

SHAPING THE FUTURE

WHAT ARE THE AREAS WE NEED TO CONCENTRATE ON AND WHAT CAN WE EXPECT FROM THE PRESENT CHANGES IN ACCOUNTING STANDARDS FOR THE FUTURE? **MARY KEEGAN** OF THE ASB HAS THE ANSWERS.

■ **APART FROM FINANCIAL INSTRUMENTS, PENSIONS AND LEASES, WHAT ARE THE KEY DEVELOPMENTS IN ACCOUNTING STANDARDS WHICH YOU BELIEVE TREASURERS NEED TO FOCUS ON?** Your question certainly captures three of the key issues which international standard-setters are currently focused on – although it is worth noting that the financial instruments area itself embraces three important issues: measuring financial instruments at cost or at fair value, hedge accounting, and asset and liability recognition and de-recognition. Three further topics are of note: consolidations, the debt/equity split and business combinations.

The accounting treatment of Special Purpose Entities is linked to the question of de-recognition and also to broader issues of which entities should be included in consolidated accounts. Further development of accounting thinking here is an active project for the UK Accounting Standards Board (ASB), on behalf of the 'international standard-setting partnership', the eight national standard-setters (including the US FASB) which are working in co-operation with the newly constituted International Accounting Standards Board (IASB).

A number of us are also re-considering the definitions of debt and equity, to try to ensure that they result in sensible classification of capital instruments between liabilities and shareholders' funds.

New proposals on business combination accounting (and goodwill) are due to be issued as an international exposure draft in the first half of this year. It seems probable that this will closely mirror the US standards – FAS 141 and FAS 142 – issued last year. Merger accounting and amortisation of goodwill will be banned.

■ **AS REGARDS ACCOUNTING FOR FINANCIAL INSTRUMENTS, WHAT MAJOR CHANGES DO YOU FORESEE OVER THE NEXT FEW YEARS?** The IASB is currently revising its 1998 standard, IAS 39 (see article on page 25). This calls for financial instruments to be measured variously at cost or fair value, it restricts hedge accounting and also deals with de-recognition issues. An exposure draft is expected in the coming months and the intention is for the revised standard to be in place by the end of 2002. If – as is currently expected – the draft EU regulation on financial reporting is finalised this year, the revised IAS 39 will, by 2005, be required accounting for the group accounts of all Europe's listed companies. In the UK, we

also need to consider whether to require all or some of IAS 39 to be adopted from an earlier date.

Treasurers would be well advised to watch for the issue of the IAS 39 exposure draft, to consider and comment on its proposals and, at the same time, to start to make preparations for implementation. The hedge accounting proposals, in particular, may require companies to make changes in systems and documentation procedures. For those who have followed the development of the US standard, FAS 133, much – though not all – of IAS 39 will be familiar.

In the longer term, we should also expect further international development of the ideas in the discussion paper issued in December 2000 by the Joint Working Group on Financial Instruments, proposals for a full fair value model. Detailed analysis of the comment letters received on that paper is progressing, although it is already clear that there are some fundamental issues still to be researched. A standard from those proposals could take at least five years to see the light of day.

■ **GENERALLY, TO WHAT EXTENT DO YOU THINK THAT CHANGES IN ACCOUNTING STANDARDS, FOR EXAMPLE, FOR FINANCIAL INSTRUMENTS AND PENSIONS, AFFECT THE BEHAVIOUR OF COMPANIES? TO WHAT EXTENT DO ACCOUNTING STANDARD SETTERS HAVE REGARD TO THE LIKELY CONSEQUENCES OF CHANGES IN SUCH STANDARDS?** Ultimately, our aim is to provide the framework for useful information to be given to investors, on a basis that is reasonable for preparers of accounts to provide. Transparency is key. We must also be aware of the likely impact of our proposals. That is why it is so important that we listen to the market and that we receive responses to consultation documents and exposure drafts from a wide range of constituents.

As regards hedge accounting, I realise there have been concerns that the US standard, FAS 133, had an adverse impact on treasury management. The next few months will provide the opportunity for firms to comment on whether they have similar concerns as regards the proposals in the revised IAS 39.

■ **AS AN EXAMPLE, DO YOU THINK THE CHANGE IN ACCOUNTING FOR PENSIONS IS HASTENING THE SWITCH FROM**



DEFINED BENEFIT SCHEMES TO DEFINED CONTRIBUTION SCHEMES? IF THIS WERE TO BE THE CASE, WOULD IT BE SOMETHING WHICH SHOULD CONCERN ACCOUNTING STANDARD SETTERS?

A number of companies have mentioned FRS 17 on retirement benefits when they have announced changes either in the nature of their pension schemes or the funding policies. They have, however, always cited the underlying economic rationale as the reason for change – that is, of course, the essential driver of business decisions. The benefit of FRS 17 is that the market will have internationally consistent, objective information on pension scheme assets and liabilities. It can then assess that data in the context of the known economic and financial environment at the reporting date, and of the financial policies of the trustees and the employer. As I indicated earlier, the standard-setters role is to make sure that transparent information is available to facilitate investors' decisions.

DO YOU ANTICIPATE THAT OPERATING LEASE ACCOUNTING RULES WILL REMAIN UNCHANGED, OR IS OPERATING LEASE ACCOUNTING, INCLUDING FOR PROPERTIES, LIKELY TO BE DISCONTINUED?

It is widely acknowledged that existing lease standards around the world are unsatisfactory, in that they make an arbitrary distinction between finance and operating leases. One of the key concerns is that lessees may have significant liabilities under operating leases, but that these are not reflected in their financial statements. A discussion paper issued in December 1999 proposed a single basis for lease accounting. The ASB is currently working to develop the proposals from that discussion paper, with a view to debating these with IASB in due course.

As you suggest, one of the most important consequences of the new approach, especially in the UK, will be the treatment of property leases. From the lessee's perspective, it is not at all clear why the accounting should not be the same for leases of property and of equipment. That view was certainly supported by the majority of respondents to the discussion paper. As regards lessor accounting for properties, we already have a standard that requires current values to be reported, and it is a major challenge to develop the new approach to handle investment properties, while preserving that essential information.

HOW DO YOU SEE THE ROLES OF NATIONAL ACCOUNTING STANDARD SETTING BODIES WITHIN THE EU EVOLVING OVER THE NEXT FEW YEARS?

I can best answer this question by starting with a reminder of how the new IASB structure was set up – in partnership with national standard-setters around the world. The purpose of this partnership is to ensure that international debates harness views from the investment, business and accountancy practice communities across the world. It is early days yet, but indications are that this combination of thinking is working well. The ASB is certainly working hard to make sure that UK views are fully appreciated in the international debate.

Looking to the future, I do not see any reason for a change in that role. I would certainly not like to think that accounting views were only developed in one place – the IASB, for example. That organisation would never be seriously challenged, and innovation would not reflect the best of worldwide thinking. This vision is shared by many, including those at the IASB and the FASB. For example, countries such as Germany and Japan have not seen the advent of global standards as requiring them merely to adopt those standards passively; on the contrary, they have recently established national standard-setting organisations.

DO YOU SEE ANY PROSPECT OF A SINGLE SET OF GLOBAL ACCOUNTING STANDARDS EMERGING IN THE FORESEEABLE FUTURE?

Yes I do, although, of course, this depends on your view of the timescale 'foreseeable future'. As indicated earlier, Europe is moving towards International Accounting Standards – for the group accounts of listed companies, at least. And the standard-setters of other key economies have indicated an intention to use the consultation process with IASB to move towards adoption of the individual new international standards. Obviously, the question remains of how quickly there might be convergence between IAS and US GAAP, but it is notable that FASB is a very active member of the international standard-setting partnership.

DO YOU EXPECT THE OFR TO BE MADE MANDATORY, AND DO YOU SEE THE DISCUSSION AND QUANTIFICATION OF RISKS FACED BY THE COMPANY AN ESSENTIAL ELEMENT OF THE REVIEW?

Making certain parts of an Operating and Financial Review (OFR) mandatory is one of the principal recommendations of the independent Company Law Review. Ministers will have to decide which of these recommendations, including that on the OFR, to accept. They would then need to put forward their proposals for enactment in Parliament, with extensive opportunity for debate at every stage. Clearly, this recommendation has a long way to go! Meanwhile, there must be a chance that these UK proposals will be overtaken by international dialogue. The securities commissions seem interested to have some form of internationally agreed Management Discussion and Analysis. Equally, IASB has indicated an intention to consider an international OFR.

Whatever the eventual guidance or standard on external reporting, the investment community has a major interest in how firms evaluate and manage their risk. We must therefore expect to see increasing pressure for this to be an important part of the annual report.

Mary Keegan is Chairman of the Accounting Standards Board. Mary will be making a keynote speech at the ACT/EuroFinance UK Treasurers' Conference. For the full programme details see www.uktreasurers.com. For enquiries or to reserve a place, call the conference hotline on +44 (0)20 7213 9399.