Annual Report 2005

International Accounting Standards Committee Foundation

International
Accounting Standards
Committee Foundation®

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Report of the Chairman of the IASC Foundation Trustees

Having assumed the chairmanship of the Trustees of the IASC Foundation in January 2006, I am writing this report as a newcomer to the organisation and to the world of accounting more generally. For me, the progress made by the organisation in a short period of time is extraordinary. More than 100 countries are adopting, permitting the use of, or pursuing a formal policy of convergence with, International Financial Reporting Standards (IFRSs).

My predecessor, Paul Volcker, deserves much of the credit for the successful launch of the IASC Foundation and the progress that has been made since then. I am delighted that he will continue to assist us in his new role as chairman of the Trustee Appointments Advisory Group. Additionally, special thanks should be given to Toru Hashimoto, Charles Lee, Sir Sydney Lipworth, David Ruder and Sir Dennis Weatherstone, who retired as Trustees at the end of 2005.

At the same time I am delighted that Sir David Tweedie, with whom I had constructive contact when I was at the European Central Bank, agreed to accept the Trustees' invitation to serve a second term. His continued presence will provide continuity at a critical stage of the convergence process, of which he is a tireless advocate and continues to be one of the architects.

On the sure foundation of the progress achieved over the first five years, the job for me and my fellow Trustees is to build on and consolidate what has been achieved so far. Our two priorities will be to maintain progress towards convergence of accounting standards worldwide and to establish a stable, permanent and broad-based financing system for the IASC Foundation.

Building on the gains achieved

By most measures, 2005 was a milestone year for the IASC Foundation and the IASB. It was a year in which IFRSs were adopted in the European Union, Australia, Hong Kong and South Africa, among others. At the same time, China announced its commitment to bring about convergence of Chinese accounting standards and IFRSs. And convergence work by the IASB and standard-setters in the world's two largest national economies—Japan and the United States—continued to gather speed. The prospects of achieving a single high quality set of accounting standards used in the world's major capital markets seem bright.

A main task for the Trustees in 2006 will be to ensure that the IASB's convergence work, particularly with the United States, Japan and China, continues expeditiously. The recent agreement on a Memorandum of Understanding on the convergence work programme between the IASB and the US Financial Accounting Standards Board (FASB) is a positive development. The document offers a pragmatic balance between the desire of IFRS preparers to have stability in the next few years and the aim of making progress towards the removal of reconciliation requirements. The Trustees supported such an approach when they met in November 2005 and we will monitor progress of the IASB's work in accordance with our oversight responsibilities.

' On the sure foundation of the progress achieved over the first five years, the job for me and my fellow Trustees is to build on and consolidate what has been achieved so far. Our two priorities will be to maintain progress towards convergence of accounting standards worldwide and to establish a stable, permanent and broad-based financing system for the IASC Foundation. '

Establishing a broad-based funding system

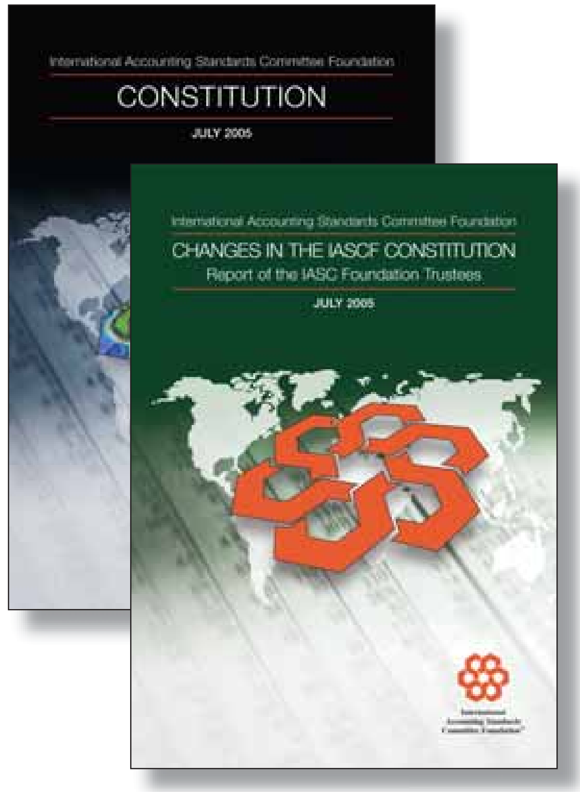
Until now the IASC Foundation has successfully financed its operations largely through voluntary contributions from a relatively small number of private companies, accounting firms, international organisations and central banks. Original commitments were made for the period 2001-2005. Recognising that those initial pledges would expire in due course, the Trustees—as early as 2002—explored other financing arrangements for 2006. However, discussions with the relevant parties revealed a desire to await the completion of the Constitution Review and the first round of IFRS implementation before reaching conclusions on long-term financing. Therefore, with the pledges expiring at the end of 2005, the Trustees decided to extend existing funding commitments for two years to permit time for consideration and implementation of a new financing system. The financing for 2006 and 2007 is nearing completion, with more than $16 million in commitments for each year. The Trustees are working towards a goal of $19 million annually.

There is a widespread feeling among the Trustees and other interested parties that a voluntary system, dependent on a relatively small number of donor organisations, is unsustainable in the long term. There is strong sentiment that a more broadly-based, ongoing and better assured funding system would be more consistent with the aim of establishing the organisation on a permanent basis and of preserving its independence. The creation of such a system for 2008 and beyond is our objective.

In order to meet the 2008 deadline, the Trustees have already started the necessary work, including an intensive discussion at their meeting in March 2006. We are now meeting public and private sector officials in the world's three largest economies—the European Union, Japan, and the United States—from where the great portion of the funding is expected. The Trustees are also organising themselves into regional groupings to implement action plans in these and other jurisdictions with a clear interest in international accounting convergence. Our hope is that we shall have a plan in place by the end of 2006 for implementation in 2008. This would give us sufficient time to complete the administrative arrangements.

The Constitution Review

The strong institutional basis of the IASC Foundation and the IASB makes me confident that we shall be able to address effectively the two priorities described above. I have been able to reflect upon my experience in other international standard-setting environments, including the Bank for International Settlements, the Basel Committee on Banking Supervision, the Committee on Payments and Settlement Systems, and the International Organization of Securities Commissions (IOSCO). While sharing with other standard-setting bodies a high



degree of technical competence, the IASB stands out for its truly global composition, the full-time commitment of its members and its practice of taking all its decisions in meetings open to the public.

In discussions of governance the question of accountability inevitably arises. The IASB itself has no authority to make the adoption of international standards in whole or in part binding, and each country adopting IFRSs has developed a system to decide whether a particular IASB standard is suitable. In that light, accountability in the most traditional sense lies primarily with the bodies that are responsible for adopting IFRSs, generally national governments or national standard-setters.

However, if the goal of common international standards is to be achieved, the aim must be to avoid instances where national bodies choose to grant exceptions to IFRSs. To this end, the IASC Foundation and the IASB assure the confidence of those responsible parties in the quality of IFRSs through the professional competence of the Trustees, IASB members and staff; the strength of the consultative procedures; the independence of the IASB's decision-making processes; the transparency of the IASB's deliberations; and a rigorous and open selection process for Trustees and IASB members.

The structure designed by the 2000 Constitution, which established the IASC Foundation and the IASB, has served the organisation well. In July 2005, after the completion of a two-year review of the Constitution, the Trustees confirmed the conclusions reached by the regulators and experts involved with the Strategy Working Party that developed the original 2000 Constitution.

In initiating the review, the Trustees established a process that permitted views to be heard from a wide range of parties with an interest in, and affected by, standard-setting. This process included the establishment of a committee of seven Trustees to manage the Constitution Review and serve as the primary contact with interested parties on constitutional issues. Over the two years of the Constitution Review, the Trustees published two consultation papers, held public hearings in Asia, Europe, Latin America and the United States, held two sessions with the Standards Advisory Council (a group of public and private sector officials appointed to advise the Trustees and the IASB), and met a large number of interested parties. The consultation process included 140 organisations from six continents. All of the consultation documents and comment letters related to the Constitution Review were made and remain available to interested participants on the IASC Foundation's Website.

While the Trustees reaffirmed the basic structure of the 2000 Constitution, they felt that some changes were warranted. As a consequence, some new practices were introduced, aimed at clarifying the Trustees' oversight role, bolstering the organisation's accountability, and enhancing the IASB's consultation process.

Trustee oversight reinforced

From the start the Trustees have had responsibility for general oversight of the IASB and for reviewing the organisation's strategy. However, the Constitution Review was taken as an opportunity to clarify the oversight role. Specifically, the revised Constitution now requires the Trustees' 'consideration' of the IASB's agenda. The purpose is to enhance accountability and oversight, without fettering the IASB's ultimate technical judgement. Indeed, the Trustees were convinced that full presentation and discussion of the IASB's agenda in a public meeting with the Trustees, who bring to the table broad business and public responsibilities, will be constructive and useful. The Trustees undertook such a review in June and November 2005 and more recently in March 2006. The formal consideration of the agenda included and will continue to include:

- a requirement for the IASB to explain the factors considered in adding a topic to, or not including a topic in, its agenda and the priority that the IASB assigns to a particular topic.
- a timetable for progress on the various topics.
- a discussion of the procedures and criteria that the IASB used in establishing its agenda.
- an opportunity for the IASB to demonstrate its understanding of the full range of views expressed by interested parties on a particular issue and how those views have been taken into account in the development of projects.

In the same spirit, the Trustees have also instituted meetings with the Standards Advisory Council, reconstituted as a result of the Constitution Review and with a newly appointed Chairman, Nelson Carvalho of Brazil. The Trustees hold frequent discussions with officials from the private and public sectors to receive feedback about the IASB's work.

The strengthening of the oversight role also took the form of a more effective control on the procedures of consultation and on a substantive observance of the due process. To this end the Trustees also decided to create a Procedures Committee to enhance their ability to ensure that the IASB is following the appropriate procedures not only for its agenda-setting, but also for consultation with the Standards Advisory Council.

Enhancing the IASB's consultation

In the light of the Constitution Review three steps have been taken to enhance the IASB's consultative procedures and in that way to encourage better understanding of the IASB's processes and broader participation in the IASB's deliberations by interested parties at the earliest stage possible. First, the Trustees inserted into the Constitution a 'comply or explain' notion, common in other regulatory regimes, to apply when the IASB chooses not to follow non-mandatory procedures listed in the Constitution. Second, with the Trustees' support, the IASB itself has expanded on the consultation requirements of the Constitution and has developed a handbook describing its due process. We will update this handbook over time to reflect experience. Third, as explained above, the Trustees have established a Procedures Committee to help ensure compliance with the procedures set out in the IASB's due process handbook. The topic of oversight was at the centre of discussions at the Trustees' meeting in March 2006 and will remain a major area of focus in the months ahead.

Strengthening the selection process

The Trustees established a high level and broadly representative advisory group to help them in discharging their responsibility for nominating and appointing highly qualified and interested individuals as Trustees. The establishment of the group—the Trustee Appointments Advisory Group—is aimed at increasing consultation between the Trustees and leaders of official international and regional organisations with an interest in accounting standard-setting.

The ultimate decision on Trustee selection remains with the Trustees, but this Advisory Group was closely involved in the selection of eight colleagues as well as in my own appointment. I am confident that the Trustees will be able to draw upon the expertise of this group to identify individuals of high quality to serve as Trustees. The group will be used on a continuing basis for future appointments. As I have mentioned above, Paul Volcker is now serving as chairman of the group.

Publication and educational activity

In addition to overseeing and financing the work of the IASB, the IASC Foundation promotes the use and rigorous application of IFRSs through its educational and publications activities. The Trustees established the education programme in 2004 with the objective of contributing to the understanding of IFRSs and aiding the consistent implementation of IFRSs worldwide. In 2005, educational activities gathered pace. The IASC Foundation hosted its first convergence conference and issued a number of publications aimed at promoting implementation of IFRSs.

While the IASC Foundation sells publications to help offset the costs of the IASB's standard-setting activities, it has balanced the real financial need with the organisation's clear objective of making its materials readily accessible. This balance has been achieved in a number of ways. First, as a matter of policy, the IASC Foundation has waived copyright of the required elements of IFRSs in countries adopting IFRSs as law. Second, the IASC Foundation has developed a reduced pricing policy for emerging markets. Third, with the assistance of a number of dedicated volunteers from the private and public sectors, the IASC Foundation has translated the text of IFRSs into nearly 40 languages. The Trustees will continue to foster efforts to update these translations in a timely manner. Lastly, the IASC Foundation is investing in new technologies to provide IFRSs and related educational materials in an easily accessible form to all users of the standards.

Maintaining a sound financial footing

The Trustees are responsible for ensuring that the IASC Foundation and the IASB have adequate financial resources to achieve the objectives laid out in the IASC Foundation's Constitution. Although the financial results for 2005 provide a mixed picture when compared with those of previous years, the IASC Foundation remains on a sound footing.

The IASC Foundation recorded its first annual decrease in net assets of £575,810. The greatest factor behind the total net loss is a decrease of £915,346 in the fair value of its financial instruments on the balance sheet. The Trustees had purchased foreign exchange forward to protect against the depreciation of the US dollar versus sterling, because the funding commitments to the IASC Foundation were primarily in US dollars and expenditures were (and continue to be) in sterling. This strategy proved successful in limiting the effects of the depreciating US dollar since 2001, but the final forwards that were valued at £978,708 on the balance sheet at the end of 2004 matured in December 2005. Under the accounting treatment chosen, the change in the balance sheet position flows directly through the Statement of Activities.

By a number of measures, the 2005 financial performance remained solid.

- To help protect the independence of the standard-setting process, the Trustees have sought to establish a reserve fund of approximately one year's budget. The value of the IASC Foundation's cash and bond holdings increased from £12.4 million in December 2004 to £12.7 million in December 2005.
- The IASC Foundation successfully completed the fifth year of its funding programme. In 2005, 182 organisations and companies provided £9.4 million ($17.1 million), maintaining the level of US dollar support and accounting for a slight increase in sterling terms from the previous year.
- Expenditures for non-publications activities (£12,023,653) remained in control, increasing only 0.5 per cent from the previous year (£11,965,002).

With more than $16 million of commitments in place for 2006 and 2007 and fundraising efforts ongoing, the necessary resources will be available for the IASB to continue its important work.

The growing acceptance of IFRSs and continued support from the official, business and investment communities for the IASB's work serve as evidence of the progress made since 2001. While the results of this experience in international co-operation have been largely positive, the IASC Foundation and the IASB have yet to achieve their final objective of establishing a common set of high quality accounting standards, written for investors and used in all of the world's capital markets. Our task as Trustees is to ensure that progress continues and that the resources are in place to achieve that end.

Tommaso Padoa-Schioppa

Chairman of the Trustees

31 March 2006

Report of the Chairman of the IASB

Introduction

1 As I mentioned in my last report, 2005 was to be the year of consolidation, the period of calm to allow those involved with the thousands of companies switching to International Financial Reporting Standards (IFRSs) to become used to the new suite of accounting requirements.

2 Inevitably, once companies in a hundred countries began to use IFRSs, there arose questions of implementation that had not been considered before. Consequently, the 'stable platform' completed in March 2004 required minor fixes, and several amendments to standards were introduced to ease the implementation process. That period of adjustment is now at an end.

3 With the 2005 objective completed our thoughts have now turned towards convergence. In the past 12 months much has happened. Canada is moving to IFRSs in 2011. In February 2006, the Government of the People's Republic of China announced that listed companies would move to standards that substantially converged with IFRSs at the beginning of 2007. A few remaining differences between Chinese standards and international standards are being worked on throughout this coming year. The convergence programme with Japan is being accelerated, with two meetings with the Accounting Standards Board of Japan being held each year.

4 A major development has been the fleshing out of the 'roadmap' developed by the staff of the US Securities and Exchange Commission (SEC) and supported by Charlie McCreevy, European Commissioner for Internal Market & Services, and William Donaldson, then chairman of the SEC, at their meeting in April 2005. At the end of February 2006 the US Financial Accounting Standards Board (FASB) and the IASB issued a statement with a Memorandum of Understanding showing the way forward to convergence of US generally accepted accounting principles (GAAP) and IFRSs. The statement also reflects the work undertaken by the Committee of European Securities Regulators (CESR) to identify areas for improvement of accounting standards. In the interim, the proposal would ensure that, so far as accounting standards are concerned, conditions are right for removal by 2008 of the requirement for companies to reconcile from IFRSs to US GAAP when listing in the United States.

5 In setting out the way forward the Board is aware of the desire for stability. We are tailoring our agenda to balance this demand for stability with the need to press ahead with convergence. In doing so, we are mindful that serving the needs of investors means that the IASB and the FASB should seek to converge by replacing weaker standards with stronger standards.

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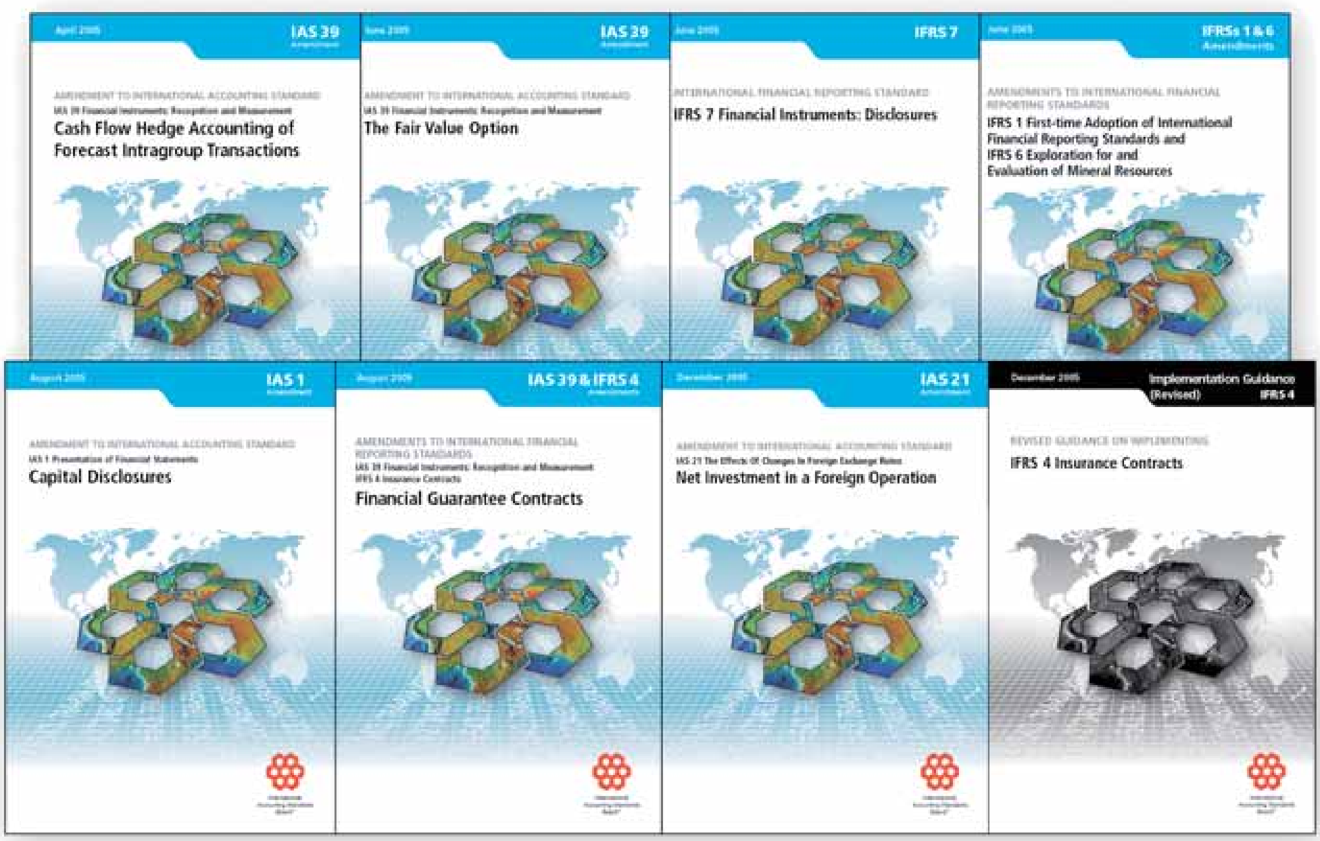
6 This balance is possible because of the evolving perspective of the SEC staff regarding the reconciliation requirement. The staff have stated on several occasions, following the publication of the roadmap, that they would be willing to recommend mutual recognition of IFRSs and US GAAP, *provided a robust convergence process was in place and measurable progress had been achieved and would continue following the removal of reconciliation requirement.*

7 From the standard-setting standpoint, the approach taken in the roadmap was a revelation. The IASB and the FASB would no longer need to concentrate on a possibly endless series of changes, the very changes that would make the stable platform unstable, to get the reconciliation removed. In consultation with the SEC and the European Commission, the IASB and the FASB agreed that trying to eliminate existing differences between two standards that are in need of significant improvement is not the best use of the boards’ resources—instead a new common standard should be developed that improves the financial information reported to investors.

8 Under this arrangement, convergence work would run on two tracks. First, the goal by 2008 is to reach a conclusion about whether existing major differences in the following few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, to complete or substantially complete work in those areas. For the IASB, this could mean changes in six targeted areas, including borrowing costs, income tax, segment reporting, government grants, impairment, and joint ventures. The FASB would also consider making changes to six of its standards. Convergence is a two-way street.

9 Second, and more substantially, the goal by 2008 is to have made significant progress on a number of areas identified by both boards where accounting practices



Standards and Guidance issued in 2005

under US GAAP and IFRSs are regarded as outdated and as candidates for improvement. All of the proposed topics have been either on the Board's agenda for some time or on our research agenda (the stage before joining the main agenda.) This, therefore, involves minimal change to our existing programme.

10 I should stress that the proposed arrangement with the FASB does not mean that completed standards will be issued or even exposure drafts published on these topics by 2008. On all of these topics, which include consolidations, pensions, leasing, revenue recognition and financial instruments, the IASB will follow its full consultation process and will generally reach only the stage of publishing either discussion papers or exposure drafts by 2008. I would expect the full programme not to be completed until around 2011, at which point the answers produced by US GAAP and IFRSs would be very close.

> ' A major development has been the fleshing out of the 'roadmap' developed by the staff of the US Securities and Exchange Commission (SEC) and supported by Charlie McCreevy, European Commissioner for Internal Market & Services, and William Donaldson, then chairman of the SEC, at their meeting in April 2005. '

11 For those projects completed before 2008, the IASB will consider the possibility of delaying implementation dates with the option of early adoption for those seeking to list in the US.

12 The importance of this arrangement cannot be overestimated. It largely, but not entirely, sets out the IASB's work programme for the next five years—initially by concentrating on short-term projects in which we shall simply seek to converge on the main principles. However, both boards point out that their work programmes are not limited to the items listed in the MOU. For example, the IASB has major projects on insurance and on accounting standards for small and medium-sized entities. As before, the FASB and the IASB will follow their normal due process when adding items to their agendas.

Principles versus rules

13 Writing joint standards is not an easy task. Both the FASB and the IASB agree that, generally speaking, standards tend to be too complicated and even when principle-based they are often accompanied by application guidance that is frequently interpreted as being merely a set of rules. Both boards intend to discuss over the next few months how we can make standards less complicated and more clearly principle-based. This could involve over-arching principles, ideally with no exceptions either to scope or to requirements, few bright lines and only sufficient application guidance to enable preparers and auditors to use their judgement to obtain appropriate answers. This will not be simple to achieve and will require support from preparers, auditors and regulators in accepting the use of appropriate judgement. It will mean that neither the Board nor the IFRIC will answer every question put to them, on the grounds that judgement has to be used in applying the principles. It is not the Board's role to deal with every situation that might arise in practice.

Present issues

14 While the agreement with the FASB looks towards the future, the Board of course still has issues of immediate concern to deal with. I comment below on those issues and on the rest of our current work programme.

The technical programme

15 As mentioned above, the Board's technical agenda reflects the emphasis on the joint convergence programme with the FASB. The programme was drawn up first in the agreement that the IASB and the FASB reached in their meeting at Norwalk in October 2002. In the Norwalk Agreement the boards pledged to use their best efforts to make their existing financial reporting standards fully compatible as soon as is practicable and to co-ordinate their future work programmes to ensure that once achieved, compatibility is maintained.

16 At their two joint meetings in 2005, the two boards reaffirmed their commitment to the convergence of US generally accepted accounting principles (US GAAP) and IFRSs. A common set of high quality global standards remains the long-term strategic priority of both the FASB and the IASB.

Short-term convergence

17 The boards' goal is to reach a conclusion by 2008 about whether major differences in a few focused areas can be eliminated through one or more short-term standard-setting projects and, if so, to complete or substantially complete work in those areas. The six topics that the IASB has undertaken to examine are as follows.

(1) IAS 23 *Borrowing Costs*

18 The objective of this part of the project is to remove one of the differences between US GAAP and IAS 23 *Borrowing Costs.* This will be done by eliminating the option in IAS 23 of immediate recognition as an expense of borrowing costs that are directly attributable to the acquisition, construction or production of an asset that needs a substantial period of time to be made ready for its intended use or sale (a 'qualifying asset'). Instead all borrowing costs will have to be capitalised, to the extent that they are directly attributable to the acquisition, production or construction of a qualifying asset. The Board expects to publish an exposure draft of this proposal in the first half of 2006.

> 'At the end of February 2006 the US Financial Accounting Standards Board (FASB) and the IASB issued a statement with a Memorandum of Understanding showing the way forward to convergence of US generally accepted accounting principles (GAAP) and IFRSs.... In the interim, the proposal would ensure that, so far as accounting standards are concerned, conditions are right for removal by 2008 of the requirement for companies to reconcile from IFRSs to US GAAP when listing in the United States.'

19 Some other differences will remain between US GAAP and IAS 23, relating to the methodology for capitalising borrowing costs, but the Board has decided not to include those differences in this short-term convergence project.

(2) IAS 12 *Income Taxes*

20 Tax is one of the largest and most common reconciling items for IFRS users registered in the US. The objective of the project is to achieve convergence on the way that the temporary difference approach—the model underlying both IAS 12 and the US standard SFAS 109 *Accounting for Income Taxes*—is applied. The boards' aim has been to eliminate exceptions to the temporary difference approach, which would lead to a higher quality, more principled standard for both boards.

21 During the year, the boards discussed and reached common decisions on most issues in the project. They propose to eliminate all of the various exceptions to the temporary difference approach in IAS 12 and SFAS 109, apart from an exception relating to investments in foreign subsidiaries and joint ventures. The boards have also reached agreement on the measurement of deferred tax assets and liabilities. The main outstanding issue to be resolved is the treatment of uncertainty relating to tax. Subject to that, the boards aim to publish a joint exposure draft in mid-2006.

(3) IAS 14 *Segment Reporting*

22 In the light of a comparison of IAS 14 *Segment Reporting* with the US standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information,* and after hearing the views of analysts on the relative merits of the two standards, the Board decided to develop an exposure draft for a new standard that would converge with SFAS 131. The exposure draft, ED 8 *Operating Segments*, was published in January 2006. The Board believes that the proposals offer benefits to users of financial statements by enabling them to see an entity through the eyes of management and to entities by enabling them to provide timely segment information at little extra cost.

(4) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and emission trading schemes

23 The Board's original objective was to update the recognition requirements in IAS 20 by adopting the accounting model for government grants included in IAS 41 *Agriculture*. However, since that decision was taken, the Board has undertaken work on other projects that it thinks might enable it to develop a more robust model than that contained in IAS 41. Accordingly, the Board recently decided to defer the IAS 20 project until work on those other projects is further advanced.

24 During the year, the Board added to its agenda a project on emission trading schemes. This addition followed the Board's decision in June to withdraw IFRIC 3 *Emission Rights*. While IFRIC 3 was an appropriate interpretation of existing IFRSs, the Board observed that emission schemes were still evolving. The Board therefore concluded that it would be more appropriate for it to deal with the underlying accounting issues in such schemes in a more comprehensive way than was open to the IFRIC. In adding this project to the agenda, the Board decided that it should first complete its IAS 20 project. This is because emission rights or allowances

that are issued in such schemes meet the definition of a government grant. Accordingly, given the decision on IAS 20, work on emission trading schemes has also been deferred to avoid companies involved in such schemes having to change existing accounting policies twice within a short period.

(5) Impairment

25 Work on this project is at an early stage. The staff of the FASB and the IASB are carrying out preliminary studies, but the Board has yet to discuss them.

(6) Joint ventures

26 The Board has a short-term project for convergence of the accounting for a jointly controlled entity under IFRSs with the accounting under US GAAP. To that end the Board has decided that jointly controlled entities should be accounted for by applying the equity method and that the option of proportionate consolidation available in IAS 31 *Interests in Joint Ventures* should therefore be removed. However, the Board decided that the definition of a joint venture in IAS 31 does not adequately address the difference between a joint venture entity and an undivided interest in the assets and liabilities of a joint arrangement. The Board therefore decided not to remove proportionate consolidation from IAS 31 until this point has been addressed.

27 Staff of the Australian Accounting Standards Board are leading a longer-term research project on joint ventures, with assistance from the standard-setters in Hong Kong, Malaysia and New Zealand. The IASB expects to be able to use their early analysis to help achieve the short-term convergence objectives. An exposure draft relating to the short-term convergence project is likely to be ready in the second half of 2006.

Other joint projects

28 The boards' goal by 2008 is to have made significant progress on joint projects in areas identified by both boards where current accounting practices under US GAAP and IFRSs are regarded as candidates for improvement.

29 The boards have made it plain that it is impractical, when factoring in the need for research, deliberation, consultation and due process, to complete many of these other joint projects by 2008. However, they understand that measurable progress on such projects, rather than their completion, within this time frame would fulfil their contribution to meeting the objective set out in the SEC roadmap. Moreover, this approach is consistent with one of the IASB's objectives, which is to provide near-term stability for users and preparers of IFRS financial statements.

30 The FASB and the IASB have expressed the progress they expect to achieve on our convergence projects in the form of a list of 11 topics. Work on these projects will take place in the context of the boards' joint work on their respective Conceptual Frameworks. As part of their Conceptual Framework project, the FASB and the IASB will be addressing issues relating to the range of measurement attributes (including cost and fair value) to enable a public discussion on these topics to begin in 2006 (see paragraph 56).

31 Six of the projects are already on the IASB's active agenda, as follows. One topic, pensions, has not yet been added to the active agenda.

(1) Business Combinations phase II

32 The Board launched phase I of the Business Combinations project in July 2001 and completed it in March 2004, with the issue of IFRS 3 *Business Combinations*. IFRS 3 requires all business combinations within its scope to be accounted for by applying the purchase (acquisition) method.

33 Phase II of the project continued almost immediately as a joint project with the FASB to develop a single high quality standard dealing with the issues relating to business combinations omitted in the first phase that could be used for both domestic and cross-border financial reporting.

34 In June 2005 the two boards published proposals to revise IFRS 3, to replace the US equivalent—with SFAS 141R *Business Combinations*—and modify the requirements for accounting for non-controlling (minority) interests. By the end of October, when the exposure period ended, the boards had received over 280 comment letters on the proposals on IFRS 3 and SFAS 141, and the IASB had received 95 comment letters and the FASB 49 comment letters on the proposals on non-controlling interests. The boards held five public round-table discussion meetings with some 50 of those respondents. Board members and staff also met many users and representative groups.

35 It will take the boards some time to review the proposals in the light of the comment letters and the outcome of the round-table discussions, but we hope to be able, towards the end of 2006, to make decisions about the publication of a standard, possibly in 2007, to take effect from 2008 or even later.

Sir David Tweedie and members of the Standards Advisory Council

(2) Consolidation

36 The project to publish a single IFRS on consolidation to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* was added to the Board's agenda in June 2003. The Board began the year having made good progress on the project but, as a result of changes in staffing, did not discuss it in the first half of 2005. However, the Board subsequently made further progress, discussing the project at four Board meetings.

37 In October the Board took the unusual step of publishing a statement in IASB *Update* to clarify that IAS 27 provides that one entity can control another without owning more than half the voting power. This is sometimes referred to as 'de facto control'. Although the Board would have preferred to issue a more formal pronouncement, the statement in *Update* was, in its view, the most expedient way to address the uncertainty that many interested parties had expressed, a development that had emerged with surprising speed. The Board considered undertaking the Consolidation project in phases, including publishing proposals that would address the uncertainty about *de facto* control sooner rather than later, but decided that developing a comprehensive package was preferable to taking a piecemeal approach.

38 The next milestone in this project will be to ascertain whether the control model is robust and can be applied to so-called special purpose entities. Once a decision has been reached, which is likely to be towards the end of 2006, the Board will develop an exposure draft as a matter of high priority.

(3) Fair value measurement

39 IFRSs require the use of fair value in many situations. However, guidance on measuring fair value is dispersed among the standards. This lack of codified and consistent guidance has contributed to inconsistency in measuring fair value. In September 2005, the Board added the Fair Value Measurement project to the agenda in order to develop a single standard that provides guidance to entities on measuring the fair value of assets and liabilities. This project will not require any additional fair value measurements nor will it address the timing or recognition of gains or losses resulting from changes in fair value.

40 The Board recognised that a standard on fair value measurement is needed quite urgently given the number of questions received on how to obtain fair value. The Board noted that the FASB was nearing completion of its own Fair Value Measurement project. In order to expedite the IASB project, the Board decided that it would publish the FASB's standard on fair value measurement, when issued, as an IASB exposure draft. The Board will discuss in the invitation to comment any points on which it disagrees with the FASB's conclusions and will ask respondents to comment on those matters and whether any additional guidance may be needed. The Board expects to publish the exposure draft in 2006.

(4) Performance reporting

41 The Board continued its investigation of the presentation of information in the financial statements, with the project being conducted in two phases. The Board

completed its consideration of segment A of the project, addressing the statements that constitute a complete set of financial statements. The Board published an exposure draft on segment A in the first quarter of 2006.

42 The Board also continued exploring segment B of the project, being conducted jointly with the FASB. Segment B addresses issues related to recycling, aggregation of financial information and the use of totals and subtotals in the financial statements. The Board received valuable input to the project from meetings of the Joint International Advisory Group and the Standards Advisory Council held during 2005. The Board expects to make progress towards a discussion document on segment B during 2006.

(5) Revenue recognition

43 The Board has continued to work jointly with the FASB to develop a set of principles for revenue recognition and a new general standard based on these principles. The aim is convergence of the US and international requirements, and in the course of achieving that to consolidate the myriad US requirements and to fill perceived gaps in IFRSs.

44 The revenue recognition model the boards are developing is one in which revenue would be recognised on the basis of the changes in assets and liabilities that arise from contracts with customers. The boards have been considering the nature of such assets and liabilities and the most appropriate basis for measuring them, and they expect to publish a discussion paper in 2006.

(6) Liabilities and equity

45 The FASB has a project to develop a comprehensive standard of accounting and reporting for financial instruments with characteristics of equity, liabilities, or both, and assets. Such a standard would improve financial reporting by providing users with decision-useful information about an entity's obligations to transfer assets or issue shares. At this early stage of the project the FASB is conducting the initial research and the IASB is monitoring the FASB's progress.

Possible future topics for the convergence programme

46 In addition to the topics described above, the IASB and the FASB have designated as convergence topics four items that are included in the existing research programmes of the boards but have not yet been added to the active agenda.

(1) Derecognition

47 At their meeting in October 2005 the boards established an objective to develop a common standard for the derecognition of financial instruments that would be simpler, easier to apply, and more consistent with concepts of financial reporting than any existing derecognition standard. A meeting of the Financial Instruments Working Group in January 2006 showed general support for a consistent approach to derecognition with no exceptions to the underlying principles. The staff have therefore begun to explore how alternative consistent approaches to derecognition might be implemented.

(2) Financial instruments: improvement and simplification in the longer term

48 The Board has long recognised the desire for a substantial revision of the standards on financial instruments it inherited from its predecessor body (IASC). Many interested parties have told us that they find those standards over-complex and have asked the Board to simplify and improve them. Others have asked for special exceptions or revisions that would address their particular situations. The Board also recognises a widespread desire for a period of stability in which there are no further changes to the financial instruments standards. Obviously, the wishes of these three groups conflict with one another.

49 The Board has considered several approaches to simplifying and improving its financial instruments standards. It understands the desire of individual groups for specific changes, but experience shows that piecemeal changes tend to increase, not reduce, complexity. Board members and staff have also met representative groups from the financial services sector that propose new approaches to hedge accounting, but those meetings have been inconclusive.

50 Most Board members take the view that fundamental improvements to accounting for financial instruments require, *inter alia*, a reconsideration of the mixed attribute model. They have not formed a view on the outcome of that reconsideration. However, an obvious starting point is to consider whether all financial instruments should be reported at fair value, since many acknowledge that fair value is the most relevant measure for financial instruments and few have argued that cost is the ideal measure in all circumstances.

51 Before proposing any possible change to the mixed attribute model, the Board must first address difficult existing technical and practical issues that are likely to take some time to resolve. These issues include how to estimate fair value for financial instruments that are not traded in active markets or are traded in government-controlled markets and what information to present about past changes in fair value and exposures to future changes in market factors. The Board intends to work together with the FASB to address these issues, as well as with other interested parties such as the Financial Instruments Working Group.

(3) Intangible assets

52 Preliminary work on this project has been carried out by staff of the Australian Accounting Standards Board. The IASB expects to begin its own discussions on the topic in 2006.

(4) Leases

53 The primary objective of the project will be to ensure recognition of assets and liabilities arising under leases that are consistent with the *Framework* definitions. The project is expected to lead to a fundamental change in the accounting for leases and the replacement of IAS 17 *Leases*. The Board is being assisted in the project by staff of the UK Accounting Standards Board. Work on the project is still at an early stage and is aimed at a joint agenda decision by the IASB and the FASB in 2006.

Other convergence projects

Pensions

54 The Board is considering the urgency of adding a project on retirement benefits to its active programme. This topic is not only one of the 11 mentioned in the joint FASB-IASB statement as a prerequisite for the removal of the reconciliation requirement but is also a major financial problem overshadowing the financial health of many companies.

55 Although working on convergence with US GAAP that will lead to the future review (and, it is hoped, removal) of the reconciliation requirement is a significant part of the Board's work, the Board's convergence programme also includes other important elements.

Conceptual framework

56 The objective of the project is to build on the two boards' existing frameworks by refining and updating them and developing them into a common framework that both boards can use in developing accounting standards. With concurrent IASB and FASB deliberations and a single integrated staff team, with members based in Christchurch (New Zealand), London, Norwalk and Toronto, this is truly an international project. The Board has made good progress on the first phase of the project. Most of the debate in 2005 focused on the objectives of financial reporting and the qualitative characteristics of decision-useful financial reporting information, and the boards hope to publish a joint exposure draft on these aspects in the second quarter of 2006. Discussion has now moved on to the elements of financial statements, in particular the definitions of an asset, a liability and equity, and on what constitutes the reporting entity. This debate is likely to continue through much of the coming year.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

57 In June, the Board published an exposure draft of proposed amendments to IAS 37 (to be retitled *Non-financial Liabilities*) and complementary limited amendments to IAS 19 *Employee Benefits*. Because of the relationship with the Business Combinations project, the proposed amendments were published at the same time as the exposure draft on business combinations (see paragraph 34 above).

58 The proposals address the accounting for non-financial liabilities (ie liabilities that are not financial liabilities as defined in IAS 32) that are not within the scope of other standards. The main effect of the proposals would be to require entities to recognise their non-financial liabilities unless they cannot be measured reliably. Hence an unconditional (or non-contingent) obligation would be recognised even if there is uncertainty about the amount or timing of the economic benefits required to settle it. Uncertainty about the amount or timing of the economic benefits would be reflected in the measurement of the obligation.

59 Although the exposure draft contains extensive rewriting of IAS 37, some aspects of the proposals, particularly measurement, aim to clarify the existing standard rather than suggest fundamental changes. In addition the proposals would substantially reduce the differences between IFRSs and US GAAP in accounting for costs typically associated with restructurings (for example, termination benefits and contract termination costs).

60 The Board has received more than 120 comment letters and has begun to review the proposals in the light of those comments. It is clear that that many of the issues have proved controversial and we intend to re-debate all the major proposed changes over the course of the coming year. This will mean that the revised standard will not be applicable until 2008 or later.

Other activities

Insurance contracts

61 The Board completed phase I of its project on insurance contracts in March 2004 by issuing IFRS 4 *Insurance Contracts*. The IFRS is only a stopgap solution, however, and permits a wide range of existing practices to continue until the Board completes phase II of its project.

62 To advise it on the project, the Board formed an Insurance Working Group, made up of senior financial executives, analysts, actuaries, auditors and regulators. Starting in September 2004 the Group has held seven two-day meetings, the most recent in January 2006. The Board is very grateful to those who have taken part for the time and expertise they have devoted to the project, and for the open and constructive nature of the discussions.

63 The Board hopes to publish an initial discussion paper for phase II towards the end of 2006. The FASB plans to seek input from its constituents by issuing an Invitation to Comment containing the IASB discussion paper. The FASB will use that input in deciding whether to add to its agenda a joint project with the IASB to develop a comprehensive standard on accounting for insurance contracts.

Accounting Standards for Small and Medium-sized Entities (SMEs)

64 Our standards are generally aimed at multinational, listed and larger companies. We have been aware for some time that smaller companies have found it difficult to implement the full set of IFRSs. For three years, therefore, the Board has been working with a group of experts to produce a suite of standards for SMEs—defined as entities that (a) do not have public accountability (generally, unlisted companies that are not financial institutions) and (b) publish general purpose financial statements for external users. In 2004 the Board published a discussion paper with its preliminary views on how it plans to approach the SME project. After considering the responses, in January 2005, the Board agreed the main points of that approach, including its definition of an SME and publication of the SME standards in a single volume organised by topic.

65 In April 2005 the Board published a questionnaire that asked about which transactions create recognition or measurement problems for SMEs under IFRSs, why it is a problem, and how the problem might be solved. The Board received over a hundred responses to the questionnaire. In October, the Board conducted public round-table meetings with questionnaire respondents to probe the views expressed in the responses. Forty-three organisations participated.

66 Also in April 2005, the Board's Working Group on SMEs was expanded to include more preparers and users of SME financial statements. The Working Group met in June and presented a comprehensive set of recommendations to the Board in August, including proposals for simplification of recognition and measurement principles in IFRSs.

67 At its meeting in January 2006, the Board began its initial consideration of a nearly complete but very preliminary staff draft of an exposure draft of an IFRS for SMEs. The Board will consider that draft in the first half of 2006, with a view to publication by mid-year. The Board, of course, will not state who should use these standards—that is entirely a decision for jurisdictions throughout the world.

Management commentary

68 The meeting held in October 2002 between the Board and its partner national standard-setters initiated a project to assess the role the IASB could play in improving the quality of the management commentary that accompanies financial statements (often referred to by the US title MD&A—management's discussion and analysis). The first phase of that project was completed in October 2005 when the IASB published a discussion paper *Management Commentary*. The document was prepared by staff of its partner standard-setters from Germany, New Zealand and the UK and of the Canadian Institute of Chartered Accountants.

Nelson Carvalho, SAC Chairman, and Sir David Tweedie at the SAC meeting in November 2005

69 The Board discussed the document as it was being developed, but has yet to reach tentative views on the authors' recommendations. However, the Board has agreed that if it adds this project to its agenda it will regard the discussion paper as the first stage in its due process. In that case, the IASB could publish an exposure draft as the next phase of such a project. The discussion paper remains open for comment until 28 April 2006.

Measurement

70 In November the Board published another discussion paper prepared by staff of a national standard-setter, in this case the Canadian Accounting Standards Board. The paper—*Measurement Objectives in Financial Reporting—Measurement on Initial Recognition*—considers what the measurement objective should be when an item is first included in financial statements. It concludes that the objective should be fair value, but that in many common situations fair value will be difficult to determine. It therefore proposes a hierarchy of measurements that would be used on initial recognition, starting with market values, but also including substitutes for fair value when fair value cannot be reliably measured. The Board has not reached any tentative decisions on this paper. The paper and the responses received will, however, provide valuable input to the Board's Conceptual Framework project (see paragraphs 30 and 56 above) when it considers measurement issues.

Care and maintenance

71 Although the Board's energies and resources are mainly dedicated to the convergence programme described above, the Board must remain sensitive to the needs and concerns of those who are applying existing standards.

Financial instruments

72 To take financial instruments as an example, as explained in paragraphs 48-51, the Board is now mainly focused on the improvement and simplification of the accounting of financial instruments, with the aim of ultimately replacing IAS 39 *Financial Instruments: Recognition and Measurement.* However, in 2005 the Board devoted time to largely completing its work to ease the implementation of the standards on financial instruments—IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39. Three exposure drafts had been published in 2004 with the aim of providing additional and immediate guidance on issues identified by the business community. Those exposure drafts resulted in amendments to IAS 39 being issued in 2005.

Amendments to IAS 39

73 The first amendment, *Cash Flow Hedge Accounting of Forecast Intragroup Transactions,* responded to concerns expressed by the business community that the requirements of IAS 39 did not reflect common risk management practices with regard to the hedging of foreign currency risk. The amendment permitted cash

flow hedge accounting in the consolidated financial statements of foreign currency risk arising in forecast intragroup transactions if certain conditions are met.

74 The Board also issued *Financial Guarantee Contracts*—an amendment to IAS 39 and IFRS 4 *Insurance Contracts.* This amendment specifies the accounting by the issuer of contracts that meet the definition of a financial guarantee, and is a temporary solution pending further consideration of the differences between credit insurance contracts and other forms of contracts that meet the definition of a financial guarantee contract.

75 A further amendment to IAS 39—*The Fair Value Option*—was issued in 2005. The amendment permits the use of the fair value option to eliminate or significantly reduce measurement or recognition inconsistency (an 'accounting mismatch'), when a group of financial assets, financial liabilities or both is managed and evaluated on a fair value basis or when an instrument contains an embedded derivative that meets particular conditions.

76 This amendment was made in direct response to banking and insurance regulators' concerns that the fair value option available in IAS 39 (as issued in December 2003) might be used inappropriately. The Board developed the approach contained in this amendment after receiving negative comments from most respondents (apart from regulators) to an exposure draft published in 2004. After holding a series of round-table meetings in March 2005 to discuss the revised approach with invited constituents, the Board issued the amendment in June.

Puttable instruments

77 In the light of concern expressed by various interested parties, the Board has tentatively agreed to publish an exposure draft of a possible amendment to IAS 32 to propose that financial instruments that are puttable at fair value and meet specific criteria should be classified as equity, rather than as a liability as at present. The terms of such instruments allow the holder to return ('put') them back to the issuer for a cash sum calculated as a pro rata share of the fair value of the issuer. The proposed amendment would also require some obligations that arise on liquidation where liquidation either is certain to occur (such as for a limited life entity) or will occur in specific other circumstances (such as upon the exit of a partner in a partnership) to be classified as equity.

Amendments to IFRS 2

78 During the year, the Board responded to concerns that had been raised about the pressing need for guidance on two quite common aspects of share-based payment arrangements—vesting conditions and cancellations by parties other than the entity. The Board's response was to develop amendments to IFRS 2 *Share-based Payment* to clarify that vesting conditions should be restricted to service conditions and performance conditions only and that all cancellations, whether by the entity or other parties, should receive the same accounting treatment. The proposed amendments were published in an exposure draft *Vesting Conditions and Cancellations* in February 2006. The Board hopes to finalise the amendments before the end of the year.

IFRIC activities

79 The need for care and maintenance was of course the main reason for creating the International Financial Reporting Interpretations Committee (IFRIC). Until March 2005 the IFRIC was chaired by the IASB's then Director of Technical Activities, Kevin Stevenson. After Kevin's return to Australia in April, the Trustees appointed Board member Robert Garnett as IFRIC Chairman. The Director of Technical Activities continues to attend IFRIC meetings but, from April, day-to-day administration has devolved onto a new staff post, the IFRIC Co-ordinator.

80 In the course of 2005 and at the beginning of 2006 the IASC Foundation and the IASB have taken steps to ensure that the IFRIC has adequate staff resources. With the appointment of the IFRIC Co-ordinator and with recent staff additions, the IFRIC will soon have the equivalent of six full-time staff members working on IFRIC business. These changes reflect the Trustees' recognition of the growing significance of the IFRIC's work following the widespread adoption of IFRSs from 2005.

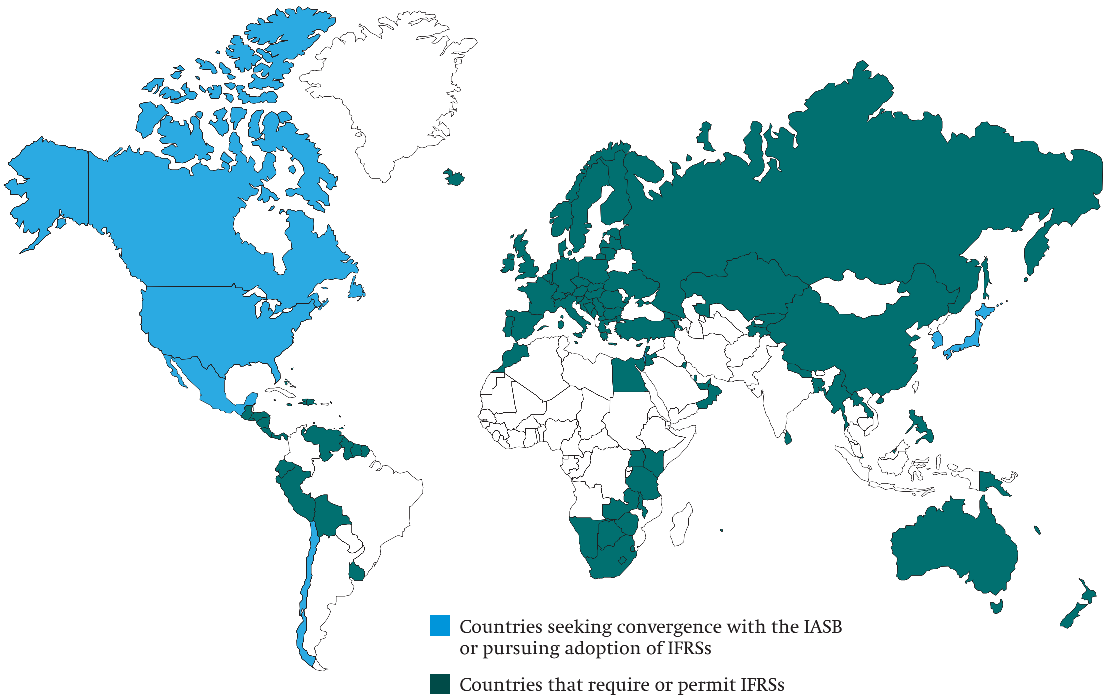
81 A major activity during 2005 has been review of the proposals for service concessions in the light of comments received on three draft Interpretations published in March. In addition to the public consultation, the staff have held meetings with preparer groups and other interested parties and the IFRIC discussed the issues at each of its meetings in the second half of the year.

82 On other topics the IFRIC published a further three drafts and passed three Interpretations to the Board for approval.

83 An innovation in 2005 was the publication, for a short period of public comment, of 'tentative agenda decisions'. These give a brief statement of an issue raised by a constituent, refer to relevant passages in IFRSs and state the IFRIC's (tentative) decision not to take the item onto its agenda. At a subsequent meeting, the tentative decision is either confirmed or modified in the light of comments received. Although not carrying the status of an Interpretation, these agenda decisions are an efficient way of indicating the IFRIC's view on a topic and enable it to give public consideration to a far larger number of requests than would be possible if it could express its opinion only in the form of an Interpretation. During 2005, 21 such agenda decisions were published in IFRIC *Update*.

PROGRESS TOWARDS GLOBAL ADOPTION OF IFRSs

More than 100 countries require or permit the use of International Financial Reporting Standards (IFRSs), or are converging with the IASB's standards.



Source: Deloitte

Spreading the word

84 As a result of the changes in the IASC Foundation's Constitution, there is no longer a requirement for seven of the full-time members of the Board to have formal responsibilities for liaison with eight national standard-setters. This does not, of course, mean that the Board no longer has close relations with those particular standard-setters. The constitutional change is intended to underline that all Board members have a shared responsibility for liaison with all accounting standard-setting bodies, not just those with formal links.

85 Given the limits on our resources, it is not possible to visit and discuss issues arising on IFRSs with all those countries that are interested in adopting our standards or, having made that decision, are now implementing them. Instead, the Board now arranges to meet standard-setters from around the world in an annual meeting at which particular issues are discussed and the problems standard-setters are having in adopting international standards are communicated to the Board. Additionally, various Board members visit particular regions to discuss with standard-setters from all over the region their particular issues and problems. In 2005 Board members and staff spent time in China and Japan in conjunction with the convergence project, and in a meeting with standard-setters from those two countries and Korea. Other areas targeted were Central and South America, and South and South East Asia. Countries that already adopt international standards are not forgotten and Board members visit not only their country of origin but also neighbouring ones, thereby ensuring that a large number of countries in six continents are visited during the course of a year. During the middle of the year we also ran a series of roadshows in 18 European countries to explain the Board's work programme and how preparers and users can participate in our processes. Feedback from those meetings is valuable in enabling the Board to assess the particular difficulties in accepting the Board's standards. It is our intention to continue the use of roadshows in the future.

Standards Advisory Council

86 The Standards Advisory Council was the subject of important changes in 2005. Under the original Constitution, the Council was to be chaired by the chairman of the Board. I was never comfortable with this arrangement, which in my view could involve a conflict of interest on my part. It was therefore my practice to ask Peter Wilmot of South Africa, in his role as vice-chairman of the Council, to chair meetings on my behalf, and I am most grateful to him for taking on that task.

87 In 2004, at the Trustees' request and as part of the organisation's review of its procedures, the Council agreed on a draft 'Charter' setting out terms of reference and operating procedures intended to reinvigorate the Council. One of the proposals was that in future the Council should have its own chairman, with a range of functions and available to represent the Council at meetings of the Trustees. The Trustees incorporated the draft Charter into the consultation paper they published in November 2004 inviting public comment on their conclusions on the review of the IASC Foundation constitution.

88 Subsequently the Trustees gave formal effect to the proposal by amending the Constitution, so that now the chairman of the Council cannot be a member of the IASB or of its staff.

89 The appointments of all members of the Council were due to end at the close of 2004. At the request of the Trustees, all members agreed to continue to serve until the Trustees were able, in 2005, to implement their proposed constitutional changes.

90 In July 2005 the Trustees appointed Nelson Carvalho, Professor of Accounting and Finance, University of São Paulo, Brazil, as chairman of the Council. He had served as a member of the SAC since its formation in 2001 and was nominated as chairman by his fellow members. I was delighted by Nelson's appointment. As a former banking and securities regulator, a corporate director, and a leading researcher of accounting and financial issues he brings an important blend of perspectives to the SAC and a wide range of experience in both the public and private sectors, having been involved in international accounting and auditing activities throughout the last decade. Since his appointment, Nelson has been a familiar figure at 30 Cannon Street, having become a regular observer of meetings of the Board.

91 In October the Trustees announced the membership of the restructured Council. The formation of the new Council with 40 members completed the steps taken by the Trustees to encourage the Council to be a more effective source of advice both to the Trustees and to the Board. The restructured Council's foremost role is to provide broad strategic advice on the Board's agenda priorities and insight into the possible benefits and costs of particular proposals. The composition of the new Council reflected this more closely defined mandate, comprising leading practitioners from 23 countries and seven international organisations, including senior financial officers of corporations, investment analysts with knowledge of accounting issues, partners of audit firms with experience in auditing companies that apply IFRSs, executives of international financial and development organisations, and other senior representatives of public interest bodies.

Changes in membership

92 In April 2005 the Trustees announced that they had reappointed for a second term as Board members Robert Garnett, Gilbert Gélard and James Leisenring, each of whom would serve a further term of five years.

93 In June 2005 four members of the IFRIC had their terms renewed: Phil Ameen (Vice President and Comptroller, General Electric Company, United States); Michael E Bradbury (Professor of Accounting, Unitec, New Zealand); Claudio de Conto (General Manager Administration and Control, Pirelli S.p.A, Italy); and Jean-Louis Lebrun (Partner and Chairman of the Supervisory Board, Mazars, France). The Trustees also announced that Robert Garnett, who had served as the IFRIC's acting chairman following Kevin Stevenson's departure, would become the non-voting chairman of the IFRIC.

94 Early in the year Junichi Akiyama, Professor of Accounting at Tama University, stepped down as a member of the IFRIC. In his place, the Trustees appointed Shunichi Toyoda. He had served as Corporate Planning Manager of NEC Europe Ltd 1997-2001, and more recently had been seconded from NEC Corporation to the Accounting Standards Board of Japan.

Staffing

95 As I reported last year, Kevin Stevenson resigned as Director of Technical Activities in 2005 in order to return to his native Australia. He also served as the first non-voting chairman of the IFRIC. In Kevin's place we welcomed Elizabeth Hickey, who had served as the IASC Foundation's Director of Education since August 2003. In that capacity Liz had become well known to the technical staff and I was delighted that the crucial role of technical director was to be filled by somebody of proven experience and intimate knowledge of the Board's work and expectations. Another senior appointment was that of Allan Cook to fill the newly created post of IFRIC Co-ordinator. This new arrangement was a response to the growing weight of business coming before the IFRIC.

96 As befits an international organisation, the IASB attracts staff from all over the world, some on temporary assignments to London, others for a longer time before moving on to new challenges, usually in their native land. There is therefore a steady turnover of people working at Cannon Street.

97 There were several departures of technical staff. Kimberley Crook, senior project manager, returned to her native New Zealand to take up her appointment as Technical Director—Accounting Standards of the Institute of Chartered Accountants of New Zealand, and Sandra Thompson, senior project manager, returned to practice in London with an international accounting firm. Three project managers also left us—Galina Ryltsova

returned to practice with an international accounting firm in London, Jim Paul returned to his native Australia to resume his work with the Australian Accounting Standards Board, and Kumar Dasgupta left to take up a post with a leading bank. Two practice fellows left on completing their secondments: Farhad Zaman returned to the US firm of PricewaterhouseCoopers as a partner, and Christoph Bonin returned to Deloitte and Touche in Germany. Adrian Murray, technical associate, concluded his secondment before returning to rejoin the Australian Accounting Standards Board.

98 We welcomed a large number of new colleagues during the year, some of whom (marked * below) are on secondment. Many were recruited to strengthen the technical staff, as follows:

- Sarah Broad (UK)
- Patrina Buchanan (Ireland), who joined in 2004 as Manager—Educational projects, transferred to the technical staff
- Gavin Francis (UK)
- Jenny Lee (UK)
- Eduardo Manso Ponte (Spain)
- Luis Medina (Nicaragua)
- Jon Nelson (US)*
- Simon Peerless (UK)*
- Lara Pope (New Zealand)*
- Amanda Quiring (US)
- Jeff Singleton (Australia)
- Alan Teixeira (New Zealand)
- Michael Thomas (South Africa).

Towards the end of the year we appointed five more members of the technical staff to join early in 2006: Michael Buschhueter (Germany), Candy Fong (Hong Kong)*, Rachel Knubley (UK), Li Li Lian (Malaysia) and Zhang Xiangzhi (China)*.

99 There were also many changes among the operational staff. Michael Josling, the long-serving Finance and Administration Manager, retired and David Branson (UK) took over as Finance Manager. Michael Wells (South Africa) joined as Manager—Educational projects. Kenneth Creighton (US), who had served with Ernst & Young Online in Europe, was appointed as Senior Manager—Publications and Electronic Materials. Our two receptionists on the first floor at 30 Cannon Street were appointed to new positions. Fiona Davitt, from Ireland, was appointed project administrator working with the technical directors to assist the technical staff. Ana Nobre, from Portugal, was appointed human resources and facilities administrator, reporting to the Director of Operations. Their seats at the reception desk were filled by Ana Chinchilla, from Spain, and Lisa Dupont, from the UK. Marith Zaccarelli (US) moved to a new part-time position as graphic design and DTP specialist. Her post as editorial assistant was filled by Vivien Brown (UK). Olafur Eliasson, Assistant IT Manager, returned to his native Iceland. As the year closed we had appointed David Ramsey (UK) as Sigmalink (CMS) Application Manager, Dana Smiley (New Zealand) as customer service team leader, and Rudi Marx (South Africa) as IT assistant, all to join us in January 2006.

100 It is not surprising that at a time when worldwide demand for accountants knowledgeable in IFRSs is growing, some of our staff are attracted by opportunities elsewhere. It is also therefore all the more encouraging that we remain able to attract high quality professional staff from so many parts of the world. This continuing infusion of new backgrounds and experience enriches our work and the life of the organisation. Apart from their exceptional skills and expertise, our staff bring a strong commitment to the ideals that underlie the IASB's mission. The efforts of the Board and the technical staff would, of course, count for little without the support of the administrative and operational staff who are a vital part of the process of getting the Board's message across. My fellow Board members and I admire and respect our staff colleagues' technical and professional excellence, and enjoy their cheerful enthusiasm and stamina. For us, working with so many talented people from so many strands of experience remains a stimulating and challenging experience, and I am grateful to all of our staff, including those who have now moved on to other fields.

Giving credit

101 An organisation such as this depends on the contributions and efforts of many people and of many organisations. I cannot mention them all by name, but there are some to whom I wish to express special thanks. The first is Paul Volcker, the chairman of the Trustees until the end of 2005. His firm and always wise advice gave real meaning to the expression 'tower of strength' and I count it a privilege to have served under his leadership. I am most grateful to him and his colleagues for their enthusiasm and support, which have been vital in upholding the Board's integrity and independence. I am also delighted that he has agreed to serve as chairman of the Trustee Appointments Advisory Group.

102 I am also grateful to the directors for their energy and determination. The management of the growing number of technical staff is in the hands of Liz Hickey, the Director of Technical Activities, and Wayne Upton, the Director of Research. It is also on their shoulders that the heavy burden of organising the Board's work has rested, and I am most grateful to them for their immense contribution. Tom Seidenstein, the IASC Foundation's Director of Operations, once again proved a tireless and resourceful executive and he has done much to strengthen our processes and management

effectiveness. He has also taken over many of the responsibilities formerly undertaken by Kurt Ramin, who stepped down as Commercial Director in July in order to lead the organisation's work with eXtensible Business Reporting Language (XBRL) International, the consortium developing a description and classification system for the contents of financial statements and other business reporting documents. Lastly I thank the Editorial Director, Michael Butcher, who once again oversaw a heavy programme of publications.

> ' ..there are some to whom I wish to express special thanks. The first is Paul Volcker, the chairman of the Trustees until the end of 2005. His firm and always wise advice gave real meaning to the expression 'tower of strength' and I count it a privilege to have served under his leadership...I am also delighted that he has agreed to serve as chairman of the Trustee Appointments Advisory Group. '

103 As I have referred to it in the past, the powerhouse of the organisation remains the Board itself. I should again like to pay tribute to the work of my fellow Board members. Most of us have now been together for nearly five years, and we have seen many changes in that time. Not least has been the expansion of our outreach activities, which add to a workload that is already very demanding, particularly for our two part-time members, and for those who have long distances to travel to attend Board meetings. I am pleased to be able to report once again that, despite the many pressures on Board members' time and energies, our meetings are characterised by good humour and fellowship.

104 Another group to whom a special debt of gratitude is due are the members of the IFRIC. As I have already mentioned, the IFRIC has now begun to make a strong contribution to standard-setting, with three Interpretations and six drafts published during the year. Equally important as this response to the rising demand for help in understanding the intentions of the standards has been the IFRIC's willingness to be robust in the face of requests for statements of the obvious.

105 As I have explained above (paragraphs 86-91), the Standards Advisory Council was reconstituted during the year. The organisation is much indebted to the members of the outgoing Council who generously agreed to continue serving beyond their appointed terms until the Trustees were able to implement the changes adopted as a result of the Constitution Review. Their co-operation enabled the normal processes to continue without interruption, and I am grateful for that. I am also grateful to Nelson Carvalho for agreeing to serve as chairman, and to all those who accepted appointment to the reconstituted Council. The new Council has made a promising start and I look forward to a fruitful relationship with it in the coming years.

106 I want to thank the editorial and publications staff for coping with the high level of publications in the year, and for arranging for our documents to be translated and published expeditiously and our administrative and support staff for again taking good care of the rest of us, and for managing an astonishing volume of papers and all sorts of communications. Lastly, I want to thank my secretary, Janet Smy, ably supported by Jill Robinson. Without their ministrations, my life would be much harder and I should have no chance of being in the right place at the right time.

David Tweedie

Chairman of the IASB

Improving implementation of IFRSs

IASC Foundation Education Initiative

The IASC Foundation's education initiative has been established to contribute to the understanding of IFRSs primarily by arranging conferences and publishing IFRS materials. In that way the initiative aids the adoption and consistent application of IFRSs worldwide.

Education activities 2005:

- The Convergence Conference *The Future of International Financial Reporting Worldwide* provided a forum for interested parties to interact with standard-setters, regulators and multinational preparers. It was attended by over 160 people.
- Presentations to delegations from around the world.
- Publications:
  - *Financial Instruments Reporting and Accounting: A user's guide through the official text of IAS 32, IAS 39 and IFRS 7.*
  - *Conceptual Frameworks* CD-ROM (A presentation by IASB member Jim Leisenring)
  - *A Briefing for Chief Executives, Audit Committees and Boards of Directors*
- Co-branded publications:
  - *IFRS/US GAAP Comparison* (developed by Ernst & Young)
  - *P2P IFRS from principle to practice* (CD-ROM developed by PricewaterhouseCoopers)

To assist IFRS education in the developing world the education initiative is developing a content management system that will facilitate the delivery of its materials consistently in many languages. These education materials will overlay the full text of IFRSs with extensive cross-references and annotations.

IASC Foundation Publications

Disseminating IFRSs broadly through…

…translation into over 40 languages…

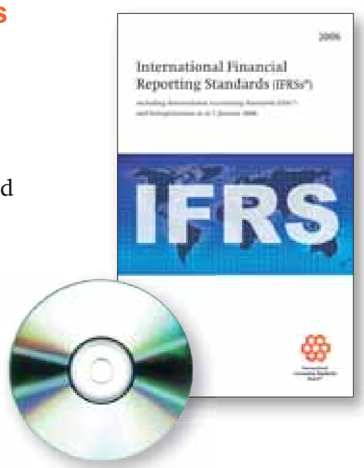
IASC Foundation translation

- ensures a single, quality, translation
- helps removes implementation barriers
- shares best practice

…and global sales in print, CD-ROM and online formats.

IASC Foundation Publications

- Sales in over 200 countries
- Discounts for emerging markets and academics
- Providing necessary revenue, beyond donations, to support the IASB



Report of the Independent Auditors

to the Trustees of the International Accounting Standards Committee Foundation

We have audited the financial statements of the International Accounting Standards Committee Foundation (IASC Foundation) for the year ended 31 December 2005 which comprise the Statement of Activities, the Statement of Financial Position, the Cash Flow Statement and the related notes on pages 22-25. These financial statements have been prepared under the accounting policies set out on page 24.

Respective responsibilities of Trustees and Auditors

The Trustees are responsible for the preparation of the financial statements in accordance with applicable law, the IASC Foundation's Constitution and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with International Financial Reporting Standards. We also report to you if, in our opinion, the Report of the Chairman of the Trustees is not consistent with the financial statements, if the IASC Foundation has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Trustees' remuneration and transactions with the IASC Foundation is not disclosed.

We read the Report of the Chairman of the Trustees and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of our engagement letter to you dated 31 January 2006 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our engagement letter to you dated 31 January 2006 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the IASC Foundation's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the IASC Foundation's affairs as at 31 December 2005 and of its change in net assets for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards.

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP

Chartered Accountants

24 March 2006

Year ended 31 December	Notes	2005 £'000	2004 Restated £'000
REVENUES			
Contributions	3	9,374	9,318
Revenues from publications and related activities	4	4,514	4,154
Interest income		534	460
Other income		27	46
		14,449	13,978
Less direct cost of sales from publications and related activities		(2,753)	(2,924)
		11,696	**11,054**
OPERATING EXPENSES			
Salaries, wages and benefits	5	8,316	8,195
Accommodation	6	984	1,028
Board meetings		781	808
Committees		394	390
Travel for consultations		323	314
External relations		136	115
Audit, legal & taxation		121	124
Communications		261	197
Other costs		167	146
Total operating expenses		**11,483**	**11,317**
TRUSTEES' COSTS	7		
Fees		333	386
Meeting expenses		208	263
		541	649
Total expenses		**12,024**	**11,966**
EXPENSES IN EXCESS OF REVENUES		**(328)**	**(912)**
Changes in fair value of financial instruments		(915)	(150)
Foreign exchange gains		681	1,437
Portfolio management fee		(14)	(12)
(DECREASE)/INCREASE IN NET ASSETS		**(576)**	**363**
Net assets at beginning of year		11,930	11,567
NET ASSETS AT END OF YEAR		**11,354**	**11,930**

The notes on pages 24 and 25 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December	Notes	2005 £'000	2004 £'000
ASSETS			
Non-current assets			
Leasehold property, leasehold improvements, furniture and equipment	9	430	566
Financial assets	10	5,101	4,358
		5,531	**4,924**
Current assets			
Derivative financial assets	10	-	979
Accrued interest receivable on bonds		78	28
Financial assets	10	1,438	1,035
Cash at bank and in hand	10	6,104	7,041
Contributions receivable	3	180	303
Taxation recoverable	8	26	26
Stocks and work in progress	11	67	188
Other receivables		280	423
Prepaid expenses		361	173
		8,534	10,196
TOTAL ASSETS		**14,065**	**15,120**
LIABILITIES			
Non-current liabilities			
Contributions received in advance	3	128	-
Rent premium received on assumption of leases	6	119	73
		247	73
Current liabilities			
Contributions received in advance	3	192	72
Rent premium received on assumption of leases	6	70	92
Publications revenue received in advance		740	668
Accrued expenses and sundry creditors		1,462	2,285
		2,464	3,117
TOTAL LIABILITIES		**2,711**	**3,190**
NET ASSETS		**11,354**	**11,930**

CASH FLOW STATEMENT

Year ended 31 December	Notes	2005 £'000	2004 £'000
OPERATING ACTIVITIES			
Contributions		9,744	9,469
Cash receipts from customers		4,729	4,051
Other receipts		32	35
Cash paid to suppliers and employees:			
Operating expenses		(11,721)	(10,802)
Publications direct expenses		(3,103)	(2,557)
Trustees' costs		(546)	(609)
Net cash from operating activities		**(865)**	**(413)**
INVESTING ACTIVITIES			
Purchase of bonds		(2,162)	(529)
Matured bonds receipts		1,011	963
Interest received		562	517
Purchase of furniture and equipment		(95)	(45)
Leasehold property and leasehold improvements		(55)	-
Portfolio management fee		(14)	(12)
Foreign exchange gains		679	1,426
Net cash (decrease)/increase from investing activities		**(74)**	**2,320**
Effects of exchange rate changes on cash and cash equivalents		2	11
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(937)**	**1,918**
Cash and cash equivalents at beginning of period		7,041	5,123
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	**6,104**	**7,041**

The notes on pages 24 and 25 form part of these financial statements.

For the year ended 31 December 2005

1. LEGAL FORM, OBJECTIVES AND RESTRUCTURING

The International Accounting Standards Committee (IASC) Foundation is a not-for-profit corporation, which was incorporated in the state of Delaware, USA on 6 February 2001 to continue the work of its predecessor body, the International Accounting Standards Committee.

The objectives of the IASC Foundation are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards; and

(c) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

The IASC Foundation has two main bodies, the Trustees and the International Accounting Standards Board (the IASB), as well as the International Financial Reporting Interpretations Committee (IFRIC) and the Standards Advisory Council. The Trustees appoint the members of the IASB and related bodies, exercise oversight over the IASB and other committees and raise the funds needed, whereas the IASB has sole responsibility for setting accounting standards in accordance with its mandate set out in the IASC Foundation Constitution.

Beginning with commitments for financial year 2001, the Trustees raised funds to cover costs associated with the reorganisation of the IASC Foundation and ongoing operations. Additionally, the Trustees sought to provide confidence that the IASC Foundation would have sufficient funds to operate in future years. The large majority of the initial funds were pledged on a multi-year basis to secure financing through to the end of 2005. During 2005 the Trustees pursued a financing solution on two tracks. First, the Trustees sought two-year extensions of the initial commitments and new sources of funding to compensate for the depreciation of the US dollar. Second, the Trustees are investigating options for establishing a sustainable, broadly-based funding system for 2008 and beyond.

2. ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Presentation of the Statement of Activities

Reflecting the IASC Foundation's practice of incorporating interest income to fund its operations, the presentation of the Statement of Activities has been altered for the year beginning 1 January 2005 to include 'Interest Income' as an element of 'Revenues'. Comparative figures for 2004 have been amended accordingly.

(c) Contributions

Contributions are recognised as revenue in the year designated by the contributor.

(d) Publications and related revenue

Subscriptions and licence fees are recognised as revenue on a straight-line basis over the period covered by the subscriptions and fees. Royalties are recognised as revenue on an accruals basis.

Publications direct cost of sales comprises only printing costs and other direct costs including publications department salaries, promotion, and certain computer costs. The direct costs do not include other costs of publishing standards, including costs of Trustees or IASB meetings, associated costs of the IASC Foundation's management team related to the publications programme, the costs of the editorial function involved preparing published materials, various overheads including administration, computer and financial costs, cost of capital, or the costs relating to publications of the work of the IFRIC, the IASB members and technical staff.

(e) Stocks and Work in progress

Stocks and Work in progress are stated at the lower of cost and net realisable value. Work in progress consists primarily of subcontract costs.

(f) Depreciation

Leasehold property and leasehold improvements are depreciated on a straight-line basis over the period of the lease.

Furniture and equipment are depreciated on a straight-line basis over the estimated useful life of the asset. The annual rate applied is 20 per cent of cost for all assets except computer equipment, which is depreciated at 33 1/3 per cent of cost.

(g) Foreign currency transactions

Transactions denominated in currencies other than sterling are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities are translated into sterling at the exchange rate at the year-end.

(h) Operating leases - office accommodation

Lease payments for office accommodation are recognised as an expense on a straight-line basis over the non-cancellable term of the lease.

(i) Financial assets

In previous years, investments in bonds were classified as available for sale and recognised at fair value, and the corresponding gains or losses were included in the Statement of Activities.

The IASC Foundation elected to adopt the June 2005 amendments to *IAS 39 Financial Instruments: Recognition and Measurement* concerning the fair value option from 1 January 2005. The accounting treatment is the same as in previous years: investments in bonds are recognised at fair value, and the corresponding gains or losses are included in the Statement of Activities.

(j) Derivative financial assets

Derivative financial instruments (collars in 2003, and forward contracts in 2004 and 2005) were used to hedge the exposure to foreign exchange risks from dollar contributions used to finance sterling obligations arising from activities. In accordance with its risk management policy, the IASC Foundation does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised at fair value. The corresponding gains or losses are included in the Statement of Activities.

3. CONTRIBUTIONS

When the IASC Foundation was incorporated in 2001, the IASC Foundation Trustees asked contributors to make five-year pledges. The first round of funding expired in 2005. To cover a two-year period while the Trustees investigated other financing mechanisms, the Trustees have sought two-year extensions from existing contributors and contributions from new sources. As of 15 February 2006, the Trustees have achieved the following pledges. The pledges were made primarily in US dollars.

Date	15 Feb 2006	31 Dec 2004
	$'000	$'000
2005		14,910
2006	16,142	
2007	16,063	

The US dollars have been translated at the financial year-end rate of US $1.7188 to £1 (2004: US$1.9058). For convenience purposes, the sterling equivalents follow:

Year	15 Feb 2006	31 Dec2004
	£'000	£'000
2005		7,823
2006	9,392	
2007	9,345	

Four contributions received in 2005 amounting to £320,000, specifically designated by the contributors for use by the IASC Foundation in 2006 (£192,000) and 2007 (£128,000), were recognised as current and non-current liabilities respectively at the end of 2005. Three contributions received in 2006 amounting to a total of £180,000, specifically designated by the contributors for use by the IASC Foundation in 2005, were recognised as revenues at the end of 2005.

4. PUBLICATIONS AND RELATED REVENUE

	2005	2004
	£'000	£'000
Sales of subscriptions and publications	3,756	3,367
Royalties and permission fees	610	669
Other related activities	148	118
	4,514	4,154

5. EMPLOYEES

The IASC Foundation had an average of 67 employees (including IASB members and interns) during 2005 (2004: 64).

		2005		2004
	£'000	£'000	£'000	£'000
Staff costs, including IASB members salaries and other costs	7,904		7,886	
Contributions to defined contribution pension plans	321		268	
Recruitment and relocation costs	91	8,316	41	8,195
Direct staff costs included in publications direct expenses				
Salaries and other costs	905		894	
Contributions to defined contribution pension plans	57		58	
Recruitment and relocation costs	72	1,034	3	955
		9,350		9,150

In 2005, the total cost for the 14 IASB members' salaries, including all applicable employment taxes and benefits amounted to £4,624,000 (2004: £4,623,000). In order to account for the fact that a large number of IASB members work outside the United Kingdom for the majority of their time, the Trustees agree upon an annual compensation budget for each of the IASB members inclusive of all employer contributions for tax and benefits. In March 2005, the Trustees agreed upon the following compensation budgets: £433,183 per year for the IASB Chairman, £356,847 per year for full-time members, and £178,423 per year for part-time members.

6. ACCOMMODATION

The IASC Foundation entered into an operating lease in 2001 for office accommodation on the First Floor at 30 Cannon Street, London and in December 2004 acquired an assignment of an operating lease for part of the Ground Floor of 30 Cannon Street. Both leases expire in September 2008. In 2006 future rents for both floors at 30 Cannon Street will be adjusted to the then current market rates, if higher than those currently required by the leases.

On assigning the lease for part of the Ground Floor at 30 Cannon Street the outgoing tenant paid the IASC Foundation £172,000 covering a nine-month rent-free period and, for the remaining term of the lease thereafter, a £9 per square foot differential between the rent payable under the lease and the lower current market rent agreed with the IASC Foundation. The £172,000 will be recognised as a reduction in accommodation expense over the remaining term of the lease.

At the balance sheet date the balance outstanding in this regard and the remaining value of Cannon Street leases was £189,000, of which £119,000 is a non-current liability and £70,000 is a current liability.

The IASC Foundation entered into an operating lease in 2002 for office accommodation at 73 Watling Street, London, which expired in December 2004.

Since 2001 the IASC Foundation has rented office space at 610 Fifth Avenue, New York, NY, USA. The only obligation incurred in this regard relates to payment of ongoing expenditures and a provision of 90 days' notice of termination.

Payments on the leases, excluding service charges and property rates (currently approximately 41.6 per cent of the lease payments) are due as follows:

	Payments 2005 £'000	Payments 2004 £'000
Operating leases which expire in two to five years	665	665

7. TRUSTEES' COSTS

The Trustees are remunerated with annual and meeting fees and are reimbursed for the expenses of their travel on IASC Foundation business. In 2005, the annual fee for the Chairman of the Trustees was £25,000, and the annual fee for the other Trustees was £12,500. Trustees received a fee of £1,000 for each formal meeting of the IASC Foundation Trustees or one of its committees.

8. UNITED KINGDOM CORPORATION TAX

For US tax purposes, the IASC Foundation is classified as a not-for-profit tax-exempt organisation.

The IASC Foundation is currently in the process of finalising its discussions with the UK authorities with regard to its UK tax status. At the present time, it is not possible to predict the outcome of these discussions and, as such, no provision for tax charges has been made in respect of 2002, 2003, 2004 and 2005.

As these discussions relate to the status of the IASC Foundation since it succeeded IASC, the tax charge made in 2001 with respect to the activities from the date of succession was reversed in 2002.

9. LEASEHOLD PROPERTY, LEASEHOLD IMPROVEMENTS, FURNITURE AND EQUIPMENT

	Leasehold Property £'000	Leasehold Improvements £'000	Furniture, Equipment £'000	2005 total £'000	2004 total £'000
Cost					
At 1 January 2005	63	642	547	1,252	1,249
Additions	2	-	78	80	122
Disposals	-	-	(6)	(6)	(119)
At 31 December 2005	**65**	**642**	**619**	**1,326**	**1,252**
Depreciation					
At 1 January 2005	26	293	367	686	579
Charge for the year	10	93	109	212	224
Disposals	-	-	(2)	(2)	(117)
At 31 December 2005	**36**	**386**	**474**	**896**	**686**
Net carrying amount					
At 31 December 2005	**29**	**256**	**145**	**430**	
At 31 December 2004	**37**	**349**	**180**		**566**

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The IASC Foundation holds sterling denominated fixed rate bonds. The IASC Foundation manages and receives information on its investments in bonds on a fair value basis. Information is provided on that basis to the Trustees of the IASC Foundation and key management personnel. The IASC Foundation's accounting policy, described in note 2(i), reflects this practice.

The maturity of the bonds, all of which are exposed to fair value interest rate risk, is as follows:

	Notional Amount 2005 £'000	Fair Value 2005 £'000	Notional Amount 2004 £'000	Fair Value 2004 £'000
In less than one year	1,415	1,438	1,011	1,035
In more than one year but not more than two years	1,145	1,181	1,415	1,454
In more than two years but not more than three years	3,148	3,226	1,145	1,187
In more than three years but not more than four years	670	694	1,707	1,717
	6,378	6,539	5,278	5,393

Bonds pay interest every 12 months. The nominal interest on the bonds is within a range of 4.5% to 8.5% (2004: 4.5% to 8.5%) and the effective interest rate is within a range of 4.23% to 4.44% (2004: 4.43% to 4.78%).

Derivatives	Maturity Date	Fair Value 2005 £'000	Fair Value 2004 £'000
Sterling/US dollar Forward contracts	2005	-	979

The fair values of investments and derivatives are based on quoted market prices.

Cash at bank and in hand comprises the following:	2005 £'000	2004 £'000	Effective interest rates 2005 %	Effective interest rates 2004 %
Bank sterling deposits due after 7 days, within one month in Geneva	5,400	4,549	4.55	4.63
Bank sterling deposit due within 7 days in London	-	1,700	-	4.59
Cash and bank deposits due on demand				
Sterling in London	3	500	0.50	3.35
Sterling in London	81	33	0.95	1.25
Euro in London	346	214	-	-
US dollars in London	21	1	0.75	-
US dollars in New York	254	44	-	-
Sterling and US dollars in Geneva	(1)	-	-	-
	6,104	7,041		

Cash at bank to pay for general operations in London is held by Barclays Bank PLC, London. One US dollar account used to pay most US dollar expenses is held by Barclays Bank PLC in New York. Other deposits and balances required from time to time to cover hedging obligations and for investment purposes are held in accounts with Barclays Bank (Suisse) S.A in Geneva. All decisions regarding Geneva accounts are managed by the Trustees of the IASC Foundation.

All other financial assets and liabilities are non-interest bearing and due on demand.

11. STOCKS AND WORK IN PROGRESS

At the end of 2004 the IASC Foundation was nearing the completion of a contract with the European Commission for the translation of the International Financial Reporting Standards into the nine languages of the new European Union Member States. Work in progress in 2004 included £151,000 of translation and review costs incurred with regard to this contract. The work was completed during 2005, and the IASC Foundation recognised £320,616 in revenue from the contract and £151,000 in expenses.

Stocks of books amount to £67,000 (2004: £37,000).

12. COPYRIGHT LITIGATION

In 2004 the IASC Foundation was liable to pay the costs of the other party in respect of a judgement against it with regard to copyright in a 1998 and 1999 translation of International Accounting Standards. A best estimate of the amount required to settle this obligation, £240,000, was accrued as a provision included under direct costs of sales for Publications and related revenue in the 2004 accounts. In 2005 the IASC Foundation reached an agreement with the other party on costs. The agreed amount was £260,000, and therefore the difference of £20,000 was recognised under direct costs of sales for Publications and related revenue.

Subsequent to this action, the same party initiated another round of litigation seeking damages for alleged copyright infringement. The IASC Foundation has challenged these claims, and the matter is pending.

13. FINANCIAL RISK MANAGEMENT STRATEGY

The expenditures in the IASC Foundation's operating budget are largely in sterling, whereas the IASC Foundation's Trustees received voluntary, multi-year pledges in US dollars to cover the cost of operating the IASB and other overhead costs through to the end of the year 2005. Therefore, the Trustees have implemented a strategy to mitigate the risks associated with foreign exchange and the voluntary nature of the private contributions.

To address the exchange rate risk, the Trustees entered into a series of forward contracts for 2004 and 2005 and adopted a collar strategy for 2003 to provide a fixed sterling equivalent from the US dollar contributions of a specific percentage of the budget of the IASC Foundation's operating activities. Ninety per cent of the projected budget was covered through a series of zero-cost collars expiring quarterly in 2003. For 2004 and 2005, 90 per cent of the projected budgets were covered through forward contracts, each expiring at the end of a quarter. Details regarding the transactions are found in note 10. At the end of 2005 the Trustees were considering alternative hedging strategies for the 2006 and 2007 commitments.

To protect against the risks associated with voluntary contributions in future years, the Trustees have invested the IASC Foundation's surplus funds in 10 sterling-denominated notes of the UK government and international organisations with an AAA rating. Funds are divided in relatively equal sums with maturities in each of the next four years in order to provide a steady cash flow upon their maturity to replace donor commitments if they are not fulfilled.

14. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Trustees of the IASC Foundation on 24 March 2006.

Preface to International Financial Reporting Standards
Framework for the Preparation and Presentation of Financial Statements

International Financial Reporting Standards

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions[1]
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation[2]
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture

Interpretations of IFRSs

Preface to International Financial Reporting Interpretations

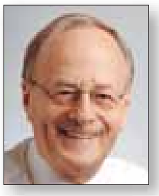
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*
IFRIC 8	Scope of IFRS 2
SIC-7	Introduction of the Euro
SIC-10	Government Assistance—No Specific Relation to Operating Activities
SIC-12	Consolidation—Special Purpose Entities
SIC-13	Jointly Controlled Entities—Non-Monetary Contributions by Venturers
SIC-15	Operating Leases—Incentives
SIC-21	Income Taxes—Recovery of Revalued Non-Depreciable Assets
SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
SIC-29	Disclosure—Service Concession Arrangements
SIC-31	Revenue—Barter Transactions Involving Advertising Services
SIC-32	Intangible Assets—Web Site Costs

[1] Being superseded by IFRS 7
[2] Amended by IFRS 7 as *Financial Instruments: Presentation*

As at 31 December 2005

As at 31 December 2005

Sir David Tweedie, Chairman
Term expires 30 June 2011
Before joining the IASB, he served as the first full-time Chairman of the UK ASB, 1990-2000.



Thomas E Jones, Vice-Chairman
Term expires 30 June 2009
Formerly Principal Financial Officer of Citicorp and last Chairman of the IASC Board. He spent most of his professional career in Belgium, France, Italy and the United States.

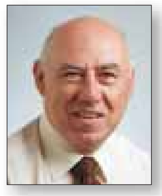
Mary E Barth
Term expires 30 June 2009
Professor of Accounting at the Graduate School of Business at Stanford University, she is one of the IASB's two part-time members.

Hans-Georg Bruns
Term expires 30 June 2006
Formerly Chief Accounting Officer for DaimlerChrysler. He was head of a working group of the German ASB.

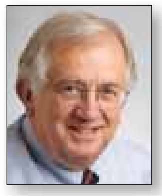
Anthony T Cope
Term expires 30 June 2007
Before joining the IASB, he served as a member of the US FASB. He previously worked as a financial analyst in the United States for 30 years, ultimately becoming Director of Fixed Income Research, Wellington Management Co, in Boston.

Jan Engström
Term expires 30 June 2009
Served in various senior positions, both in his native Sweden and in Latin America, in over 30 years with the Volvo Group. A member of the Volvo Group Management Board 1993-2003, he was the Group's Chief Financial Officer 1993-8 and Chief Executive Officer of Volvo Bus Corporation 1998-2003.

Robert P Garnett
Term expires 30 June 2010
Formerly Executive Vice President of Finance for Anglo American plc, a South African company listed on the London Stock Exchange, he has worked as a preparer and analyst of financial statements throughout his career.



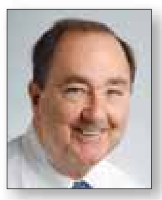
Gilbert Gélard
Term expires 30 June 2010
Formerly a partner at KPMG, he has extensive experience with French industry, including as a Deputy CFO with Groupe Hachette 1973–1982 and Deputy Group Comptroller with Elf Aquitaine 1982–1987.



James J Leisenring
Term expires 30 June 2010
Formerly Vice Chairman and, most recently, Director of International Activities of the US FASB. He has worked on issues related to accounting standard-setting over the last three decades.

Warren J McGregor
Term expires 30 June 2006
He worked on standard-setting for over 20 years at the Australian Accounting Research Foundation, where he ultimately became the Chief Executive Officer.

Patricia L O'Malley
Term expires 30 June 2007
Before joining the IASB, she served as Chair of the ASB of Canada, and was previously Technical Partner at KPMG Canada.



John T Smith
Term expires 30 June 2007
Was appointed to the IASB in September 2002. As a part-time member, he remains a partner in the national office of Deloitte & Touche (D&T) in the United States.

Geoffrey Whittington
Term expires 30 June 2006
Before joining the IASB, he was a member of the UK ASB. He was the PricewaterhouseCoopers Professor of Financial Accounting at Cambridge University and formerly served as a member of the UK Monopolies and Mergers Commission.

Tatsumi Yamada
Term expires 30 June 2006
He was previously a partner at ChuoAoyama Audit Corporation (a member firm of PricewaterhouseCoopers) in Tokyo.

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As at 31 December 2005

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Jeannot Blanchet Managing Director, Morgan Stanley *France*	30 June 2007
Michael E Bradbury Professor of Accounting, Unitec *New Zealand*	30 June 2008
Claudio De Conto General Manager Administration and Control Pirelli & C. S.p.A *Italy*	30 June 2008
Jean-Louis Lebrun Partner, Chairman of Governance Council Mazars *France*	30 June 2008
Domingo Mario Marchese Partner, Marchese Grandi Meson & Asoc. *Argentina*	30 June 2007
Mary Tokar Seconded Partner, KPMG IFRG Limited *United States*	30 June 2007
Shunichi Toyoda NEC Corporation *Japan*	30 June 2006
Leo G van der Tas Partner, Ernst & Young *The Netherlands*	30 June 2006
Patricia Doran Walters President, Disclosure Analytics, Inc *United States*	30 June 2006
Ken Wild Global Leader of IFRS Deloitte Touche Tohmatsu *United Kingdom*	30 June 2009
Ian Wright Global IFRS Leader, PricewaterhouseCoopers *United Kingdom*	30 June 2007

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Robert P Garnett
Member, IASB

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* **Effective 1 January 2006**

As at 31 December 2005

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THE WORLD BANK
Charles McDonough
Director of Accounting and Chief Accountant

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FINANCIAL SERVICES AGENCY OF JAPAN
US SECURITIES AND EXCHANGE COMMISSION

ACCOUNTING FIRMS ($1,000,000 per year)

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HypoVereinsbank (HVB Group) AG
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Nippon Telegraph & Telephone Corporation
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The CFA Institute **(2005 & 2006)**
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Financial Reporting Council of Australia [5]
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[1] Total of 182 financial supporters, including 38 Underwriters and 39 Japanese donors paying through the Japanese Council for Better Corporate Citizenship, of which 2 organisations are not listed because they prefer to remain unnamed.

[2] Underwriter companies provided five-year pledges beginning in 2001 and ranging from $100,000 to $200,000 per year, in accordance with levels prescribed by a formula based on market capitalisation.

[3] All contributions from Germany were channelled through the *Deutsches Rechnungslegungs Standards Committee* (DRSC) e.V.

[4] Its 2005 contribution arrived after the IASC Foundation's 2005 Financial Statements were closed.

[5] The Australian Financial Reporting Council made its contribution on behalf of private and public sector stakeholders in the Australian accounting standard-setting process.

Location

The offices of the IASC Foundation and the International Accounting Standards Board are located on the first floor at 30 Cannon Street, London. The building occupies an island site between Cannon Street and Queen Victoria Street in the heart of the City of London.

How to find us

The nearest Underground stations are Mansion House (Circle and District lines) and St Paul's (Central line). The nearest railway stations are Blackfriars and Cannon Street.

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