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REVIEW OF IMPORTANT CURRENT DEVELOPMENTS AT THE NATIONAL LEVEL

Report of the UNCTAD secretariat

SUMMARY

The present report reviews the new legal requirements and/or standards that have been adopted recently in various countries, as well as those standards under consideration. The review is based entirely on country submissions in response to a questionnaire circulated to all member States. Twenty-five Governments submitted reports of activities in their respective countries, and more are expected to make oral reports during the twelfth session, which will be included in International Accounting and Reporting Issues: 1994 Review, to appear as a publication. Other information on national standards relating to the four issues identified by the Group for discussion at the twelfth session - corporate reporting practices for environmental matters, accounting for new financial instruments, accounting for government grants and concessions and accounting for leases - has been included in the respective technical reports of the Secretary-General as documentation for the session.

* E/C.10/AC.3/1994/1.

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I. NEW LEGAL REQUIREMENTS AND/OR STANDARDS GOVERNING CORPORATE ACCOUNTING AT THE NATIONAL LEVEL

1. The present report was prepared on the basis of responses to a note verbale and questionnaire circulated to all member States. A total of twenty-five replies were received. The United Nations Conference on Trade and Development (UNCTAD) acknowledges, with appreciation, the cooperation of the respondents in providing the information requested. The questionnaire facilitated replies and improved the quality of information although the response rate was less than previous years. There appears to be a problem in the prompt transmission of the questionnaire from the receiving government departments to the department in charge of accounting matters. UNCTAD sent follow-up letters and often discovered that the appropriate authorities had not yet received the questionnaire. The experts may wish to take up this matter with their respective Governments as appropriate in order to improve the transmission of the questionnaire to the appropriate parties.

2. Also included is information on accounting developments in the Russian Federation that was provided by a member of the International Advisory Board on Accounting an Auditing Developments in Russia.

3. Much interesting information was submitted not only on current developments but also for the technical reports.

II. CURRENT DEVELOPMENTS IN ACCOUNTING AND REPORTING

Austria

4. In June 1990 the Rechnungslegngsgesetz (RLG or law regulating financial statements, auditing and the publishing of financial statements) was passed by the Austrian Parliament. The law is generally in conformity with the European Community Fourth, Seventh and Eighth Directives and most of the regulations must be applied to the financial statements of enterprises for fiscal years beginning after 31 December 1991. Earlier application is allowed. The regulations for consolidated financial statements become effective in 1994.

5. Another new law, the Bankwesengesetz (or BWG), was passed in July 1993 and adjusts the Kreditwesengesetz (or KWG) to the relevant EC directives for banks and other financial institutions. The law which is effective for 1994 contains a Bank Accounting Directive (86/635 EWG). During the year, an Investmentfondsgesetz law (concerning investment funds) was also adopted for EC conformity purposes and will also become effective for 1994.

6. The Austrian Institute of Certified Public Accountants has issued three guidelines that interpret the disclosure provisions of the RLG and the Austrian Chamber of Accountants has issued the following guidelines which deal with problems from the introduction of the RLG:

(a) Accounting for Pension Reserves;

(b) Accounting for Liability Reserves for Severance Payments;

(c) Contents of the auditor's report (audit certification).

7. The Austrian Institute of Certified Public Accountants has issued exposure drafts on (a) Accounting for Leases - Treatment in the Financial Statements of Lessors and (b) Valuation of Securities in the Financial Statements of Banks and Insurance Companies.

8. The Austrian Chamber of Accountants has published a draft of a statement on the treatment of options in financial statements, and discussion papers on unified valuation procedures and accounting for income taxes in connection with the preparation of consolidated financial statements.

Bahrain

9. The Government of Bahrain is developing accounting standards for its public sector organizations and enterprises. To date the following standards have been issued:

Foreword to the Public Sector Accounting Standards.

1. Determination and Application of Accounting Policies.
2. Differential Reporting and Concepts of the Entity.
3. Definition, Recognition and Measurement of Assets.
4. Definition, Recognition and Measurement of Liabilities.
5. Definition, Recognition and Measurement of Reserves.
6. Definition, Recognition and Measurement of Revenues and Expenses.
7. Financial Reporting.
8. Consolidated Financial Statements and Accounting for Investments in Subsidiaries.
9. Accounting for Depreciation.
10. Accounting for Research and Development Activities.
11. Accounting for Property, Plant and Equipment Including Infrastructure and Heritage Assets).
12. Accounting for Investments.
13. Accounting for Leases.

14. Foreign Exchange Translations.

15. Accounting for Inventories.

16. Contingencies and Events Occurring after the Balance Sheet Date.

17. Unusual and Prior Period Items and Changes in Accounting Policies.

18. Capitalization of Borrowing Costs.

19. Accounting for Business Combinations.

20. Reporting Financial Information by Activity Segment.

21. Accounting for Investments in Associates.

10. These standards are based on the Australian Conceptual Standards and the work of the International Federation of Accountants (IFAC) Public Sector Committee. Standards 1 and 6 through 21 also conform to the standards issued by the International Accounting Standards Committee (IASC).

Canada

11. No new regulations, policies or rules on financial reporting and disclosure of major significance were issued by regulations bodies in 1992 or 1993.

12. The Canadian Institute of Chartered Accountants (CICA) issued a new standard entitled Comprehensive Revaluation of Assets and Liabilities, which establishes recognition, measurement and disclosure standards, such as revaluations by profit oriented enterprises, in order to establish a new cost basis. Before an enterprise's assets and liabilities can be comprehensively revalued, the following conditions must be met:

(a) All or virtually all of the equity interests in the enterprise must have been acquired, in one or more transactions between non-related parties, by an acquirer who controls the enterprise after the transaction or transactions; or,

(b) The enterprise must have been subject to a financial reorganization, and the same party does not control the enterprise both before and after the reorganization.

13. In both situations, the new costs must be reasonably determinable.

14. The new standard primarily deals with the following two situations:

(a) Acquisition of an enterprise resulting in "push down" accounting, which is defined as a technique that attributes revised values to the assets and liabilities reported in the financial statements of an enterprise based on a purchase transaction or transactions of its equity interests. Application of

the technique results in the acquirer's cost being assigned to the assets and liabilities of the acquired enterprise; or,

(b) A financial reorganization, which is defined as a substantial realignment of the equity and non-equity interests of an enterprise such that the holders of one or more of the significant classes of non-equity interests give up some (or all) of their rights and claims on the enterprise.

15. Measurement issues, the treatment of the revaluation adjustment and disclosure requirements are covered for each of these two situations.

16. An Accounting Guideline was issued in August 1992 entitled "The Management Report". The purpose of this guideline is to provide the Accounting Standard Board's views on the minimum content of a management report that recognizes management's responsibility for financial information. The guideline notes that a management report should acknowledge management's responsibility for financial statements, specialists' reports, other financial information, and internal control over the financial reporting process.

17. Exposure drafts outstanding as of October 1993 are as follows:

(a) Accounting for Impaired Loans, which proposes standards for dealing with the recognition, measurement, presentation and disclosure of impaired loans, including restructured loans and foreclosures;

(b) Measurement Uncertainties, which proposes certain disclosures where estimates have been used in financial statements and the range of possible amounts if significant to the financial statements;

(c) Contingent Gains and Losses, which proposes rules for the recognition and disclosure of contingent items in the financial statements;

(d) Interests in Joint Ventures, which proposes to eliminate the option of using the equity method of accounting for interests in joint ventures and to require the use of the proportionate consolidation method;

(e) Foreign Currency Translation, which proposes that enterprises that meet certain criteria be required to recognize all exchange gains and losses in income as they arise, unless the monetary item is a hedge instrument;

(f) Accounting for New Financial Instruments.

18. The following Research Reports and Studies were published in 1992 and 1993: (a) Environmental Auditing and the Role of the Accounting Profession; (b) Financial Reporting for Segments; (c) Environmental Costs and Liabilities: Accounting and Financial Reporting Issues; and (d) Using Financial Ratios and Graphs in Financial Reporting.

19. Research on the reporting of environmental performance is in process and a research study is expected to be published in the Spring of 1994.

Cyprus

20. Accounting and financial reporting in Cyprus is governed by the Companies Law. In addition, the Institute of Certified Public Accountants of Cyprus has adopted the IASC standards in their entirety and expects its members to comply with these standards in their professional practice. Changes in the Companies Law are being considered by an Ad Hoc committee set up by the Government. One of the proposals concerns the abolition of the Exempt Private Company which has no legal obligation to submit annual accounts to the Register of Companies in Cyprus.

Czech Republic

21. Beginning 1 January 1993 new accounting principles have been legally mandated in the Czech Republic for commercial and non-commercial enterprises (Accounting Law No. 563/1991). The new rules conform to the European Commission's Fourth Directive and international accounting standards. One series of regulations apply to private-sector enterprises, insurance companies and banks and a second series apply to not-for-profit organizations (including government-owned enterprises, foundations, municipalities, political parties and civic organizations).

France

22. On 4 January 1993 Decree No. 93-9 (amending Decree 69-810 of 12 August 1969) was adopted concerning the organization and professional status of company auditors. Two enforcement orders dated 4 January 1993 further support the new Decree. The fundamental purpose of these new laws are to enact into French legal system the provisions of the European Commission's Eighth Directive concerning the certification of persons entrusted with the legal inspection of the accounts of companies (members of the Compagnie des commissaires aux comptes).

23. The Conseil National de la Comptabilité (CNC or National Accounting Board) during 1992 and 1993 issued the following opinions concerning accounting requirements applicable to specific sectors of the economy:

(a) Accounting Plan for Organizations Approved by the State for the Purposes of the Joint Management of Vocational Training Funds;

(b) Professional Accounting Plan for Craft Cooperatives;

(c) Accounting Plan Applicable to the Agency for the Environment and for Energy;

(d) Accounting Plan Applicable to Teacher Training University Institutes;

(e) Accounting Plan for State Agencies for New Town Planning;

(f) Accounting Plan for Organizations for the Collective Placement of Stocks and Shares (OPCVM);

(g) Recommended Accounting Requirements for Political Parties and Groups.

24. CNC has completed a study which compared IASC International Accounting Standard (IAS) No. 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries) and IAS No. 28 (Accounting for Investments in Associates) to French reporting requirements. The study noted a great similarity between French accounting standards and these recommendations of IASC.

25. The following accounting and reporting issues are currently being discussed by standard setting bodies in France:

(a) An accounting plan for insurance enterprises which conforms with the Economic Commission directive on insurance enterprises (91/674/EEC);

(b) Accounting requirements for the recording and reporting of real estate transactions;

(c) Accounting for the value-added tax;

(d) Accounting requirements for automated transactions;

(e) Accounting for financial instruments;

(f) Requirements for the preparation of combined financial statements.

26. Every year the bulletin of CNC contains a summary of the work of the Working Group as well as references to the relevant United Nations publications. Information concerning the work of the Working Group also is provided to the plenary assembly of CNC for review.

Gabon

27. No new legal requirements were adopted in Gabon during 1992 and 1993.

28. In the interest of harmonization of accounting standards in the francophone countries of the world, during this period a mission was received of French experts led by a member of the Conseil National de la Comptabilité (CNC or National Accounting Board) for the purpose of studying the terms for the revision and harmonization of legislation and accounting standards. One of the items submitted to the Government for study is a draft plan for social security organizations.

29. In 1993, the President of the Republic of Gabon created a Conseil Supérieur de la Comptabilité (National Accounting Board) by a decree that was adopted by the Council of Ministers. This body fills a void which existed at the national level in the field of accounting. The purpose of the Board is to promote and

develop training in accounting procedures and standards and to adopt rules and regulations for professional accountants.

30. The conclusions and recommendations of the Working Group relating to training and accounting standards and the strengthening of the accountancy profession have been forwarded to the Ministers of Higher Education and National Education and to the Board of the Institut National des Sciences de Gestion (National Institute for Management Sciences) for their use in carrying out their responsibilities.

Germany

31. The Ordinance of 14 February 1992 concerning accounting for credit institutions (Federal Law Gazette I, page 203), as amended by the Ordinance of 18 June 1993 (Federal Law Gazette I, page 924), completes the implementation provisions of the Act of 30 November 1990 on bank accounting to comply with the European Commission directives on the annual financial statements and the consolidated financial statements of credit institutions. The ordinances contain, primarily, the specifications for balance sheet and income statement reporting.

32. The insurance accounting directive bill was submitted by the Federal Government to the Legislature in May 1993 for consideration and future adoption. The proposed act will bring German laws into conformity with the European Commission directive on annual financial statements and consolidated financial statements for insurance companies.

33. The Federal Ministry of Justice is presently preparing the bills that are designed to implement into German laws the European Commission directives of 8 November 1990 concerning the exemptions for small- and medium-sized companies on compliance with the European Commission Fourth and Seventh Directives.

34. On a regular basis, the conclusions and technical reports of the Working Group are distributed to the primary German organizations in the field of accounting and reporting. In general, the recommendations of the Working Group are in accordance with the Fourth, Seventh and Eighth European Commission Directives, and therefore with German laws.

Indonesia

35. Steps have been taken at the national level during 1993 to promote the harmonization of accounting standards with those of the IASC. The steps have resulted in the following new and revised accounting standards which it is felt are important for the business sector:

(a) Cash flows Statements (revision);

(b) Accounting for Research and Development Activities;

(c) Accounting for Construction Contracts (revision);

(d) Accounting for Revenue Recognition (revision);

(e) Accounting for Retirement Benefits in the Financial Statements of Employers;

(f) Accounting and Reporting by Retirement Benefit Plans;

(g) Accounting for Investments in Venture Capital Companies;

(h) Accounting and Reporting of Interests in Joint Ventures;

(i) Translation of Foreign Currency Financial Statements;

(j) Foreign Exchange Accounting (revision).

36. In the field of auditing, the standards are being harmonized with those promulgated by the American Institute of Certified Public Accountants. Although an association of professional qualified accountants in the Association of South-East Asian Nations (ASEAN) countries has been organized, the harmonization of standards among member nations has not occurred as yet. The following new auditing standards have been issued:

(a) Research of Interim Financial Statements;

(b) Transactions among Special Related Parties;

(c) Quality Control Systems for Audit Firms;

(d) Audits of Banks.

Jordan

37. Accounting and reporting in Jordan are in conformity with the standards promulgated by the IASC.

Lebanon

38. The Government of Lebanon has directed the Accounting Board to draft provisions to update the general accounting plan and the sectoral plans for corporate accounting practices in accordance with Decree No. 4665.

39. The Accounting Board is studying the possibility of standards on the following matters:

(a) Accounting standards for Islamic banks;

(b) Accounting standards for corporations, banks and other financial institutions;

(c) Accounting standards in an inflationary economy.

40. The Board is also considering draft legislation that is designed to limit the practicing of professional accounting to members of the Association of Chartered Accountants in Lebanon. Almost all practicing accountants are already members of the Association.

41. During 1992 and 1993, the Association adopted a requirement that any candidate who has become qualified to be a chartered accountant in Lebanon must also pass an entrance examination before being admitted into membership in the Association. For this purpose, the international accounting and auditing standards have been translated into Arabic and are included in the curriculum for the examination.

42. The Association intends to collaborate closely with the universities and other institutions of higher learning in Lebanon for the purpose of improving the level of higher education in the field of accountancy and will organize training seminars on the work of auditors. There is an intention to publish a specialized journal in Arabic, French and English which will be called "Al Mouhasabah". The journal will contain important articles from publications issued by various international, regional and national organizations of interest to Lebanese accountants.

43. The Association also intends to organize an international conference in Lebanon on accounting and auditing, with the assistance of IASC and IFAC.

44. Information on the conclusions and recommendations of the Working Group and on the Group’s technical reports has been circulated by the Association to its members. The members have found that these reports contribute greatly to their professional activities.

Morocco

45. As part of the process of reform launched by the Moroccan Government in 1982 with the aim of promoting a modern economic and financial information system for enterprises, high priority has been given to organizing the profession of chartered accountants and establishing a profession body for them. The law establishing the profession provides for the registration of chartered accountants and gives them the exclusive right to certify accounts of enterprises. The new requirements also specify the prerequisites and qualifications required for a practitioner to be called a "comptable agree". New accounting standards are being developed and are based on the European Commission Fourth and Eighth Directives. Specific accounting laws will enforce the new accounting standards, and the Conseil National de la Comptabilité has issued instructions on how to apply the new laws.

46. Special regulations have been developed for financial institutions which receive public funds, including the requirement for an audit by an expert comptable. New laws apply to companies that have their shares listed on the stock exchange, and these companies are now required to publish their financial statements within six months after the end of the financial year.

Norway

47. Norway has adopted the following accounting standards during 1992 and 1993: (a) inventories; (b) construction contracts; and (c) contingencies and events after the date of the balance sheet.

48. Provisional standards have been issued for the following matters: (a) deferred taxes; (b) extraordinary items; (c) retirement benefits costs; (d) joint ventures; and (e) investments in subsidiaries and associated companies.

49. Accounting and reporting issues currently being considered for standard setting are revenue recognition, accounting for government grants, related party disclosures, cash flow statements and financial instruments.

50. Currently, a private organization - Norsk Regnskapsstiftelse - undertakes the work of setting accounting standards in Norway. It has been proposed that a sub-governmental body should be established to continue to do this activity, and this proposal will be submitted to the Storting (Parliament) in the Spring of 1994. Activities are also under way to harmonize Norwegian accounting legislation to the European Commission Fourth Directive and the directives that apply to banks and insurance companies.

Oman

51. According to the law that governs the practice of accountancy and auditing, IASC pronouncements are the only approved standards in the country.

Republic of Korea

52. The major change in accounting regulations in the Republic of Korea during 1992 and 1993 were requirements applicable to the consolidated financial statements of enterprises. Under Working Rule 15 of the Securities Exchange Law of Korea which was revised in 1992, the consolidated financial statements of public enterprises are required to include subsidiaries and other controlled enterprises.

Russian Federation

53. The International Advisory Board on Accounting and Auditing Developments in Russia (IAB) held two plenary sessions in January and June 1993 and numerous smaller expert group meetings in Russia and Europe. The work of the IAB is carried out with the participation of its six Russian members which include two from Parliament and two from the Finance Ministry who work closely with the international advisers. The international members or the IAB are the European Commission, the Organisation for Economic Cooperation and Development, IFAL, IASC, the United Nations, and the World Bank.

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54. The IAB has concentrated its work on the auditing law which passed its second reading in the Parliament. The President made various recommendations for changes, most of which were to be incorporated in the third reading which was planned for October or November 1993. Political events in Moscow have delayed this outcome for at least six months. Work on the auditing law has been suspended until the constitutional crisis has been resolved and the law enacted. When the auditing law is passed, work on the audit supervisory body will commence.

55. The accounting law is currently being considered by Parliamentary commissions prior to its first reading. This work might also be delayed. This applies also to the standard-setting work which should take place within a legal framework. However, much work has been done on the draft accounting law and it is now ready for exposure.

56. The training curricula are now virtually finished. Implementation should commence with European Commission funding as soon as possible. The training programme is being built to reflect existing knowledge and Russian accounting tradition. The programme will be carried out by a consortium led by the Institut de Wirtschaftsprufer of Germany. The first recipients of the training programme will be the Academy of National Economy, the Saint Petersburg Institute of Commerce and Economics, and the Plekhanov Russian Economics Academy. Three curricula have been developed; one for higher level practitioners, one for lower level practitioners (bookkeepers), one for academic lecturers. Extensive materials development is planned but it will make use of whatever materials have been developed to date for other training programmes.

57. At present there are around 1.5 million specialists operating in the field of accounting in the Russian Federation including 1 million lower-level practitioners and 0.5 million higher-level practitioners. In addition there are around 6,000 accounting and auditing professors, assistant professors and lecturers in Russian universities. Priority will be given to the training programme for higher-level practitioners and academic lecturers because the training and retraining of these groups will guarantee the greatest multiplier effect.

San Marino

58. Provisions on accounting by enterprises are contained in the Legge Tributaria (tax law, art. 20 et seq.) and the law on companies (art. 71 et seq.). These laws regulate budgeting, accounting and the preparation of financial statements. Annual financial statements may be audited and they must be published under the auspices of the San Marino Court.

59. San Marino has concluded a trade and customs agreement with the EC which is effective for 1993, and the Government is in the process of revising the provisions of its laws and standards so that they are in accordance with the new agreement.

Singapore

60. To date, the Institute of Certified Public Accountants of Singapore (ICPAS) have issued 26 Statements of Accounting Standards (SAS) of which 25 have been adopted from the IASC's International Accounting Standards (IAS).

61. The ICPAS Council has issued an Exposure Draft that is based on IASC IAS 31 - Financial Reporting of Interests in Joint Ventures - and are currently examining the following other IASC Exposure Drafts:

(a) Revenue Recognition (E41);

(b) Construction Contracts (E42);

(c) Property, Plant and Equipment (E43);

(d) The Effects of Changes in Foreign Exchange Rates (E44);

(e) Business Combinations (E45);

(f) Extraordinary Items, Fundamental Errors and Changes in Accounting Policies (E46);

(g) Retirement Benefit Costs (E47).

62. The following additional issues are being considered for standard setting:

(a) Cash flow statements (based on IAS 7);

(b) Accounting for the Goods and Service Tax;

(c) Accounting for financial instruments;

(d) Disclosures in the financial statements of banks and other similar financial institutions.

Spain

63. Spain has adopted the European Commission's guidelines that relate to commercial and accounting laws. The primary laws affecting enterprises are: Royal Legislative Decree (RLD) 1564/1989, which approves the Amended Text of the Law Relating to the Commercial Aspects of Corporations; RLD 1643/1990, which adopts the General Accounting Plan; Order issued by the Ministry of Economy and Finance on 27 January 1993 which adopts the General Accounting Plan for Construction Enterprises; and, RLD 1815/1991, which adopts Standards for the Preparation of Annual Consolidated Financial Statements.

64. The Instituto de Contabilidad y Auditoria de Cuentas (Institute for Accounting and the Auditing of Accounts), which is under the Ministry of the Economy and Finance, sets general accounting standards in Spain; the Dirección General de Seguros (Directorate-General of Insurance) in the Ministry of the

Economy and Finance issues accounting standards for insurance companies; the Comisión Nacional del Mercado de Valores (National Commission of the Stock Market) establishes standards for securities companies and agencies and for collective investment institutions; and, the Bank of Spain provides standards for credit institutions.

65. During the last two years, the Institute has issued the following resolutions which apply to accounting and auditing practices in Spain:

(a) Criteria for Determining the Net Amount of the Volume of Business;

(b) Standards for the Valuation of Material Fixed Assets;

(c) Criteria for Accounting for Advance Payments of Taxes as Provisions for Pensions and Similar Obligations;

(d) Standards for the Valuation of Immaterial Fixed Assets;

(e) Standards of Accounting for Taxes on Profits of Enterprises;

(f) Standards for the Valuation of Capital Shares Derived from Non-Monetary Contributions for the Establishment or Expansion of the Capital of an Enterprise;

(g) Criteria for Accounting for Shares in Fondos de Inversion en Activos del Mercado Monetario (FIAMM or Funds for Investment in Money Market Shares);

(h) Criteria to be Applied in the Valuation of and Accounting for the Canary Isles Indirect General Tax.

66. The Institute is currently considering standards to account for mergers and separations of enterprises and for futures and options, as well as for sectoral adaptations of the General Accounting Plan for the following groups of enterprises: (a) real estate companies; (b) health care centres; (c) electric companies; (d) companies holding concessions for toll motorways; (e) sports corporations; (f) sports federations; and (g) economic interest groups.

67. The conclusions reached by the Working Group and its technical reports are studied by the Institute when accounting standards are being formulated and, as far as possible, the recommendations are included in the accounting standards for Spanish enterprises.

Swaziland

68. Swaziland has adopted the international accounting and auditing standards that have been promulgated by the International Accounting Standards Committee and the International Federation of Accountants. In addition, five other standards have been issued to date:

(a) Disclosure of Accounting Policies;

(b) Accounting for Fixed Assets;

(c) Valuation and Presentation of Stock in the Context of the Historical Cost System;

(d) Information to Be Disclosed in Financial Statements;

(e) Accounting for Construction Contracts.

Sweden

69. In the last two years, the Swedish Accounting Standards Board (Bokforingsnamnden; BFN), a government body, has issued the following new recommendations:

(a) Accounting for Zero-Coupon Bonds;

(b) Accounting for Improvement Costs on Rented Premises.

Also, another government body, the Financial Supervisory Authority (Finansinsinspektionen), has issued the following new regulations for annual and interim reports of credit institutions:

(a) Content of the Statutory Report;

(b) Accounting for Security Loans;

(c) Accounting for the Accrual of Interest on Fixed-Interest Discount and Coupon Instruments Issued and Acquired.

70. The Swedish Financial Accounting Standards Council (Redovisningsradet), a private sector body, issued the following recommendations:

(a) Accounting for Inventories;

(b) Accounting for Receivables and Payables with Hidden Compensation for Interest with Interest Rates other than Market Rates;

(c) Accounting for Extraordinary Items and Disclosures for the Purpose of Comparability;

(d) Accounting for Changes in Accounting Policies.

71. Accounting and reporting issues currently being considered for standard-setting are:

(a) Swedish Accounting Standards Board:

(i) Accounting for Legal Mergers;

(ii) Requirements for the Use of Electronic Data-Processing in Accounting Systems;

(b) Swedish Financial Accounting Standards Council:

(i) Accounting for Property, Plant and Equipment;

(ii) Accounting for Leases;

(iii) Accounting for Pension Costs;

(iv) Accounting for Construction Contracts and for the Rendering of Services.

72. There are two governmental committees analysing the need for major changes in the Accounting Act and the Companies Act to harmonize them with the directives of the European Commission and the standards promoted by the IASC. The first proposals are expected to be issued in early 1994.

Switzerland

73. In 1992 and 1993, a new company law focusing on regulations for limited companies has been enacted. Among others, the requirements for financial reporting and auditing have changed and have been adapted, in many instances, to the requirements of the European Commission. Financial statements will have to follow a certain format and valuation rules will be stricter than under the previous law. The obligation to present group accounts (consolidated financial statements) has been introduced for financial years beginning after 30 June 1993.

74. Furthermore, the requirements for statutory audits have been increased. Based on an ordinance of the Swiss Government for medium- and large-sized companies, only Swiss certified public accountants (or persons holding an equivalent degree) will be allowed to perform statutory audits. Several new forms of audits have been introduced in connection with the issuance of new capital and upon the request of a group of shareholders in certain circumstances.

75. In 1993, the Recommendations for the Presentation of Financial Statements (FER) have been amended. The Recommendations are formulated according to a process that is similar to the procedures followed by the Financial Accounting Standards Board in the United States. The requirements concerning group accounts have been changed significantly and the new practice conforms with the European Commission directive. The preparation of statements of cash flows is mandatory under FER reporting practices.

76. During 1993 the Swiss stock exchange is supposed to finalize its work on new listing requirements and it is expected that there will be an obligation for six-month interim reports to be issued. Accounting and reporting practices for listed companies will be based entirely on accounting concepts in the FER if the exposure drafts being discussed are ultimately adopted. Although major listed companies in Switzerland follow, on a voluntary basis, both European Commission and IASC rules and standards, the proposed new stock exchange regulations will improve significantly the reporting practices of listed companies. Many medium-sized companies will also be affected by the new rules.

77. Also, before the end of 1993, a new ordinance on financial statements of banks is expected to be issued by the Swiss Government. The exposure draft that is outstanding will change current reporting practices by not only adopting the appropriate European Commission directives but also other very significant new reporting requirements. At the same time, a new Recommendation similar to the FER rules is expected to be issued for application to the financial statements of insurance companies.

78. Exposure drafts on accounting for intangible assets (ED FER 9) and accounting for taxes in group accounts (ED FER 10) are expected to be issued by the end of 1993 for public discussion.

79. Reports on the work of the Working Group are circulated by governmental agencies among the various interested groups in Switzerland. During every second or third year a meeting is held by the Swiss delegation to the Working Group with representatives of the Swiss Government, industrial enterprises and other interested parties to discuss the work of the Working Group, OECD and other international organizations involved in the harmonization of accounting standards.

Ukraine

80. Current legislation is aimed at economic reform and the preparation of relevant accounting and reporting information for this purpose. Major efforts are under way at all levels of the legislative and executive branches of the Government to ensure an orderly transition to a market economy.

81. In 1992, the Ukrainian Supreme Council adopted a series of laws governing national tax policies and related accounting matters. In 1993, quarterly accounting forms and procedures for enterprises and organizations to follow were promulgated (Letter No. 18-408 of the Ukrainian Ministry of Finance, 3 February 1993). The new form of enterprise balance sheet reports a net balance equity amount which takes no account of the depreciation of fixed assets or of non-material assets, low-value items or trading items.

82. A State Programme for Transition to an International System of Accounts and Statistics was approved by Decision No. 326 of the Ukrainian Cabinet of Ministers on 4 May 1993. The Programme contains a section entitled "Accounting Reform", which is expected to continue until 1995. The Government has instructed the Ministry of Finance to make provisions for the funding of the Programme.

83. In April 1993, the Audit Services Act was passed, as well as the Regulations on the Accounting and Reporting in the Ukraine (Decision No. 250 of the Ukrainian Council of Ministers, 3 April 1993). The Regulations apply to all enterprises, organizations and institutions other than banks. A number of regulations have been replaced as a result of changing to systems of generally recognized international accounting and statistical reporting.

84. Instructions on the Organization of Accounting in the Ukraine were approved by Order No. 25 of the Ukraine Ministry of Finance on 7 May 1993.

85. As reported in Business Eastern Europe, 29 November 1993, the Ukrainian Government has issued a new regulation which requires that historical cost amounts for fixed assets and their related accumulated depreciation be adjusted for the effects of hyper-inflation in the country. Enterprise assets are required to be classified into three groups: assets acquired before 1 May 1992; assets acquired between 1 May and 31 December 1992; and, assets acquired after 31 December 1992. The index to be used for adjustments is promulgated by the Ministry of Statistics and will be updated every three months. The greatest effect has been on buildings put into service between May and December 1992. Their value will have to be increased by a multiplier of 667.

86. The publication also states that the Ukrainian Chamber of Auditors is finalizing regulations that will govern the qualifications of persons to be officially recognized as auditors. A qualifying examination is currently being developed by the Chamber.

United Kingdom of Great Britain and Northern Ireland

Changes in legislation during 1992 and 1993

87. Small and Medium-sized Enterprise Directive: The European Commission (EC) Directive on exemptions for small and medium-sized enterprises was implemented into United Kingdom law in 1992. In addition to raising the financial thresholds defining small and medium-sized enterprises, implementation of the Directive provides a range of exemptions from existing disclosure requirements in respect of the accounts drawn up by small enterprises which are circulated to shareholders. Although not all of the exemptions permitted by the Directive were implemented, the law now draws a distinction between the disclosure requirements for small companies and those for other companies. The law had previously permitted small enterprises (and, to a lesser degree, medium-sized companies) to make public less information than large companies, but this is the first time that any distinction has been created in the range of information required to be provided to shareholders of companies according to the size of the company.

88. European Commission Eleventh Directive and the Bank Branches Directive: Also in 1992, the two European Commission Directives dealing with the disclosure requirements in respect of bank branches were implemented. These deal with the accounts which are required from companies outside of the United Kingdom which establish branches in the United Kingdom. There are separate provisions dealing with banks and with other companies.

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89. Summary financial statements: For several years, companies whose shares are listed on the Stock Exchange have been permitted to offer summary financial statements to their shareholders instead of the full report of the directors and accounts (financial statements). Following the implementation in 1991 of the European Commission Directive dealing with the accounts of banks and other financial institutions, the minimum content of the summary financial statements prescribed in the law was modified in respect of banks to bring it into line with the new content of the full accounts of banks.

90. European Commission Partnership Directive: In July 1993 this European Commission Directive which extends the scope of the Fourth and Seventh Directives was implemented. The Directive applies to partnerships in which all the partners having unlimited liability for the debts of the partnership take the form of companies with limited liability. Such partnerships are required to publish and have audited accounts in the form applicable to United Kingdom limited companies (i.e., complying with the European Commission Fourth and Seventh Directives). However, the partnerships are exempted from this requirement if one or more of the companies constituting the partner or partners in the partnership have themselves met certain requirements in respect of accounting treatment and disclosure of their interest in the partnership.

Changes in accounting standards during 1992 and 1993

91. The Accounting Standards Board (ASB) issued the following Financial Reporting Standards (FRS) during this period:

(a) FRS 2: Accounting for Subsidiary Undertakings - this standard supersedes an earlier standard issued by the predecessor body. It simplifies and interprets the legal requirements in respect of the drawing up of consolidated accounts which were changed when the EC Seventh Directive was implemented. Particular features of FRS 2 are that it deals with the application of the concepts of "dominant influence" and "managed on a unified basis", which are two elements (among others) in the control of another undertaking leading to a requirement for the latter to be consolidated. FRS 2 creates a presumption that all subsidiary undertakings should be consolidated irrespective of the nature of their activities. Consequently, it may be expected that this will lead to fewer cases than in the past of subsidiary undertaking being excluded from consolidated accounts on the ground that their activities are so different that inclusion would create problems in relation to the requirement that consolidated accounts provide a true and fair view.

(b) FRS 3: Reporting Financial Performance - this standard deals with the information to be shown in the profit and loss account (income statement). In particular, it requires separate information to be provided for continuing and for discontinued activities. It also amends earlier standards in two respects. The definition "extraordinary items" is now drawn more tightly so that these may be expected to arise extremely rarely. Items which previously may have been treated as "extraordinary items" are now to be disclosed separately in the profit and loss account before arriving at profit or loss on ordinary activities. Also, FRS 3 requires that the amounts of earnings per share which listed companies are required to disclose should be calculated on the profits attributable to equity shareholders (i.e., after any extraordinary items and

deduction of minority interests and any preference dividends). If companies choose to disclose any other amounts of earnings per share, these other amounts are to be given no greater prominence and are to be reconciled to the amount calculated according to FRS 3. FRS 3 also requires the introduction of a new primary statement, the "statement of recognized gains and losses" to supplement the existing statements: the balance sheet, the profit and loss account and the cash flow statement. The purpose of this new statement is to show the extent to which shareholders' funds have increased or decreased as a result of all of the gains and losses recognized during the period.

(c) Amendment to an existing standard on deferred taxes - this amendment arose from the standard dealing with pension costs and, more recently, the United Kingdom Urgent Issues Task Force ruling on post-retirement benefits other than pensions (see discussion below). The new requirement is that companies use the same recognition criteria for the tax implications of pensions and other post-retirement benefits as in accounting for the obligations to provide those benefits.

92. Although not having the status of an accounting standard, in July 1993 the ASB published a statement recommending that listed companies should supplement their financial statements with an Operating and Financial Review (OFR). The objective of the OFR is to set out a framework for the provision of additional information which will enable readers of the financial statements to understand them better. The aim is for a discussion of trends and uncertainties in the business, but to stop short of forecasts. The statement is designed as a guideline rather than a rigid format and thus allows companies flexibility to decide for themselves how the supplementary information may be presented in the best manner.

93. The context of the OFR falls broadly into two sections. The operating section would normally include a discussion of the results for the period, indicating the main factors and influences that may have an impact on the future. The financial review section would cover such aspects as the capital structure, the treasury policies adopted, cash flow, liquidity and borrowing requirements.

94. The following Financial Reporting Exposures Drafts (FRED) are outstanding:

(a) FRED 3: Accounting for Capital Instruments - the draft contains proposals for the methods to be used to determine the amounts to be ascribed to capital instruments and their associated costs. It also requires certain disclosures relating to capital instruments. It is proposed that convertible debt always be included under the "Liabilities" (Creditors) classification in balance sheets irrespective of the likelihood of conversion into equity. The direct costs incurred in connection with the issue of capital instruments should be deducted from the proceeds in arriving at the net amount of the issue proceeds. The finance costs associated with liabilities and shares other than equity are to be allocated to periods at a constant rate on the carrying amount, which initially will be the net amount of the issue proceeds. Shares issued by subsidiaries other than those held within the group should be treated as liabilities if any member of the group has an obligation, such as under a guarantee in respect of any payments to be made under the shares.

(b) FRED 4: Reporting the Substance of Transactions - the exposure draft makes proposals for the treatment of "off-balance sheet financing" items, including: the determination of the substance of a transaction; whether any resulting assets and liabilities should be included in the balance sheet; and, the disclosures which are necessary. The exposure draft also covers how any related companies in a transaction (subsidiaries, quasi-subsidiaries, etc.) should be handled. In addition, the exposure draft contains notes that show how the proposals are to be applied to some specific types of transactions. In particular, the exposure draft introduces a "linked presentation" for certain types of non-recourse finance transactions. The amount attributable to the assets being financed and the deduction for non-recourse amounts received, which net down to the residual asset amount, are shown on the face of the balance sheet as additional information.

(c) FRED 5: Amendment to FRS 3 (Reporting Financial Performance): Insurance Companies - specifies the application of FRS 3 to insurance companies.

(d) FRED 6: Acquisitions and Mergers - the draft proposes to confine the use of merger accounting to the relatively small number of cases which are true mergers of two companies and not to the takeover of one company by another. It sets out the criteria that must be met before merger accounting can be used.

95. A discussion paper on fair values in acquisition accounting was published in April 1993 to reform existing practices. The key issues addressed are the principles for making "fair value adjustments" on consolidation to the values of assets acquired and liabilities assumed in a business combination. It is proposed that:

(a) Provisions for future losses in acquired businesses and for reorganization costs following an acquisition should not be accounted for as liabilities;

(b) Assets and liabilities that may be recognized should be limited to those that existed at the acquisition date and should not anticipate the acquirer's plans for making changes to the acquired enterprise's activities;

(c) The principles of valuation at the point of acquisition should follow the "value to the business" principle.

96. Matters currently on the agenda of the ASB, in addition to the follow-up of matters in the outstanding exposure drafts and discussion papers, include: accounting for goodwill; related party transactions; and, accounting for joint ventures and associated undertakings. The ASB is continuing to work on a Statement of Principles, various parts of which have already been published in draft form. There is also an ongoing programme for the review of all standards that were issued by its predecessor body.

United States of America

Changes in accounting and reporting standards in 1992 and 1993

97. The following sections describe accounting and reporting standards that were issued during this period by the various bodies that have responsibilities for financial reporting by enterprises.

98. Standards issued by the Financial Accounting Standards Board (FASB), a body that is independent of the Government and of the accountancy profession in the United States, are applicable to financial reporting for all enterprises. Their pronouncements are called Statements of Financial Accounting Standards (SFAS):

(a) SFAS 107: Disclosures about Fair Value of Financial Instruments - this statement extends existing fair value disclosure practices for some financial instruments by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value. If estimating fair value is not practicable, this statement requires disclosure of descriptive information pertinent to estimating the value of a financial instrument.

(b) SFAS 108: Accounting for Income Taxes - deferral of the Effective Date of SFAS 96 (Accounting for Income Taxes).

(c) SFAS 109: Accounting for Income Taxes - this statement supersedes SFAS 96 referred to above and establishes accounting and reporting standards for income taxes using the "liability approach". The statement provides guidance both for income taxes payable or refundable in the current year and deferred tax assets and liabilities for the future tax consequences of events that have been previously recognized in a company’s financial statements or tax returns.

(d) SFAS 110: Reporting by Defined Benefit Pension Plans of Investment Contracts - this statement requires a defined benefit plan to report at fair value an investment contract issued by either an insurance enterprise or other entity. It permits a plan to report at contract value only those contracts that incorporate mortality or morbidity risks.

(e) SFAS 111: Rescission of SFAS 32 and Technical Corrections - this standard was needed because the American Institute of Certified Public Accountants (AICPA) issued a Statement on Auditing Standards (SAS), No. 69, "The Meaning of Presents Fairly in Conformity with Generally Accepted Accounting Principles", which specifies the hierarchy of generally accepted accounting principles in the United States.

(f) SFAS 112: Employers’ Accounting for Post-employment Benefits - this statement establishes accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. These benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, and continuation of benefits such as health care benefits and life insurance coverage.

(g) SFAS 113: Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts - this statement specifies the accounting by insurance enterprises for the reinsurance (ceding) of insurance contracts. It amends the previous standard (No. 60) to eliminate the practice of insurance enterprises of reporting assets and liabilities relating to reinsurance contracts net of the effects of reinsurance. It also establishes conditions required for a contract with a reinsurer to be accounted for as reinsurance and prescribes accounting and reporting standards for those types of contracts.

(h) SFAS 114: Accounting by Creditors for Impairment of a Loan - this statement is applicable to all creditors and to all loans, uncollateralized as well as collateralized, with certain limited exceptions. It requires that impaired loans be measured based on the present value of expected future cash flows that are discounted at the loan’s effective interest rate, or at the loan’s observable market price, or at the fair value of the collateral.

(i) SFAS 115: Accounting for Certain Investments in Debt and Equity Securities - this statement addresses the accounting and reporting for investments in equity securities that have readily determinable market values and for all investments in debt securities. The standard requires that debt and marketable equity securities be classified into three categories: held-to-maturity, trading, and available for sale. Held-to-maturity securities are accounted for at amortized cost. Trading and available-for-sale securities are both accounted for at fair value; however, the unrealized gain or loss is recognized in the current financial period earnings for trading securities and as a separate component of stockholders’ equity for available-for-sale securities.

(j) SFAS 116: Accounting for Contributions Received and Contributions Made - this statement establishes accounting standards for contributions and applies to all entities that receive or make contributions. Generally, contributions received or made, including unconditional promises to give, are recognized at their fair values as revenues or expenses in the period received or made.

(k) SFAS 117: Financial Statements of Not-for-Profit Organizations - this statement establishes standards for general-purpose external financial statements provided by a not-for-profit organization. It requires a not-for-profit organization to provide statements of financial position (balance sheet), activities, and cash flows which report the organizations’ total assets, liabilities, net assets, activities and cash flows. It also requires the classification of the organization’s net assets, revenues, expenses, gains and losses based on the existence or absence of donor restrictions.

(l) Interpretation No. 39: Offsetting of Amounts Relating to Certain Contracts - this interpretation defines the right of set-off and specifies what conditions must be met to have that right.

(m) Interpretation No. 40: Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises - this interpretation clarifies that when any enterprise, including a mutual life insurance enterprise, issues financial statements described as prepared "in conformity

with generally accepted accounting principles, it is required to apply all applicable authoritative accounting pronouncements in preparing those statements.

99. The AICPA is the body that represents the accountancy profession in the United States at the national level. The pronouncements for its members are called SOPs (standard operating principles) and are considered to be generally accepted accounting and reporting principles in the United States. The following SOPs were issued in the last two years:

91-1: Software Revenue Recognition - the basic principle is that revenue should be recognized upon delivery of the software.

92-1: Accounting for Real Estate Syndication Income - this applies to enterprise that directly or indirectly sponsor the formation of entities that acquire interests in real estate by raising funds from investors.

92-2: Questions and Answers on the Term "Reasonably Objective Basis" and Other Issues Affecting Prospective Financial Statements.

92-3: Accounting for Foreclosed Assets - provides guidance on measuring foreclosed assets and in-substance foreclosed assets after foreclosure.

92-4: Auditing Insurance Entities’ Loss Reserves - this is a guide for developing an effective audit approach to loss reserves.

92-5: Accounting for Foreign Property and Liability Reinsurance - distinguishes the circumstances in which the periodic method versus the open year method should be used.

92-6: Accounting and Reporting by Health and Welfare Benefit Plans.

92-7: Audits of State and Local Governmental Entities Receiving Federal Financial Insurance.

92-8: Auditing Property/Casualty Insurance Entities’ Statutory Financial Statements.

92-9: Audits of Not-for-Profit Organizations Receiving Federal Awards.

93-1: Financial Accounting and Reporting for High-Yield Debt Securities by Investment Companies.

93-2: Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gains, and Return of Capital Distributions by Investment Companies - provides guidance on financial reporting by investment companies for their distributions to shareholders, including returns of capital.

93-3: Rescission of Accounting Principles Board Statements - applies to pronouncements of a predecessor body that are no longer applicable.

93-4: Foreign Currency Accounting and Financial Statement Presentation for Investment Companies - requires reporting of all foreign currency transaction gains and losses other than those related to investments.

93-5: Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations.

100. In addition to following the accounting standards of the FASB and guidance from the AICPA, all publicly held companies in the United States must also comply with the rules and regulations of the United States Securities and Exchange Commission (SEC). During 1992 and 1993, the SEC issued one Staff Accounting Bulletin (SAB) and three Financial Reporting Releases (FRR).

101. SAB No. 92, Accounting and Disclosure Related to Loss Contingencies, was issued to address matters related to loss contingencies, focusing primarily on environmental and product liability contingencies. The SAB provides interpretations of current accounting literature related to: offsetting probable recoveries against probable contingent liabilities; recognition of liability for costs apportioned to other potential responsible parties; uncertainties in the estimation of the extent of environmental or product liabilities; the appropriate discount rate for environmental or product liabilities, if discounting is appropriate; accounting for exit costs; necessary financial statements; and, other disclosures.

102. FRR No. 38, Roll-up Transactions, requires heightened disclosure with respect to the fundamental changes and potential adverse effects arising from business combinations of individual entities into a new entity. Instructions are given concerning conflicts of interests, the reasons and alternatives to such transactions and their fairness. The FRR also requires disclosures to include valuation methods and pro forma financial statements.

103. FRR No. 39, Small Business Initiatives, adopts rules for facilitating the raising of capital by small business. The new rules simplify the registration and reporting requirements for qualifying companies.

<u>Accounting issues currently being considered in the United States</u>

104. The FASB is currently addressing the following matters:

(a) Accounting for stock compensation plans involving the granting of stock rights to employees;

(b) Consolidation policies and procedures, new basis accounting, unconsolidated entities and disaggregated disclosures;

(c) Accounting for long-lived assets when an entity is unable to recover the carrying amount of those assets;

(d) Accounting for financial instruments and off-balance-sheet financing issues, including distinguishing between liabilities and equity and the recognition and measurement of transactions;

(e) The use of financial instruments for hedging and accounting for hedges;

(f) Accounting for securitization transactions and other transfers of financial assets;

(g) Accounting measurements based on the present value of future economic benefits or sacrifices utilizing the interest method;

(h) Accounting for not-for-profit organizations.

Zimbabwe

105. Zimbabwe adopts the accounting and auditing standards issued by the International Accounting Standards Committee (IASs) and by the International Federation of Accountants (ISAs) with directives, if necessary, for local application. During 1993, IASC IAS 7, 27, 29 and 31, and ISA 30 and 31 were adopted.
