



# US Reporting Newsletter for Non-US Based Companies

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Global Offerings Services

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## September and October 2007

Global Offerings Services (GOs) comprises a global team of practitioners assisting non-US companies and non-US practice office engagement teams in applying US and International accounting standards (i.e., US GAAP and IFRS) and in complying with the SEC's financial reporting rules. For more information please contact the GOs Center leader nearest you.

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Deloitte periodically publishes Accounting Roundup. [Click here](#) to access the published editions.

## US GAAP Matters

### CAQ Update — Key Accounting Issues and the Credit Environment: Center for Audit Quality Issues Final White Papers

On October 3, 2007 Deloitte & Touche LLP has issued Financial Reporting Alert 07-5 *CAQ Update — Key Accounting Issues and the Credit Environment* to announce the issuance of three white papers by the Center for Audit Quality (CAQ) that address key accounting issues resulting from the current turbulent conditions in the credit markets. The papers focus on three issues:

- Fair value measurement in illiquid (or less liquid) markets.
- Consolidation of commercial paper conduits.
- Accounting for underwriting and loan document.

The CAQ has shared papers with staffs of the SEC, FASB, PCAOB and various banking regulators.

[Click here](#) to access Financial Reporting Alert.

### SEC Staff Releases Accounting Bulletin for Written Loan Commitments Recorded at Fair Value under GAAP

SEC Staff Accounting Bulletin (SAB) No. 109 (codified as SAB Topic 5.DD, "*Written Loan Commitments Recorded at Fair Value Through Earnings*") (SAB 109) provides the SEC staff's views on the accounting for written loan commitments recorded at fair value under GAAP (e.g., when required by FASB Statement No. 133 or upon election of the fair value option in accordance with FASB Statement No. 159).

SAB 109 amends and replaces SAB 105, *Application of Accounting Principles to Loan Commitments*. It

revises the SEC staff's view to now permit net future cash flows related to loan servicing activities to be incorporated in the fair value measurement of a written loan commitment.

However, SAB 109 retains the prohibition on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. Entities should apply the guidance on loan servicing activities prospectively to commitments recorded at fair value that are issued or modified in fiscal quarters beginning after December 15, 2007.

[Click here](#) to access the Staff Accounting Bulletin.

### **FASB Decides to Defer Interpretation 48 for Nonpublic Entities**

On November 7, 2007, The Financial Accounting Standards Board (the "Board") decided to defer the effective date of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, for nonpublic entities until years beginning after December 15, 2007. The Interpretation was originally effective for both public and nonpublic entities for fiscal years beginning after December 15, 2006. The Board will issue a proposed FASB Staff Position with a 30-day comment period on the deferral. Entities that have already issued either interim or full-year financial statements in which they adopted Interpretation 48 must continue to apply the requirements of Interpretation 48.

The Board's decision responds to concerns raised by the Private Company Financial Reporting Committee (PCFRC) in a letter to the Board requesting deferral. The PCFRC's recommendation was based mainly on its belief that additional guidance was needed on the implications of Interpretation 48 on pass-through entities such as S corporations and partnerships. The PCFRC also expressed concerns that, because of the timing of continuing professional education sessions, private-company preparers were only recently becoming aware of the implications of Interpretation 48. The Board agreed and deferred the effective date. However, rather than provide additional guidance on pass-through entities, the Board decided to rely on educating constituents on the applicability of the Interpretation.

[Click here](#) to access Financial Reporting Alert.

### **No Deferrals for Fair Value Related Statements**

At its meeting on October 17, 2007, the FASB decided not to implement a wholesale deferral of the effective dates for Statements 157, *Fair Value Measurements* and 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The effective date for the

Statements will still be for fiscal years beginning after November 15, 2007. The Board had received requests for deferral from a number of constituents as a result of the increasing number of implementation issues identified.

The Board instructed the FASB staff to evaluate other deferral alternatives, which could include deferring application to certain assets and liabilities or implementation timing for certain entities. These alternatives will be discussed at a future Board meeting. The Board also discussed plans to address implementation issues, including whether plan sponsors should be required to provide Statement 157 disclosures for their pension and other postretirement employee benefit plan assets. Although there was no formal vote on the issue, the Board noted that it does not believe Statement 157 should require such disclosures and that it plans to address this issue at a future meeting.

The Board elected not to defer Statement 159. All Statement 159 fair value option elections for eligible instruments existing as of the adoption date (fiscal years beginning after November 15, 2007) must be documented **no later than** the adoption date. The 120-day retroactive election provision in paragraph 30(a) of Statement 159 only applies to reporting entities that early adopt Statement 159.

The Board did vote to indefinitely defer the effective date of SOP 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* which affects investment company accounting, and to add to its technical agenda a project to consider amending certain provisions of the SOP.

[Click here](#) to access details of the FASB meeting available on FASB website.

[Click here](#) to access Financial Reporting Alert.

### **FASB Proposes to Tackles the Interaction between Leases and Fair Value**

The FASB has approved the SEC's recommendation to issue a proposed FSP to remove leasing transactions accounted for under Statement 13, *Accounting for Leases* and its related interpretive guidance from the scope of Statement 157, *Fair Value Measurement*.

There are two main issues prompting this amendment:

- *Initial fair value measurements for lease classification when the lessor is not a manufacturer or dealer.* Third-party lessors (e.g., banks, financing companies) often include transaction costs, such as installation

costs, freight charges, and sales taxes, in the leased asset's cost basis.

However, the initial fair value of the leased asset under Statement 157 may not represent its cost, since Statement 157 excludes transaction costs from fair value measurement. To qualify for a direct financing or leveraged lease under Statement 13, the fair value must equal cost.

- *Applying the fair value measurement objective in Statement 157 to estimated residual values.* In practice, lessors, particularly those engaged in high-volume leases of smaller-ticket assets; generally use a weighted-average cash flow valuation model to determine estimated residual values.

This model incorporates various assumptions regarding sales proceeds from different exit markets and the probabilities of selling to those markets. The fair value definition in Statement 157 assumes an exit transaction in the entity's principal market. Therefore, when there are multiple markets for a leased asset, Statement 157 will require lessors to use the pricing information in just one of the markets to determine a residual value (versus a weighted-average approach).

The FASB staff will draft a proposed FSP that will remove leasing transactions from the scope of Statement 157 and submit an invitation to comment. The staff did not indicate when the proposed FSP will be issued.

[Click here](#) to access details of the FASB meeting available on FASB website.

## AICPA Matters

### AICPA Issues Exposure Draft of Audit and Accounting Guide for Airline Industry

The AcSEC of the AICPA has issued an Exposure Draft of a proposed Audit and Accounting Guide, *Airlines*, which addresses twenty six accounting issues relevant to the airline industry. Critical issues include revenue breakage-ticket validity, timing of revenue recognition, incremental cost and deferred revenue methods of accounting in the case of frequent flyer programs, manufacturer purchase incentives, impairment of long-lived assets, maintenance expense and lease return conditions — swaps and other issues. The Exposure Draft also includes chapters dedicated to accounting issues associated with air cargo and regional carriers.

[Click here](#) to access the Exposure Draft available on AICPA website.

## US GAAP – IFRS Matters

### FASB/FAF Response to the SEC Concept Release on Allowing U.S. Registrants to Use IFRS and the Proposing Release to Eliminate the Requirement for Certain Foreign Filers to Reconcile to U.S. GAAP

In the November 6, 2007 letter to the SEC, the Board members and Trustees strongly support the SEC's proposal that U.S. public companies transition to an improved version of international accounting standards.

The views contained in the letter are summarized in the following four main points:

1. Investors would be better served if all U.S. public companies used accounting standards promulgated by a single global standard setter as the basis for preparing their financial reports. This would be best accomplished by moving U.S. public companies to an improved version of International Financial Reporting Standards (IFRS). Permitting extended periods of choice between U.S. Generally Accepted Accounting Principles (GAAP) and IFRS results in a two-GAAP system would create unnecessary complexity for investors and other users of financial information. Permitting choice would add to the overall complexity of our reporting system.
2. The FASB, the SEC, and other affected parties should work together to develop a transition plan or "blueprint" for moving U.S. public companies to IFRS. As noted in the Concept Release, a move to IFRS by all U.S. public companies would be a complex, multi-year endeavor. The U.S. needs a blueprint that provides an orderly move to IFRS that minimizes the disruptions and costs to capital market participants and to other U.S. entities that use FASB standards.
3. The SEC should seek international cooperation to identify and implement changes that are necessary to sustain the IASB and to secure it as the independent global body that establishes high-quality international accounting standards.
4. The removal of the requirement that foreign private issuers reconcile their reported results to U.S. GAAP is a difficult and sensitive issue that could have important implications for the continued development of a truly international financial reporting system. The FASB suggests the timing of any removal of this requirement should coincide with the following:
  - Development of and commitment to the blueprint by key parties in the U.S.
  - Commitment by key international parties to undertake the steps

necessary to strengthen and sustain the IASB as the independent body responsible for establishing high-quality international standards.

The FASB strongly agrees with the SEC that the reconciliation requirement would be removed only for companies applying IFRS as adopted by the IASB.

[Click here](#) to access FASB letter available on FASB website.

### **SEC Eliminates U.S. GAAP Reconciliation for IFRS Filers – Applies to Fiscal Years Ending After November 15, 2007**

At an open meeting held on November 15, 2007, the SEC Commissioners unanimously adopted a final rule that eliminates the requirement that non-U.S. issuers reconcile financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) to U.S. GAAP in SEC filings. The final rule adopted on November 15, 2007 will take effect 60 days after it is published in the Federal Register and apply to financial statements covering years ended after November 15, 2007. Accordingly, foreign private issuers with a calendar year-end will not need to provide a U.S. GAAP reconciliation in their 2007 annual report on Form 20-F provided the financial statements included in the report comply with IFRS as issued by the IASB.

The final rule requires that the foreign private issuer state in its filing that the financial statements are prepared in accordance with IFRS as issued by the IASB and that the issuer’s auditor opine to this. Foreign private issuers that file financial statements prepared in accordance with national jurisdictional adaptations of IFRS or their home country GAAP will still be required to include a U.S. GAAP reconciliation in their report.

The SEC staff and Commissioners, in their discussion of the proposal, made it clear that they view this as an important interim step towards their ultimate goal of convergence to one global set of accounting standards. The SEC has greatly stepped up its efforts towards convergence in the last year as illustrated by the fact that this rule was adopted on November 15, 2007, well in advance of the SEC’s initially stated goal of eliminating the U.S. GAAP reconciliation by 2009.

[Click here](#) to access the SEC Press Release Announcing the Elimination of the U.S. GAAP Reconciliation for IFRS Filers available on the SEC’s website

## **Regulatory Matters**

### **Sarbanes & Oxley Act of 2002, Section 404 Matters**

#### **U.S. SEC revised Frequently Asked Questions on Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports**

On September 24, 2007, the SEC made certain changes to eliminate frequently asked questions which were no longer relevant, necessary, or were addressed by the Commission’s issuance of Interpretive Guidance for Management on May 23, 2007 (Release No. 33-8810). These changes resulted in the elimination of previously existing frequently asked questions numbered 5, 7, 10 through 13, and 15 through 20. The remaining frequently asked questions are substantially the same and have been renumbered as a result of the elimination of the twelve previously referenced questions. Additionally, four new frequently asked questions have been added pertaining to foreign private issuers (see frequently asked questions numbered 12 through 15).

[Click here](#) for the complete text of the SEC frequently asked questions available on SEC’s website.

#### **Helping Non-accelerated Filer Clients Comply with Section 404 Webcasts**

Earlier this year, the U.S. SEC finalized Sarbanes-Oxley Section 404 compliance dates for non-accelerated filers. To assist companies in preparing for their first management assertion on the effectiveness of internal control over financial reporting, a series of Dbriefs webcasts were held by Deloitte & Touche LLP. The webcasts are designed specifically to address the needs of smaller public companies. The webcasts were conducted on

[Wednesday, October 3](#) - Section 404 for Non-Accelerated Filers: *How to Implement a Top-Down, Risk-Based Approach*

[Thursday, October 25](#) - Section 404 for Non-Accelerated Filers: *How to Identify and Evaluate Controls*

[Friday, November 2](#) - Section 404 for Non-Accelerated Filers: *How to Conclude and Report on Control Effectiveness*

Click on the respective link above to visit the Webcast Archive section and to listen to the replays.

### **Other Regulatory Matters**

#### **SEC Approves the Use of Surrogate to Value Employee Share Options**

In an October 17, 2007, letter to Zions Bancorporation (“Zions”), SEC Chief Accountant Conrad Hewitt



indicated that employee stock option appreciation rights securities (ESOARS) are sufficiently designed to meet the measurement objective of Statement 123(R), *Share-Based Payment*. In other words, the SEC did not object to Zions's use of ESOARS as an appropriate surrogate on which the company can base the value of employee share options that it issued.

In short, companies issuing employee share options may be able to use ESOARS (or an acceptably designed alternative) in lieu of existing valuation techniques (e.g., the Black-Scholes-Merton formula or a binomial model) to determine the grant-date fair value of an employee share option, a value that is used, in turn, to determine compensation cost. Companies may find the use of ESOARS (or ESOARS-like) instruments especially appealing if, as some predict, these market-based surrogates result in a lower, more accurate reflection of fair value than do traditional valuation models.

See Deloitte & Touche LLP's October 24, 2007, [Heads Up](#) for further discussion on ESOARS, including accounting implications.

### **SEC Releases Source Code for Interactive Data Viewer for Free Use by Market**

On September 25, 2007, the SEC announced that the source code for its interactive financial report viewer is available on its Web site for free use by the market. Powered by XBRL (Xtensible Business Reporting Language) software, the viewer will allow investors and analysts to more easily locate financial statement information within an entity's interactive data filings.

In a related development, the SEC's Division of Corporation Finance has issued guidance on facilitating the filing process for registrants that submit filings via the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. Additional information is available on the SEC's Web site.

[Click here](#) to access press release available on the SEC's website.

### **SEC Chairman Cox Announces Landmark Progress in Providing Instant, User-Friendly Access to Financial Reporting Information for Investors**

On September 25, 2007, SEC Chairman Christopher Cox announced that the Commission had completed the project of mapping data tags for every element in U.S. GAAP. Tags correspond to the concepts and information included in financial reports, such as balance sheets, income statements, and financial statement disclosures. This tagging is accomplished by a taxonomy, a dictionary of financial reporting terms or concepts.

Chairman Cox noted that this is a significant milestone in the SEC's initiative to provide a more investor-friendly system of financial reporting. The use of tags allows investors and financial statement users to more efficiently analyze and compare financial statements submitted by SEC registrants, since financial statements can be downloaded into Microsoft Excel or other software for financial analysis. Before public review, the Financial Accounting Foundation, select analysts, public accounting firms, and software providers are reviewing the taxonomy for compliance with GAAP.

[Click here](#) to access press release available on the SEC's website.

### **PCAOB Approves Amendments to Inspection Frequency for Firms That Do Not Regularly Issue Audit Reports**

The PCAOB has adopted two amendments to Rule 4003, *Frequency of Inspections* that reduce the Board's frequency of inspecting registered public accounting firms that do not regularly issue audit reports, including those that play a "substantial role" in audits.

The amendments do not affect registered firms that *regularly* issue audit reports. The PCAOB reminds us that the Board still retains the right to inspect any registered firm at any time.

The full text of the [Amendments](#) is available on the PCAOB's Web site.

### **Deloitte Offers Dbriefs, Live Webcasts for Executive Level Audience**

Now available to the audience outside of the U.S., Deloitte & Touche LLP offers Dbriefs, live webcasts that give valuable insights on a variety of business topics aimed at executive level audience across function and industry including:

- Financial Executives
- HR Executives
- Tax Executives
- China Issues
- Financial Services
- Consumer Business
- Technology, Media & Telecommunications
- Manufacturing
- Energy & Resources
- Life Sciences & Health Care
- Real Estate
- Public Sector

Archived webcasts are available for 90 days after the live presentation. Read below the entire schedule of webcasts for the month of Feb 2007. To join Dbriefs:

1. Visit [www.deloitte.com/us/dbriefs](http://www.deloitte.com/us/dbriefs).
2. Click on "Join Dbriefs."
3. Enter your profile information.
4. Using the drop down menus, select all the webcast series that are right for you.
5. Submit your profile.

Once you are a Dbriefs subscriber, you can sign up for individual webcasts via weekly registration emails for your chosen series. After you register for your first webcast, you will have access to the Express Registration, which allows you to save time by registering and logging in to future webcasts just by entering your email address.

### **Upcoming Selected Webcasts Include the Following:**

#### **Financial Reporting**

- FIN 48 and FAS 109: Bringing Disclosure and Transparency into Focus December 10, 2:00 PM EST (19:00 GMT)

#### **Sarbanes-Oxley**

- Section 404 for Non-Accelerated Filers: How to Conclude and Report on Control Effectiveness November 2, 2:00 PM EDT (18:00 GMT)

#### **Transactions & Business Events**

- Strategic Sourcing for Private Companies: The Sky's the Limit? November 1, 2:00 PM EDT (18:00 GMT)
- Foreign Corrupt Practices Act: Why Heightened Vigilance Can Be Critical November 14, 2:00 PM EST (19:00 GMT)
- Integrated Performance Management: A Critical Lever, But Not as Easy as It Looks November 28, 3:00 PM EST (20:00 GMT)
- Anti-Money Laundering and Economic Sanctions Compliance: Looking Beyond Borders December 12, 2:00 PM EST (19:00 GMT)

#### **Corporate Governance**

- Shifting Your Focus to Long-Term Performance November 7, 2:00 PM EST (19:00 GMT)

- The Supply Chain Side of Governance, Risk, and Compliance November 29, 2:00 PM EST (19:00 GMT)
- Setting Strategy: How Should the Board Be Involved? December 5, 2:00 PM EST (19:00 GMT)
- The Impact of Governance, Risk, and Compliance on IT December 20, 2:00 PM EST (19:00 GMT)

[Click here](#) for further details of these Webcasts and to join Dbriefs.

### **Recent Deloitte Publications**

Below is a list of Deloitte publications about the most recent rule proposals and legislative actions.

- ▶ [Accounting Roundup: October, 2007](#)
- ▶ [Accounting Roundup: Third Quarter 2007](#)
- ▶ [Accounting Roundup: Second Quarter in Review - 2007](#)
- ▶ [EITF Snapshot: September 2007](#)
- ▶ [Heads Up: SEC Regulations Committee and SEC Staff Hold Third Meeting of 2007](#)
- ▶ [Heads Up: Draft Guidance for Auditors of Smaller Public Companies](#)
- ▶ [Heads Up: ESOARS Take Off: SEC OKs Use of a Surrogate to Value Employee Share Options](#)
- ▶ [Heads Up: SEC Feedback on Executive Compensation Disclosures: "Where's the Analysis?"](#)
- ▶ [Heads Up: FASB's Proposed Changes to Convertible Debt Accounting Would Have Big Impact](#)
- ▶ [Heads Up: SEC Staff Issues Comment Letters on Executive Compensation Disclosures](#)
- ▶ [Heads Up: Accounting Consequences of Subprime Loan Modifications](#)
- ▶ [Heads Up: The Shift Toward International Financial Reporting Standards \(IFRS\) and Its Impact on U.S. Companies](#)
- ▶ [Heads Up: SEC Regulations Committee and SEC Staff Hold Second Meeting of 2007](#)
- ▶ [Financial Reporting Alert 07-7: FASB Decides to Defer Interpretation 48 for Nonpublic](#)

[Entities: Board to Issue Proposed FSP on Deferral](#)

- ▶ [Financial Reporting Alert 07-06: No Deferral for Statements 157 and 159; Deferral for SOP 07-1; Required Documentation for Statement 159](#)
- ▶ [Financial Reporting Alert 07-5: CAQ Update — Key Accounting Issues and the Credit Environment](#)
- ▶ [Financial Reporting Alert 07-4: Key Accounting Issues and the Current Credit Environment](#)
- ▶ [IFRS in Your Pocket 2007](#)
- ▶ [Software Revenue Recognition: A Roadmap to Applying AICPA SOP 97-2](#)
- ▶ [Third Edition: A Roadmap to Applying Interpretation 46\(R\)'s Consolidation Guidance](#)
- ▶ [Uncertainty in Income Taxes: A Roadmap to Applying Interpretation 48](#)
- ▶ [A Roadmap to the Accounting and Regulatory Aspects of Postretirement Benefits: Including an Overview of Statement 158](#)
- ▶ [Accounting for Business Combinations, Goodwill, and Other Intangible Assets: A Roadmap to Applying Statements 141 and 142](#)
- ▶ [A Roadmap to Applying the Fair Value Guidance to Share-Based Payment Awards](#)
- ▶ [SOX Optimization: Improving Compliance Efficiency & Effectiveness](#)
- ▶ [Under Control: Sustaining Compliance with Sarbanes-Oxley in Year Two and Beyond](#)
- ▶ [Audit Committee Brief: Third Quarter 2007](#)
- ▶ [Optimizing SOX Compliance: Leading Retailer Shows the Way](#)

## **[IAS Plus Website](#)**

Deloitte's IAS Plus website discusses current and future developments in the International Financial Reporting Standards (IFRS) environment.

## **[e-Learning training materials for International Financial Reporting Standards](#)**

Deloitte is pleased to make available e-learning training materials for IFRS free of charge.

[Click here](#) to Access Deloitte's IFRS e-Learning Material.

Other useful publications can be obtained on Deloitte's website – [Click here](#)

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## **What is and How to Subscribe to Technical Library: The Deloitte Accounting Research Tool?**

Deloitte makes available, on a subscription basis, its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool (the "library"), it includes material from the FASB, the EITF, the AICPA, the SEC, and the IASB, in addition to Deloitte's own accounting manual and other interpretative accounting guidance.

Updated every business day, the library has an intuitive design and navigation system, which, together with its powerful search features, enables users to quickly locate information anytime, from any computer. Additionally, the library subscribers receive periodic e-mails highlighting recent additions to the library.

The fee for a subscription to the library is \$1,500 per person per year plus applicable sales tax. You can subscribe to the library on-line and pay using any of the following credit cards: American Express, Diners Club, Master Card, or Visa. You can also subscribe to the library by calling 1-800-877-0145.

For more information, including subscription details and an online library demonstration, visit:

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