

Accounting Roundup

Audit and Enterprise Risk Services

May 31, 2005

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FASB Developments

FASB Issues Proposal on the GAAP Hierarchy

On April 28, 2005, the FASB published an Exposure Draft of a proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles*. The current GAAP hierarchy, which is presented in the AICPA's Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, has been criticized as:

- Being directed to the auditor rather than the enterprise;
- Being complex; and
- Ranking the FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as the FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process.

The FASB believes that the GAAP hierarchy should be directed to enterprises (not to the auditors). Therefore, the GAAP hierarchy should reside in the accounting literature established by the FASB. The FASB considered making certain improvements to the GAAP hierarchy but decided to carry the hierarchy forward as set forth in SAS 69, subject to certain modifications that are not expected to result in a change in current practice. Those changes include the following:

- Carrying forward the categorization of the sources of accounting principles by document type as presented in paragraph 10 of SAS 69, and not by the characteristics as presented in paragraph 5 of SAS 69;
- Expanding the sources of category (a) to include accounting principles that are issued after being subjected to the FASB's due process; and
- Presenting FASB Staff Positions and FASB Statement 133 Implementation Issues, which are not addressed in SAS 69, as sources of category (a) accounting principles.

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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The [proposed Statement](#), which is available on the FASB's Web site, applies to financial statements of nongovernmental enterprises that are presented in conformity with GAAP, and would be effective for fiscal periods beginning after September 15, 2005. The comment period ends June 27, 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.

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

Amendment of Statements 87 and 35 (May 11)

The Board directed the FASB staff to further research and analyze how the accounting for a defined benefit pension plan that provides active participants with the right to receive a lump-sum cash settlement upon termination or retirement might be impacted by changing the measurement of the accumulated benefit obligation (ABO) for purposes of calculating the minimum pension liability. For such a plan, the measure of the ABO for each participant eligible for a lump-sum payment could not be less than that amount.

Business Combinations (April 27)

Purchase Method Procedures — The Board discussed the comment period and effective date for the forthcoming Exposure Drafts on business combinations and noncontrolling interests. The Board decided to allow a 120-day comment period for both Exposure Drafts. The Board also decided that the target effective date for both Statements would be for annual periods beginning on or after December 15, 2006.

Conceptual Framework (April 22)

The IASB and FASB began their deliberations to develop a common conceptual framework. The two Boards reached the following tentative conclusions relating to the objectives of financial reporting:

- *Users of Financial Reports* — Financial reports should be prepared from the entity's perspective and should aim to provide information to a wide range of users, rather than focusing on the information needs of existing common shareholders only.
- *Objective of Financial Reporting* — The objective is to provide information about the entity to the external users who lack the power to prescribe the information they require, and, therefore, must rely on the information provided by an entity's management.

- *Liquidity and Solvency* — The financial statements should provide information to help users assess an entity's liquidity and solvency. However, that objective should be consistent with the overall objective of providing information to a wide range of users.
- *General Purpose Financial Reports* — The framework should be concerned with general purpose financial reports that focus on the common information needs of users.

Employee Compensation: Classification of Freestanding Financial Instruments (May 11, May 18)

The Board discussed two issues raised through comment letters pertaining to proposed FASB Staff Position No. EITF 00-19-a, "Application of EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,' to Freestanding Financial Instruments Originally Issued as Employee Compensation," along with whether to approve a final FSP to provide guidance on the application of Issue 00-19 to employee share options that cease to be subject to FASB Statement No. 123 (revised 2004), *Share-Based Payment*. The Board made the following tentative decisions:

- *Evaluation of Substantive Terms* — An evaluation of the substantive terms of instruments subject to the guidance in the proposed FSP is appropriate (that is, retain paragraph 6 of the proposed FSP).
- *Classification* — Explicit guidance about the classification of instruments with multiple settlement alternatives should not be included in the final FSP.
- *Amendment to Statement 123(R)* — Statement 123(R) should be amended to indefinitely defer the provisions of Statement 123(R) that make freestanding financial instruments subject to the recognition and measurement requirements of other GAAP when the rights conveyed by the instrument are no longer dependent on employment.
- *Approval* — The proposed FSP EITF 00-19-a should be finalized. (Issued on May 31, 2005 — further information will be available in the June 2005 Accounting Roundup.)

Fair Value Measurement (April 27)

The Board continued redeliberations of the Exposure Draft, *Fair Value Measurements*, and reached the following tentative decisions:

- *Scope* — The Board decided to include in the scope of the final Statement, FASB Statement No. 13, *Accounting for Leases*, and other pronouncements that address leasing transactions and FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*.
- *Block Measurements* — The Board decided that the fair value of large positions of unrestricted securities that trade in active markets (blocks) should be measured within Level

1 of the fair value hierarchy as the product of the quoted price times the quantity held, except as follows: the fair value of a block held by a broker-dealer that both buys and sells in blocks as part of its regular, ongoing business activities may be measured within a lower level of the fair value hierarchy using a blockage factor, subject to further discussion of disclosures.

- **Disclosures** — The Board revised aspects of the proposed disclosure requirements as follows:
 - o **Disclosure of Fair Value by Level** — For each major category of assets and liabilities remeasured at fair value during the period, the disclosures should segregate fair value amounts into three disclosure levels: those determined using (i) quoted prices for identical assets or liabilities (Level 1), (ii) other market information (Level 2 and Level 3), and (iii) entity information (Level 4). The disclosure should include information about the valuation techniques used. The Board eliminated the related guidance in paragraph 8 of the Exposure Draft, which would have required that those valuation techniques be consistently applied. Instead, the Board decided to emphasize the valuation objective, that is, to use the valuation techniques that provide the best estimate of fair value in the circumstances.
 - o **Gains and Losses** — Total gains or losses (unrealized and realized) should be disclosed for each major category of assets and liabilities remeasured at fair value during the period, segregating amounts included in earnings and in other comprehensive income. Unrealized gains or losses related to those assets and liabilities still held at the reporting date should be separately disclosed for each disclosure level other than Level 1 whenever that information is available.
 - o **Interim Reporting** — Quantitative disclosures using a tabular format are required for interim and annual periods. Other disclosures (for example, information about the valuation techniques used) are required for annual periods only.
 - o **Statement 107 Disclosures** — The fair value information disclosed under the final Statement should include the fair value information disclosed under FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*, and other pronouncements in the periods in which those disclosures are required, if practicable.

Financial Instruments: Convergence (April 22)

The FASB and IASB Boards directed the staff to analyze two groups of unresolved technical issues related to financial instruments that are currently reported at fair value:

- One group of issues involves the display of changes in fair value and whether to separately present the effects on fair value of changes in exchange rates, interest rates, and other factors.

- The second group involves scope and measurement issues including (1) how to distinguish financial instruments from similar contracts and (2) whether different accounting based on that distinction is appropriate.

The Boards also directed the staff to begin a research project to develop an approach to derecognition that would be an improvement to both IAS 39, *Financial Instruments: Recognition and Measurement*, and FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The project would initially focus on financial assets, but the Boards also directed the staff to consider the feasibility of developing a broader derecognition standard that would apply to all types of assets.

Financial Instruments: Liabilities and Equity (May 11)

The Board discussed issues related to single component instruments including display and measurement, issuance costs, recognition of forward contracts, subsequent classification assessments, and accounting for a change in the classification of an instrument after its issuance. The Board made the following tentative decisions related to display and measurement of single-component instruments:

- **Scope** — All single-component instruments in the scope of the proposed Statement initially would be measured at the transaction price, which generally would be the amount of proceeds (unless there are other elements embedded in the proceeds, for example, issuance costs). Instruments accounted for under FASB Statement No. 123 (revised 2004), *Share-Based Payment*, would not be subject to those initial measurement requirements.
- **Instruments Classified as Equity, but Settled With Assets** — Direct and indirect ownership instruments that are classified as equity but that by their terms will ultimately be settled with cash, other assets, services, or the use of assets would be separately displayed within the equity section of the statement of financial position. Subsequent to their initial recognition at fair value, those instruments would be subsequently measured at the amount that results from applying the redemption formula at the reporting date.
- **Other Instruments Classified as Equity** — All other equity instruments (including direct and indirect ownership instruments that ultimately would be settled with perpetual instruments and other instruments classified as equity) would not be remeasured subsequent to their initial recognition. The Board also tentatively decided not to change the presentation practices for such instruments.
- **Instruments Classified as Liabilities or Assets, but Settled With Equity** — Entities would not be required to display, as a separate line item or caption within the statement of financial position, those instruments that are classified as liabilities or assets but would be settled or ultimately settled by the issuance or receipt of equity instruments.

- *Mandatorily Redeemable Liabilities With Fixed Redemption Amounts and Dates* — Liabilities that are in the form of mandatorily redeemable shares that have both fixed redemption amounts and fixed settlement dates would be subsequently remeasured at the present value of the amounts to be paid, with changes in value reflected in net income.
- *Mandatorily Redeemable Liabilities With Variable Redemption Amounts or Dates* — Liabilities that are in the form of mandatorily redeemable shares that have varying redemption amounts or settlement dates would be subsequently remeasured at fair value with changes in value reflected in net income. In addition, other single component instruments classified as liabilities for which the redemption amount varies based on the changes in the value of the issuer's direct ownership instruments (for example, debt indexed to common shares) would be measured at fair value.
- *All Other Instruments* — All remaining single-component instruments classified as liabilities or assets that are not included in the above measurement requirements should be subsequently measured at fair value with changes reflected in earnings, unless other accounting guidance specifies another measurement attribute.

The Board also tentatively decided the following:

- *Issuance Costs* — Issuance costs for all debt and equity instruments would be recognized as an expense when incurred.
- *Forward Contracts* — Forward contracts to issue or repurchase an entity's own shares should be recognized in the statement of financial position "net" and measured at fair value. Forward contracts that are liabilities or assets would be subsequently remeasured at fair value and the changes in value reflected in net income. Forward contracts that are equity instruments would not subsequently be remeasured.
- *Classification* — The classification of all single component instruments would be reassessed at each reporting date. If the instrument's classification changes as a result of events during the reporting period, the instruments should be reclassified as of the date of the events that caused the reclassification. There is no limit on the number of times instruments may be reclassified.
- *Accounting for a Reclassification* — Upon reclassification, instruments reclassified to assets, liabilities, or separately displayed equity should be measured at the attributes at which they would have been measured as if they previously had been classified that way. No gain or loss should be recognized through income on the date of reclassification. For example, a direct ownership instrument separately displayed in equity and measured at settlement value that subsequently becomes a fixed-price liability would be reclassified at the present value of the liability using the implicit discount rate at the date of reclassification. Any

difference in those values would remain in equity. Instruments reclassified to equity (not separately displayed) should be reclassified at their current carrying amounts. Previously recognized gains or losses should not be reversed, and there is no limit on future gains or losses.

Financial Performance Reporting by Business Enterprises (April 21)

The FASB and IASB Boards both agreed at their April 2005 joint meeting that the goals associated with the performance reporting project have such different characteristics that the work should continue to be performed in segments. Segment A focuses on convergence of the financial statement requirements, and Segment B focuses on more fundamental reconsideration of presentation and display issues for all financial statements.

Segment A — The Boards tentatively decided the following:

- *Complete Set of Financial Statements* — A complete set of financial statements includes the following:
 - o Beginning of Period Statement of Financial Position
 - o End of Period Statement of Financial Position
 - o Statement of Earnings and Comprehensive Income
 - o Statement of Changes in Equity
 - o Statement of Cash Flows
- *Prominence of Financial Statements* — Each individual financial statement within the complete set of financial statements would be shown with equal prominence.
- *Statement of Earnings and Comprehensive Income* — To require a single Statement of Earnings and Comprehensive Income that presents a total for nonowners' changes in financial position (comprehensive income) and a required subtotal for net income/profit or loss.
- *Comparative Information* — To require comparative information consisting at a minimum of full sets of financial statements for two annual periods (the current and prior annual period).
- *Voluntarily Provided Information* — Not to provide guidance on the presentation of financial information beyond the required minimum (i.e., full sets of financial statements for two annual periods) that an entity might provide voluntarily.
- *Notes to the Financial Statements* — To exclude from the scope of this project issues that would address the content of information in the notes to financial statements (other than consequential amendments).
- *Interim Financial Statements* — To exclude from the scope of this project issues that would address the content of information in interim financial statements (other than consequential amendments) — IASB only. The FASB will separately consider the impact of joint decisions on financial reporting for interim periods in the United States.

- *Segment A Decisions* — Although the proposed Exposure Draft for Segment A will be a single document for both Boards, the final standard would amend IAS 1, *Presentation of Financial Statements* (IASB), and create a new standard for the decisions made in Segment A (FASB).

Segment B — The Boards tentatively decided the following:

- *Scope* — To develop a single standard that would apply broadly to all entities. The scope of the FASB standard, however, would exclude not-for-profit organizations.
- *Applicability to Financial Institutions* — To first develop standards of presentation and display that would apply broadly to all for-profit entities other than financial institutions. Second, to consider the application of those standards to financial institutions.
- *Statement of Cash Flows* — To reconsider FASB Statement No. 95, *Statement of Cash Flows*, and IAS 7, *Cash Flow Statements*, including whether to require use of the direct or indirect method and disaggregation and categorization issues.

Life Settlements (May 11)

The Board reached the following tentative decisions regarding life settlements (i.e., active life insurance policies that are purchased by third parties who intend to continue paying the premiums and collect the benefit):

- *Accounting Method* — Life settlements would be accounted for under the investment method as follows:
 - o The initial investment and continuing costs would be capitalized as the carrying value of the investment.
 - o The income recognized would be the difference between the proceeds of the policy and the carrying amount of the investment.
 - o Once the carrying amount of the investment equals the face value of the policy, subsequent continuing costs would be expensed.
- *Unit of Account* — The unit of account for measurement purposes would be an individual life settlement contract.
- *Disclosures* — The following disclosures would be required as of the latest balance sheet date:
 - o The following information in the aggregate for life settlement contracts, categorized by remaining expected term of the contracts:
 - The number of contracts,
 - The face amount of the underlying insurance policies, and
 - The carrying value of the contracts.
 - o The maximum cash outlay for premium payments

during the next fiscal year, assuming that none of the life settlement contracts are settled.

The guidance will be in the form of an FSP on FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*, have a 45-day comment period, and require retrospective application. This guidance would be effective for fiscal years beginning after the issuance of the final FSP, with early adoption permitted.

Operating Segments (May 18)

The Board redeliberated the decisions reached on the proposed FSP FAS 131-a, *Determining Whether Operating Segments Have “Similar Economic Characteristics” Under Paragraph 17 of FASB Statement No. 131*. The Board decided not to issue the proposed FSP because it does not appear to address different interpretations of existing GAAP that have resulted in diversity of financial reporting.

Revenue Recognition (May 11)

The Board affirmed its past decision to develop a standard for revenue recognition based on recognized changes in assets and liabilities that would not be overridden by additional recognition criteria such as realization and the completion of an earnings process. The Board expects that the “realized or realizable” and “earned” criteria in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, will be eliminated and that the definition of revenues in FASB Concepts Statement No. 6, *Elements of Financial Statements*, will be refined to more clearly distinguish revenues from gains.

The Board also affirmed that its goal is to develop a comprehensive standard on revenue recognition that would apply broadly to all revenue arrangements. In connection with that decision, the Board agreed to pursue an approach under which performance obligations would be measured by allocating the customer consideration rather than at the fair value of the obligation (that is, the amount the reporting entity would be required to pay to transfer the performance obligation to a willing third party of comparable credit standing).

Short-Term Convergence: Income Taxes (April 21)

At the joint meeting, the IASB and the FASB tentatively decided the following regarding intraperiod tax allocation requirements:

- Not to change the intraperiod tax allocation requirements in paragraphs 35-38 and 273-276 of FASB Statement No. 109, *Accounting for Income Taxes*.
- To amend IAS 12, *Income Taxes*, to adopt the intraperiod tax allocation requirements of Statement 109. The requirement to allocate income taxes to items previously

credited or charged to equity contained in paragraphs 57, 58, and 61-65 of IAS 12 would be amended and replaced with guidance similar to that in paragraphs 35-38 and 273-276 of Statement 109.

- To reconsider existing intraperiod tax allocation guidance in Segment B of the Reporting Financial Performance project.

Short-Term International Convergence: Accounting Changes and Error Corrections (May 11)

The Board redeliberated certain issues related to the provisions of the FASB Exposure Draft, *Accounting Changes and Error Corrections*, issued in December 2003. The Board tentatively decided to:

- Prohibit entities from changing a method of transition elected upon initial adoption of an accounting pronouncement.
- Retain but clarify the requirement that entities disclose the effect of an accounting change on affected financial statement line items. In particular, the Board decided to clarify that entities were not required to disclose the effects on reported totals and subtotals other than income from continuing operations and net income.

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.

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 Exposure Draft on a Proposed Statement on Auditing Standards

On May 9, 2005, the AICPA issued a proposed Statement on Auditing Standards, entitled *Amendment to Statement on Auditing Standards No. 69, The Meaning of Present Fairly In Conformity With Generally Accepted Accounting Principles, for Nongovernmental Entities*. The proposed amendment to SAS 69 has been issued in response to the FASB's proposed Statement, *The Hierarchy of Generally Accepted Accounting*

Principles. The proposed SAS, which is available on the AICPA's Web site, deletes the GAAP hierarchy for nongovernmental entities from SAS 69. The proposed statement would be effective for audits of financial statements with fiscal years beginning after September 15, 2005. The comment period ends on June 27, 2005.

Further information about the AICPA and AcSEC can be found on the AICPA's Web site, 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 Issues Commission Statement on Implementation of Internal Control Reporting Requirements

On April 13, 2005, the SEC hosted a roundtable discussion about the implementation of Section 404 of the Sarbanes-Oxley Act of 2002 (the "Act"). The feedback from this roundtable led the SEC staff to believe that companies have realized improvements to their internal controls as a result of implementing the requirements of the Act and that the requirements of the Act have led to an improved focus on internal controls throughout the organization. However, the feedback also identified implementation areas that still need further attention. As such, on May 16, 2005, the SEC issued a statement on issues raised during the first year of experience with the implementation of the Act, which addresses the following areas:

- The purpose of internal control over financial reporting;
- Reasonable assurance, a risk-based approach, and scope of testing and assessment;
- Evaluating internal control deficiencies;
- Disclosures about material weaknesses;
- Information technology issues;
- Communications with auditors; and
- Issues related to small business and foreign private issuers.

An overarching principle of this guidance is the responsibility of management to determine the form and level of controls appropriate for each organization and to scope its assessment and testing accordingly.

The SEC Commission Statement is available on the SEC's Web site.

In addition, the PCAOB issued guidance on *Audits of Internal Control*. See further discussion on this guidance in the PCAOB section below.

SEC Staff Publicly Releases Comment Letters and Responses

On May 12, 2005, the staff of the SEC began the process of publicly releasing comment letters and response letters relating to disclosure filings made after August 1, 2004, which were reviewed by the Division of Corporation Finance and the Division of Investment Management. These letters will be released individually on a filing-by-filing basis through the EDGAR system. The process will commence with some of the oldest eligible filings, but, as it continues, letters will be released no earlier than 45 days after the review of the disclosure filing is complete.

The [Press Release](#) is available on the SEC's Web site. Further information about the SEC can be found on the SEC's Web site, www.sec.gov.

PCAOB Developments

PCAOB Issues Guidance on Audits of Internal Control

On May 16, 2005, the PCAOB issued a [Policy Statement](#) discussing some of the issues raised during the first year of auditors' implementation of PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. Many of these issues were raised, among other occasions, at the SEC's Roundtable on Implementation of Internal Control Reporting Provisions held on April 13, 2005. Specifically, this Policy Statement expresses the Board's view that, to properly plan and perform an effective audit under Auditing Standard No. 2, auditors should do the following:

- Integrate their audits of internal control with their audits of the client's financial statements,
- Exercise judgment to tailor their audit plans to the risks facing individual audit clients,
- Use a top-down approach,
- Use the risk assessment required by the standard,
- Use the work of others, and
- Engage in direct and timely communication with audit clients.

PCAOB Issues Staff Questions and Answers Related to Auditing Internal Control Over Financial Reporting

On May 16, 2005, the PCAOB published the fifth in a series of staff questions and answers to assist in the implementation of PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction*

With an Audit of Financial Statements. The PCAOB staff's opinions are not rules of the Board, nor have they been approved by the Board.

The [questions and answers](#) are available on the PCAOB's Web site.

Further information about the PCAOB can be found on the PCAOB's Web site, www.pcaob.org.

International Developments

IASB Issues Exposure Draft of Proposed Amendments to IFRS 6 and IFRS 1

On April 29, 2005, the IASB released for comments a proposed amendment to IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and, as a consequence, an amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

Paragraph 36B of IFRS 1 currently provides an exemption from the requirement to provide comparative disclosures for IFRS 6 to an entity that both (a) adopts IFRS for the first time before January 1, 2006, and (b) applies IFRS 6 before that date. The intention of the IASB was to provide a wider exemption; not only to exempt such entities from providing comparative disclosures, but also to exempt them from the recognition and measurement requirements of IFRS 6 for the comparative period.

The Board's intentions in this respect are clearly summarized in paragraphs BC63-BC65 of the Basis for Conclusions on IFRS 6. However, due to some constituent concerns regarding the inconsistency between the wording of paragraph 36B of IFRS 1 and the discussion in the Basis for Conclusions, the Board has decided to amend paragraph 36B of IFRS 1 to clarify that the exemption is wider than comparative disclosures.

The [Exposure Draft](#) of the Proposed Amendments to IFRS 6 and IFRS 1 is available on the IASB's Web site. The comment period ends June 3, 2005.

IFRIC Issues Draft Interpretation D16

On May 19, 2005, the IFRIC issued Draft Interpretation D16, *Scope of IFRS 2*. This Draft Interpretation clarifies the scope of IFRS 2, *Share-based Payment*, to include certain transactions in which goods or services are received, such as transactions in which an entity receives goods or services as consideration for equity instruments of the entity. This includes transactions in which the entity cannot specifically identify some or all of the goods or services received. However, it does not apply to transactions excluded from the scope of IFRS 2 in accordance with paragraphs 4-6 of that IFRS.

The Draft Interpretation, which would be applied retroactively in accordance with IAS 8, *Accounting Policies*,

Changes in Accounting Estimates and Errors, subject to the transitional provisions of IFRS 2, would be applied for annual periods beginning three months after the interpretation is finalized. The [Draft Interpretation](#) is available on the IASB's Web site, and the comment period ends July 18, 2005.

IFRIC Issues Draft Interpretation D17

On May 19, 2005, the IFRIC issued Draft Interpretation D17, *IFRS 2 — Group and Treasury Share Transactions*. The draft interpretation addresses issues that have arisen about whether share-based payment transactions involving treasury shares or multiple entities within the same group of entities should be accounted for as equity-settled or cash-settled under IFRS 2. The Draft Interpretation proposes the following accounting:

- An entity shall account for a share-based payment transaction as cash-settled if it has a liability to transfer cash or other assets of the entity to its employees under the share-based payment arrangement between the entity and its employees. An entity's own equity instruments (e.g., treasury shares) are not assets of the entity, whereas the equity instruments of another entity (e.g., shares of its parent) are assets of the entity.
- Share-based payment transactions in which an entity receives services from its employees as consideration for equity instruments of the entity shall be accounted for as equity-settled transactions.
- Share-based payment transactions in which a parent entity grants rights to its equity instruments directly to a subsidiary entity's employees shall be accounted for as equity-settled transactions.
- If a subsidiary entity grants to its employees rights to equity instruments of its parent, the subsidiary entity shall account for the share-based payment transaction with its employees as cash-settled. However, in the group's consolidated financial statements, the transaction shall be accounted for as equity-settled.

The Draft Interpretation, which would be applied retroactively in accordance with IAS 8 subject to the transitional provisions of IFRS 2, would be applied for annual periods beginning three months after the interpretation is finalized. The [Draft Interpretation](#) is available on the IASB's Web site, and the comment period ends July 18, 2005.

Recent IASB Meeting

The International Accounting Standards Board discussed the following topics when it met in London on May 16-18, 2005:

- ED 7, *Financial Instruments: Disclosures*
- IFRIC D11, *Changes in Contributions to Employee Share Purchase Plans* (ESPP)
- Amendments to IAS 37
- Clarification regarding IAS 12

- Proposed IFRIC Interpretation — Waste Electrical and Electronic Equipment
- Fair value option
- Insurance contracts (phase II)
- Measurement
- Accounting standards for small and medium-sized entities
- Performance reporting
- Conceptual framework

[Summaries](#) of the 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. [Summaries](#) of the IASB meeting decisions and discussions also are available on Deloitte's IAS Plus Web site. [Summaries](#) of the IFRIC meeting decisions and discussions are also available on the IASB Web site.

Further information about IASB and IFRIC can be found on the IASB's Web site, www.iasb.org, and on the IAS Plus Web site, 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.

Appendix A: Significant Adoption Dates and Deadlines

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

FASB	Status
Upcoming Adoption Dates	
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. [Note: See SEC Rule regarding the compliance date for Statement 123(R).]
Interpretation 47, <i>Accounting for Conditional Asset Retirement Obligations</i>	Effective as of the end of fiscal years ending 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"> – Provisions of Interpretation 46(R) currently are effective. <p><u>Small Business Issuers:</u></p> <ul style="list-style-type: none"> – For interests in SPEs, Interpretation 46 or Interpretation 46(R) must be applied no later than for financial statements ending after December 15, 2003. – For interests in all entities, Interpretation 46(R) must be applied no later than for financial statements ending after December 15, 2004. <p><u>Nonpublic Entities:</u></p> <ul style="list-style-type: none"> – Interpretation 46(R) must be applied by the beginning of the first annual period beginning after December 15, 2004. <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>
FSP FIN 46(R)-5, “Implicit Variable Interests Under FASB Interpretation No. 46(R), <i>Consolidation of Variable Interest Entities</i> ”	Effective in the first reporting period beginning after March 3, 2005, for entities that have adopted Interpretation 46(R). For all other entities, effective 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 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)-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)-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 FAS 19-1, "Accounting for Suspended Well Costs"	Effective for the first reporting period beginning after April 4, 2005.
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 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision Within the American Jobs Creation Act of 2004"	Effective as of December 21, 2004.
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 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 85-24-1, "Application of EITF Issue No. 85-24, '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"	Effective for reporting periods beginning after March 11, 2005.
FSP EITF 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.
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).
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>Hedging — General: 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. 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).
Projects in Exposure Draft Stage	
Proposed Statement of Financial Accounting Standards, <i>The Hierarchy of Generally Accepted Accounting Principles</i>	Comments due June 27, 2005.
Proposed FSP FAS 150-e, "Issuer's Accounting Under Statement 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable"	Comments due June 2, 2005.
EITF	Status
Upcoming Adoption Dates	
Issue 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds"	Effective at the same time as the proposed FSP FAS 131-a becomes final.
Issue 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share"	Effective for fiscal periods ending after December 15, 2004.
Issue 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry"	Effective for fiscal years beginning after December 15, 2005.
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 03-1, "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.

GASB		Status
Upcoming Adoption Dates		
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.	
Projects in Exposure Draft Stage		
Preliminary Views, <i>Accounting and Financial Reporting for Pollution Remediation Obligations</i>	Comments due June 24, 2005.	
AICPA/AcSEC		Status
Upcoming Adoption Dates		
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.	
Projects in Exposure Draft Stage		
Proposed Auditing Standard, <i>Amendment to SAS 69, The Meaning of Present Fairly in Conformity with Generally Accepted Principles, for Nongovernmental Entities</i>	Comments due June 27, 2005.	
SEC		Status
Upcoming Adoption Dates		
Final Rule, <i>First-Time Application of International Financial Reporting Standards</i> (amendments to Form 20-F)	Rule will apply to foreign private issuers that adopt IFRS prior to or for the first financial year starting on or after January 1, 2007.	
Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (Revised 2004), <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 of the registrant's first fiscal year 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 of the registrant's first fiscal year that begins after December 15, 2005.	

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, 2006, for "nonaccelerated filers." Effective for fiscal years ending on or after July 15, 2006, 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 107 Regarding the Interaction Between FASB Statement No. 123(R), <i>Share-Based Payment</i> , and Certain SEC Rules and Regulations	Effective upon the adoption of Statement 123(R).
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.
PCAOB	Status
Upcoming Adoption Dates	
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, 2006, 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.
IASB/IFRIC	Status
Upcoming Adoption Dates	
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 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 — Cash Flow Hedge Accounting of Forecast Intragroup Transactions</i>	Effective for annual periods beginning on or after January 1, 2006.
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.
Projects in Exposure Draft Stage	
IFRIC Draft Interpretation D17, <i>IFRS 2 — Group and Treasury Share Transactions</i>	Comments due July 18, 2005.
IFRIC Draft Interpretation D16, <i>Scope of IFRS 2</i>	Comments due July 18, 2005.
Amendments to IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i> , and IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i>	Comments due June 3, 2005.

Appendix B: Abbreviations

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

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