

# Accounting Roundup

Audit and Enterprise Risk Services

February 28, 2005

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## FASB Developments

### FASB Issues Proposed FSP FAS 19-a on Suspended Well Costs

On February 4, 2005, the FASB issued proposed FASB Staff Position No. FAS 19-a, "Accounting for Suspended Well Costs," to provide guidance on the accounting for exploratory well costs.<sup>1</sup> The proposed FSP would amend the guidance in FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, and would apply to enterprises that use the successful efforts method of accounting.

Statement 19 generally requires capitalized exploratory well costs to be expensed if the reserves cannot be classified as "proved" within one year following the completion of drilling. Exceptions to the general rule exist in situations where major capital expenditures (e.g., a trunk pipeline) are required before production can begin and additional exploration wells are necessary to justify those major capital expenditures.

Questions have arisen as to whether there are other circumstances that would permit continued capitalization of exploratory well costs beyond one year. The FSP proposes that exploratory well costs should continue to be capitalized when (1) the well has found a sufficient quantity of reserves to justify its completion as a producing well, and (2) the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project. The proposed FSP provides some indicators of whether an enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project. In addition, the proposed FSP would require certain additional disclosures, including the costs of exploratory wells capitalized for more than one year from the date of completion.

The proposed FSP would be applied to the first reporting period beginning after the date the FSP is finalized. The guidance in the proposed FSP would be applied prospectively to existing and newly-capitalized exploratory well costs. Capitalization of exploratory well costs that previously were expensed would not be permitted. Certain transitional disclosures would be required for the period of adoption and the periods preceding the adoption of the proposed FSP.

<sup>1</sup> Exploratory wells and exploratory-type stratigraphic wells, as defined in Statement 19, are referred to collectively as exploratory wells for purposes of this FSP.

The [proposed FSP](#) is available on the FASB's Web site. The comment period ends on March 7, 2005.

## Recent FASB Meetings

The summary below highlights certain tentative decisions reached, or topics discussed at recent FASB meetings. Final conclusions were not reached and further consideration is expected. Additional information is available in the FASB's weekly *Action Alert* newsletter, which is available on the FASB's Web site.

Dates in parentheses indicate FASB meetings at which respective issues were discussed.

## Beneficial Interests (January 19)

The Board tentatively decided to narrow the scope of the amendment to paragraph 14 of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This approach would exclude from the embedded derivative bifurcation requirements of Statement 133 interest-only and principal-only strips that are simple separations of interest and principal in noncomplex instruments without concentration of any risks (except those naturally resulting from the separation). The Board also made the following tentative decisions:

- *Concentrations of Credit Risk* — Not to recognize concentrations of credit risk as embedded derivatives;
- *Amendment to Paragraph 14 of Statement 140* — Not to amend Paragraph 14 of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as a result of this project; and
- *Reference to Issue 99-20 in Statement 140* — To include a footnote in the amendment to Statement 140 referring to EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," as it relates to impairments due to changes in credit in beneficial interests in securitized financial assets.

## Combinations of Not-for-Profit (NFP) Organizations (January 26)

The Board continued to develop guidance for combinations of not-for-profit organizations by discussing (1) partially owned subsidiaries and noncontrolling interests, and (2) goodwill accounting issues.

### Partially Owned Subsidiaries and Noncontrolling Interests

The Board tentatively concluded that, with certain modifications, its decisions on accounting for the initial consolidation of a partially owned subsidiary that were developed in its project on business combinations also should apply to NFP organizations. However, the application of the

noncontrolling interest provisions of the proposed Statement that will replace Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, will be deferred until the Board finalizes the supplemental guidance clarifying its application by NFP organizations. The Board expects to issue an Exposure Draft of the supplemental guidance at the same time it issues an Exposure Draft on the accounting for combinations by NFP organizations.

The Board reached the following tentative decisions on the nature and extent of supplemental guidance:

- *Presentation Issues* — Consolidated financial statements of an NFP parent should present the donor-imposed restrictions on a partially owned subsidiary's net assets in accordance with FASB Statements No. 117, *Financial Statements of Not-for-Profit Organizations*, and No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Noncontrolling ownership interests in consolidated subsidiaries should be presented as a separate component of the appropriate class of equity or net assets in the consolidated financial statements.
- *Excess Losses* — Losses that exceed the noncontrolling ownership interest in a subsidiary's unrestricted equity or net assets should be attributed to those interests. This would reduce the carrying amount below zero.
- *Change in Ownership That Does Not Result in Deconsolidation* — A change in ownership interest that does not result in deconsolidation is an equity transaction to be reported in the statement of activities. Goodwill should be reallocated between controlling and noncontrolling interests based on relative carrying amounts after such a change.
- *Change in Ownership Resulting in Deconsolidation* — A retained interest in a previously consolidated subsidiary generally should be remeasured to fair value upon deconsolidation.

The Board also agreed to require certain disclosures.

### Goodwill Accounting Issues

*Impairment Testing Considerations* — The Board previously decided to provide an exception to the fair-value-based impairment test in FASB Statement No. 142, *Goodwill and Other Intangible Assets*, for any goodwill assigned to a reporting unit that is not supported primarily by fees or other charges to third parties for goods and services. At this meeting, the Board clarified the criterion used to apply its previous conclusion as follows:

- The fair-value-based impairment method in Statement 142 applies to goodwill assigned to a reporting unit that is not supported by contributions and returns on investments.
- The trigger-based impairment method applies to goodwill assigned to a reporting unit that is supported by contributions and returns on investments.

The Board also clarified that a NFP organization should consider all relevant qualitative and quantitative factors in determining whether a reporting unit is supported by contributions and returns on investment. In addition, all forms of contributed support, including contributions that are not recognized in the financial statements (such as contributed services), should be considered in the application of the support criterion.

*Change in the Nature of a Reporting Unit's Primary Support* — The Board made several decisions relating to the appropriate accounting for changes in the nature of a reporting unit's primary support.

*Disclosures* — The Board made several decisions relating to goodwill disclosures, including that NFP organizations should disclose separately the changes in carrying amounts of goodwill for goodwill that is subject to the Statement 142-type fair value impairment test and that is subject to the trigger-based impairment test.

*Transition* — The Board decided that for previously acquired goodwill that is tested for impairment using the trigger-based impairment method there should be no transitional impairment test as of the beginning of the fiscal year in which the new standard initially is applied.

*Assigning Amounts to Reporting Units* — For the purpose of assigning assets, liabilities, and goodwill to reporting units, the Board clarified that a NFP organization is not required to determine the fair value of a reporting unit if it is supported primarily by contributions and returns on investments.

*Disposal of Part of a Reporting Unit* — The Board made several decisions relating to goodwill accounting when only part of a reporting unit is disposed of, including (1) how to allocate goodwill between the portions of the reporting unit disposed and retained, and (2) whether any retained goodwill should be tested for impairment.

*Reorganization of Reporting Structure* — The Board decided that when all or part of a reporting unit that is supported primarily by contributions and returns on investments is to be integrated into one or more other reporting units (at least one of which is supported primarily by contributions and returns on investments), the goodwill, if possible, should be reassigned based on specific identification. Otherwise, the goodwill reassignment should be based on the relative carrying amounts of the identifiable recognizable net assets reassigned.

## Conceptual Framework (January 19)

The Board approved the issuance (pending revisions in response to comments from IASB and FASB members) of a proposed initial communications document that would inform constituents about the joint project, address the need for a conceptual framework, and describe how the existing IASB and FASB frameworks meet part, but not all of, that need.

## Fair Value Option (February 2)

The Board decided not to expand the scope of the project to permit entities to elect (outside of the hedge accounting outlined in Statement 133) to recognize in earnings the change in fair value of an asset or liability attributable only to certain selected risks rather than the total change in fair value.

## Financial Instruments: Derivatives Implementation (February 2)

The Board discussed exposing the tentative guidance in Statement 133 Implementation Issue No. B38<sup>2</sup> for public comment. The Issue relates to an interpretation of the "net settlement" criterion in paragraph 9(a) of Statement 133 for embedded prepayment options in certain debt instruments. The Board decided not to discuss the tentative guidance in Implementation Issue B38 until further research has been completed by the staff to determine whether Statement 133 could be amended or interpreted, such that the prepayment option feature of certain common prepayable loans with prepayment penalties would not be considered an embedded derivative subject to Implementation Issue B38. The Board did not reach a decision on whether to expose Implementation Issue B38 or revise the guidance in Statement 133.

## Financial Instruments: Stable Value Investment Funds (February 9)

The Board reconfirmed that fair value is the appropriate measurement basis for all investments and derivatives of an investment company. However, in limited circumstances, contract value may be appropriate for fully benefit-responsive investment contracts held by certain entities. The Board directed the staff to draft a proposed FSP for discussion at a future Board meeting that includes the following:

- The criteria and limited circumstances under which contract value accounting treatment would be appropriate, and
- A description of the enhanced quantitative and qualitative disclosures required if contract value is used.

The Board recommended that the staff use the guidance in AICPA Statement of Position 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, in drafting the proposed FSP.

## Interpretation of Statement 143 (January 26)

The Board decided not to reconsider the guidance in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. The Board instead decided to provide additional guidance in the final Interpretation for evaluating whether sufficient information about the timing of settlement is available to make a reasonable estimate of the fair value of an asset retirement obligation.

<sup>2</sup> Statement 133 Implementation Issue No. B38, "Evaluation of Net Settlement With Respect to the Settlement of a Debt Instrument Through Exercise of an Embedded Prepayment Option"

## Property, Plant, and Equipment (February 2)

The Board directed the staff to continue with its research on accounting for planned major maintenance activities of property, plant, and equipment, with the objective of refining the scope of the potential project. Based on the research results, the Board will decide whether to add a project on planned major maintenance activities to a future meeting agenda. The Board decided not to address the following issues:

- The accounting for rental costs that are incurred during construction of a real estate project;
- The accounting for liquidated damages received during the acquisition of property, plant, and equipment; and
- The threshold for beginning to capitalize property, plant, and equipment.

## Proposed FSP APB 18-a (February 9)

The Board directed the staff to post the proposed FASB Staff Position No. APB 18-a, "Accounting for the Loss of Significant Influence in an Investee," to the FASB Web site. This proposed FSP addresses accounting by an investor for other comprehensive income of an investee accounted for under the equity method upon a loss of significant influence. The Board decided that the FSP would be applied prospectively regardless of the method previously used (i.e., no adjustment would be required for the cumulative effect of a change in accounting principle). The effective date of the proposed FSP would be the first reporting period beginning after the final FSP is posted to the FASB Web site.

## Proposed FSP EITF 85-24-a (February 9)

The Board directed the staff to post the final version of proposed FASB Staff Position No. EITF 85-24-a, "Application of EITF Issue No. 85-24, 'Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge,' When Cash for the Right to Future Distribution Fees for Shares Previously Sold Is Received From Third Parties," to the FASB Web site after the following modifications have been made:

- Clarify that indemnities (1) requiring maintenance of the nature of the Rights<sup>3</sup> as they existed at the time of transfer, or (2) restricting changes to service providers and fund objectives would preclude revenue recognition;
- Revise transition provisions such that the FSP will be applicable in the first fiscal quarter after posting the final FSP to the FASB Web site based on terms in existence in transaction documents as of June 30, 2005; and
- Clarify certain other provisions in the final FSP based on comment letters received.

## Qualifying Special-Purpose Entities With Isolation of Transferred Assets (January 19)

The Board tentatively decided to adopt an approach that would define the circumstances under which isolation could be achieved for transfers of portions of financial assets without using a qualifying special-purpose entity (QSPE). The proposed approach would require that a QSPE be used for all transfers of portions of financial assets unless each interest, including any retained interest, met the following criteria:

- Has equal rights to the cash flows from the underlying assets,
- No interest is subordinate to any other interest, and
- There is no recourse to the transferor or any other interest holder.

This approach also would clarify that paragraph 9(b) of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, would need to be applied to each step in a series of transfers.

## Short-Term Convergence: Income Taxes (January 19)

The Board considered certain differences between the provisions of FASB Statement No. 109, *Accounting for Income Taxes*, and IAS 12, *Income Taxes*, related to the tax rate to be used in measuring deferred tax assets and liabilities. The Board made the following tentative decisions:

- *Enactment* — Amend Statement 109 to clarify that enactment occurs when every action, other than perfunctory actions, has occurred that is required for a measure to become law;
- *Distributed Rates* — If corporate income is taxed at different rates depending on whether that income is distributed to shareholders, require:
  - o Measurement of deferred tax assets and liabilities using the distributed rate (except as described in the next bullet);
  - o Measurement, in consolidated financial statements, of deferred tax assets and liabilities using the undistributed rate to the extent the subsidiary's earnings qualify for the unremitted foreign earnings exception in measuring the deferred tax expense (or benefit) for the period; and
  - o Disclosures in the stand-alone financial statements of a foreign subsidiary when any portion of that subsidiary's earnings qualify for the unremitted foreign earnings exception in Statement 109 in the consolidated financial statements of its parent.

<sup>3</sup> This FSP refers to 12b-1 fees and contingent deferred sales charges for shares previously sold collectively as the Rights.

## Useful Life and Amortization of Intangible Assets (January 19)

The Board decided to reconsider certain aspects of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, as they relate to the determination of the useful life and amortization of intangible assets. The Board directed the staff to explore and develop alternative models for consideration of the following:

- The determination of useful life relative to the anticipated cash flows used to initially value the asset,
- The requirements for recording a residual value for intangible assets,
- The impairment model for renewable intangible assets, and
- An amortization methodology that reflects the pattern in which the economic benefits of an intangible asset are consumed or otherwise used up.

## FASB Project Summaries and Meeting Minutes

Project summaries maintained by the FASB staff, handouts distributed at each meeting, FASB meeting minutes, and summaries of FASB meetings and recent actions are available on the FASB's Web site.

Further information about the FASB can be found on the FASB's Web site, [www.fasb.org](http://www.fasb.org).

*Conclusions of the FASB are subject to change at future Board meetings and generally do not affect current accounting requirements until an official position (Statement or Interpretation) is issued. Official positions of the FASB are determined only after extensive deliberation and due process, including a formal vote by written ballot to issue a Statement or Interpretation. The FASB Staff's guidance (FASB Staff Positions) is proposed after the Board's review and, after being exposed for public comment, becomes final if a majority of the Board does not object to its issuance.*

## AICPA Developments

### AICPA Issues Technical Practice Aids (TPAs) Related to "Accounting by Noninsurance Enterprises for Property and Casualty Insurance Arrangements That Limit Insurance Risk"

In February 2005, the AICPA issued a series of TPAs focusing on certain aspects of finite insurance products utilized by noninsurance enterprises. These TPAs have been designed to assist practitioners in identifying the relevant literature to consider in addressing their specific facts and circumstances. Although the TPAs contain many excerpts of applicable

guidance, readers should familiarize themselves with all of the relevant literature. The guidance in these TPAs addresses property and casualty insurance contracts between a policyholder and an insurance enterprise, which is similar to the relationship between an insurer and a reinsurer.

The TPAs are available on the AICPA's Web site.

### AICPA Issues Proposed Practice Aid for Disclosures of Derivative Loan Commitments

In February 2005, the AICPA published a draft of a proposed Practice Aid to provide illustrative disclosures of derivative loan commitments in accordance with the reporting and disclosure requirements of SEC Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments*. The illustrative disclosures are intended to be used by both public and private issuers. The Practice Aid has not been approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA or the FASB, nor does it have any official or authoritative status.

The draft of the proposed Practice Aid is available on the AICPA's Web site.

### Recent AcSEC Meeting

At its January 25-26, 2005 meeting, AcSEC discussed the following projects:

### The Health Care Organization Audit and Accounting Guide

- Income Statement Classification
  - Prepaid Health Care Services Revenue, and
  - Gains and Losses From Nonhedging Derivatives
- Balance Sheet Presentation
  - Reporting Capitation Arrangements,
  - Administrative Type Programs, and
  - Insurance Claims and Insurance Recoverables
- Use of Actuarially-Based Data for Loss Accruals
- Disclosure Requirements — Tax Exempt Debt Securities

### Comment Letters

- Discussed draft comment letters on proposed FASB Staff Position No. SOP 78-9-a, "Interaction of AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*," and EITF Issue No. 04-5, "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights"

- Discussed comment letters received on proposed AICPA Statement of Position, *Accounting by Insurance Enterprises for Deferred Acquisition Costs on Internal Replacements*

Further information about the AICPA and AcSEC can be found on the AICPA's Web site, [www.aicpa.org](http://www.aicpa.org).

*Conclusions of the AcSEC are subject to change at future meetings and generally do not affect current accounting requirements until an official position (Statement of Position or Guide) is issued and cleared by the FASB. Official positions of the AcSEC are determined only after extensive deliberation and due process.*

## SEC Developments

### SEC Staff Clarifies Statements of Cash Flows Presentation

On February 14, 2005, the staff of the Division of Corporation Finance released a sample letter sent to registrants that addresses presentation of cash receipts from inventory sales in their statements of cash flows. This guidance should be considered by registrants when filing their next periodic report covering periods ending on or after December 15, 2004, as well as any registration statements that incorporate financial statements previously filed.

The staff clarified that cash receipts from the sale of goods or services are operating cash flows, regardless of whether the cash flows (1) stem from the collection of a receivable from the customer or the sale of the customer receivable to others, (2) are collected on account or from the issuance of a note, or (3) are collected in the short term or the long term.

Additionally, the staff indicated that it is not appropriate to present in the statement of cash flows an investing cash outflow and an operating cash inflow between a company and its subsidiary when there has been no cash inflow to the company on a consolidated basis from the sale of inventory. For companies that have misclassified these noncash amounts within the statements of cash flows, the staff will not object to disclosures that do not specifically reference correction of an error, provided the company:

- Correctly presents the consolidated statements of cash flows for all periods presented;
- Discloses that the change in classification resulted from concerns raised by the SEC staff; and
- Includes prominent disclosures of:
  - o The historical accounting for these transactions, including an explicit statement that no cash was received on a consolidated basis when the sale was made to the customer;
  - o The fact that the consolidated statements of cash flows have been adjusted to reflect that no cash was received

by the consolidated entity upon the initial sale of inventory, and to properly classify cash receipts from the sale of inventory;

- o A reconciliation between amounts previously presented and current amounts presented; and
- o A discussion of the effect of these transactions in the liquidity and cash flow section of Management's Discussion and Analysis.

The transition described above is limited solely to the presentation of cash receipts from the sale of inventory and should not be applied to any other presentation in the consolidated statements of cash flows.

The [letter](#) is available on the SEC's Web site.

### SEC Staff Provides Guidance on Buy/Sell Arrangements

On February 11, 2005, the staff of the Division of Corporation Finance released a sample letter sent to registrants engaged in oil and gas operations related to buy/sell transactions. Registrants in any industry that have buy/sell or comparable arrangements should provide the following disclosures in filings that include financial reports covering periods ending on or after December 15, 2004:

- Separately identify on the face of the statements of operations the proceeds and costs associated with buy/sell and comparable arrangements reported on a gross basis for all periods presented (as separate line items or parenthetically);
- Fully disclose in the accounting policy notes the characteristics of material arrangements of this type, the circumstances under which they are used, and the accounting literature relied upon in determining whether gross or net reporting would apply;
- Indicate that the EITF is considering this matter in Issue No. 04-13, "Accounting for Purchases and Sales of Inventory With the Same Counterparty," and describe how the financial statement presentation may change if a single method of reporting is required; and
- If material, registrants also should quantify the effects and address any related material trends and uncertainties in Management's Discussion and Analysis.

If a registrant reports proceeds and related costs from buy/sell or comparable transactions on a gross basis, and it files a registration statement prior to including disclosure in its annual report, it should disclose the issue as a recent development in its registration statement.

The SEC staff also is requiring all registrants engaged in oil and gas exploration and production activities to make certain additional disclosures as follows:

- Registrants that follow the successful efforts method of accounting should provide certain disclosures related to capitalized exploratory drilling costs pending the determination of proved reserves in filings that include financial reports covering periods ending on or after December 15, 2004, and
- Registrants that follow the full cost method of accounting should apply the guidance in the letter related to dispositions of oil and gas properties involving less than 25 percent of the reserve quantities of a given cost center.

The [letter](#) is available on the SEC's Web site.

## SEC Staff Clarifies Lease Accounting Issues

On February 7, 2005, the SEC staff issued a letter to the Center for Public Company Audit Firms to clarify its views on the following leasing issues:

*Amortization of Leasehold Improvements* — The SEC staff is of the view that amortizing leasehold improvements over a term that includes assumption of lease renewals is appropriate only when the renewals have been determined to be **reasonably assured**, as that term is used in FASB Statement No. 13, *Accounting for Leases*. A lessee under an operating lease should amortize leasehold improvements over the shorter of their economic lives or the lease term.

*Rent Holidays* — The SEC staff, pointing to FASB Technical Bulletin No. 85-3, *Accounting for Operating Leases With Scheduled Rent Increases*, concluded that it is inappropriate for a lessee to suspend recognition of rental expense during a rent holiday. Rather, rent expense in an operating lease should be recognized straight-line over the lease term, including any rent holiday period, unless another systematic and rational allocation is more representative of the lease property's anticipated use.

*Landlord/Tenant Incentives* — Occasionally, a landlord under an operating lease pays the lessee an amount intended to reimburse the lessee for the cost, or a portion of the cost, of leasehold improvements. The SEC staff has the following views on the accounting for such transactions:

- Improvements made by a lessee that are funded by the lessor should be recorded by the lessee as leasehold improvement assets, and amortized over the shorter of their economic life or the lease term;
- The incentives received should be recorded as deferred rent and amortized as reductions to lease expense over the lease term in accordance with paragraph 15 of Statement 13 and FASB Technical Bulletin No. 88-1, *Issues Relating to Accounting for Leases* (the deferred rent should not be netted against leasehold improvements); and
- The incentive payment receipt should be presented as an operating activity in the lessee's statement of cash flows. The acquisition of leasehold improvements for cash should be classified as an investing activity.

The SEC staff also recognizes that determining whether improvements are assets of the lessee or the lessor may require significant judgment; the letter does not deal with this evaluation. The SEC staff indicated that its views are based upon existing accounting literature. Registrants/lessees who determine that they have made one or more of these errors, in consultation with their independent auditors, should follow one of two courses of action, as appropriate:

- Restate prior financial statements, and disclose that the restatement results from the correction of errors; or
- If restatement was determined by management to be unnecessary, state that the errors were immaterial to prior periods.

The SEC staff's letter also highlights the importance of providing clear and concise operating and capital lease disclosures in the notes to the financial statements and, when appropriate, in the critical accounting policies section of Management's Discussion and Analysis. The [letter](#) is available on the SEC's Web site. Additional information is available in [Heads Up](#).

## SEC Updates EDGAR Filer Manual and Adopts XBRL Voluntary Financial Reporting Program

On February 7, 2005, the SEC adopted revisions to the Electronic Data Gathering, Analysis, and Retrieval System (EDGAR) Filer Manual to reflect updates to the EDGAR system. The revisions are being made to enable registrants to submit tagged financial information using the eXtensible Business Reporting Language (XBRL) format as exhibits to specified EDGAR filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940. Registrants choosing to participate in the voluntary program also will continue to file their financial information currently under required formats.

The voluntary program, intended to assist in the evaluation of the usefulness of data tagging and XBRL, will be effective March 16, 2005. The [related rules](#) are available on the SEC's Web site.

Further information about the SEC can be found on the SEC's Web site, [www.sec.gov](http://www.sec.gov).

## International Developments

### Recent IASB Meeting

The IASB discussed the following topics at its February 15-17, 2005, meeting.

- IAS 39, *Financial Instruments: Recognition and Measurement*
  - Amendments — Cash Flow Hedge Accounting of Forecast Intragroup Transactions

- o Amendments — Fair Value Option
- IAS 39 and IFRS 4, *Insurance Contracts*
  - o Financial Guarantee Contracts and Credit Insurance
- ED 7, *Financial Instruments: Disclosures*
- Business Combinations Phase II — Purchase Method Procedures
- Discounting and Risk Margins — Non-life Insurance Contracts [Education Session]
- Small and Medium-sized Entities
  - o Accounting Standards
  - o Financial Reporting
- Insurance Contracts
- Preliminary Views on the Development of Standards and Guidance for Management Commentary
- Income Taxes — Convergence
- Conceptual Framework
- IFRIC Update

A [summary of the IASB meetings](#) are available on the IASB's Web site. The [observer notes and IASB staff presentations](#) made at the meetings are available on the IASB's Web site. A [summary](#) of the IASB meeting decisions and discussions also is available on Deloitte's IAS Plus Web site. A [summary](#) of the IFRIC meeting decisions and discussions also is available on the IASB's Web site.

Further information about IASB and IFRIC can be found on the IASB's Web site, [www.iasb.org](http://www.iasb.org), and on the IAS Plus Web site, [www.iasplus.com/index.htm](http://www.iasplus.com/index.htm).

*Conclusions of the IASB are subject to change at future Board meetings and generally do not affect current accounting requirements for entities that apply IASB standards until an official position (IFRS or Interpretation) is issued. Official positions of the IASB are determined only after extensive deliberation and due process, including a formal vote by written ballot to issue an IFRS or Interpretation.*

## Other Developments

### Final Medicare Rules Posted

On January 28, 2005, the final Medicare Part D Prescription Drug Rules were posted to the Federal Register. These final rules implement the provisions of the Social Security Act establishing and regulating the Medicare Prescription Drug Benefit. The voluntary prescription drug program was enacted into law on December 8, 2003. In January 2006, the benefit begins and allows all Medicare beneficiaries to sign up for drug coverage through a prescription drug plan or Medicare health plan.

These final rules will provide employers with the information necessary to determine whether benefits provided by its plan are actuarially equivalent, as that term is contemplated in FASB Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003."

Employers and sponsors are reminded that paragraph 16 of FSP FAS 106-2 discusses how to account for changes in the expected subsidy as a result of changes in regulations or legislation. Paragraph 18 provides guidance for plans amended to reduce coverage such that actuarial equivalence is no longer met. Paragraph 33 discusses how to account for subsequent determination of actuarial equivalence as might occur upon the clarification of regulations related to the Act. Additionally, FSP FAS 106-2 provides a decision flow chart in Appendix B that may be useful in determining subsequent accounting considerations after the initial adoption of FSP FAS 106-2.

The regulations are effective March 22, 2005. Additional information about the rules can be found at the [Centers for Medicare and Medicaid Services](#) Web site.

Accounting Roundup is prepared by the National Office Accounting Standards and Communications Group of Deloitte & Touche LLP ("Deloitte & Touche"). The purpose of this publication is to briefly describe key regulatory and professional developments that have recently occurred in the field of accounting and to provide links to locations where additional information can be found on each topic. Readers seeking additional information about a topic should review the information referred to in the hyperlinks and not rely solely on the descriptions included in this communication.

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## Appendix A: Significant Upcoming Dates

The chart below illustrates significant upcoming dates for the FASB, EITF, GASB, AICPA/AcSEC, SEC, PCAOB, and IASB/IFRIC.

FASB	Status
<b>Upcoming Adoption Dates</b>	
Statement 153, <i>Exchanges of Nonmonetary Assets</i> , an amendment of APB Opinion No. 29	Effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.
Statement 152, <i>Accounting for Real Estate Time-Sharing Transactions</i> , an amendment of FASB Statements No. 66 and 67	Effective for fiscal years beginning after June 15, 2005.
Statement 151, <i>Inventory Costs</i> , an amendment of ARB No. 43, Chapter 4	Effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004.
Statement 123(R), <i>Share-Based Payment</i>	Effective for public entities (other than those filing as small business issuers) as of the first interim or annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply Statement 123(R) in the first interim or annual reporting period that begins after December 15, 2005. Nonpublic entities will be required to apply Statement 123(R) in the first annual reporting period that begins after December 15, 2005.
Interpretation 46(R), <i>Consolidation of Variable Interest Entities</i>	<p><u>Public companies that are not small business issuers:</u></p> <ul style="list-style-type: none"> <li>– Provisions of Interpretation 46(R) currently are effective.</li> </ul> <p><u>Small Business Issuers:</u></p> <ul style="list-style-type: none"> <li>– For interests in SPEs, Interpretation 46 or Interpretation 46(R) must be applied no later than for financial statements ending after December 15, 2003.</li> <li>– For interests in all entities, Interpretation 46(R) must be applied no later than for financial statements ending after December 15, 2004.</li> </ul> <p><u>Nonpublic Entities:</u></p> <ul style="list-style-type: none"> <li>– Interpretation 46(R) must be applied by the beginning of the first annual period beginning after December 15, 2004.</li> </ul> <p>For guidance related to foreign private issuers, refer to the SEC's Letter to AICPA Regarding Interpretation 46(R) Effective Date Provisions With Regard to Foreign Private Issuers on the SEC's Web site.</p>
Statement 133 Implementation Issue No. C3, <i>Scope Exceptions: Exception Related to Share-Based Payment Arrangements</i>	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. E19, <i>Hedging-General: Methods of Assessing Hedge Effectiveness When Options Are Designated as the Hedging Instrument</i>	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. E22, <i>Accounting for the Discontinuance of Hedging Relationships Arising From Changes in Consolidation Practices Related to Applying FASB Interpretation No. 46 or 46(R)</i>	Effective as of the date of initial application of Interpretation 46 and/or Interpretation 46(R).

Statement 133 Implementation Issue No. G1, <i>Cash Flow Hedges: Hedging an SAR Obligation</i>	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
FSP FIN 46(R)-1, "Reporting Variable Interests in Specified Assets of Variable Interest Entities as Separate Variable Interest Entities Under Paragraph 13 of FASB Interpretation No. 46(R), <i>Consolidation of Variable Interest Entities</i> "	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-2, "Calculation of Expected Losses Under FASB Interpretation No. 46(R), <i>Consolidation of Variable Interest Entities</i> "	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-3, "Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions About an Entity's Activities Through Voting Rights or Similar Rights Under FASB Interpretation No. 46(R), <i>Consolidation of Variable Interest Entities</i> "	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-4, "Technical Correction of FASB Interpretation No. 46(R), <i>Consolidation of Variable Interest Entities</i> , Relating to Its Effects on Question No. 12 of EITF Issue No. 96-21, "Implementation Issues in Accounting for Leasing Transactions Involving Special-Purpose Entities""	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FAS 97-1, "Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97, <i>Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments</i> , Permit or Require Accrual of an Unearned Revenue Liability"	Effective for financial statements for fiscal periods beginning after June 18, 2004.
FSP FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"	Effective for the first interim or annual period beginning after June 15, 2004, except for certain nonpublic entities for which the effective date is for fiscal years beginning after December 15, 2004.
FSP FAS 109-1, "Application of FASB Statement No. 109, <i>Accounting for Income Taxes</i> , to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004"	Effective as of December 21, 2004.
FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision Within the American Jobs Creation Act of 2004"	Effective as of December 21, 2004.
FSPs FAS 141-1 and FAS 142-1, "Interaction of FASB Statements No. 141, <i>Business Combinations</i> , and No. 142, <i>Goodwill and Other Intangible Assets</i> , and EITF Issue No. 04-2, 'Whether Mineral Rights Are Tangible or Intangible Assets'"	Effective for the first reporting period beginning after April 29, 2004.
FSP FAS 142-2, "Application of FASB Statement No. 142, <i>Goodwill and Other Intangible Assets</i> , to Oil- and Gas-Producing Entities"	Effective for reporting periods beginning after September 2, 2004.
FSP FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests Under FASB Statement No. 150, <i>Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity</i> "	Certain mandatorily redeemable shares are subject to the provisions of Statement 150 for the first fiscal period beginning after December 15, 2004. Other mandatorily redeemable shares are deferred indefinitely, but may be subject to classification or disclosure provisions of the Statement.

FSP EITF Issue 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairments and Its Application of Certain Investments'"	Effective as of September 30, 2004.
<b>Projects in Exposure Draft Stage</b>	
Proposed FSP FAS 19-a, "Accounting for Suspended Well Costs"	Comments due March 7, 2005.
<b>EITF</b>	<b>Status</b>
<b>Upcoming Adoption Dates</b>	
Issue 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds"	Effective at the same time as an expected FSP on similar economic characteristics (expected in first quarter 2005).
Issue 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share"	Effective for fiscal periods ending after December 15, 2004.
Issue 04-3, "Mining Assets: Impairment and Business Combinations"	Effective prospectively to business combination allocations and asset impairment tests completed after March 31, 2004.
Issue 04-2, "Whether Mineral Rights are Tangible or Intangible Assets"	Effective for fiscal periods beginning after April 29, 2004.
Issue 04-1, "Accounting for Preexisting Relationships Between the Parties to a Business Combination"	Effective for business combinations completed and goodwill impairment tests performed in reporting periods beginning after October 13, 2004.
Issue 03-16, "Accounting for Investments in Limited Liability Companies"	Effective for fiscal periods beginning after June 15, 2004.
Issue 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i> , in Determining Whether to Report Discontinued Operations"	Effective for components either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004.
Issue 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, <i>Earnings per Share</i> "	Effective for fiscal periods beginning after March 31, 2004.
Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"	Paragraphs 6-9 effective for reporting periods beginning after June 15, 2004. The recognition and measurement guidance in paragraphs 10-20 of Issue 03-1 has been delayed. This delay will be superseded with the final issuance of FSP EITF Issue 03-1-a, which will provide implementation guidance for these paragraphs. The disclosure requirements in paragraphs 21-22 of Issue 03-1 remain effective.
Issue 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock"	Effective for the first reporting period beginning after September 15, 2004.
Topic D-108, "Use of the Residual Method to Value Acquired Assets Other Than Goodwill"	Effective for business combinations completed after September 29, 2004. Companies that have applied the residual method to the valuation of intangible assets for purposes of impairment testing will be required to perform an impairment test no later than the beginning of their first fiscal year beginning after December 15, 2004, using a direct method.

<b>GASB</b>	<b>Status</b>
<b>Upcoming Adoption Dates</b>	
GASB Statement No. 46, <i>Net Assets Restricted by Enabling Legislation, an amendment of Statement No. 34</i>	Effective for fiscal periods beginning after June 15, 2005.
GASB Statement No. 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i>	Effective in three phases based on a government's total annual revenues.
GASB Statement No. 44, <i>Economic Condition Reporting: The Statistical Section</i>	Effective for statistical sections prepared for periods beginning after June 15, 2005.
GASB Statement No. 43, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	Effective one year prior to the effective date of GASB Statement 45 for the employer in a single-employer plan or the largest participating employer in a multi-employer plan.
GASB Statement No. 42, <i>Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries</i>	Effective for fiscal periods beginning after December 15, 2004.
GASB Statement No. 40, <i>Deposit and Investment Risk Disclosures — an Amendment of GASB Statement No. 3</i>	Effective for fiscal periods beginning after June 15, 2004.
GASB Technical Bulletin No. 2004-2, <i>Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers</i>	For pension transactions, effective for financial statements for periods ending after December 15, 2004, with earlier application encouraged. For OPEB transactions, the provisions would be applied simultaneously with the requirements of GASB Statement 45.
<b>Projects in Exposure Draft Stage</b>	
Exposure Draft, <i>Accounting for Termination Benefits</i>	Comments due March 11, 2005.
<b>AICPA/AcSEC</b>	<b>Status</b>
<b>Upcoming Adoption Dates</b>	
SOP 04-2, <i>Accounting for Real Estate Time-Sharing Transactions</i>	Effective for fiscal years beginning after June 15, 2005, with early adoption encouraged.
SOP 03-3, <i>Accounting for Certain Loans or Debt Securities Acquired in a Transfer</i>	Effective for loans acquired in fiscal years beginning after December 15, 2004, with early adoption encouraged.

SEC	Status
<b>Upcoming Adoption Dates</b>	
Final Rule, <i>Asset-Backed Securities</i>	Effective as of March 8, 2005.
Final Rule, <i>Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports</i> (an extension of compliance date)	Effective for fiscal years ending on or after November 15, 2004, for certain "accelerated filers." Effective for fiscal years ending on or after July 15, 2005, for "nonaccelerated filers." Effective for fiscal years ending on or after July 15, 2005, for foreign private issuers that file annual reports on forms 20-F or 40-F. For accelerated filers with (i) public equity float of less than \$700 million at the end of its second fiscal quarter in 2004; and (ii) fiscal years ending between November 15, 2004 and February 28, 2005, the filing date of management's report on internal control over financial reporting has been postponed 45 days.
SAB 106 Regarding the Application of FASB Statement No. 143, <i>Accounting for Asset Retirement Obligations</i> , by Oil- and Gas-Producing Companies Following the Full Cost Accounting Method	Effective prospectively as of the beginning of the first fiscal quarter beginning after October 4, 2004.
Temporary Postponement of the Final Phase-In Period for Acceleration of Periodic Report Filing Dates	Effective as of December 23, 2004.
<b>Proposed Rules</b>	
Asset-Backed Securities — Certain Structured Securities	Comments due March 8, 2005.
<b>PCAOB</b>	
<b>Status</b>	
<b>Upcoming Adoption Dates</b>	
Auditing Standard No. 3, <i>Audit Documentation</i>	Effective for audits of financial statements with fiscal years ending on or after November 15, 2004.
Auditing Standard No. 2, <i>An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements</i>	Effective for audits of companies with fiscal years ending on or after November 15, 2004, for certain accelerated filers, or July 15, 2005, for other companies. For accelerated filers with (i) public equity float of less than \$700 million at the end of its second fiscal quarter in 2004; and (ii) fiscal years ending between November 15, 2004 and February 28, 2005, the filing date of management's report on internal control over financial reporting has been postponed 45 days.
Auditing Standard No. 1, <i>References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board</i>	Effective for financial reports issued or reissued on or after May 24, 2004.
<i>Conforming Amendments to PCAOB Interim Standards Resulting From the Adoption of PCAOB Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements"</i>	Effective for integrated audits of financial statements at the same time as Auditing Standard No. 2. Effective for audits of only financial statements for periods ending on or after July 15, 2005.

<b>IASB/IFRIC</b>	<b>Status</b>
<b>Upcoming Adoption Dates</b>	
IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>	Effective for annual periods beginning on or after January 1, 2006.
IFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Effective for annual periods beginning on or after January 1, 2005.
IFRS 4, <i>Insurance Contracts</i>	Effective for annual periods beginning on or after January 1, 2005.
IFRS 3, <i>Business Combinations</i>	Effective for business combinations for which the agreement date is on or after March 31, 2004.
IFRS 2, <i>Share-based Payment</i>	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement</i>	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 32, <i>Financial Instruments: Disclosure and Presentation</i>	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 19, <i>Employee Benefits</i>	Effective for annual periods beginning on or after January 1, 2006.
Improvements to International Accounting Standards	Effective for annual periods beginning on or after January 1, 2005.
Amendment to SIC-12, <i>Consolidation — Special Purpose Entities</i>	Effective for annual periods beginning on or after January 1, 2005.
IFRIC Interpretation 5, <i>Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	Effective for annual periods beginning on or after January 1, 2006.
IFRIC Interpretation 4, <i>Determining Whether an Arrangement Contains a Lease</i>	Effective for annual periods beginning on or after January 1, 2006.
IFRIC Interpretation 3, <i>Emission Rights</i>	Effective for annual periods beginning on or after March 1, 2005.
IFRIC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	Effective for annual periods beginning on or after January 1, 2005.
IFRIC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	Effective for annual periods beginning on or after September 1, 2004.
<b>Projects in Exposure Draft Stage</b>	
IFRIC Interpretation D11, <i>Changes in Contributions to Employee Share Purchase Plans</i>	Comments due March 1, 2005.

## Appendix B: Abbreviations

<b>AcSEC</b>	Accounting Standards Executive Committee	<b>IASB</b>	International Accounting Standards Board
<b>AICPA</b>	American Institute of Certified Public Accountants	<b>IFAC</b>	International Federation of Accountants
<b>APB</b>	Accounting Principles Board	<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>ARB</b>	Accounting Research Bulletin	<b>IFRS</b>	International Financial Reporting Standards
<b>EITF</b>	Emerging Issues Task Force	<b>MD&amp;A</b>	Management's Discussion & Analysis
<b>FAS</b>	Financial Accounting Standard	<b>NCGA</b>	National Council on Governmental Accounting
<b>FASB</b>	Financial Accounting Standards Board	<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>FIN</b>	FASB Interpretation	<b>SAB</b>	Staff Accounting Bulletin
<b>FSP</b>	FASB Staff Position	<b>SEC</b>	Securities and Exchange Commission
<b>GAAP</b>	Generally Accepted Accounting Principles	<b>SOP</b>	Statement of Position
<b>GASB</b>	Governmental Accounting Standards Board	<b>TPA</b>	Technical Practice Aid
<b>IAS</b>	International Accounting Standards		

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