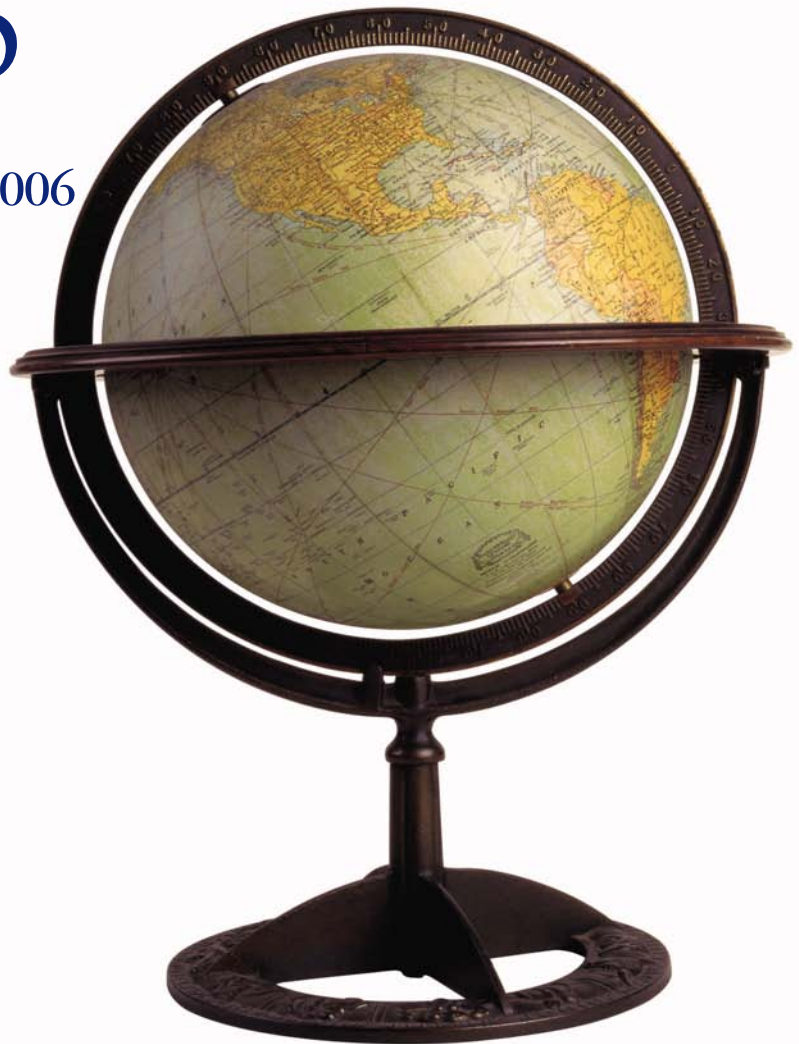


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Accounting Roundup

3rd Quarter in Review — 2006



October 20, 2006


Preface

Accounting Roundup: 3rd Quarter in Review — 2006

Edited by Stuart Moss and Sara Glen, Deloitte & Touche LLP

During the third quarter of 2006, accounting standard setters and regulators issued a number of pronouncements (e.g., final FASB Statements, FSPs, EITF consensuses, SEC rules, PCAOB rules, IFRSs, etc.) affecting accounting, financial reporting, and corporate governance.

Accounting Roundup: 3rd Quarter in Review — 2006 presents brief descriptions of those pronouncements and outlines certain other third-quarter regulatory and professional developments. The articles in this Review derive mainly from 3rd quarter (i.e., [July](#), [August](#), and [September](#)) issues of the *Accounting Roundup* newsletters, with updates added where appropriate.

Online readers seeking additional resources should review the information available via the hyperlinks throughout the issue, which are underlined in blue or marked with the  symbol. Further details can be found on the Web sites of the accounting standard setters and regulators, including the [FASB](#), [GASB](#), [SEC](#), [PCAOB](#), [AICPA](#), and [IASB](#). Readers should monitor upcoming issues of Deloitte & Touche LLP (“Deloitte & Touche”) *Accounting Roundup* for reports of new developments.

As usual, clicking any title in the Table of Contents takes you directly to the article. We value your feedback and would appreciate any comments you may have on *Accounting Roundup: 3rd Quarter in Review — 2006*. Take a moment to tell us what you think by sending us an e-mail at accountingstandards@deloitte.com.

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FASB Developments

FASB Issues New Pension Standard, Statement 158

AFFECTS: All companies that sponsor a postretirement benefit plan.

SUMMARY: By amending Statements 87¹ and 106,² Statement 158³ addresses certain deficiencies in the original pension accounting guidance. Most importantly, Statement 158 increases the transparency of a company's financial statements. Instead of requiring the company only to disclose the funded status of its plan, the Statement requires the company to record it. Statement 158 requires a company that sponsors a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of its benefit plan(s) in its year-end balance sheet (for calendar year-end companies with publicly-traded equity securities, this provision is required in the 2006 year-end balance sheet). The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. The benefit obligation's measurement basis is the projected benefit obligation for pension plans and the accumulated postretirement obligation for other postretirement benefit plans.

In addition, Statement 158 also requires a company to measure its plan assets and benefit obligations as of its year-end balance sheet date. Currently, an entity is permitted to choose a measurement date up to three months prior to its year end to measure the plan assets and obligations. Paragraph 5 of Statement 158 provides two exceptions to the measurement date provision. Those two situations, and the way in which the measurement date is affected, are as follows:

- When a subsidiary is the plan sponsor and is consolidated using a different fiscal period than its parent, the parent should measure the subsidiary's postretirement benefit plan assets and benefit obligations as of the same date used to consolidate the subsidiary; and
- When the plan is sponsored by an equity method investee and the financial statements of the equity method investee are not available timely for the investor to apply the equity method currently, the investor should measure the investee's plan assets and benefit obligations as of the same date of the investee's financial statements used to apply the equity method.

Statement 158 does not address the measurement and recognition issues related to the changes in the fair value of plan assets and benefit obligations. Those, as well as other issues, will be the primary focus of a multi-year Phase II project. Accordingly, Statement 158 does not affect an entity's computation of its benefit expense recognized in the income statement.

EFFECTIVE: The provisions and their effective dates are as follows:

Recognition of asset and liability related to funded status of a plan and disclosures:

- For entities with publicly traded equity securities, effective for fiscal years ending after December 15, 2006.
- For all other entities, effective for fiscal years ending after June 15, 2007.

Measurement of the entity's year-end balance sheet date will be effective for all entities for fiscal years ending after December 15, 2008.

TRANSITION: The Statement requires prospective application.

OTHER RESOURCES: Deloitte & Touche's [Heads Up](#) on Statement 158.

¹ FASB Statement No. 87, *Employers' Accounting for Pensions*.

² FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

³ FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* — an amendment of FASB Statements No. 87, 88, 106, and 132(R).

FASB Issues Statement No. 157, *Fair Value Measurements*

AFFECTS:	All companies that apply fair value measurements.
SUMMARY:	<p>Statement 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. Statement 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under the Statement, fair value measurements are disclosed by level within that hierarchy. While the Statement does not add any new fair value measurements, it does change current practice. Changes to practice include:</p> <ul style="list-style-type: none">• A requirement for an entity to include its own credit standing in the measurement of its liabilities.• A modification of the transaction price presumption.⁴• A prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies.• A requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year.
EFFECTIVE:	The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that no financial statements have yet been issued within that fiscal year by the reporting entity.
TRANSITION:	The Statement shall be applied prospectively as of the beginning of the fiscal year in which the Statement is initially applied, other than the exceptions described in paragraphs 37(a)–(c). Those exceptions require retrospective application as of the beginning of the fiscal year in which the Statement is initially applied.
OTHER RESOURCES:	Deloitte & Touche's Heads Up on Statement 157.

FSP on Accounting for a Change in Income Tax Cash Flows Generated by a Leveraged Lease Transaction

AFFECTS:	All companies with leveraged leases.
SUMMARY:	<p>FSP FAS 13-2⁵ gives guidance on a change or projected change in the timing of income tax cash flows relating to a leveraged lease as a result of a settlement with the IRS. Such a change shall result in a recalculation, at inception, of the lease rate of return and the allocation of income to positive investment years.⁶ The accounts constituting the net investment balance shall be adjusted to conform to the recalculated balances, and the change in the net investment shall be recognized as a gain or loss. The FSP applies only to changes or projected changes in the timing of income taxes that are directly related to the leveraged lease transaction.</p>
EFFECTIVE:	Effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as of the beginning of an entity's fiscal year, provided that the entity has not yet issued financial statements, including any interim financial statements, for that fiscal year.
TRANSITION:	All recognized tax positions in a leveraged lease must be measured in accordance with Interpretation 48 ⁷ at the date of adoption of this FSP. If, at the date of adoption, the application of Interpretation 48 causes a change in the recognition or measurement of the tax position, that change shall be considered a change of an assumption as of the date of adoption of the FSP. The cumulative effect of applying the provisions of this FSP shall be reported as an adjustment to the beginning balance of retained earnings as of the beginning of the period in which this FSP is adopted.

⁴ Statement 157 nullified footnote 3 of EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," and paragraph 4(d) of FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*, which added paragraph 16A of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

⁵ FASB Staff Position No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction."

⁶ Consistent with the guidance in paragraph 46 of FASB Statement No. 13, *Accounting for Leases*.

⁷ FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of FASB Statement No. 109.

FSP on Planned Major Maintenance Activities

AFFECTS:	All companies with planned major maintenance activities.
SUMMARY:	<p>FSP No. AUG AIR-1, “Accounting for Planned Major Maintenance Activities,” prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim reporting periods (i.e., periodic major overhauls and maintenance of plant and equipment). It continues to permit the application of the other three alternative methods of accounting for planned major maintenance activities that are in the AICPA Audit and Accounting Guide, <i>Airlines</i> (“Airline Guide”), and used by other industries: direct expense, built-in overhaul, and deferral. Although the FSP amends the Airline Guide, the guidance in the FSP is applicable to entities in all industries.</p> <p>According to the FASB, the accrue-in-advance method of accounting causes the recognition of a liability in a period prior to the occurrence of the transaction or event obligating the entity. Consequently, this recognition fails to conform to the definition of a liability found in Concepts Statement 6.⁸ However, the Board noted that a liability required to be recorded for an asset retirement obligation based on a legal obligation, as explained and illustrated in Statement 143⁹ and Interpretation 47,¹⁰ does embody a liability. Therefore, the Board believes that if the event obligating the entity has occurred, the liability should be recorded.</p> <p>In addition to amending the Airline Guide, the FSP also amends Opinion 28¹¹ to remove its specific reference in paragraph 16(a) to annual major repairs. The FSP requires disclosure of the method of accounting for planned major maintenance activities selected, as well as information related to the change from the accrue-in-advance method to another method.</p>
EFFECTIVE:	The FSP is effective for the first fiscal year beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an entity’s fiscal year.
TRANSITION:	The FSP should be applied retrospectively for all financial statements presented unless doing so is impracticable.

Final Interpretation on Accounting for Uncertainty in Income Taxes

AFFECTS:	All companies with tax positions accounted for in accordance with Statement 109. ¹²
SUMMARY:	<p>The FASB’s objective in issuing this Interpretation¹³ is to increase comparability in financial reporting of income taxes. Although the validity of an enterprise’s tax position is a matter of tax law, there are cases when the law is subject to significant and varied interpretation. As a result, an enterprise may be uncertain as to whether a tax position would ultimately be sustained as filed in its tax return. Statement 109, does not provide specific guidance on how such uncertainties should be reflected in an enterprise’s financial statements. This lack of guidance has resulted in diversity in how enterprises recognize, derecognize, and measure potential tax benefits associated with tax positions.</p> <p>The Interpretation applies to all tax positions that are within the scope of Statement 109 and retains the two-step approach for recognizing and measuring tax benefits defined in the original Exposure Draft. In Step 1, the Interpretation establishes a “more-likely-than-not” recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises will move to Step 2. In Step 2, enterprises are required to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information.</p>

⁸ FASB Concepts Statement No. 6, *Elements of Financial Statements*.

⁹ FASB Statement No. 143, *Accounting for Asset Retirement Obligations*.

¹⁰ FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*.

¹¹ APB Opinion No. 28, *Interim Financial Reporting*.

¹² FASB Statement No. 109, *Accounting for Income Taxes*.

¹³ FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of FASB Statement No. 109.

The Interpretation also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including a detailed rollforward of tax benefits taken that do not qualify for financial statement recognition.

EFFECTIVE: The Interpretation is effective for fiscal years beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an enterprise's fiscal year, provided the enterprise has not yet issued financial statements, including interim period financial statements, for that fiscal year.

TRANSITION: Apply to all tax positions upon initial adoption. The cumulative effect of applying the provisions of the Interpretation should be reported as an adjustment to the opening balance of retained earnings for that fiscal year.

OTHER RESOURCES: Deloitte & Touche's [Heads Up](#) on Interpretation 48.

Changes to the Green Book, Accounting for Derivative Instruments and Hedging Activities

AFFECTS: All companies with derivative instruments.

SUMMARY: In February 2004, the FASB issued a publication, *Accounting for Derivative Instruments and Hedging Activities*, also known as the "Green Book." The Green Book integrates all the statements related to derivative issues, as well as Statement 133 Implementation Issues discussed by the Derivatives Implementation Group (DIG) and cleared by the FASB prior to February 10, 2004. Recently, the FASB posted changes to the Green Book as a result of amendments to Statement 133 and newly issued or revised cleared DIG Issues posted subsequent to February 2004.

Lease Project Added to FASB Agenda

AFFECTS: All companies involved in leases.

SUMMARY: As a result of consultation with many of its constituents, the FASB has formally added to its agenda a project to reconsider the current accounting standards for leases. The project will be a joint effort with the IASB and seeks to insure that investors and other users of financial statements are provided useful, transparent, and complete information about leasing transactions in the financial statements. The goal is to transform the rule-based standards to develop principles that would faithfully represent lease transactions in the financial statements of both lessees and lessors.

EITF Developments

EITF Issue 06-1, "Accounting for the Consideration Given by a Service Provider to a Manufacturer or Reseller of Equipment Necessary for an End-Customer to Receive Service From the Service Provider"

AFFECTS: Specialized service providers, such as certain cell phone or satellite media companies, that give consideration to manufacturers or resellers of equipment needed to obtain the service. For transactions within the Issue's scope, the service provider does not purchase or take title of the equipment, or sell the equipment directly to the end-customer.

SUMMARY:	The Task Force affirmed its tentative conclusion that consideration provided to a manufacturer or reseller should be characterized in the service provider's income statement, based on the form of consideration rendered to the end-customer as directed by the service provider. Consideration is deemed "directed by" the service provider if the manufacturer or reseller is contractually required to pass a specific form of consideration on to the end customer (i.e., there is contractual linkage). "Directed" consideration is characterized in the income statement based on Issue No. 01-9. ¹⁴ That is, "cash consideration" is characterized as a reduction of revenue; "other than cash" consideration is characterized as an expense. If the form of consideration is not directed by the service provider, it should be characterized as "other than cash" (i.e., an expense). For purposes of applying this Issue, the term "cash consideration" does not include sales incentives (which would be considered "cash consideration" in Issue 01-9).
EFFECTIVE:	First annual reporting period beginning after June 15, 2007. Early application is permitted for financial statements not yet issued.
TRANSITION:	Apply the consensus as a change in accounting principle through retrospective application to all prior periods presented.

EITF Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"

AFFECTS:	Entities (most notably community banks) with endorsement split-dollar life insurance arrangements that provide an employee with a specified benefit that is not limited to the employee's active service period, including certain company-owned life insurance (COLI) or bank-owned life insurance (BOLI) policies.
SUMMARY:	<p>The Task Force affirmed its tentative conclusion that an employer should recognize a liability for future benefits based on the substantive agreement with the employee. In reaching the consensus, the Task Force concluded that entering into an endorsement split-dollar life insurance arrangement does not qualify as a settlement under Statement 106.¹⁵ The liability should be recognized in accordance with Statement 106 — if deemed part of a plan — or APB Opinion No. 12, <i>Omnibus Opinion — 1967</i>.</p> <p>The Task Force acknowledged that the substantive agreement often takes the form of an employer's commitment to keep an insurance policy in force during the employee's retirement period. However, in determining the substance of an arrangement, all available evidence should be considered, including, but not limited to, the explicit written terms of the arrangement, communications between the employer and employee, and the identity of the primary obligor of the benefit (i.e., the employer or the insurance company).</p>
EFFECTIVE:	For fiscal years beginning after December 15, 2007, with earlier application permitted.
TRANSITION:	Entities should recognize the effects of applying the consensus through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods.

EITF Issue 06-5, "Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance With FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance"

AFFECTS:	Entities with life insurance policies, including COLI or BOLI.
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¹⁴ EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)."

¹⁵ FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

SUMMARY:	<p>The Task Force affirmed its tentative conclusion as a consensus that a determination of the amount that could be realized under an insurance contract should (1) consider any additional amounts (beyond cash surrender value) included in the contractual terms of the policy and (2) be based on assumed surrender at the individual policy or certificate level, unless all policies or certificates are required to be surrendered as a group. When it is probable (as defined in Statement 5¹⁶) that contractual restrictions would limit the amount that could be realized, such contractual limitations should be considered. Any amounts recoverable at the insurance company's discretion should be excluded from the amount that could be realized.</p> <p>Fixed amounts recoverable in excess of one year should be recorded at their present values in accordance with Opinion 21.¹⁷ Fixed amounts exclude the cash surrender value component of the policy, including situations where a contractual restriction may limit the entity's ability to surrender the policy. Said another way, provided the cash surrender value component continues to be credited with interest during the time of the restriction — that is, it does not become “fixed” — it should not be discounted in accordance with Opinion 21. However, any such contractual restrictions on surrender should be disclosed.</p>
EFFECTIVE:	Fiscal years beginning after December 15, 2006. Earlier application is permitted as of the beginning of a fiscal year for periods in which interim or annual financial statements have not been issued.
TRANSITION:	Entities should recognize the effects of applying the consensus through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets as of the beginning of the year of adoption, or (2) a change in accounting principle through retrospective application to all prior periods.

GASB Developments

Statement on Accounting for Sales and Pledges of Receivables and Future Revenues

AFFECTS:	State and local governmental entities.
SUMMARY:	<p>Statement 48¹⁸ clarifies the guidance on accounting for sales and pledges of receivables and future revenues. The Statement provides criteria that governments will use to determine whether to classify certain transactions as sold or collateralized. In other words, Statement 48 determines whether proceeds received from a certain transaction should be reported as revenue or a liability. The Statement also indicates that governments should not revalue assets that are transferred between financial reporting entity components. The Statement contains several modifications from the 2005 Exposure Draft and also includes the following requirements and guidance:</p> <ul style="list-style-type: none"> • Requires enhanced disclosures pertaining to future revenues that have been pledged or sold. • Provides guidance on sales of receivables and future revenues within the same financial reporting entity. • Provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues. <p>A copy of the text of the Statement can be ordered through the GASB's order department or via its Web site.</p>
EFFECTIVE:	Statement 48 is effective for financial statements for periods beginning after December 15, 2006.

¹⁶ FASB Statement No. 5, *Accounting for Contingencies*.

¹⁷ APB Opinion No. 21, *Interest on Receivables and Payables*.

¹⁸ GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

New Q&A on Qualifying OPEB Plan Trusts and Fiduciary Responsibilities

AFFECTS: State and local governmental entities.

SUMMARY: During its July meeting, the GASB issued a Q&A intended to provide implementation guidance regarding qualifying other postemployment benefit (OPEB) plan trusts and the responsibilities of those who play a significant role in the functions of an OPEB plan that includes such a trust, for purposes of accounting and financial reporting in accordance with the requirements of Statements 43¹⁹ and 45.²⁰ Because many governments are implementing the OPEB standards, the GASB released the Q&A ahead of schedule. The Q&A will be included in the Comprehensive Implementation Guide — 2006, which is expected to be available the week of October 23 on the GASB's Web site.

GASB Adds Project to Technical Plan to Enhance Disclosure Requirements of Governmental Pension Plans

AFFECTS: State and local governmental entities.

SUMMARY: The GASB announced that it has added a project to its current technical agenda. This project will likely require state and local governments to provide enhanced disclosures and supplementary information about their pension plans to users of governmental financial statements. The project's intention is to bring current pension disclosure requirements for governments in line with those recently required for other postemployment benefits.

AICPA Developments

Conforming Changes Made to Standard on Reporting on a Nonissuer's Internal Control Over Financial Reporting to Achieve Consistency with SAS 112

AFFECTS: Nonissuers and their auditors.

SUMMARY: The AICPA has made conforming changes to AT Section 501²¹ to incorporate relevant terms, definitions, and guidance to achieve consistency with the recently issued SAS 112.²² The changes made to AT Section 501 are as follows:

- Deleting the term "reportable condition" and its definition.
- Replacing the definition of the term "material weakness."
- Introducing the terms control deficiency and significant deficiency and their related definitions.
- Replacing the guidance on evaluating control deficiencies with the relevant guidance from SAS No. 112.
- Replacing the term "audit committee" with the term "those charged with governance" (defined in SAS 103²³) to describe the party to whom the practitioner must communicate significant deficiencies and material weaknesses.
- Identifying areas in which a control deficiency ordinarily is at least a significant deficiency in internal control.
- Identifying indicators of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.
- Requiring the practitioner to communicate to management and those charged with governance, in writing, significant deficiencies and material weaknesses.

EFFECTIVE: The conforming changes are effective when the subject matter or assertion is as of or for the period ending on or after December 15, 2006, with earlier application permitted.

¹⁹ GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

²⁰ GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*.

²¹ AICPA Professional Standards, AT Section 501, "Reporting on an Entity's Internal Control Over Financial Reporting."

²² AICPA Statement on Auditing Standards No. 112 (AU Section 325), *Communicating Internal Control Related Matters Identified in an Audit*.

²³ AICPA Statement on Auditing Standards No. 103, *Audit Documentation*.

Practice Aid on Auditing Alternative Investments

AFFECTS: Auditors and investors in Alternative Investments.

SUMMARY: Certain not-for-profit organizations, healthcare entities, pension plans, and investment companies have increased their investment in financial instruments that do not have a readily determinable market value. Such investments (e.g., hedge funds, private equity funds, real estate funds, etc.) are known as alternative investments and are subject to fair value accounting. The investments expose investment portfolios to greater risk and volatility, and inherently increase the risk of misstatement. As a result, the Audit Issues Task Force of the ASB established the Alternative Investments Task Force. The Task Force has developed and issued a non-authoritative practice aid to assist auditors in auditing alternative investments. The practice aid includes guidance on:

- General considerations pertaining to auditing alternative investments.
- Addressing management's financial statement existence and valuation assertions.
- Management representations.
- Disclosure of certain significant risks and uncertainties.
- Reporting.
- Confirmation for alternative investments.
- Due diligence, ongoing monitoring, and financial reporting controls.

Audit Risk Alert: Not-for-Profit Organizations Industry Developments

AFFECTS: Not-for-Profit organizations and their auditors.

SUMMARY: The AICPA issued an Audit Risk Alert intended to provide auditors of financial statements of not-for-profit organizations with an overview of recent economic, technical, industry, regulatory, and professional developments affecting the industry. Although the publication is not authoritative, it may be helpful to the auditor in applying SASs.

SEC Developments

SAB 108 Provides Guidance on Materiality

AFFECTS: SEC registrants and their auditors.

SUMMARY: SAB 108;²⁴

- States that registrants should use both a balance sheet (iron curtain) approach and an income statement (rollover) approach when quantifying and evaluating the materiality of a misstatement;²⁵
- Contains guidance on correcting errors under the dual approach; and
- Provides transition guidance for correcting errors existing in prior years.

If a registrant early adopts, previous interim reports need not be amended. However, any comparative interim information presented should be adjusted to reflect the cumulative effect adjustment as of the beginning of the year of initial application.

Although the specific provisions of SAB 108 are not applicable for nonpublic entities, it is possible that either the ASB or the FASB will issue future guidance on assessing materiality for nonpublic entities. Private companies that are considering becoming registrants should note that the cumulative effect

²⁴ SEC Staff Accounting Bulletin No. 108, codified as SAB Topic 1.N, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements."

²⁵ SEC Staff Accounting Bulletin Topic 1.M, "Materiality," is unchanged by SAB 108. SAB Topic 1.M indicates that quantifying and aggregating errors is only the beginning of an analysis of materiality and that both quantitative and qualitative factors must be considered in determining whether individual errors are material.

adjustment is not available to registrants that have initial registration statements that are not effective on or before November 15, 2006.

In the initial year of application, the staff will not object if a registrant records a one-time cumulative effect adjustment to correct for misstatements in prior fiscal years, provided the errors were not deemed material under the registrant's prior approach but are material under the SAB 108 approach. The effects of the initial application should be reflected in the carrying amounts of assets and liabilities as of the beginning of that fiscal year with the offsetting adjustment to the opening balance of retained earnings. Also, registrants should disclose the nature and amount of each error being corrected, when and how it arose, and that the errors had previously been considered immaterial.

EFFECTIVE: For annual financial statements covering the first fiscal year ending after November 15, 2006, with earlier application encouraged for any interim period of the first fiscal year ending after November 15, 2006, and filed after the publication of the SAB (September 13, 2006).

OTHER RESOURCES Deloitte & Touche's [Heads Up](#) and [SEC Alert 06-2](#) on SAB 108.

SEC Finalizes Disclosure Requirements for Executive and Director Compensation

AFFECTS: SEC registrants and their auditors.

SUMMARY: The final rule²⁶ increases the disclosure requirements of total compensation for the principal executive officer, the principal financial officer, and up to three of the other most highly paid officers. In addition, the compensation disclosures for directors have been expanded and now all compensation to each director must be disclosed in a separate summary compensation table. The amendments are intended to provide a clearer and more complete picture of the total compensation of such individuals.

The new requirements combine a broader-based tabular presentation with improved narrative disclosure supplementing the tables. Under the requirements, all elements of compensation must be disclosed. The disclosures begin with a narrative overview entitled "Compensation Discussion and Analysis," which includes material factors in determining compensation policies and decisions reflected in the data in the subsequent tables. The discussion should include items such as the design and objectives of the company's compensation program and how the elements are calculated and paid. A company's policies, programs, and practices regarding the awarding of stock options should also be discussed in this section. A company is required to disclose if it has, or intends to have, a plan or practice of setting the exercise price of stock options at other than the market price at the grant date and/or a plan or practice of setting grant dates in coordination with the release of non-public information.

The release also requires appropriate narrative disclosure to provide material information necessary to understand the information in the tables. Tabular disclosures for three broad categories must follow the Compensation Discussion and Analysis:

- A Summary Compensation table that presents compensation paid or currently deferred, consisting of current earnings or awards that are part of a plan. Certain data in the Summary Compensation table will be supplemented by additional tabular disclosures.
- Holdings of equity-related interests that relate to compensation or are potential sources of future gains, which includes three potential tables: a Grants of Plan-Based Awards table, an Outstanding Equity Awards at Fiscal Year End table; and an Option Exercises and Stock Vested table.
- Retirement and other post-employment compensation, which includes a Pension Benefits table and a Nonqualified Deferred Compensation table.

²⁶ SEC Final Rule, *Executive Compensation and Related Person Disclosure*.

EFFECTIVE:	The new requirements will be effective in Forms 8-K for triggering events that occur on or after November 7, 2006, in Forms 10-K and 10-KSB for fiscal years ending on or after December 15, 2006, and in registration and proxy/information statements filed after December 15, 2006.
OTHER RESOURCES:	Deloitte & Touche's Heads Up on the final rule.

Extension of Section 404 Compliance for Certain Companies

AFFECTS:	Foreign private issuers that are accelerated (but not large accelerated filers). Those with a public float between \$75 and \$700 million as of the last day of their most recently completed second fiscal quarter.
SUMMARY:	The final rule ²⁷ extends compliance for the auditor's attestation (Section 404(b) of the Sarbanes-Oxley Act of 2002) for foreign private issuers (FPIs) that are accelerated filers (but not large accelerated filers) and that file their annual reports on Forms 20-F or 40-F.
EFFECTIVE:	The compliance date for providing an auditor's attestation report on internal control over financial reporting in such an issuer's annual report is extended for an additional year, to fiscal years ending on or after July 15, 2007. However, management's report is still required for fiscal years ending on or after July 15, 2006. The rule does not change the current requirements for compliance with Section 404 for large accelerated FPIs, which is for fiscal years ending on or after July 15, 2006.
OTHER RESOURCES:	Deloitte & Touche's Heads Up on the final rule.

SEC Issues Interpretive Release on Use of Client Commissions for Brokerage and Research Services

AFFECTS:	Money managers.
SUMMARY:	The Interpretative Release ²⁸ clarifies that money managers may use client commissions only for eligible brokerage and research services, which are limited to advice, analyses, and reports under Section 28(e) of the Securities and Exchange Act of 1934. The Interpretative Release outlines a three-step process required when analyzing the eligibility of brokerage and research services under Section 28(e). The steps include an analysis of: <ul style="list-style-type: none"> • The application of the eligibility requirements, • The money manager's lawful and appropriate use of the items, and • The money manager's good-faith determination that the commissions paid are reasonable in light of the value of the services received.
EFFECTIVE:	The effective date of the Interpretative Release was July 24, 2006; however, market participants will be able to rely on prior SEC guidance for six months following publication.

OCA Expresses Its Views on the Appropriate Application of the Stock Option Accounting Literature

AFFECTS:	SEC registrants that grant stock options.
SUMMARY:	Companies' past practices related to the granting of stock options have precipitated restatements of financial statements. Also, many other companies are reviewing their past practices, which have been based in large part on the guidance in Opinion 25. ²⁹ Responding to these recent restatements, the Office of the Chief Accountant (OCA) has issued a letter outlining its views on the appropriate application of the relevant accounting guidance. Specifically, the topics discussed in the letter generally relate to the appropriateness of a company's determination of the measurement date of past stock

²⁷ Final Rule, *Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Foreign Private Issuers That Are Accelerated Filers*.

²⁸ SEC Interpretative Release, *Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934*.

²⁹ APB Opinion No. 25, *Accounting for Stock Issued to Employees*.

option awards under Opinion 25. As a result of differences in the accounting standards, the OCA staff notes that the views expressed in the letter are not necessarily representative of the staff's views with respect to the determination of grant date and measurement date under Statement 123(R).³⁰

The letter is divided into individual sections for each item addressed. In each section, the issue is described and the staff's views are presented. The most significant topics discussed are:

- Dating option awards to predate the actual award date,
- Option grants with administrative delays,
- Validity of prior grants,
- Uncertainty as to individual award recipients,
- Exercise price set by reference to a future market price,
- Grants prior to the commencement of employment,
- Missing or incomplete documentation of option granting activities,
- Granting option awards prior to the release of new information,
- Changes to option grants due to the release of new information, and
- Income tax benefits related to options.

OTHER RESOURCES: Deloitte & Touche's [Heads Up](#) on the SEC letter.

Highlights of AICPA SEC Regulations Committee Joint Meeting With the SEC Staff — June 20, 2006

AFFECTS: All SEC registrants.

SUMMARY: The AICPA SEC Regulations Committee ("Regulations Committee") meets three times per year with the SEC staff to discuss emerging technical accounting and reporting issues relating to SEC rules and regulations. During the June Regulations Committee meeting, the SEC staff provided the following updates regarding ongoing projects and final rule releases:

- An update of the Division of Corporation Finance Accounting Disclosure Rules and Practices Training Manual is still in process.
- Final rule releases are expected related to the following:
 - Executive compensation and related party disclosures. (See article on final rule release herein).
 - Amendments to the tender offer best-price rules.
 - Internet availability of proxy materials.

The SEC staff also made announcements related to the following topics:

- Potential guidance on Interpretation of Issue 03-9.³¹
- Disclosure requirements under Statement 131.³²
- FAQs for foreign private issuers (FPIs) related to Section 404 of the Sarbanes-Oxley Act of 2002.
- Concept Release on guidance for management related to Section 404 of the Sarbanes-Oxley Act of 2002; revision to PCAOB Auditing Standard 2;³³ and extension for nonaccelerated filers to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

OTHER RESOURCES: Deloitte & Touche's [SEC Alert 06-1](#) discussing the announcements made by the SEC staff at the meeting.

³⁰ FASB Statement No. 123(R), *Share-Based Payment*.

³¹ EITF Issue No. 03-9, "Determination of the Useful Life of Renewable Intangible Assets Under FASB Statement No. 142."

³² FASB Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information*.

³³ PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

PCAOB Developments

PCAOB Issues Practice Alert on Stock Option Grants

AFFECTS: Auditors of companies that issue stock options.

SUMMARY: PCAOB Staff Audit Practice Alert (APA) No. 1, *Matters Related to Timing and Accounting for Option Grants*, focuses on so-called discount or in-the-money options (i.e., the strike price is below the market price on the measurement date). These are more valuable than typical options that, at the measurement date, have a zero intrinsic value (a technical option term meaning the excess of the current market price over the exercise price). At issue are situations when an issuer fails to properly consider the impact of the discount on the original accounting.

The APA points to a range of practices, not all-inclusive, that could result in discounting. In addition, the APA warns that auditors planning or performing an audit should be alert to the risk that the issuer may not have properly accounted for stock option grants and should perform appropriate procedures in response to the identified risks. For current and future audits, the auditor needs to acquire sufficient information to permit an assessment of the nature and potential magnitude of these risks. The APA also addresses auditor involvement in registration statements and the effects of option-related matters on previous opinions. Furthermore, the APA refers to other appropriate audit and related guidance that should be considered.

OTHER RESOURCES: Deloitte and Touche's [Heads Up](#) on the APA. The Heads Up provides specific examples of the APA's applicability.

International Developments

IFRIC Interpretation on Interim Financial Reporting and Impairment

AFFECTS: Companies that apply IFRS.

SUMMARY: Interpretation 10³⁴ addresses the potential conflict between requirements of IAS 34³⁵ and the requirements for recording impairment losses on goodwill in IAS 36³⁶ and certain financial assets in IAS 39.³⁷ IAS 34 requires that entities assess goodwill for impairment at each reporting date and assess investments in equity instruments and financial assets carried at cost for impairment at every balance sheet date. Because these assessments should be performed at each reporting or balance sheet date, the results of the assessments in subsequent periods may indicate that an impairment loss previously recorded would not have existed if assessment had only occurred at the subsequent period. The question then becomes whether this impairment loss should be reversed at the subsequent period as IAS 34 suggests. Interpretation 10 states that "an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost."

EFFECTIVE: Interpretation 10 is effective for annual periods beginning on or after November 1, 2006. Earlier application is encouraged, and disclosure of that fact is required.

TRANSITION: Requirements shall be applied prospectively.

OTHER RESOURCES: The Interpretation is available to subscribers of the IASB's Comprehensive Subscription Service. To subscribe, visit the [IASCF Shop](#).

³⁴ IFRIC Interpretation 10, *Interim Financial Reporting and Impairment*.

³⁵ IAS 34, *Interim Financial Reporting*.

³⁶ IAS 36, *Impairment of Assets*.

³⁷ IAS 39, *Financial Instruments: Recognition and Measurement*.

Application of New IFRSs Not Effective Until 2009

AFFECTS: Companies that apply IFRS or will adopt and/or converge with IFRS and standard setters.

SUMMARY: To provide stability to an increasingly active IFRS environment, the IASB announced it will take steps to assist those involved with the implementation of IFRSs around the world. These steps include:

- Increased lead time to prepare for new standards.
- Increased opportunity for input on conceptual issues.
- Public roundtables on two key topics:
 1. Proposed amendments to the recognition and measurement principles in IAS 37.³⁸
 2. Measurement phase of the Conceptual Framework.

In addition, the IASB announced that it will not require the application of new IFRSs under development or major amendments to existing standards before January 1, 2009. However, this announcement does not preclude the issuance of new standards, or their early adoption should a company choose that course. Also, interpretations and minor amendments as a result of implementation issues are not subject to this timeline. The 2009 implementation date will, however, apply to all major IASB projects.

COSO Issues Guidance on Internal Control Over Financial Reporting for Smaller Public Companies

AFFECTS: Smaller public companies and their auditors.

SUMMARY: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has issued *Internal Control Over Financial Reporting — Guidance for Smaller Public Companies*. The guidance does not replace or modify COSO's 1992 Internal Control — Integrated Framework, which has served as the internal control framework for many organizations' implementation of Section 404 of the Sarbanes-Oxley Act of 2002 and the PCAOB's Auditing Standard No. 2, but provides guidance regarding the application of the framework for smaller public companies. The guidance is divided into the following three volumes:

- An executive summary;
- An overview of internal control over financial reporting in smaller businesses, including descriptions of company characteristics and how they affect internal control, challenges smaller businesses face, and how management can use the framework; and
- Illustrative tools to assist management in evaluating internal control.

OTHER RESOURCES: [Executive Summary](#) and a [frequently asked questions](#) document of the guidance.

GAO Releases a Report Studying Financial Restatements

AFFECTS: Public companies and their auditors.

SUMMARY: The Center for Public Company Audit Firms (CPCAF) has released a summary of the July 2006 Government Accountability Office (GAO) report entitled *Financial Restatements — Update of Public Company Trends, Market Impacts, and Regulatory Enforcement Activities*. The report, an update of a report issued in 2002 relating to restatements between 1997 and 2002, looks at financial statements from 2002 through September 2005. The purpose of the report is to examine the recent trends in restatements, including the number of and reasons for the restatements, and to analyze the impact of the restatements on a company's market capitalization.

The GAO report states a variety of factors that appear to have contributed to the increase in restatement announcements, including increased accountability requirements on company executives; increased focus on internal controls for financial reporting; increased auditor and regulatory scrutiny; and a general unwillingness on the part of companies to not restate, regardless of the significance of the event.

³⁸ IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Other Developments

Interagency Guidance Issued on Nontraditional Mortgage Products

AFFECTS: Financial institutions with “nontraditional” mortgage loans in their portfolios.

SUMMARY: Five federal financial regulatory agencies³⁹ (the Agencies) issued final guidance on nontraditional mortgage product risks. Some of the risks posed by such nontraditional (also referred to as “alternative” or “exotic”) mortgage loans include permitting borrowers to defer repayment of principal and sometimes interest. These types of loans are typically known as “interest-only” mortgages and “payment option” adjustable-rate mortgages. Because of the lack of principal amortization and the potential for negative amortization, compounded with offering the products to the broader spectrum, the Agencies are concerned that borrowers may not fully understand the terms and risks. Therefore, they have issued the final guidance, which discusses the importance of managing the increased risks related to these loans. The guidance suggests that management should:

- Ensure terms and underwriting standards are in line with careful lending practices, including consideration of a borrower’s ability to repay.
- Perform under strong risk management standards and provide for allowances and capital levels that reflect the collectibility of the portfolios.
- Ensure that consumers have the right information to clearly understand the terms and risks associated with the products before making decisions.

OTHER RESOURCES: The Agencies also issued two additional related documents. One of the documents is [Proposed Illustrations of Consumer Information for Nontraditional Mortgage Products](#). The other document is an addendum to the May 2005 [Interagency Credit Risk Management Guidance for Home Equity Lending](#).

³⁹ The agencies included are Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and National Credit Union Administration.

Appendix A: Significant Adoption Dates and Deadlines

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

FASB	Status
Significant Adoption Dates	
Statement 158, <i>Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans</i> — an amendment of FASB Statements No. 87, 88, 106, and 132(R)	Recognition of asset and liability related to funded status of a plan and disclosures: <ul style="list-style-type: none"> For entities with publicly traded equity securities, effective for fiscal years ending after December 15, 2006. For all other entities, effective for fiscal years ending after June 15, 2007. For all entities, change in measurement date is effective for fiscal years ending after December 15, 2008.
Statement 157, <i>Fair Value Measurements</i>	Effective for fiscal years beginning after November 15, 2007, and interim periods within those years.
Statement 156, <i>Accounting for Servicing of Financial Assets</i> — an amendment of FASB Statement No. 140	Effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006.
Statement 155, <i>Accounting for Certain Hybrid Financial Instruments</i> — an amendment of FASB Statements No. 133 and 140	Effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006.
Statement 154, <i>Accounting Changes and Error Corrections</i> — a replacement of APB Opinion No. 20 and FASB Statement No. 3	Effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.
Statement 123(R), <i>Share-Based Payment</i> (reflecting change in effective dates for public companies as a result of the SEC's Final Rule amending Rule 4-01(a) of Regulation S-X)	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. Nonpublic entities will be required to apply Statement 123(R) in the first annual reporting period that begins after December 15, 2005.
Interpretation 47, <i>Accounting for Conditional Asset Retirement Obligations</i> — an interpretation of FASB Statement No. 143	Effective as of the end of fiscal years ending after December 15, 2005.
Interpretation 48, <i>Accounting for Uncertainty in Income Taxes</i> — an interpretation of FASB Statement No. 109	Effective for fiscal years beginning after December 15, 2006.
FSP FAS 140-2, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140"	Effective as of November 9, 2005.
FSP FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement Upon the Occurrence of a Contingent Event"	Effective upon initial adoption of Statement 123(R). For an entity that adopted Statement 123(R) prior to February 3, 2006, this FSP is effective for the first reporting period beginning after February 3, 2006.
FSP FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards"	Effective after November 10, 2005. Entities may take up to one year from the later of the initial adoption of Statement 123(R) or the effective date of the FSP to make its election.

FSP FAS 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)"	Effective upon initial adoption of Statement 123(R). For an entity that adopted Statement 123(R) prior to October 18, 2005, this FSP is effective for the first reporting period after October 18, 2005, for which financial statements or interim reports have not been issued.
FSP FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services Under FASB Statement No. 123(R)"	Effective upon initial adoption of Statement 123(R). For an entity that adopted Statement 123(R) prior to August 31, 2005, this FSP is effective for either (a) the first reporting period beginning after August 31, 2005, or (b) an earlier period if the financial statements for that period have not been issued.
FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"	Effective for reporting periods beginning after December 15, 2005.
FSP FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period"	Effective for the first reporting period beginning after December 15, 2005. Lessees should cease capitalizing rental costs as of the effective date of this FSP for operating lease arrangements entered into prior to that date.
FSP FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction"	Effective for fiscal years beginning after December 15, 2006.
FSP FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners"	Effective for new minimum revenue guarantees issued or modified on or after the beginning of the first fiscal quarter following November 10, 2005.
FSP FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)"	Effective the first day of the first reporting period beginning after June 15, 2006.
FSP SOP 94-6-1, "Terms of Loan Products That May Give Rise to a Concentration of Credit Risk"	Effective for interim and annual periods ending after December 19, 2005.
FSP SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5"	Effective after June 29, 2005, for new limited partnership agreements and for pre-existing limited partnership agreements that are modified; otherwise, effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005.
FSP AAG INV-1 and SOP 94-4-1, "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans"	The financial statement presentation and disclosure guidance is effective for annual periods ending after December 15, 2006. The revised definition of fully benefit-responsive is effective for all investment contracts as of the last day of the annual period ending after December 15, 2006.
FSP AUG AIR-1, "Accounting for Planned Major Maintenance Activities"	Effective for first fiscal year beginning after December 15, 2006.
FSP FTB 85-4-1, "Accounting for Life Settlement Contracts by Third Party Investors"	Effective for fiscal years beginning after June 15, 2006.
Statement 133 Implementation Issue No. G1, "Cash Flow Hedges: Hedging an SAR Obligation"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. E19, "Hedging — General: Methods of Assessing Hedge Effectiveness When Options Are Designated as the Hedging Instrument"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. C3, "Scope Exceptions: Exception Related to Share-Based Payment Arrangements"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. B39, "Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor"	Effective the first day of the first fiscal quarter beginning after December 15, 2005.
Statement 133 Implementation Issue No. B38, "Embedded Derivatives: Evaluation of Net Settlement With Respect to the Settlement of a Debt Instrument Through Exercise of an Embedded Put Option or Call Option"	Effective the first day of the first fiscal quarter beginning after December 15, 2005.

Project in Exposure-Draft or Request-for-Comment Stage	
FASB Preliminary Views, <i>Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information</i>	Comments due November 3, 2006.
EITF	Status
Significant Adoption Dates	
Issue 06-5, "Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance With FASB Technical Bulletin No. 85-4"	Effective for fiscal years beginning after December 15, 2006.
Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"	Effective for fiscal years beginning after December 15, 2006.
Issue 06-3, "How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)"	Effective for financial statements for interim and annual periods beginning after December 15, 2006.
Issue 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43"	Effective for fiscal years beginning after December 15, 2006.
Issue 06-1, "Accounting for Consideration Given by a Service Provider to a Manufacturer or Reseller of Equipment Necessary for an End-Customer to Receive Service From the Service Provider"	Effective for fiscal years beginning after June 15, 2007.
Issue 05-8, "Income Tax Consequence of Issuing Convertible Debt With a Beneficial Conversion Feature"	Effective for the first interim or annual reporting period beginning after December 15, 2005.
Issue 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues"	Effective for future modifications of debt instruments that occur in all interim and annual reporting periods beginning after December 15, 2005. Public companies should also consider the remarks of the SEC Staff at the December 2004 AICPA Conference on Current SEC and PCAOB Developments stating that public companies should include the change in fair value of a modified conversion option in their Issue 96-19 cash flow analysis.
Issue 05-5, "Accounting for Early Retirement or Postemployment Programs With Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements)"	Effective for fiscal years beginning after December 15, 2005.
Issue 05-1, "Accounting for the Conversion of an Instrument That Became Convertible Upon the Issuer's Exercise of a Call Option"	Effective for all conversions within the scope of the issue that result from the exercise of call options in interim or annual reporting periods beginning after June 28, 2006.
Issue 04-13, "Accounting for Purchases and Sales of Inventory With the Same Counterparty"	Effective for new inventory arrangements entered into, or modifications or renewals of existing inventory arrangements occurring, in interim or annual reporting periods beginning after March 15, 2006.
Issue 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry"	Effective for fiscal years beginning after December 15, 2005.
Issue 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights"	Effective after June 29, 2005, for new limited partnership agreements and for pre-existing limited partnership agreements that are modified; otherwise, effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005.

GASB/GAO	Status
Significant Adoption Dates	
GASB Statement No. 48, <i>Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues</i>	Effective for financial statements for periods beginning after December 15, 2006.
GASB Statement No. 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i>	Effective for: <ul style="list-style-type: none"> Phase 1 governments in periods beginning after December 15, 2006. Phase 2 governments in periods beginning after December 15, 2007. Phase 3 governments in periods beginning after December 15, 2008.
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 Technical Bulletin No. 2006-1, <i>Accounting and Financial Reporting by Employers and OPEB Plans for Payments From the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D</i>	Effective for financial statements issued after June 30, 2006, except for portions of answers pertaining specifically to measurement, recognition, or required supplementary information requirements of Statements 43 and 45. Those provisions would be applied upon the adoption of Statements 43 and 45.
GASB Technical Bulletin No. 2004-2, <i>Recognition of Pension and Other Postemployment Benefit 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 other postemployment benefit transactions, the provisions should be applied simultaneously with the requirements of GASB Statement 45.
Project in Exposure-Draft Stage	
GASB Proposed Concepts Statement, <i>Elements of Financial Statements</i>	Comments due November 17, 2006.
AICPA/AcSEC	Status
Significant Adoption Dates	
SOP 06-1, <i>Reporting Pursuant to the Global Investment Performance Standards</i>	Effective April 6, 2006.
SOP 05-1, <i>Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts</i>	Effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Initial application of this SOP should be as of the beginning of an entity's fiscal year.
SAS 112, <i>Communicating Internal Control Matters Identified in an Audit</i>	Effective for audits of financial statements for periods ending on or after December 15, 2006.
SAS 111, <i>Amendment to Statement on Auditing Standards No. 39, Audit Sampling</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 110, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 109, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 108, <i>Planning and Supervision</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 107, <i>Audit Risk and Materiality in Conducting an Audit</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.

SAS 106, <i>Audit Evidence</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 105, <i>Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 104, <i>Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 103, <i>Audit Documentation</i>	Effective for periods ending on or after December 15, 2006.
SAS 102, <i>Defining Professional Requirements in Statements on Auditing Standards</i> , and SSAE No. 13, <i>Defining Professional Requirements in Statements on Standards for Attestation Engagements</i>	Effective December 2005.
Conforming changes to AICPA Professional Standards, AT Section 501 — <i>Reporting on an Entity's Internal Control Over Financial Reporting</i> , resulting from SAS 112	Effective when the subject matter or the assertion is as of or for the period ending on or after December 15, 2006.
AICPA Professional Standards, ET Section 100.01 — <i>Conceptual Framework for AICPA Independence Standards</i>	Effective for all independence decisions made as of April 30, 2007.
Revision to AICPA Professional Standards, ET Section 501.02	Effective April 30, 2006.
AICPA Center for Public Company Audit Firms Alert #90, <i>SEC Staff Position Regarding Changes to the Statement of Cash Flows Relating to Discontinued Operations</i>	Effective February 15, 2006. Retrospective modifications to presentations of the cash flows pertaining to discontinued operations in the first periodic report filed subsequent to February 15, 2006, may be treated in a manner similar to a change in accounting method with no reference to the correction of an error. Modifications in subsequent filings should be treated as a correction of an error.
AICPA Center for Public Company Audit Firms Alert #98, <i>Update to SEC Staff Position Regarding Changes to the Statement of Cash Flows Relating to Discontinued Operations (Addendum to CCAF Alert #90)</i>	Effective April 19, 2006.
AICPA Center for Public Company Audit Firms Paper, <i>Guidance for Firms Issuing Audit Reports for Non-Issuers That Are Filed With the SEC</i>	Effective March 10, 2006.
Projects in Exposure-Draft Stage	
AICPA PEEC Proposed Interpretation 101-16 Under Rule 101: <i>Indemnification, Limitation of Liability, and ADR Clauses in Engagement Letters</i>	Comments due November 8, 2006.
AICPA PEEC Proposed Revision to Interpretation 101-3 Under Rule 101: <i>Performance of Nonattest Services: Forensic Accounting Services and Tax Compliance Services</i>	Comments due November 8, 2006.
SEC	Status
Significant Adoption Dates	
Final Rule, <i>Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Foreign Private Issuers That Are Accelerated Filers</i>	For FPIs that are accelerated filers (but not large accelerated filers), auditor's attestation report on internal control over financial reporting must be included with annual reports for fiscal years ending on or after July 15, 2007. Management's report is required for fiscal years ending on or after July 15, 2006.
Final Rule, <i>Executive Compensation and Related Person Disclosure</i>	In Forms 8-K, effective for triggering events that occur on or after November 7, 2006, in Forms 10-K and 10KSB for fiscal years ending on or after December 15, 2006, and in registration and proxy/information statements filed after December 15, 2006.
Final Rule, <i>Fund of Funds Investments</i>	Effective July 31, 2006.

SEC Amendments to Forms N-1A, N-2, N-3, N-4, and N-6	All new registration statements filed on the investment company forms and all post-effective amendments that are annual updates to effective registration statements on the investment company forms filed on or after January 2, 2007, must include the disclosure required by the form amendments.
Final Rule, <i>Postponement of the Phase-in Period for Acceleration of Periodic Report Filing Dates for Large Accelerated Filers and Accelerated Filers</i>	Effective December 27, 2005.
Final Rule, <i>Securities Offering Reform</i>	Effective December 1, 2005.
Final Rule, <i>Use of Form S-8, Form 8-K, and Form 20-F by Shell Companies</i>	Effective August 22, 2005, except that Form 8-K, Item 5.06 is effective November 7, 2005.
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.
Final Rule, <i>Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (revised 2004), 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>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, 2007, for "nonaccelerated filers," including foreign private issuers that are not accelerated filers. Effective for fiscal years ending on or after July 15, 2006, for foreign private issuers that are accelerated filers and file annual reports on forms 20-F or 40-F.
SAB 108 (on the process of quantifying financial statement misstatements)	Effective for annual financial statements covering the first fiscal year ending after November 15, 2006.
SAB 107 (on 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).
Changes to Executive Compensation Disclosures	Effective December 15, 2006.
Request for Additional Comments on <i>Interpretive Release, Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934</i>	Interpretive Release is effective July 24, 2006; market participants, however, will be able to rely on prior SEC guidance for six months following publication. Additional comments related to the revised interpretation of the safe harbor with respect to client commission arrangements under Section 28(e) are due September 7, 2006.
Projects in Request-for-Comment Stage	
Request for Feedback on Experiences With Interactive Data and XBRL	Comments may be submitted throughout 2006 as roundtable topics and dates are announced.
Request for Comments on proposed requirement for compensation disclosure on up to three additional employees who are not executive officers and whose total compensation exceeds that of any of the named executive officers	Comments due October 23, 2006.
PCAOB	Status
Significant Adoption Dates	
Auditing Standard No. 4, <i>Reporting on Whether a Previously Reported Material Weakness Continues to Exist</i>	Effective February 6, 2006.

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 fiscal years ending on or after November 15, 2004, for certain "accelerated filers." Effective for fiscal years ending on or after July 15, 2007, for "nonaccelerated filers," including foreign private issuers that are not accelerated filers. Effective for fiscal years ending on or after July 15, 2006, for foreign private issuers that are accelerated filers and file annual reports on forms 20-F or 40-F.
<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.
Rule 3524, <i>Audit Committee Pre-approval of Certain Tax Services</i>	Rule will not apply to any tax service pre-approved on an engagement-by-engagement basis before June 18, 2006. With respect to tax services provided to audit clients whose audit committees pre-approve tax services pursuant to policies and procedures, the rule will not apply to any such tax service that is begun by April 20, 2007.
Rule 3523, <i>Tax Services for Persons in Financial Reporting Oversight Roles</i>	Rule will not apply to tax services being provided pursuant to an engagement in process at April 19, 2006, provided that such services are completed on or before October 31, 2006.
Rule 3522, <i>Tax Transactions</i>	Rule will not apply to tax services that are completed by a registered public accounting firm prior to June 18, 2006.
Rule 3521, <i>Contingent Fees</i>	Rule will not apply to contingent fee arrangements that prior to June 18, 2006, were (1) paid in their entirety, (2) converted to fixed fee arrangements, or (3) otherwise unwound.
Rule 3501, <i>Definitions of Terms Employed in Section 3, Part 5 of the Rules</i> ; Rule 3502, <i>Responsibility Not to Knowingly or Recklessly Contribute to Violations</i> ; Rule 3520, <i>Auditor Independence</i>	Effective April 29, 2006.
IASB/IFRIC	Status
Significant Adoption Dates	
IFRS 7, <i>Financial Instruments: Disclosures</i>	Effective for annual periods beginning on or after January 1, 2007.
IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement</i> , and IFRS 4, <i>Insurance Contracts</i>	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement — The Fair Value Option</i>	Effective for annual periods beginning on or after January 1, 2006.
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 21, <i>The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation</i>	Effective for annual periods ending on or after January 1, 2006.
Amendment to IAS 19, <i>Employee Benefits</i>	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 1, <i>Presentation of Financial Statements — Capital Disclosures</i>	Effective for annual periods beginning on or after January 1, 2007.
IFRIC Interpretation 10, <i>Interim Financial Reporting and Impairment</i>	Effective for annual periods beginning on or after November 1, 2006.
IFRIC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	Effective for annual periods beginning on or after June 1, 2006.
IFRIC Interpretation 8, <i>Scope of IFRS 2</i>	Effective for annual periods beginning on or after May 1, 2006.

IFRIC Interpretation 7, <i>Applying the Restatement Approach Under IAS 29, Financial Reporting in Hyperinflationary Economies</i>	Effective for annual periods beginning on or after March 1, 2006.
IFRIC Interpretation 6, <i>Liabilities Arising From Participating in a Specific Market — Waste Electrical and Electronic Equipment</i>	Effective for annual periods beginning on or after December 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.
Projects in Exposure-Draft Stage	
Proposed Amendments to IAS 32, <i>Financial Instruments: Presentation</i> and IAS 1, <i>Presentation of Financial Statements — Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation</i>	Comments due October 23, 2006.
Draft Interpretation D19, <i>IAS 19 — The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements</i>	Comments due October 31, 2006.
Draft Interpretation D20, <i>Customer Loyalty Programmes</i>	Comments due November 6, 2006.

Appendix B: Summary of SAB Topic 11.M

SEC Staff Accounting Bulletin Topic 11.M indicates that filings should include disclosure of the impact that a recently issued accounting standard will have on the financial position and results of operations of the registrant when such standard is adopted in a future period. This disclosure guidance applies to all accounting standards that have been issued but not yet adopted by the registrant unless the impact on its financial position and results of operations is not expected to be material. MD&A requires disclosure of presently known material changes, trends, and uncertainties that have had or that the registrant reasonably expects will have a material impact on future sales, revenues, or income from continuing operations. With respect to financial statement disclosure, GAAS specifically addresses the need for the auditor to consider the adequacy of the disclosure of impending changes in accounting principles if (a) the financial statements have been prepared on the basis of accounting principles that were acceptable at the financial statement date but that will not be acceptable in the future and (b) the financial statements will be restated in the future as a result of the change. The SEC staff believes that recently issued accounting standards may constitute material matters and, therefore, disclosure in the financial statements should also be considered in situations where the change to the new accounting standard will be accounted for in financial statements of future periods, prospectively or with a cumulative catch-up adjustment.

Disclosures should include the following:

- A brief description of the new standard, the date that adoption is required, and the date that the registrant plans to adopt, if earlier.
- A discussion of the methods of adoption allowed by the standard and the method expected to be utilized by the registrant, if determined.
- A discussion of the impact that adoption of the standard is expected to have on the financial statements of the registrant, unless not known or reasonably estimable. In that case, a statement to that effect may be made.

Disclosure of the potential impact of other significant matters that the registrant believes might result from the adoption of the standard (such as technical violations of debt covenant agreements, planned or intended changes in business practices, etc.) is encouraged.

Appendix C: Abbreviations

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

Conclusions of the FASB, GASB, IASB, and IFRIC are subject to change at future meetings and generally do not affect current accounting requirements until an official position (e.g., Statement, Interpretation, Staff Position, or IFRS) is issued. Official positions are determined only after extensive deliberation and due process, including a formal vote.

Further information about the standard setters can be found on their respective Web sites as follows: www.fasb.org (FASB); www.fasb.org/eitf/agenda.shtml (EITF); www.gasb.org (GASB); www.aicpa.org (AICPA); www.sec.gov (SEC); and www.iasb.org or www.iasplus.com/index.htm (IASB and IFRIC).

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