use of a regulator's domestic standards that the regulator could accept for foreign enterprises entering the regulator's domestic securities market. As discussed in our letter to you of August 16, 1993, the goal of IOSCO is the development of a comprehensive body of international accounting standards that could be used by companies seeking to raise capital or list in the global capital markets. The recently amended E32 standards are part of the core standards identified in our August 16 letter as necessary components of such a comprehensive body of international standards.

The Working Party is pleased to advise you that in its review of the core standards, it would view the following E32 standards, subject to the suspense issues noted, as acceptable.

1. IAS 2, Inventories.
2. IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.
3. IAS 11, Construction Contracts.
4. IAS 16, Property, Plant and Equipment.
5. IAS 18, Revenue.

6. IAS 21, The Effects of Changes in Foreign Exchange Rates.
7. IAS 22, Business Combinations:
8. IAS 23, Borrowing Costs.

The specific analysis and suspense issues are set forth in Appendix I. Final endorsement of the above standards for use in cross-border listings and offerings is dependent on IOSCO's assessment of the total package of core standards. By separate letter accompanying this letter, the Working Party has set out its views with respect to the IASC standards that were not revised as part of the E32 project.

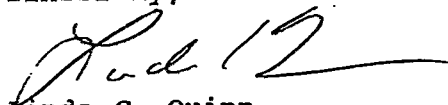
With respect to the two remaining E32 standards, the Working Party has been unable to reach a consensus on the acceptability of IAS 9, Research and Development Costs, particularly regarding the required capitalization of development costs when specified criteria are met. In addition, the IASC has acknowledged, and the Working Party concurs, that further improvements to IAS 19, Retirement Benefit Costs, are necessary.

With respect to each standard, suspense issues have been identified by the Working Party. Suspense issues include items that generally are encountered infrequently, often are complex, and would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. In such cases, IOSCO members may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues that represent reservations of certain member countries on the necessity of full application of international standards. The IOSCO Working Party will review these suspense issues to consider whether it can recommend an interim method of dealing with the issues.

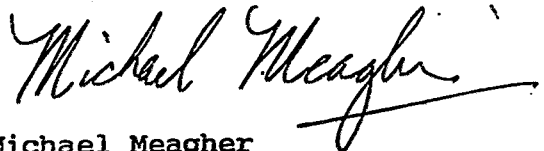
Mr. Eiichi Shiratori, Chairman
International Accounting Standards Committee
Page 3

The Working Party believes it now is current with respect to consideration of completed IASC standards and will continue following ongoing IASC projects and plans closely. We would be pleased to meet with you and other IASC representatives, if you wish, to discuss further any Working Party determinations and recommendations to date.

Sincerely,



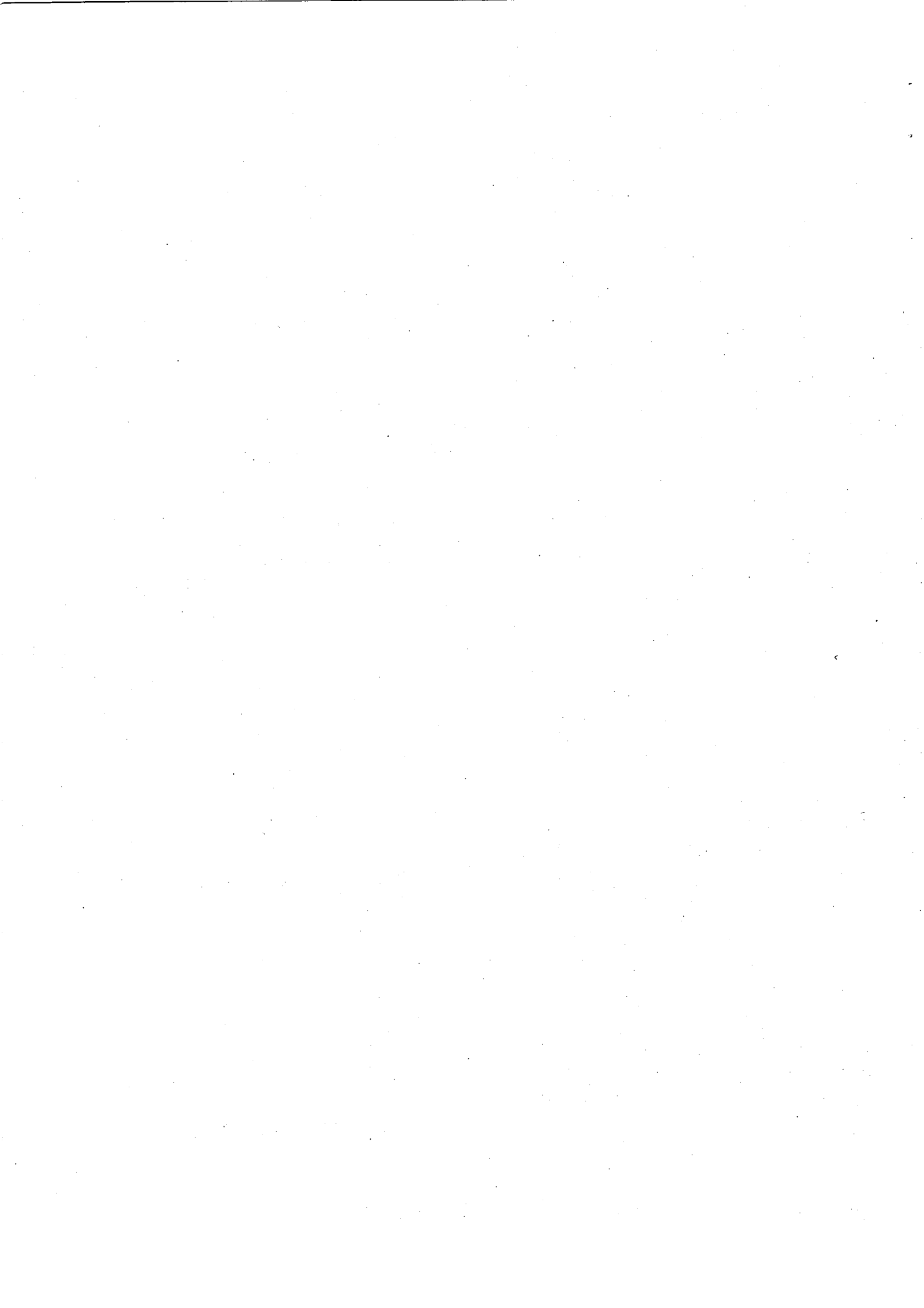
Linda C. Quinn
Chairman, Working Party No. 1
IOSCO



Michael Meagher
Chairman, Accounting and Auditing
Subcommittee
IOSCO

Enclosures

cc: David Cairns, Secretary General
International Accounting Standards Committee



EVALUATION OF E32 STANDARDS
IOSCO WORKING PARTY NO. 1 AND ACCOUNTING SUBCOMMITTEE

A. IAS 2 (Revised 1993) Inventories

1. Evaluation of Required, Benchmark, and Allowed Alternative Treatments

- a. The benchmark treatment of FIFO or weighted average cost is acceptable, subject to suspense issues.
- b. The allowed alternative treatment of LIFO is acceptable, subject to suspense issues.
- c. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to suspense issues.

2. Essential Issues^{1/}

- a. None.

3. Suspense Issues^{2/}

- a. Some IOSCO member countries may accept the inventory method described in Article 38 of the EC 4th Directive.
- b. One member country believes that measurement at the lower of cost and net realizable value should not be enforced and measurement at the historical cost should be allowed.

^{1/} Essential issues are matters that certain IOSCO members believe need to be dealt with by the IASC to obtain a reasonably comprehensive set of international accounting standards.

^{2/} Suspense issues include items that generally are encountered infrequently, often are complex, and would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. In such cases, IOSCO members may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues that represent reservations of certain member countries on the necessity of full application of international standards.

- c. One member country believes that measurement at replacement cost should be allowed.
 - d. One member country believes that the last purchase price method should be allowed for the sake of convenience in cases where it approximates historical cost on a consistent basis.
 - e. Some member countries believe that the reconciliation between the benchmark treatment and the allowed alternative treatment should not be required when applying LIFO.
4. Potential Long-Term Projects^{3/}
- a. Consider developing guidance on the application of the LIFO method.
- B. IAS 8 (Revised 1993) Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- 1. Evaluation of Required, Benchmark, and Allowed Alternative Treatments
 - a. The benchmark treatment of retroactive restatement for fundamental errors and changes in accounting policies is acceptable, subject to suspense issues.
 - b. The allowed alternative treatment for fundamental errors and changes in accounting policies of inclusion in profit or loss for the current period and presentation of pro forma information for current and prior periods as if retroactively restated is acceptable, subject to suspense issues.
 - c. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to suspense issues.
 - 2. Essential Issues
 - a. None
 - 3. Suspense Issues
 - a. Consider recognition and measurement issues and reconsider disclosure and presentation issues for discontinued operations and other restructurings. Discontinued operations is one of the IOSCO core standards that should be considered.

^{3/} Potential long-term projects are other matters that eventually should be considered by the IASC to enhance overall comparability and transparency of financial statements.

- b. The requirement in paragraph 46 to follow transition and effective date requirements in IASC standards resulting in a change in accounting policies (or even just new disclosures) would be considered on a case by case basis. Because many international standards are being revised in a relatively short period of time, certain members of IOSCO are concerned about the comparability of financial statements with prior periods if the required impacts of the changes were not disclosed for all periods.
- c. Some IOSCO member countries may not require the pro forma information required by the allowed alternative treatment with respect to changes in accounting policies and fundamental errors.

4. Potential Long-Term Projects

- a. Consider the accounting treatment for changes in accounting estimates, e.g., retrospective versus prospective treatment.

C. IAS 9 (Revised 1993) Research and Development Costs

1. Evaluation of Required Treatments

- a. IOSCO Working Party No. 1 has been unable to conclude on the acceptability of the required treatment of capitalization of development costs as an asset, when specified criteria are met. Some IOSCO member countries may require disclosures providing information equivalent to a treatment of expense of all development costs, whereas other IOSCO member countries may require or allow development costs to be expensed without reconciliation. One member country believes that research cost and development cost should not be accounted for separately and it should be acceptable to recognize such costs as either assets or expenses.
- b. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to the suspense issue.

2. Essential Issues

- a. See item C.1.a. above.

3. Suspense Issue
 - a. Some IOSCO member countries may allow amortization of capitalized development costs to commence in the year following capitalization.
 4. Potential Long-Term Projects
 - a. Reconsider the required treatment of capitalization of development costs as an asset when specified criteria are met or consider providing more objective criteria for required capitalization.
- D. IAS 11 (Revised 1993) Construction Contracts
1. Evaluation of Required Treatments
 - a. The required treatment of the percentage of completion method for construction contracts is acceptable, subject to suspense issues.
 - b. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to suspense issues.
 2. Essential Issues
 - a. None.
 3. Suspense Issues
 - a. Some IOSCO member countries may condition acceptance by specifying a treatment for the determination of the expected loss that would require a consistent treatment for indirect costs. Paragraph 36 of IAS 11 (revised) does not specify how the "expected loss" is to be determined and could be interpreted to exclude indirect costs despite guidance in paragraphs 26 and 33 that would appear to require that indirect costs be included.
 - b. Some IOSCO member countries may not require a reconciliation between the completed contract and percentage of completion method when the completed contract method is used.
 4. Potential Long-Term Projects
 - a. None.

E. IAS 16 (Revised 1993) Property, Plant and Equipment

1. Evaluation of Required, Benchmark, and Allowed Alternative Treatments

- a. The benchmark treatment of cost less accumulated depreciation is acceptable, subject to suspense issues.
- b. Allowed alternative treatment - see suspense issue E.3.a. following.
- c. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to suspense issues.

2. Essential Issues

- a. None.

3. Suspense Issues

- a. Some IOSCO member countries may condition acceptance of the allowed alternative treatment of revalued amounts (fair value) less subsequent accumulated depreciation on the disclosure of information providing significant balance sheet and income statement effects of revaluation (instead of just the balance sheet as required by the standard).
- b. Consider eliminating alternatives for identifying and measuring impairment of the cost or carrying amount of long-lived assets in a project that also would consider identifiable intangibles and goodwill. Paragraphs 56 to 58 of the standard do not provide sufficient guidance to achieve reasonably comparable results in identifying impairment or for measuring the recoverable amount, e.g., should discounting or fair values be considered.
- c. In reference to paragraph 62, consider a more complete discussion of the surrounding circumstances which indicate there has been a disposal of assets. The sale treatment and corresponding potential gain recognition on disposal of operating assets, businesses, or non-performing assets is dependent upon evaluation of factors involved in a particular transaction. These factors may include continuing involvement, dependence upon future successful operations of the acquiror for realization, and guarantees, recourse obligations, and participation in the rewards of ownership.
- d. In the past certain revaluations were required by law due to severe inflation in the countries concerned. The Working Party may determine that such revaluations would not necessitate the disclosure of significant balance sheet and income statement effects provided that the years and amounts of the revaluations were disclosed.

- e. One member country believes that in the recognition of property, plant, and equipment, the receipt of funds furnished by customers for acquisition of equipment, as an indemnity for expropriation of assets, insurance money, and an item of property, plant and equipment acquired as a result of involuntary conversion (for example, pursuant to government and public campaign to dislocate a plant or office from a designated urban area to a non-urban area for such reason as urban development), as well as for the acquisition of assets by government grant, should be allowed to be accounted for as deductions in arriving at the carrying amount of the assets, or to be recognized fully in the income statement at the time when received.

4. Potential Long-Term Projects

- a. Environmental accounting issues.

F. IAS 18 (Revised 1993) Revenue

1. Evaluation of Required Treatments

- a. The required treatment of the percentage of completion method for transactions involving the rendering of services is acceptable, subject to suspense issues.
- b. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to suspense issues.

2. Essential Issues

- a. None.

3. Suspense Issues

- a. Consider revenue recognition issues involved with various transportation industries.
- b. Consider whether the guidance for real estate sales in item 9 of the Appendix is sufficient for enterprises in the real estate industry, as opposed to occasional sales of real estate.
- c. Consider revenue recognition and other specialized industry accounting and disclosure issues that may apply to the aforementioned transportation and real estate industries and various other specialized industries such as financial institutions, insurance, oil and gas, mining, agriculture, forestry, rate-regulated utilities, commodities dealers, computer software, investment companies, broker-dealers, venture capitalists, motion picture production, broadcasting, cable television, records and music, health care

providers, casinos, and insurance brokers. The IOSCO Accounting Subcommittee and IOSCO Working Party No. 1 as yet have not considered the adequacy of the core standards with respect to the above industries.

- d. Some IOSCO member countries may not require a reconciliation between the completed contract and percentage of completion methods when the completed contract method is used.

4. Potential Long-Term Projects

- a. None.

G. IAS 19 (Revised 1993) Retirement Benefit Costs

1. Evaluation of Required, Benchmark and Allowed Alternative Treatments

- a. The benchmark treatment of an accrued benefit valuation method is acceptable, subject to the essential and suspense issues.
- b. Allowed alternative treatment - see suspense issue G.3.a. following.
- c. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to the essential and suspense issues.

2. Essential Issues

- a. The IASC has acknowledged and IOSCO Working Party No. 1 concurs that further improvements to IAS 19 are necessary. The most significant areas requiring consideration of improvements would appear to be more definitive guidance for selecting assumptions, consideration of balance sheet accruals to include at least a minimum liability, and the required disclosures, including enterprise and affiliate securities held by pension funds and other transactions between such parties.
- b. In the case of Japanese welfare pension plans (pension funds consist of a governmental social security portion and a private pension portion) and reserve for retirement allowances (Accrued liability for retirement allowances has been provided in the full or discounted present value of amount estimated to provide for indemnities to all employees if they retire on a voluntary basis. The difference between the prior period amount and the current period amount is accounted for as retirement cost.), one member country would like the IASC to consider an exemption from the application of IAS 19 and an acceptance of the treatment in Japan.

3. Suspense Issue
 - a. Some IOSCO member countries may condition acceptance of the allowed alternative treatment of a projected benefit valuation method on disclosures providing information equivalent to the use of an accrued benefit valuation method.
 4. Potential Long-Term Projects
 - a. None.
- H. IAS 21 (Revised 1993) The Effects of Changes in Foreign Exchange Rates
1. Evaluation of Required, Benchmark, and Allowed Alternative Treatments
 - a. The benchmark treatment of recognition of exchange differences as income or as expenses in the period they arise is acceptable, subject to suspense issues.
 - b. Allowed alternative treatment - see suspense issue H.3.a. following.
 - c. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to suspense issues.
 2. Essential Issues
 - a. None.
 3. Suspense Issues
 - a. Some IOSCO member countries may condition acceptance of the allowed alternative treatment of recognition of certain exchange differences in the carrying amount of the related asset on disclosures providing information equivalent to the application of the benchmark treatment.
 - b. Some IOSCO member countries may condition acceptance of the treatment allowed in paragraph 33(b) on disclosures providing information equivalent to the treatment allowed by paragraph 33(a).
 - c. Consider foreign currency transaction hedging issues (see paragraph 2) in E48, Financial Instruments.
 - d. The determination of the reporting currency and the manner of presentation of convenience translations of financial statements, both of

which are not covered (paragraphs 4 and 5) by IAS 21 (revised 1993), would remain subject to host country regulations.

- e. Some member countries may not require recognition of gains on long-term monetary items nor their disclosure in the footnotes.
- f. One member country may not require recognition of gains or losses on long-term monetary items, but instead require disclosure in the footnotes.

4. Potential Long-Term Projects

- a. None.

I. IAS 22 (Revised 1993) Business Combinations

1. Evaluation of Required, Benchmark, and Allowed Alternative Treatments

- a. The benchmark treatment of recognizing minority interests at the minority's proportion of the preacquisition carrying amounts of the net assets of the acquired entity is acceptable, subject to suspense issues. The benchmark treatment of recognizing negative goodwill by reducing the fair values of the non-monetary assets acquired proportionately and treating any excess that remains as deferred income is acceptable, subject to suspense issues.
- b. The allowed alternative treatment of recognizing minority interests at the minority's proportion of the fair values of the net assets of the acquired entity is acceptable, subject to suspense issues. The allowed alternative treatment of recognizing negative goodwill as deferred income is acceptable, subject to suspense issues.
- c. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to suspense issues.

2. Essential Issues

- a. None.

3. Suspense Issues

- a. Some IOSCO member countries may condition acceptance of discounting to record acquired tax assets and liabilities (see the last sentence of paragraph 39) on disclosures providing information equivalent to recording tax assets and liabilities on an undiscounted basis. This matter could be considered further by the IASC in its project to revise IAS 12 on income taxes.

- b. Consider the subsequent recognition of unrecognized acquired deferred tax assets in a revised standard on income taxes (see paragraph 69).
- c. Consider eliminating alternatives for identifying and measuring impairment of the cost or carrying amount of goodwill in a project that also would consider long-lived assets and identifiable intangibles. Paragraphs 47 and 48 of the standard do not provide sufficient guidance to achieve reasonably comparable results in identifying impairment or for measuring impairment, e.g., should estimated future profits also cover interest costs for goodwill to be considered recoverable.
- d. In reference to paragraph 13, consider the presentation of shareholders' equity and comparative financial statements following a reverse acquisition.
- e. In reference to the last sentence of paragraph 3 and paragraph 8, consider new basis of accounting issues, including the following:
 - (i) Push down accounting (including push down of debt);
 - (ii) Promoter and related party transactions;
 - (iii) Common control transactions (including downstream mergers and simultaneous transactions);
 - (iv) Joint venture formations;
 - (v) Master limited partnership formations;
 - (vi) Leveraged buyouts;
 - (vii) Mergers with unrelated shell corporations; and,
 - (viii) Bankruptcies and reorganizations.
- f. In reference to the last sentence of paragraph 6, consider requiring companies without subsidiaries to follow the same accounting for legal mergers as for companies with subsidiaries at least with respect to securities offerings and filings.
- g. In reference to paragraph 8(b), consider limiting the scope exclusion for "interests in joint ventures and the financial statements of joint ventures" to joint venture formations.
- h. In reference to paragraphs 49 to 51, some IOSCO member countries may accept recognition of negative goodwill in income in the year when a

special cost, not recognizable as a result of the business combination, is expected to be incurred.

- i. Some member countries have difficulty applying the accounting treatment for reverse acquisitions due to legal constraints.
- j. One member country believes that in cases where the fair value of one enterprise or the scale of business is significantly greater than that of the other combining enterprise, if the shareholders of the combining enterprises share mutually in the risks and benefits of the combined entity, it should not be judged to be an acquisition and should be interpreted as a uniting of interests and the pooling of interest method should be allowed.
- k. Some member countries have difficulty applying the accounting standard to legal mergers due to legal constraints.

4. Potential Long-Term Projects

- a. Consider providing more definitive guidance on the bases for establishing provisions in connection with a business combination and more definitive guidance on the treatment of related costs of the acquiror and acquiree in connection with an acquisition.

J. IAS 23 (Revised 1993) Borrowing Costs

1. Evaluation of Required, Benchmark, and Allowed Alternative Treatments

- a. The benchmark treatment of expense for all borrowing costs is acceptable.
- b. Allowed alternative treatment - see suspense issue J.3.a. following.
- c. Other required treatments, implementation guidance, and disclosures in the standard are acceptable, subject to suspense issues.

2. Essential Issues

- a. None.

3. Suspense Issues

- a. Some IOSCO member countries may condition acceptance of the allowed alternative treatment of capitalizing borrowing costs meeting certain specified criteria on disclosures providing information equivalent to the application of the benchmark treatment.

- b. Some IOSCO member countries are prevented from capitalizing interest with respect to mere acquisitions.

4. Potential Long-Term Projects

- a. None.

K. Impairment of the Cost of Assets

A suspense issue cited for IAS 16 (revised) and IAS 22 (revised) is the consideration of a project to eliminate alternatives for identifying and measuring impairment of the cost or carrying amount of certain assets. In considering the scope of such a project, the adequacy of guidance on impairment in other IASC standards and projects should be reviewed. This scope also possibly should include long-lived assets related to IAS 17 on leases and the current project on intangible assets.

L. Specialized Industries

A suspense issue cited for IAS 18 (revised) concerns revenue recognition issues and other specialized industry accounting and disclosure issues that may apply to various specified industries. In developing the IOSCO core standards, no attempt was made to consider the particular accounting issues related to specialized industries. To date, the IOSCO Accounting Subcommittee has attempted to identify industries that may require accounting and disclosure standards beyond the requirements of the core standards. The industries cited will need to be analyzed further before a decision can be made on the need or lack of a need for further guidance.

- End -



Organisation internationale des commissions de valeurs

International Organization of Securities Commissions

Organización internacional de comisiones de valores

Organização internacional das comissões de valores

OICV / IOSCO

June 17, 1994

Mr. Eiichi Shiratori, Chairman
International Accounting Standards
Committee
167 Fleet Street
London EC4A 2ES, England

Dear Mr. Shiratori:

In pursuing its Plan of Work (see attachment to the August 16, 1993 letter concerning core standards), the International Organization of Securities Commissions (IOSCO) Working Party No. 1 on Multinational Disclosures and Accounting and its Accounting and Auditing Subcommittee (the Working Party hereinafter) has considered the acceptability of certain IASC standards for purposes of cross-border filings and offerings. Consolidated financial statements prepared in this manner would be one alternative to the use of a regulator's domestic standards that the regulator could accept for foreign enterprises entering the regulator's domestic market. The standards considered were those that the Working Party has determined should be components of a reasonably complete set of accounting standards (core standards) that would comprise a comprehensive body of principles for enterprises undertaking cross-border offerings and filings and that were not revised ("improved") recently by the IASC in the Comparability/Improvements project. These are listed as headings in the Appendices. Additional accounting guidance that may be necessary for certain specialized industries will be considered by the Working Party at a later date. IAS 7 (revised 1992), Cash Flow Statements, was endorsed by IOSCO in October 1993.

Attached as Appendices 1 and 2 are the recommendations that emerged from the Working Party's deliberations of the myriad accounting issues that may affect multinational enterprises. With respect to each standard considered, certain essential issues identified to date (Appendix 1) have been noted. The Working Party believes these issues should be reviewed in the near-term since consideration of the issues is deemed critical to recommending acceptance of IASC standards by some countries.

As indicated in Appendix 1, the Working Party has concluded that IAS 24 concerning related party disclosures and IAS 29 concerning hyperinflationary economies are sufficiently complete for use by multinational enterprises in cross-border offerings and filings. Final endorsement is dependent on development of a reasonably complete set of core standards.

In addition, no essential issues have been identified for IAS 27 concerning consolidations or IAS 28 concerning accounting for investments in associates. It should be noted, however, that the Working Party may make recommendations regarding IAS 27 concerning evidential matter and a presumption when a majority of voting shares is not owned, if the IASC does not provide further guidance. See issues I.1.f. and g. in Appendix 2. In addition, the Working Party may make recommendations regarding IAS 28 concerning how the 20% presumptive test would be applied. See issue J.1.e. in Appendix 2.

As also is indicated in Appendix 1, no essential issues have been identified for IAS 20 concerning government grants and IAS 31 concerning joint ventures. With respect to IAS 20, it should be noted that the Working Party may recommend that member bodies accept an alternative accounting treatment for long-term development grants. One IOSCO member country is not satisfied with the Working Party's view on IAS 20 and IAS 31, but nevertheless consented to the issuance of this letter by the Working Party. That country believes that an accounting for government grants related to assets as income when received is better than the treatment set out in IAS 20.

In considering the various standards, the Working Party also has designated certain accounting issues as being in suspense (Appendix 2). In the Working Party's view, these suspense issues, would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. Accounting determinations for certain of these suspense issues often are dependent upon the specific facts in a given circumstance and consideration of the accounting treatment for these issues would delay unduly the development of a set of core standards. It is expected that many of these suspense issues will be encountered infrequently by multinational enterprises and, in any event, the host country's treatment of these issues could be provided as supplemental information to the section of the financial statements dealing with international standards. When the IASC addresses these suspense issues, the Working Party will consider their acceptability and redesignation as a part of the core standards.

Therefore, host countries for securities activities may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues that represent reservations of certain member countries on the necessity of full application of international standards. The IOSCO Working Party will review these suspense issues to consider whether it can recommend an interim method of dealing with the issues.

The Working Party also has identified other issues and potential long-term projects (Appendix 2) that should be considered by the IASC. In addressing essential issues, the IASC's consideration of these other related issues would enhance overall comparability and transparency of financial statements.

The Working Party also considered the IASC's current agenda and potential projects to assist in identifying those projects that are of primary importance in the context of cross-border securities activities. The IASC is currently working on revisions to IAS 12 concerning income taxes. The Working Party concurs that further improvements are required to this standard. As part of this process, one IOSCO member country would like the IASC to consider exemptions for enterprises in countries in which the authorities do not allow deferred tax accounting. The IASC is currently considering Draft Statements of Principles concerning presentation of financial statements and segment reporting. The Working Party concurs with these reviews.

With respect to the letter of August 16, 1993, which describes the necessary components of a core set of standards, it is evident that the core includes certain elements that are not covered by existing IASC standards. These elements include most financial instruments, intangible assets, earnings per share, employee benefits, and interim reporting. With respect to the potential project on employee benefits, the Working Party believes postretirement benefits, postemployment benefits, compensated absences, bonus plans, and deferred compensation are essential issues whereas stock compensation could be considered an issue in suspense.

In addition, recognition and measurement issues for discontinued operations and hedging for commodities have not been addressed in a comprehensive manner in any existing standard.

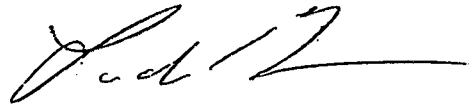
Finally, due to the numerous implicit and explicit alternatives for identifying and measuring impairment of the cost or carrying amount of long-lived assets, identifiable intangibles, and goodwill, a project to review those alternatives is considered important.

Mr. Eiichi Shiratori, Chairman
International Accounting Standards Committee

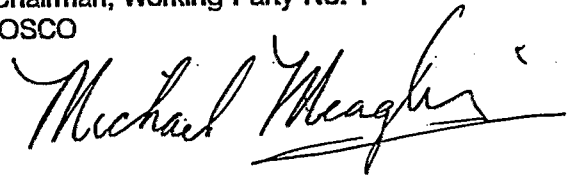
6

We trust our respective organizations can maintain a close and communicative relationship as we pursue our mutual goal of facilitating the process of raising capital in the most cost effective and efficient manner and obtaining convergence of high-quality accounting standards throughout the world.

Sincerely,



Linda C. Quinn
Chairman, Working Party No. 1
IOSCO



Michael Meagher
Chairman, Accounting and Auditing
Subcommittee
IOSCO

Enclosures

cc: David Cairns, Secretary General
International Accounting Standards Committee

June 17, 1994

APPENDIX 1

ESSENTIAL ISSUES¹ TO CONSIDER FOR
IMPROVEMENT OF IASC STANDARDS NOT REVISED IN THE
COMPARABILITY/IMPROVEMENTS PROJECT

- A. IAS 1, 5, and 13 - Presentation of Financial Statements
1. We support the efforts presently in process to improve the standards and will consider the Draft Statement of Principles when issued.
- B. IAS 10 - Contingencies and Events Occurring after the Balance Sheet Date
1. Consider reviewing the alternatives in the third sentence of paragraph 9 since under the circumstances described, the minimum amount, the midpoint, the maximum amount, or any amount in the range could be recognized, which would lead to substantial non-comparability. Suspense issue noted.²
- C. IAS 12 - Accounting for Taxes on Income
1. We support the efforts presently in process to improve the standard and will consider the exposure draft when issued.
- D. IAS 14 - Reporting Financial Information by Segment
1. We support the efforts presently in process to improve the standard and will consider the Draft Statement of Principles when issued.
- E. IAS 17 - Accounting for Leases
1. Consider enhanced disclosures for lessees, e.g., rental expenses, sublease rentals, and a description of general leasing arrangements.

¹ Essential issues are matters that certain IOSCO members believe need to be dealt with by the IASC to obtain a reasonably comprehensive set of international accounting standards.

² Suspense issues include items that generally are encountered infrequently, often are complex, and would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. In such cases, IOSCO members may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues, that represent reservations of certain member countries on the necessity of full application of international standards.

2. Consider enhanced disclosures for lessors, e.g., information concerning future minimum rentals and the amounts of contingent rentals included in income.
 3. Consider specifying the circumstances in which the net investment method and the net cash investment method are appropriate.
 4. Suspense issues noted.
- F. IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance
1. Essential Issues - none, i.e., the standard is acceptable; suspense issue noted.
- G. IAS 24 - Related Party Disclosures
1. Essential Issues - none, i.e., the standard is acceptable; suspense issue noted.
- H. IAS 25 - Accounting for Investments
1. We await the reconsideration of IAS 25 when E48, Financial Instruments, is completed.
- I. IAS 27 - Consolidated Financial Statements and Accounting for Investments in Subsidiaries
1. Essential Issues - none, i.e., the standard is acceptable; suspense issues noted.
- J. IAS 28 - Accounting for Investments in Associates
1. Essential Issues - none, i.e., the standard is acceptable; suspense issues noted.
- K. IAS 29 - Financial Reporting in Hyperinflationary Economies
1. Essential Issues - none, i.e., the standard is acceptable.
- L. IAS 31 - Financial Reporting of Interests in Joint Ventures
1. Essential Issues - none, i.e., the standard is acceptable; suspense issues noted.

- End -

APPENDIX 2

SUSPENSE ISSUES.1/ OTHER ISSUES.2/ AND LONG-TERM POTENTIAL PROJECTS2/ TO CONSIDER FOR IMPROVEMENT OF IASC STANDARDS NOT REVISED IN THE COMPARABILITY/IMPROVEMENTS PROJECT

A. IAS 1, 5, and 13 - Presentation of Financial Statements

1. Other Issues

- a. Consider enhanced guidance for disclosure of changes in equity accounts and related recognition and measurement issues (e.g., stock dividends, stock splits, dividends in kind, increasing rate preference shares, and treasury stock acquisitions, reissuances, and dividends). Consider the legal frameworks of countries in specifying the accounting for equity accounts.
- b. Consider disclosures where there are doubts as to an entity's ability to continue as a going concern.
- c. Consider disclosures related to defaults under credit agreements.
- d. Consider classification issues relating to liabilities when loan covenants are violated and when loan covenant violations are waived.
- e. Reconsider the classification of loans payable upon demand with a specified repayment schedule or the need for disclosure in such circumstances.
- f. Consider disclosure of reclassifications of prior period financial statement amounts.

1/ Suspense issues include items that generally are encountered infrequently, often are complex, and would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. In such cases, IOSCO members may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues that represent reservations of certain member countries on the necessity of full application of international standards.

2/ Other issues and potential long-term projects are other matters that eventually should be considered by the IASC to enhance overall comparability and transparency of financial statements.

- g. Consider clarifying that short-term obligations (as well as the current portion of long-term obligations) expected to be refinanced that meet certain criteria can be reclassified as long-term.
- h. Consider disclosure of dividends per share and guidance as to its calculation.
- i. Consider designation of additional required financial statement line items such as the allowance for doubtful accounts, accumulated depreciation/amortization of intangible assets, deferred income tax assets, selling, general, and administrative expenses, bad debt expense, gains/losses on disposals of assets, businesses, or financial instruments, and cumulative effect of accounting changes. Also consider the general order of financial statement presentation.
- j. Consider disclosure of costs related to major revenues, e.g., cost of tangible goods sold and cost of services.
- k. Consider classification of stock subscriptions receivable and similar items.
- l. Consider addressing presentation issues for partnerships, e.g., separate presentation of equity accounts and net income attributable to general partners and classes of limited partners.

B. IAS 10 - Contingencies and Events Occurring after the Balance Sheet Date

1. Suspense Issue

- a. Consider deleting the last sentence of paragraph 14 concerning recognition of "virtually certain" gains since the guidance is too general and the issues are or should be covered in other IASC standards on revenue and gain recognition.

2. Other Issues

- a. Consider the propriety of offsetting, in the balance sheet, probable losses with probable recoveries, e.g., insurance coverage, given the proposed offsetting criteria in E48. See paragraph 11 of IAS 10.
- b. Consider the need for consequential amendment if E48 proposals requiring impairment of financial instruments based on discounted cash flows are finalized.
- c. Consider providing more guidance on or examples of contingencies to define more clearly their nature.

3. Long-Term Potential Projects
 - a. Consider the use of and guidance for discounting in financial statements generally.
 - b. Consider more definitive guidance in applying a probability notion.
- C. IAS 12 - Accounting for Taxes on Income
 1. Other Issues 3/
- D. IAS 14 - Reporting Financial Information by Segment
 1. Other Issues
 - a. Consider more definitive guidelines for determining reportable business and geographic segments.
 - b. Consider required allocations of the cost of assets used by more than one segment and allocation of income and expenses identifiable with segments.
 - c. Consider more definitive guidance on the measure of segment profitability.
 - d. Some member countries wish there to be consideration of exempting disclosures when they would be detrimental to the competitive interests of the enterprises.
 - e. One member country wishes there to be consideration for exempting disclosures when the cost of preparing the information is prohibitively expensive..
 - f. Consider guidance on restatement of segment information.
 - g. Consider disclosures related to vertically integrated equity investees.
 - h. Consider disclosures of depreciation, depletion, amortization, and capital expenditures by segment.
 - i. Consider guidance on the exclusion or inclusion of intersegment loans and advances, intersegment investments, and valuation allowances in segment asset totals.
 - j. Consider disclosures related to infrequently occurring items by segment.

3/ IOSCO and/or individual IOSCO member bodies will consider and possibly comment on the exposure draft expected to be issued shortly.

- k. Consider disclosure of sales to major customers, but without identity of customer.
- l. Consider treatment of sales by source or destination.
- m. Consider disclosure of foreign currency risks in geographical segments.

E. IAS 17 - Accounting for Leases

1. Suspense Issues

- a. When local law prohibits lease capitalization, consider disclosures that should be provided in the notes.
- b. The Japanese MOF would like the IASC to consider that finance leases be allowed to be accounted for in a manner equivalent to operating leases with disclosure of the capitalization information in a note to the financial statements.

2. Other Issues

- a. Consider more definitive guidance to identify finance leases of lessees and lessors.
- b. Consider guidance on the treatment of changes in lease provisions.
- c. Consider additional guidance on real estate leases.
- d. Consider guidance on impairment of lessee and lessor assets.

3. Long-Term Potential Project

- a. Consider new approaches for lease capitalization by lessees, e.g., all leases with a term over one year or by recording all executory contracts.

F. IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance

1. Suspense Issue

- a. Consider providing accounting guidance for long-term development grants (as opposed to grants for specific purposes) such as those presently being made in Italy and the former East Germany. If these types of grants were not specifically considered in the development of IAS 20, IOSCO Working Party No. 1 may recommend that member bodies not consider these long-term grants to be in the scope of IAS 20 and thus treatment as an increase in equity be considered acceptable.

G. IAS 24 - Related Party Disclosures

1. Suspense Issue

- a. Consider clarification of the scope exclusions in paragraph 3 of IAS 24, i.e., the exclusions should not apply to securities offerings or filings by a subsidiary, to segment disclosures required by IAS 14, or to privatizations or other securities offerings or filings by state-controlled enterprises.

2. Other Issues

- a. Consider disclosures related to tax allocation agreements.
- b. Consider enhanced disclosures or accounting for expenses and liabilities paid by a principal shareholder or stock plans established by a principal shareholder for the enterprise's benefit.

H. IAS 25 - Accounting for Investments

1. There are no other issues at this time.

I. IAS 27 - Consolidated Financial Statements and Accounting for Investments in Subsidiaries

1. Suspense Issues

- a. Consider accounting for changes in the reporting entity, e.g., spin-offs, carve-outs, and common control transactions (including simultaneous transactions and downstream mergers).
- b. Consider guidance for transactions involving special purpose entities.
- c. Consider accounting for capital transactions by subsidiaries.
- d. Consider clarification that the exemption from consolidated financial statement requirements, in paragraph 27 of IAS 27, does not apply in the case of a securities offering or filing by a second tier parent.
- e. When consolidation of dissimilar activities would be incompatible with a true and fair view, some IOSCO member countries will accept disclosure of sub-consolidated accounts in the notes.
- f. Consider providing guidance as to the type of evidence that would be necessary to objectively apply the control criteria in paragraph 10(c) and (d). If the IASC does not address this concern, IOSCO Working Party No. 1 may recommend that member bodies interpret the necessary evidence required as being an irrevocable written agreement.

- g. Consider providing guidance that a presumption (similar to IAS 28 for significant influence) also exists when majority ownership is lacking. That is, if less than a majority of voting share ownership exists, it is presumed that control does not exist as a corollary to the presumption in paragraph 10 that control exists when a majority of voting power is owned. If the IASC does not address this concern, IOSCO Working Party No. 1 may recommend that member bodies interpret IAS 27 to require clear demonstration and evidence by means of situations (a) through (d) of paragraph 10 that this presumption has been overcome.

2. Other Issues

- a. Amend IAS 25 after E48 is completed to limit the various treatments presently allowed by paragraphs 29 and 34 of IAS 27.
- b. Consider addressing effective control and thus potential consolidation when stock options or other convertible securities are held and exercise is discretionary.
- c. Consider delimiting the "if practicable" exception for the application of uniform accounting policies to, in any event, require the use of acceptable international standards.
- d. Consider addressing how a position as general partner of a partnership is interpreted with regard to effective control and, thus, potential consolidation.
- e. Consider requiring disclosure of summarized financial information for subsidiaries not consolidated that are material individually or in the aggregate.

J. IAS 28 - Accounting for Investments in Associates

1. Suspense Issues

- a. Consider accounting for capital transactions by associates.
- b. Consider eliminating alternatives to the equity method for investors that do not issue consolidated financial statements in paragraph 27 of IAS 28, at least with respect to securities offerings and filings.
- c. Consider providing guidance on the elimination of intercompany profits and losses on upstream and downstream transactions.
- d. Consider disclosure of summarized financial information for material equity investees.

- e. Consider providing guidance that it would be a rare or exceptional case where significant influence could be demonstrated below the 20% presumptive level without representation on the board of directors or equivalent governing body, factor (a) in paragraph 5. If the IASC does not address this concern, IOSCO Working Party No. 1 may recommend that members bodies interpret IAS 28 accordingly.

2. Other Issues

- a. Consider delimiting the "if practicable" exception for the application of uniform accounting policies to, in any event, require the use of acceptable international standards.
- b. Consider providing guidance for how the 20% presumption may be overcome and disclosures when the presumption is overcome.
- c. Consider exclusion of entities that carry all investments at fair value from the scope of the standard, e.g., investment companies.
- d. Consider providing guidance as to whether potential voting interests should be considered in the 20% presumptive test.
- e. Consider disclosures relating to potential material effects of possible conversions, exercises, or other contingent issuances.
- f. Consider disclosure of retained earnings attributable to equity investees.
- g. Consider clarifying the application of equity accounting to investments in partnerships and unincorporated entities.
- h. Consider disclosure of available market values for equity investee securities owned.

K. IAS 29 - Financial Reporting in Hyperinflationary

Economies

- 1. Other Issues - none, i.e., the standard is acceptable.

L. IAS 31 - Financial Reporting of Interests in Joint Ventures

1. Suspense Issues

- a. Consider more definitive criteria for determination of gain or loss recognition for transactions between a venturer and a joint venture.

- b. Consider criteria for recognition of a new basis by the venture itself for net assets sold or contributed to a joint venture.
- c. Consider eliminating the alternative in paragraph 53 of IAS 31 of allowing disclosure in lieu of joint venture accounting for entities without subsidiaries, at least with respect to securities offerings and filings.

2. Other Issues

- a. Consider amendment of IAS 25 after E48 is completed to limit the various treatments presently allowed by paragraphs 43 and 48 of IAS 31 that refer to IAS 25.

- End -



Organisation internationale des commissions de valeurs

International Organization of Securities Commissions

Organización internacional de comisiones de valores

Organização internacional das comissões de valores

OICV / IOSCO

June 17, 1994

Via Facsimile and Mail

Mr. David Cairns
Secretary-General
International Accounting
Standards Committee
167 Fleet Street
London, EC4A 2ES
England

Dear Mr. Cairns:

The International Organization of Securities Commissions (IOSCO) Working Party No. 1 on Multinational Disclosures and Accounting and its Accounting and Auditing Subcommittee (the Working Party hereinafter) has considered the January 1994 Draft Statement of Principles, Intangible Assets, issued for comment. All of the members of the Working Party have agreed to the following comments. Individual member countries may have additional comments and views and may comment separately.

The standard should include strict criteria for justifying useful lives in excess of 20 years or include a maximum life. The Working Party generally is concerned that the proposed rules for amortization may permit arbitrage between goodwill amortization and amortization of intangibles, e.g., brands, through allocation of inappropriately high values to those identified intangibles with a reliably determined life over 20 years.

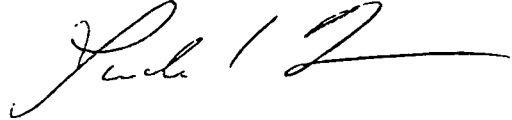
The Working Party also believes, because of the complexity of the issues, and the ambiguity in the term "identifiable" in the definition of intangibles, that more guidance should be provided in the definition and that it would be very useful if extensive examples, along the lines of IAS 18, were provided describing the circumstances when intangibles would and would not meet the criteria for capitalization and which costs would and would not be capitalized.

The proposals introduce discounting into the application of the recoverable amount and the Working Party is still considering the appropriateness of this accounting treatment. In any event, more specific criteria and guidance on the discount rate proposed to be used should be provided.

Without at this time commenting on the appropriateness of the alternative revaluation treatment, the standard should contain a clear definition of an "active secondary market" for intangibles and examples of such markets.

The Working Party appreciates the opportunity to comment and would be pleased to discuss the comments further.

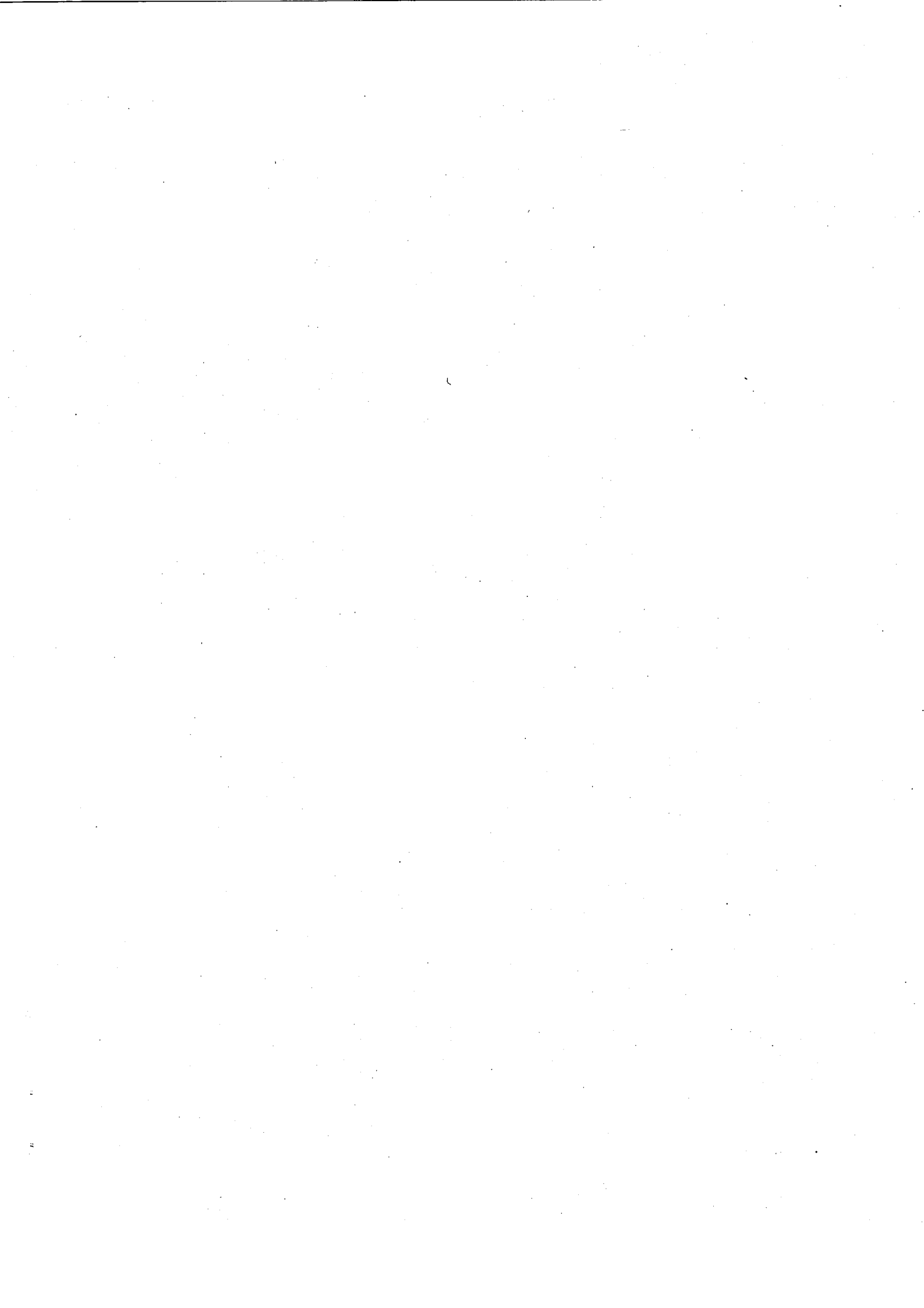
Sincerely,

A handwritten signature in cursive script, appearing to read "Linda C. Quinn".

Linda C. Quinn
Chairman, Working Party No. 1
IOSCO

A handwritten signature in cursive script, appearing to read "Michael Meagher".

Michael Meagher
Chairman, Accounting
and Auditing Subcommittee



APPENDIX B



June 24, 1993

Mr. Peter Agars
President
International Federation of Accountants
c/o KPMG Peat Marwick
Wyatt House
115 Grenfell Street
Adelaide 500 SA
Australia

Dear Mr. Agars:

The International Auditing Practices Committee (IAPC) currently has outstanding a request for comment on the exposure draft, dated March 1, 1993, Proposed International Standards on Auditing (ISAs), Codification of ISAs. The International Organization of Securities Commissions (IOSCO) Working Party No. 1 has been following the progress of, and has supported, the IAPC's efforts to develop a comprehensive set of international auditing standards that could be used in connection with the audits of the financial statements of transnational securities issuers. Members of the Working Party's Accounting and Auditing Subcommittee have communicated the Working Party's concerns regarding the ISAs and have worked with IAPC representatives in addressing those concerns.

The Working Party is not in a position at the present time to comment on specific aspects of the exposure draft, or the companion exposure draft issued on December 1, 1992, because the third exposure draft, which will contain the Preface explaining the intention of the black lettering, has not been issued. The first two exposure drafts, through the use of black lettering, introduce a new and substantial question -- what audit procedures the black lettered standards actually would require. The Working Party would be opposed to the use of black lettering if it dilutes the requirements of the previously issued ISAs.

To the extent that text not included in the black lettering is viewed as having less authority than that in black letters, the proposed codification may significantly change the substance of the prior standard. Such a substantive change would require the Working Group to conduct a new analysis of each of the standards subject to black lettering to determine whether IOSCO could endorse these standards for cross-border offerings and listings.

Mr. Peter Agars
Page 2

The Working Party looks forward to reviewing the final exposure draft of the codification effort, particularly the discussion of the effect of the black lettering. At such time that the complete codification package is available for the Working Party's review, the Working Party will communicate more fully its concerns to the IAPC through the Auditing Subcommittee.

Sincerely,



Linda C. Quinn
Chairman, Working Party No. 1
IOSCO



Michael Meagher
Chairman, Accounting and Auditing
Subcommittee
IOSCO

cc: John Gruner, Director General
International Federation of Accountants



Organisation internationale des commissions de valeurs

International Organization of Securities Commissions

Organización internacional de comisiones de valores

Organização internacional das comissões de valores

OICV / IOSCO

October 25, 1993

Mr. Matthew Patient
Coopers & Lybrand
1 Embankment Place
London WC2N 6NN
Great Britain

Dear Mr. Patient:

The International Organization of Securities Commissions (IOSCO) Working Party No. 1 and IOSCO's Accounting and Auditing Subcommittee met in Mexico City on October 22-23, 1993. In the meeting, the Working Party and the Subcommittee continued its discussions of the three outstanding exposure drafts, Proposed International Standards Auditing (ISAs), Codification of ISAs, issued by the International Auditing Practices Committee (IAPC).

The Working Party has determined that the introduction of black lettering in its present form and certain other changes proposed to be made to the existing ISAs would change substantively the standards that were considered by IOSCO in connection with its previous movement toward endorsing the ISAs for cross-border offerings and listings. In October 1992, IOSCO endorsed the use of the ISAs contingent upon the issuance of acceptable standards in three open areas. Implicit in that endorsement was the understanding that the existing standards would not be changed substantively as the result of the IAPC's codification project. The Working Party has reviewed the results of the codification project and determined that the proposed codification would change significantly the substance of the prior standards. The Working Party will not recommend the final endorsement of ISAs to the IOSCO Technical Committee, if the IAPC issues the final codified ISAs in the form proposed.

The Working Party believes that its concerns can be addressed only through either the abandonment of the black lettering that has been proposed, or the black lettering of additional ISA sections to cover items that the Working Party considers to be "basic principles and essential procedures". Those additional sections

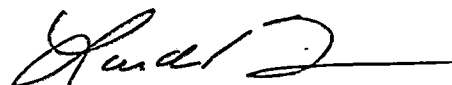
C.P. 171, Tour de la Bourse - 800, square Victoria, 45^e étage - Montreal (Quebec) - H4Z 1C8 CANADA
TELEPHONE: (514) 875-8278 TELECOPIEUR: (514) 875-2669

are set forth on the attached Appendix I.

In addition, the Working Party believes that certain other changes proposed create substantive, negative changes in the current ISAs. Those changes are set forth in the attached Appendix II. The Working Party believes that the concepts incorporated in the existing ISAs, and as noted in Appendix II, should be retained.

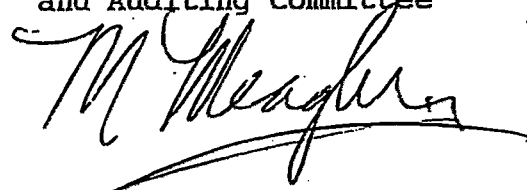
The conclusions set forth above are based on the Working Party's review of recommendations made by the Subcommittee at our joint meeting on October 22 - 23. Other members of the Working Party that are not represented on the Subcommittee are continuing to review the exposure drafts and may bring additional items to the Working Party's attention at our meeting in early December 1993. In that event, those issues will be communicated to the IAPC immediately after that meeting.

Sincerely,



Linda C. Quinn
Chairman
IOSCO Working Party No. 1

Michael Meagher
Chairman
IOSCO Accounting
and Auditing Committee



cc: Peter Agars, President
International Federation of Accountants

John Gruner, Director General
International Federation of Accountants

Members of IOSCO Working Party No. 1
Members of Accounting and Auditing Subcommittee

Paragraphs Containing Basic Principles and
Essential Procedures That Are Not Black Lettered

Exposure Draft #1, 12/1/92

- ISA 4 - 6, 10, 12, 13
- ISA 5 - 6, 9, 10, 14, 15, 16, 17
- ISA 8 - 10, 13, 14, 16, 17
- ISA 9 - 10, 11, 14
- ISA 10 - 7, 12, 16, 17
- ISA 12 - 12, 14, 15, 16, 18
- ISA 14 - 5, 6, 7, 16, 18, 19, 20, 21, 23, 24
- ISA 23 - 6, 9, 10, 11, 13, 14, 15, 16, 17, 18
- ISA 26 - 4, 7, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 25, 26,
27
- ISA 28 - 5, 6, 11, 12, 13, 14

Exposure Draft # 2, 3/1/93

- ISA 6 - 10, 11, 15, 16, 17, 24, 26, 29, 32, 35, 37, 38, 42, 45,
47, 48, 49
- ISA 7 - 6, 9, 11, 15, 16
- ISA 17 - 6, 9, 10, 11, 12, 14, 16
- ISA 18 - 5, 7, 9, 10, 11, 12, 13
- ISA 19 - 22, 23, 24, 26
- ISA 21 - 5, 7, 10, 11, 14, 15, 16
- ISA 22 - 6, 7, 10
- ISA 25 - 4, 5, 6, 7, 10, 11, 13
- ISA 27 - 8, 10, 13, 14, 15, 16, 18, 19, 20, 21, 22, 23, 24, 26,
28

Exposure Draft #3, 7/1/93

ISA 1 - 2, 7

ISA 2 - 12, 13, 15, 17

ISA/RS 1 - 8, 18, 20, 21, 29

ISA/RS 3 - 5, 6, 9

ISA/RS 4 - 3, 16

ADDENDUM 2 TO ISA 6 - 5, 6, 8, 9, 10, 14, 18

ADDENDA TO ISA 8 - 6, 7, 10, 11, 12, 13, 14, 15, 16, 17, 18, 22,
23, 25, 27, 28, 29, 30, 32, 34, 35, 37, 39, 41,
44, 45

ISA 11 - 6, 8, 13, 16, 20, 24, APPENDIX

ISA 15 - 4, 6, 7, 9, 12

ISA 24 - 4, 7, 12, 15, 21, 24, 25e

ISA 30 - 5, 7, APPENDIX

ISA 31 - 2, 13, 14, 17, 20, 22, 28, 33, 37, 38, APPENDIX

Other ChangesExposure Draft #1, 12/1/92

- ISA 4 : Paragraphs 12 and 13 of the original standard have been deleted. Those paragraphs required documentation of the overall audit plan (12) and preparation of a written audit program (13).
- ISA 5 - 7: Original paragraph 6a required that the competence of the other auditor in the context of the specific engagement should be considered.
- ISA 5 - 18: Changes from the original paragraph 14 appear to eliminate the ability of the principal auditor to decide NOT to refer to the work of the other auditor.
- ISA 8 - 14: The second bullet should delete the word "audit", which did not appear in original paragraph 7 to avoid confusion.
- ISA 10 - 8: Original paragraph 8 appears to require that the auditor obtain an understanding of internal audit activities only in cases where the auditor plans to use the work of the internal auditors.
- ISA 10 - 17: The auditor is required or allowed to consider the "risk" in a particular audit area in determining the extent of testing applied to the work of an internal auditor when the auditor intends to use that work. Consideration of the "risk" factor was not included in the original paragraph 14.
- ISA 23 - 16: The phrase "In extreme cases" was not included in footnote 1 to original paragraph 15, and appears to be vague.
- ISA 26 - 21: The words "would consider" in the second sentence should be restored to "should determine" as contained in original paragraph 19.

Exposure Draft #2, 3/1/93

- ISA 6 - 18: The new paragraph introduces the concept of "significant accounting records," which is not defined.
- ISA 6 - 22: The word "correcting" should be restored to "detecting" per the original paragraph 23.

Exposure Draft #3, 7/1/93

- ISA 2 - 3: The original paragraph 2 defined the scope of the standard more broadly as applying to audits of financial "information".
- ISA 11: Original paragraph 11 required the auditor to inquire of management as to any fraud or significant error that occurred in the reporting period and modify audit procedures, if necessary. Original paragraph 15 addressed the auditor's responsibilities when a suspicion of fraud is neither confirmed or dispelled. Neither of those issues is addressed in the revised standard.
- ISA 15 - 4: Original paragraph 4 required the auditor to have sufficient knowledge of the EDP (CIS in the revised standard) environment to "plan" the audit. Planning is deleted from revised paragraph 4.