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# Accounting Roundup

First Quarter in Review — 2007



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# Preface

## Accounting Roundup: First Quarter in Review — 2007

*Edited by Stuart Moss and David Elizandro, Deloitte & Touche LLP*

As originally mentioned in the January issue of *Accounting Roundup*, for months that end a calendar quarter, we will no longer publish a separate monthly *Accounting Roundup*; this will allow a more timely release of the Quarter in Review issues. Events that occurred in March or that were not otherwise addressed in the [January](#) and [February](#) issues of *Accounting Roundup* are marked with an asterisk (\*) in the article title. Events without asterisks have already been covered in monthly issues (except Appendix A).

During the first quarter of 2007, accounting standard setters and regulators issued a number of pronouncements (e.g., final FASB Statements, FSPs, EITF consensuses, SEC rules) affecting accounting, financial reporting, and corporate governance. *Accounting Roundup: First Quarter in Review — 2007* presents brief descriptions of these pronouncements and outlines other first-quarter regulatory and professional developments. As usual, click any title in the table of contents to go directly to the article.

For additional information about a topic, click the hyperlinks, which are underlined in blue or marked with the  symbol. Further details are also available on the Web sites of the accounting standard setters and regulators, including the [FASB](#), [AICPA](#), [SEC](#), [PCAOB](#), [GASB](#), [FASAB](#), and [IASB](#). Be sure to monitor upcoming issues of *Accounting Roundup* for new developments.

We value your feedback and would appreciate any comments you may have on *Accounting Roundup: First Quarter in Review — 2007*. Take a moment to tell us what you think by sending us an e-mail at [accountingstandards@deloitte.com](mailto:accountingstandards@deloitte.com).

# FASB Developments

## Proposed FSP on Quantifying Misstatements for Private Entities\*

AFFECTS:	All private, nongovernmental entities.
SUMMARY:	<p>Last year, the SEC staff issued 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," which provided SEC registrants with guidance on quantifying misstatements as a basis for evaluating the materiality of current-year financial statement misstatements.</p> <p>The FASB has released for public comment proposed Staff Position (FSP) No. FAS 154-a, "Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements." The proposed FSP would essentially extend the SAB 108 guidance to all nongovernmental entities not previously subject to the provisions of SAB 108, thereby conforming the reporting of error corrections for SEC registrants and other entities.</p> <p>As does SAB 108, the proposed FSP would require an entity to use both the rollover and iron curtain approaches in quantifying the effect of a misstatement in its current-year financial statements. The rollover approach quantifies the amount of the misstatement originating in the current-year statement of income, while the iron curtain approach quantifies a misstatement on the basis of the effects of correcting the misstatement existing in the statement of financial position at the end of the current year, regardless of the year in which the misstatement originated.</p>
EFFECTIVE:	The proposed FSP would be effective for financial statements issued for fiscal years ending after June 15, 2007, with earlier application permitted. The proposed FSP provides a one-time cumulative-effect adjustment upon initial adoption, allowing an entity to elect to recognize the cumulative effect through an adjustment to the opening balance of retained earnings.
NEXT STEPS:	Comments are due by April 30, 2007.
OTHER RESOURCES:	Deloitte & Touche LLP's <a href="#">Heads Up</a> on SAB 108.

## Membership of Private Company Financial Reporting Committee Announced\*

AFFECTS:	All private, nongovernmental entities.
SUMMARY:	<p>The FASB and AICPA are working together on an initiative to improve the FASB's current standard-setting process for private companies and the users of their financial statements. As part of the initiative, the Private Company Financial Reporting Committee (PCFRC) has been established to make recommendations to the FASB concerning when accounting standards for private companies should differ from those for public companies.</p> <p>Judith O'Dell, president of O'Dell Valuation Consulting, LLC, was appointed chair of the PCFRC during December 2006. The remaining 11 committee members were announced by Ms. O'Dell in March 2007. The committee comprises four CPAs, four financial statement preparers, and four users of private-company financial statements. The committee members are initially appointed for a one-year term, which commences immediately, but are eligible to serve for up to three terms.</p> <p>The PCFRC will conduct its first meeting in Chicago on May 10–11, 2007, with subsequent meetings announced at a later date. The PCFRC meetings will be open to the public.</p>

## FASB Issues Statement 159 on the Fair Value Option

AFFECTS:	All entities.
SUMMARY:	<p>The FASB has issued Statement 159,<sup>1</sup> which permits an entity to measure certain financial assets and financial liabilities at fair value. The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions.</p> <p>Under Statement 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs.</p> <p>The new Statement establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet.</p>
EFFECTIVE:	<p>Statement 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Its provisions may be applied to an earlier period (as of the beginning of the fiscal year) only if the following conditions are met:</p> <ul style="list-style-type: none"><li>• The decision to adopt is made after the issuance of Statement 159 but within 120 days after the first day of the fiscal year of adoption, and no financial statements, including footnotes, for any interim period of the adoption year have yet been issued.</li><li>• The requirements of Statement 157<sup>2</sup> are adopted concurrently with or prior to the adoption of Statement 159.</li></ul>
TRANSITION:	The Statement requires prospective application. If an entity chooses to elect the fair value option for existing items at the date of adoption, the difference between their carrying amount and fair value should be included in a cumulative-effect adjustment to the opening balance of retained earnings.
OTHER RESOURCES:	Deloitte & Touche LLP's <a href="#">Heads Up</a> on Statement 159 and <i>Dbriefs</i> webcast: <a href="#">The FASB Statement on the Fair Value Option — Overview of the Standard</a> .

## FSP Updates Illustrations and Q&As for Statements 87, 88, and 106

AFFECTS:	All entities with defined benefit postretirement plans.
SUMMARY:	<p>Statement 158<sup>3</sup> amended the recognition provisions, but not the illustrations contained in the appendices, of Statements 87,<sup>4</sup> 88,<sup>5</sup> and 106<sup>6</sup> to require recognition of the funded status of defined benefit postretirement plans in an employer's statement of financial position.</p> <p>As a result, the FASB has issued FSP FAS 158-1,<sup>7</sup> which updates the illustrations in the appendices of Statements 87, 88, and 106 for the issuance of Statement 158.</p> <p>This FSP would also supersede the following Special Reports, amending the questions and answers</p>

<sup>1</sup> FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* — including an amendment of FASB Statement No. 115.

<sup>2</sup> FASB Statement No. 157, *Fair Value Measurements*.

<sup>3</sup> 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).

<sup>4</sup> FASB Statement No. 87, *Employers' Accounting for Pensions*.

<sup>5</sup> FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

<sup>6</sup> FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

<sup>7</sup> FASB Staff Position No. FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guidance."

contained in them and incorporating that guidance as new appendices to Statements 87, 88, and 106, respectively:

- “A Guide to Implementation of Statement 87 on Employers’ Accounting for Pensions.”
- “A Guide to Implementation of Statement 88 on Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.”
- “A Guide to Implementation of Statement 106 on Employers’ Accounting for Postretirement Benefits Other Than Pensions.”

The FSP does not change any provisions of Statement 158, nor does it provide any additional implementation guidance.

EFFECTIVE: The amendments made by this FSP are effective as of the effective dates of Statement 158.

## Cleared Guidance on Implementation Issue B40

AFFECTS: All entities that use derivative instruments.

SUMMARY: The FASB has cleared guidance on Implementation Issue B40.<sup>8</sup> The cleared guidance exempts securitized interests that contain only an embedded derivative that is tied to the prepayment risk of underlying prepayable financial assets from the scope of paragraph 13(b) of Statement 133.<sup>9</sup>

The cleared guidance also states that to fall within the scope exception, a securitized interest would need to meet **both** of the following criteria:

- The right to accelerate the settlement of the securitized interest cannot be controlled by the investor.
- The securitized interest itself does not contain an embedded derivative (including an interest-rate-related derivative) for which bifurcation would be required, other than an embedded derivative that results solely from the embedded call options in the underlying financial assets.

A securitized interest would, according to the guidance, be subject to the requirements of paragraph 13(b) of Statement 133 if “it contains any other terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument and those terms create an embedded derivative that requires bifurcation.”

EFFECTIVE: The guidance should be applied upon adoption of Statement 155.<sup>10</sup> An entity that adopted Statement 155 before December 31, 2006, should apply the guidance in Implementation Issue B40 in the first reporting period beginning before December 31, 2006, for which financial statements have not yet been issued.

TRANSITION: If an entity had previously adopted Statement 155 and, in doing so, had treated derivatives embedded in a securitized interest in prepayable financial assets in a manner consistent with the guidance in Implementation Issue B40, then that entity would not be required to retrospectively apply the guidance to prior periods. An entity is not permitted to change the Statement 115<sup>11</sup> classification of the instrument upon application of this guidance. However, if that entity had not treated embedded derivatives in a securitized interest in prepayable financial assets in a manner consistent with the guidance in Implementation Issue B40, then that entity shall apply the guidance retrospectively to the date of adoption of Statement 155.

<sup>8</sup> Statement 133 Implementation Issue No. B40, “Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets.”

<sup>9</sup> FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

<sup>10</sup> FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*.

<sup>11</sup> FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

# EITF Developments

## **EITF Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements"\***

AFFECTS:	Entities, including many privately owned companies not subject to the Sarbanes-Oxley Act of 2002, that participate in collateral assignment split-dollar life insurance arrangements that extend into an employee's retirement period. These arrangements are often referred to as "key-person" life insurance.
SUMMARY:	<p>There are two common types of split-dollar life insurance arrangements: endorsement (see Issue 06-4)<sup>12</sup> and collateral assignment. The key difference between an endorsement and a collateral assignment arrangement is who owns and controls the underlying life insurance policy — the employer (endorsement) or employee (collateral assignment). Issue 06-4 requires an employer to recognize a liability for the postretirement benefit obligation associated with an <b>endorsement</b> arrangement on the basis of the substantive nature of the agreement with the employee. At issue is (1) whether to apply the accounting model for an endorsement arrangement to a collateral assignment arrangement and (2) how to recognize and measure the asset associated with a collateral assignment arrangement.</p> <p>The Task Force reached a consensus that an employer should recognize a liability for the postretirement benefit obligation associated with a collateral assignment arrangement — in accordance with Statement 106<sup>13</sup> (if deemed part of a postretirement plan) or Opinion 12<sup>14</sup> (if not part of a plan) — if, on the basis of the substantive agreement with the employee, the employer has agreed to maintain a life insurance policy during the postretirement period or provide a death benefit. The Task Force also reached a consensus that an employer should recognize and measure the associated asset on the basis of the terms of the collateral assignment arrangement.</p>
EFFECTIVE:	For fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. Earlier application is permitted.
TRANSITION:	Entities should recognize the effects as a change in accounting principle through either (1) a cumulative-effect adjustment as of the beginning of the year of adoption or (2) retrospective application to all prior periods.

## **EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards"\***

AFFECTS:	Entities that pay dividends or dividend equivalents that are charged to retained earnings on employee-held, equity-classified nonvested shares; nonvested share units; or outstanding share options (together, "affected securities").
SUMMARY:	<p>In a share-based payment arrangement, employees may receive dividend protection features that entitle them to dividends either (1) during the vesting period for nonvested shares or share units or (2) until the exercise date for share options. Dividend payments generally can be treated as a deductible compensation expense for income tax purposes, thereby generating an income tax benefit for the employer. At issue is how such a realized tax benefit should be recognized.</p> <p>At its November 2006 meeting, the Task Force reached a tentative conclusion that an entity should</p>

<sup>12</sup> EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements."

<sup>13</sup> FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

<sup>14</sup> APB Opinion No. 12, *Omnibus Opinion* — 1967.



recognize the realized tax benefit as an increase in additional paid-in capital (APIC), and that the amount recognized in APIC should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards (i.e., the "APIC pool").

Subsequently, questions were raised about how to account for a realized tax benefit previously recognized in APIC when (1) the related award is no longer expected to vest (and therefore must be reclassified from retained earnings to the income statement) and (2) the tax benefit already may have been applied against a tax shortfall on another share-based award.

The Task Force reaffirmed its tentative conclusion reached at the November 2006 meeting; however, it was unable to decide on a method to account for the reclassification of previously recognized tax benefits from APIC to the income statement for awards no longer expected to vest.

**EFFECTIVE:** As currently drafted, a consensus would be effective for fiscal years beginning after September 15, 2007.

**TRANSITION:** As currently drafted, a consensus would be applied prospectively to the income tax benefits of dividends declared on affected securities.

**NEXT STEPS:** The FASB staff will prepare examples of applying the various alternatives for reclassifying previously recognized tax benefits from APIC to the income statement for consideration at the June 2007 EITF meeting.

### **EITF Issue No. 07-1, "Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property"\***

**AFFECTS:** Entities, particularly those in the biotechnology, pharmaceutical, and motion picture industries, that participate in collaborative arrangements for the joint development and commercialization of intellectual property.

**SUMMARY:** Entities often seek partners to share in the development and commercialization of resource-intensive (and generally uncertain) products. Although these arrangements take many forms, their substance is one of active participation by two parties who agree to share in the related costs and potential revenues.

Questions have arisen about (1) what constitutes a collaborative arrangement, (2) how the parties should present costs incurred and revenue generated on sales to third parties in their respective income statements, and (3) how the parties should present cost-sharing payments, profit-sharing payments, or both (i.e., any payments between the parties) in their respective income statements.

The Task Force formed a working group to consider aspects of collaborative arrangements. The working group determined that a collaborative arrangement may be characterized by one or more of the following indicators:

- Partners are active participants in the arrangement.
- Partners are exposed to risks and rewards that depend on the commercial success of the endeavor.
- Partners financially participate in the arrangement through termination or commercialization.
- Partners have a contractual or legal right to the underlying intellectual property.
- A mechanism is present that grants the partners participation rights (e.g., a steering committee).

While the Task Force acknowledged that the indicators help identify a collaborative arrangement, it has not yet been asked to affirm the working group's recommendation.

The Task Force reached a tentative conclusion that costs incurred and revenues generated on sales to third parties should be reported by the partners in their respective income statements on a gross or net basis depending on whether the partner is deemed the principal or agent for the given transaction pursuant to Issue 99-19.<sup>15</sup>

Finally, the Task Force did not reach a decision about how cost- and revenue-sharing payments between the partners should be presented in their respective income statements.

NEXT STEPS:

The FASB staff will prepare additional presentation and disclosure examples for the classification of cost- and revenue-sharing payments between the partners for consideration at the June 2007 EITF meeting. A future meeting of the working group will seek to refine the indicators.

### **EITF Issue No. 07-2, "Accounting for Convertible Debt Instruments That Require or Permit Partial Cash Settlement Upon Conversion"\***

AFFECTS:

Issuers of convertible debt instruments that require or permit partial cash settlement upon conversion (provided that the embedded conversion option is not separately accounted for as a derivative pursuant to Statement 133<sup>16</sup>). This includes "Instrument C"<sup>17</sup> and certain convertible preferred shares that are accounted for as mandatorily redeemable financial instruments under Statement 150.<sup>18</sup>

SUMMARY:

The issuance of Instrument C (and convertible debt instruments with similar characteristics) has proliferated in recent years because of the low-interest-rate coupon associated with convertible debt, and with the favorable earnings-per-share (EPS) treatment afforded to these instruments<sup>19</sup> compared with "conventional" convertible debt.

Some question whether Instrument C (and convertible debt instruments with similar characteristics) is specifically contemplated in the scope of Opinion 14,<sup>20</sup> asserting that the substance of the transaction is the sale of a (1) debt instrument and (2) conversion option — resulting in higher interest expense that is due to the bifurcation of the debt and embedded conversion option.

The Task Force did not reach a decision about whether Instrument C (and convertible debt instruments with similar characteristics) was contemplated in the scope of Opinion 14. Issuers should continue to apply existing guidance.

NEXT STEPS:

The Task Force recommended the formation of a smaller working group to consider approaches to resolve the issue, including a comprehensive approach addressing past convertible debt accounting issues that have been considered by the EITF.

### **EITF Issue No. 07-3, "Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities"\***

AFFECTS:

Entities whose outsourced research and development (R&D) activities include nonrefundable advance payments for the delivery of future goods or services.

SUMMARY:

Entities that perform R&D activities, including manufacturing activities on the behalf of others, often require nonrefundable advance payments to secure the future delivery of their goods or services.

There is diversity in how purchasers of R&D services account for **nonrefundable** advance payments, with entities either (1) expensing the payments when made (or when an obligation is incurred) or (2) deferring the expense (e.g., prepaid R&D expense).

<sup>15</sup> EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent."

<sup>16</sup> FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

<sup>17</sup> As described in EITF Issue No. 90-19, "Convertible Bonds With Issuer Option to Settle for Cash Upon Conversion."

<sup>18</sup> FASB Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*.

<sup>19</sup> See Issue 90-19 for the related accounting and EPS guidance.

<sup>20</sup> APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued With Stock Purchase Warrants*.

The Task Force reached a tentative conclusion that nonrefundable advance payments for future R&D activities should be deferred and capitalized until the goods have been delivered or the related services have been performed.

**EFFECTIVE:** A consensus would be effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years.

**TRANSITION:** A consensus would be applied as a change in accounting principle through a cumulative-effect adjustment as of the beginning of the year of adoption.

**NEXT STEPS:** The FASB ratified the tentative conclusion at the Board's March 28, 2007, meeting; the tentative conclusion will now be exposed for a comment period.

# AICPA Developments

## AICPA Issues Audit Risk Alerts\*

**AFFECTS:** Auditors and audit committees of depository institutions, construction contractors, manufacturers, real estate entities, common interest realty association entities, broker-dealers in securities, insurance entities, and healthcare entities; accountants performing compilation and review engagements.

**SUMMARY:** The AICPA has issued new industry-specific Audit Risk Alerts. These new Alerts cover developments in the following industries:

- [Banks, credit unions, and other lenders and depository institutions.](#)
- [Construction contractors.](#)
- [Manufacturing.](#)
- [Real estate.](#)
- [Common interest realty associations.](#)
- [Broker-dealers in securities.](#)
- [Insurance.](#)
- [Healthcare.](#)

These Alerts give financial statement auditors an overview of recent economic, industry, technical, regulatory, and professional developments that may affect the audits they perform.

The AICPA has also issued an Audit Risk Alert for [compilation and review engagements](#), which updates recent practice issues and professional standards that affect compilation and review engagements.

**EFFECTIVE:** Immediately.

## ASB Issues SAS on the Auditor's Communication With Those Charged With Governance

**AFFECTS:** All entities and their auditors.

**SUMMARY:** The AICPA's ASB issued SAS 114,<sup>21</sup> which supersedes SAS 61.<sup>22</sup> SAS 114 defines the terms "those charged with governance" and "management," and describes the role of communication and with whom communication is required. The SAS also outlines matters to be communicated, including the auditor's responsibilities under GAAS, planned scope and timing of the audit, significant findings

<sup>21</sup> AICPA Statement on Auditing Standards No. 114 (AU Section 360), *The Auditor's Communication With Those Charged With Governance*.

<sup>22</sup> AICPA Statement on Auditing Standards No. 61, *Communication With Audit Committees*.

from the audit, and independence. The form, timing, and adequacy of the communication process and the documentation requirements are also detailed in the SAS.

**EFFECTIVE:** For audits of financial statements for periods beginning on or after December 15, 2006. Earlier application is permitted.

### **Practice Alert on Dating of Auditor's Report**

**AFFECTS:** Auditors of nonissuers.

**SUMMARY:** The AICPA's Professional Issues Task Force issued a Practice Alert<sup>23</sup> that contains guidance on applying certain provisions of SAS 103,<sup>24</sup> including the dating of an auditor's report. In December 2005, the ASB issued SAS 103, which amended AU Section 530<sup>25</sup> and requires that "the auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion."

### **AICPA Issues Technical Practice Aids**

**AFFECTS:** Insurance enterprises and their auditors.

**SUMMARY:** The AICPA has issued 11 new TPAs on SOP 05-1.<sup>26</sup> This SOP provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement 97.<sup>27</sup> The TPAs address the following topics:

- Integrated/nonintegrated contract features.
- Evaluation of significance of modification.
- Changes in investment management fees and other administrative charges.
- Definition of "reunderwriting" in SOP 05-1.
- Contract reinstatements.
- Commissions paid on an increase in insurance coverage or incremental deposits.
- Participating dividends and the interaction of guidance in SOP 05-1 and SOP 95-1.<sup>28</sup>
- Premium changes to Statement 60<sup>29</sup> long-duration contracts.
- Evaluation of changes under paragraph .15(a) of SOP 05-1.
- Nature of investment return rights in paragraph .15(b) of SOP 05-1.
- Transition provisions for Statement 60 long-duration contracts under SOP 05-1.

**EFFECTIVE:** Immediately.

<sup>23</sup> AICPA Practice Alert 2007-1, *Dating of the Auditor's Report and Related Practical Guidance*.

<sup>24</sup> AICPA Statement on Auditing Standards No. 103 (AU Section 339), *Audit Documentation*.

<sup>25</sup> AICPA *Professional Standards*, AU Section 530, "Dating of the Independent Auditor's Report."

<sup>26</sup> AICPA Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*.

<sup>27</sup> FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments*.

<sup>28</sup> AICPA Statement of Position 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*.

<sup>29</sup> FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*.

## Framework for Reporting Deficiencies to Insurance Regulators

AFFECTS:	All insurance entities and their auditors.
SUMMARY:	<p>Section 11 of the NAIC Model Audit Rule requires all insurers to provide a written report of significant deficiencies in the insurer's internal controls to the department of insurance of each applicable state. The current NAIC Model Audit Rule is based on SAS 60.<sup>30</sup> The NAIC has updated the NAIC Model Audit Rule to incorporate the new definitions of internal control deficiencies identified in SAS 112;<sup>31</sup> however, the revised NAIC Model Audit Rule will not be effective until 2010.</p> <p>As a result, the NAIC/AICPA Task Force and AICPA staff have issued a publication, <i>A Statutory Framework for Reporting Significant Deficiencies and Material Weaknesses in Internal Control to Insurance Regulators</i>. This publication gives auditors a suggested framework to use when internal control deficiencies in financial reporting are identified during a statutory financial statement audit in accordance with SAS 112.</p>
EFFECTIVE:	The framework is effective immediately.

## Interpretation No. 28 and Interpretation No. 29 on Compilation and Review of Financial Statements

AFFECTS:	Accountants who perform compilation or review engagements.
SUMMARY:	<p>The Accounting and Review Services Committee of the AICPA has issued SSARS Interpretations 28<sup>32</sup> and 29<sup>33</sup> to AR Section 100.<sup>34</sup></p> <p>Interpretation 28 provides guidance on the reporting on special-purpose financial statements that are prepared either (1) in compliance with a contractual agreement or regulatory provision that does not constitute a complete presentation of the entity's assets, liabilities, revenues, and expenses, but is otherwise prepared in conformity with GAAP or another comprehensive basis of accounting, <b>or</b> (2) prepared on a basis of accounting prescribed in an agreement that does not result in a presentation in conformity with GAAP or another comprehensive basis of accounting. The Interpretation also provides illustrative examples of compilation and review reports on special-purpose financial statements.</p> <p>Interpretation 29 provides guidance on the need for modifying a compilation or review report as a result of (1) uncertainty about the entity's ability to continue as a going concern, <b>or</b> (2) a material uncertainty other than a going concern. The Interpretation also discusses the ability of an accountant compiling financial statements to omit disclosures required by U.S. GAAP, provided that the report clearly indicates the omission and the decision to omit was not made to mislead financial statement users.</p>
EFFECTIVE:	These interpretations were effective immediately upon issuance.

<sup>30</sup> AICPA Statement on Auditing Standards No. 60, *Communication of Internal Control Related Matters Noted in an Audit*.

<sup>31</sup> AICPA Statement on Auditing Standards No. 112 (AU Section 325), *Communicating Internal Control Related Matters Identified in an Audit*.

<sup>32</sup> AICPA Statement on Standards for Accounting and Review Services (SSARS) Interpretation No. 28 (AR Section 9100.28), *Special-Purpose Financial Statements to Comply With Contractual Agreements or Regulatory Provisions*.

<sup>33</sup> AICPA Statement on Standards for Accounting and Review Services (SSARS) Interpretation No. 29 (AR Section 9100.29), *Reporting on an Uncertainty, Including an Uncertainty About an Entity's Ability to Continue as a Going Concern*.

<sup>34</sup> AICPA *Professional Standards*, AR Section 100, "Compilation and Review of Financial Statements."

# SEC Developments

## SEC Adopts New Rules for Foreign Private Issuer Deregistration\*

**AFFECTS:** All foreign private issuers.

**SUMMARY:** On March 21, 2007, the SEC voted to adopt Rule 12h-6 of the Securities Exchange Act of 1934 (the "Exchange Act"), which will establish a more clearly defined process with a more appropriate benchmark by which a foreign private issuer can terminate its Exchange Act registration and reporting obligations. Under Rule 12h-6, a foreign private issuer can terminate its registration of securities under Exchange Act section 12(g), or its reporting obligations regarding a class of equity securities under Exchange Act section 15(d), if it meets a quantitative benchmark. This benchmark is not based on a head count of its shareholders, as are the current exit rules, but on the trading volume of the subject class of securities in the United States.

Under the current rules, a foreign private issuer may terminate its Exchange Act registration and reporting obligations if the class of the issuer's securities has fewer than 300 record holders who are U.S. residents. Because of the increased globalization of the U.S. securities markets that has occurred since the adoption of these rules, it may be difficult for a foreign private issuer to accurately determine the U.S. residency of its holders under the current record holder test.

To qualify for the new rule's registration provisions, a foreign private issuer must meet the following conditions:

- The average daily trading volume of the subject class of securities in the United States has been 5 percent or less of the worldwide average daily trading volume of that class of securities for a recent 12-month period.
- Issuers that have delisted a class of equity securities from a U.S. exchange or terminated a sponsored American Depositary Receipts facility, and that have exceeded the trading volume threshold at the time of delisting or termination, must wait at least 12 months before relying on the trading volume standard to terminate their Exchange Act reporting obligations.
- The issuer must have maintained a listing of the subject class of securities on one or more exchanges in its primary trading market for at least 12 months before filing for deregistration.
- The issuer must not have sold its securities, with certain exceptions, in the United States in a registered offering under the Securities Act of 1933, during the preceding 12 months.
- The issuer will have to (1) have been an Exchange Act reporting company for at least a year, (2) be current for that period, and (3) have filed at least one Exchange Act annual report before it may file for deregistration.
- The Rule 12g3-2(b) exemption will automatically and immediately be available to the issuer upon deregistration under Rule 12h-6; the current 18-month wait will no longer be required. To maintain the exemption, the issuer must publish English versions of material home-country documents, as required by Rule 12g3-2(b), on its Internet Web site or on an electronic information delivery system in the primary market in which its securities trade.

**EFFECTIVE:** The new rules become effective on June 4, 2007. This will allow December year-end foreign private issuers that are accelerated filers or large accelerated filers to deregister before the June 30 deadline for the filing of their 2006 annual reports on Form 20-F that would contain their first Sarbanes-Oxley Section 404 report.

## Technical Amendment to Regulation S-T\*

AFFECTS: All public companies.

SUMMARY: In 2004, the SEC adopted an amendment to Rule 19b-4 and Regulation S-T that required the electronic filing of Form 19b-4 through the SEC's Electronic Form 19b-4 Filing System (EFFS) and exempted Form 19b-4 from the requirement that filings with the Division of Market Regulation be in paper format. However, Regulation S-T only applies to electronic filings submitted through the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system, while Form 19b-4 is submitted through EFFS; therefore, Regulation S-T should not have originally been amended with respect to Form 19b-4.

As a result, the SEC has made a technical amendment to Regulation S-T to clarify that (1) a filing submitted electronically on a system other than the EDGAR system is not a mandated submission under Regulation S-T, while (2) filers who submit EDGAR forms reviewed by the Division of Market Regulation are subject to the requirements of Regulation S-T. The SEC is also amending its rules of organization and program management to grant the director of the Division of Market Regulation authority to adjust electronic submission filing dates and either grant or deny an electronic filing hardship exemption under Regulation S-T.

EFFECTIVE: The amendment will be effective 30 days after publication in the Federal Register.

## Proposed Rule Amending Financial Responsibility Rules for Broker-Dealers\*

AFFECTS: All public broker-dealer companies.

SUMMARY: The SEC has issued for comment a proposal that amends the rules for broker-dealers under the Exchange Act. The proposed amendments address the broker-dealer net capital rule, customer protection rule, books and records rules, and notification rule.

### Amendments to the Net Capital Rule

The proposed amendments to the net capital rule (Rule 15c3-1) include the following:

- Requirement to subtract from net worth certain liabilities or expenses assumed by third parties and nonpermanent capital contributions.
- Requirement to deduct the amount a fidelity bond deductible exceeds self-regulatory organization limits.
- Broker-dealer solvency requirement.
- Amendment to rules governing orders restricting withdrawal of capital from a broker-dealer.
- Adjusted net capital requirements.

### Amendments to the Customer Protection Rule

The customer protection rule (Rule 15c3-3) requires broker-dealers to take certain actions to protect the cash balances and securities in customer accounts. Rule 15c3-3 also requires broker-dealers to maintain possession or control of fully paid and excess margin securities held for customers.

The proposed amendments to the customer protection rule focus on the following topics:

- Proprietary accounts of broker-dealers treated as "customer" accounts.
- Banks where special reserve deposits may be held.
- Expansion of the definition of qualified securities to include certain money market funds.
- Allocation of customers' fully paid and excess margin securities to short positions.
- Treatment of free credit balances and importation of Rule 15c3-2 requirements into Rule 15c3-3.
- Aggregate debit items charge.



- “Proprietary accounts” under the Commodity Exchange Act.
- Holding futures positions in a securities portfolio margin account.

#### **Amendments to Books and Records Rules**

The amendments to the books and records rules (Rules 17a-3 and 17a-4) would require large broker-dealers (those with \$1 million in aggregate credit items under the reserve formula of Rule 15c3-3 or \$20 million in total capital) to document implemented internal controls designed to aid in analyzing and managing risks from their business activities (e.g., securities lending and repo transactions, over-the-counter derivative transactions, proprietary trading and margin lending). The proposal would also require a broker-dealer to maintain records of these internal controls for a three-year period after ceasing to use the system of internal controls.

#### **Amendments to the Notification Rule**

The amendments to the notification rule (Rule 17a-11) propose reducing the early-warning level for broker-dealers who carry over \$10 billion in debits. The current rule requires that broker-dealers using the alternative standard to compute net capital requirements must notify regulators when their net capital level falls below 5 percent.

NEXT STEPS: Comments should be received on or before May 18, 2007.

### **SEC Issues Compliance and Disclosure Interpretations\***

AFFECTS: All public companies.

SUMMARY: The SEC’s Division of Corporation Finance has issued compliance and disclosure interpretations on the following Regulation S-K Items:

- [Item 201, “Market Price of and Dividends on the Registrant’s Common Equity and Related Shareholder Matters.”](#)
- [Item 402, “Executive Compensation.”](#) (Also, see the separate article on [Executive Compensation and Related Person Disclosure Q&As](#) on page 15.)
- [Item 403, “Security Ownership of Certain Beneficial Owners and Management.”](#)
- [Item 404, “Transactions With Related Persons, Promoters and Certain Control Persons.”](#)
- [Item 407, “Corporate Governance.”](#)

The Division of Corporation Finance has also issued compliance and disclosure interpretations on the [Trust Indenture Act of 1939](#).

These interpretations, which are in question-and-answer format, replace interpretations in the July 1997 *Manual of Publicly Available Telephone Interpretations*, the March 1999 *Supplement to the Manual of Publicly Available Telephone Interpretations*, and the November 2000 *Current Issues and Rulemaking Projects Outline*.

EFFECTIVE: These interpretations were effective immediately upon issuance.

### **SEC Comments on Critical-Terms-Match Method for Evaluating Hedges\***

AFFECTS: Public companies with hedging activities.

SUMMARY: At the March 15, 2007, EITF meeting, Joseph McGrath made an informal announcement concerning the SEC staff’s views on the application of the critical-terms-match method for evaluating the effectiveness of widely used hedge strategies. According to Mr. McGrath, hedgers who use the critical-terms-match method should confirm the basis for their assertion that ineffectiveness will be de minimis by making a quantitative assessment. To accomplish this, registrants should:



- Revisit their existing critical-terms-match hedging relationship and confirm the reasonableness of their original assessments.
- If they have not already done so, make a quantitative assessment to determine that ineffectiveness has been de minimis.
- If the results of this analysis support the reasonableness of a registrant's original conclusion that the hedging terms are "essentially matched," then the registrant should continue with its application of the critical-terms-match hedge accounting.

Mr. McGrath also discussed certain parameters for performing assessments of hedges of forecasted foreign currency denominated transactions in which the forecasted transactions occur over a stated period (e.g., monthly or quarterly) but the hedging instrument settles once during the period. It may be reasonable to conclude that the terms are "essentially matched" when the hedging instrument and the hedged transactions settle within one month of each other. However, Mr. McGrath urged that when settlement is outside of a one-month window, the registrant should discuss the situation with the SEC staff.

**NEXT STEPS:** In April, the FASB will consider adding to its agenda a project that may address questions about the critical-terms-match method, such as which terms are "critical" and how closely they must match in order to conclude that there is no ineffectiveness to record or assess.

**OTHER RESOURCES:** For additional information, see Deloitte & Touche LLP's [March 19, 2007, Heads Up](#).

### **SEC Roundtable on XBRL\***

**AFFECTS:** All public companies.

**SUMMARY:** On March 19, 2007, the SEC hosted a roundtable discussion on the use of interactive data by public companies and mutual funds to improve disclosure and transparency for investors. John Brennan, Vanguard Group chairman and CEO, was the keynote speaker. Mr. Brennan discussed how interactive data will help investors gather and compare information about mutual fund risk and return, including costs and investment performance. The roundtable also featured a panel discussion on the benefits and potential cost savings associated with preparing financial reports using interactive data in a computer language called eXtensible Business Reporting Language (XBRL).

This roundtable was the third in a series of roundtable discussions hosted by the SEC on interactive data. At previous roundtable events, the CEOs of Xerox and Pepsico discussed their experiences with testing XBRL as part of the SEC's voluntary filing program.

### **Roundtable on IFRS "Roadmap"\***

**AFFECTS:** Foreign private issuers filing under IFRSs and their auditors.

**SUMMARY:** On March 6, 2007, the SEC held a public roundtable on its "roadmap" for IFRSs. The roadmap outlines the elimination of the requirement that foreign private issuers reconcile their financial statements to U.S. GAAP if they prepare their financial statements using IFRSs.

The roundtable consisted of three panels made up of various individuals, including financial intermediaries, investors, and issuers. The panels addressed the capital markets landscape globally and in the United States, focusing on the potential effects of the coexistence of IFRSs and U.S. GAAP within the three elements of the SEC's mission: to facilitate capital formation; maintain fair, orderly, and efficient markets; and protect investors.

All panel members agreed with the principles outlined in the roadmap. The roundtable discussion emphasized that the ultimate goal is to create a single set of accounting and financial reporting standards for use by all entities around the globe and that eliminating the U.S. GAAP reconciliation was only the first step in working towards that goal. Participants also encouraged the SEC to focus on the global convergence of auditing and independence standards.

The impact of eliminating the U.S. GAAP reconciliation on the following aspects of financial reporting was also considered during the discussion:

- Effect on capital formation.
- Impact on markets.
- Investor protection.
- Other considerations.

**NEXT STEPS:**

The SEC staff will continue to review and comment on the financial statements of foreign issuers that use IFRSs. This will allow the SEC staff to further understand the practice issues that may need to be addressed. Eventually, the SEC would need to proceed with rule making to eliminate the U.S. GAAP reconciliation requirement; a decision is expected to come by 2009.

## **SEC Letter on Filing Restatements for Errors in Accounting for Stock Option Grants**

**AFFECTS:**

SEC registrants preparing to file restated financial statements as a result of errors in accounting for stock option grants.

**SUMMARY:**

Because of the recent focus on stock option “backdating,” several companies have examined their practices regarding the granting of stock options and have identified errors in accounting for grants of stock options that affect several previous years. Many registrants indicated that (1) they would be unduly burdened if they had to amend, as required by SEC regulations, all previously filed reports that are affected by the errors and (2) readers could have difficulty understanding the impact of the restatement. In late December 2006, the SEC’s Division of Corporation Finance issued a sample letter that provides information for registrants to consider as they prepare to file restatements with the Commission to correct errors in accounting for stock option grants.

The sample letter offers two alternatives to amending all previous filings affected by the errors. According to the letter, a registrant may do either of the following:

- Amend the most recently filed Form 10-K and include comprehensive disclosures reflecting detailed information about the nature and amount of errors affecting all prior periods (see below for more information about the comprehensive disclosures).
- Amend prior-period financial statements and include comprehensive disclosures in the upcoming Form 10-K if the registrant’s upcoming Form 10-K is due to be filed within two weeks from when the registrant expects to file an amended Form 10-K for the previous year.

Under either alternative, the financial statements are restated to correct the error (and the financial statement columns are labeled “restated”), with a cumulative-effect adjustment to opening retained earnings as of the earliest period presented.

The comprehensive disclosures are outlined in the sample letter and include, among other items:

- An explanatory note at the beginning of Form 10-K, discussing the reason for the amendment.
- Restated select financial data for the five most recent fiscal years.
- A revised MD&A based on the restated financial information.
- If applicable, restated interim-period information for the two most recent fiscal years.
- Footnote disclosure reconciling the previously filed financial information to the restated financial information.
- Disclosures referred to in the letter from the SEC chief accountant dated [September 19, 2006](#).
- Audited footnote disclosure of the nature and amount of each material type of error that is included in the cumulative adjustment to opening retained earnings.

- Audited footnote disclosure of restated stock-based compensation cost for all periods misstated.
- For any material weaknesses identified as a result of the restatement, appropriate revisions to the disclosures in Items 9A, "Controls and Procedures," and 9B, "Other Information," of Form 10-K. Registrants should refer to the [May 16, 2005, Staff Statement on Management's Report on Internal Controls Over Financial Reporting](#) for additional information on disclosing material weaknesses.

The sample letter also indicates that the Division of Corporation Finance will not comment on the registrant's need to amend prior filings to restate financial statements and MD&A if the registrant complies with the sample letter's provisions. However, registrants are not necessarily protected from other comments on the filing or from further actions by the SEC's Division of Enforcement.

EFFECTIVE: The guidance is effective immediately.

OTHER RESOURCES: Deloitte & Touche LLP's [SEC Alert 07-1](#) on the SEC's issuance of a letter on filing restated financial statements for errors in accounting for stock option grants.

## Government Agencies Issue Final Statement on Complex Structured Finance Activities

AFFECTS: Financial institutions that engage in complex structured finance transactions.

SUMMARY: The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the SEC have issued a final Statement on complex structured finance activities. The Statement describes the types of internal controls and risk management procedures that should help large financial institutions identify, manage, and address the heightened legal and reputational risks that may arise from certain complex structured finance transactions.

The final Statement is substantially similar to the revised Statement issued for comment in May 2006 and described in the [May 2006 Accounting Roundup](#). Minor modifications have been made to address comments received on the revised Statement to clarify the principles, scope, and intent of the final Statement.

The Statement represents supervisory guidance for institutions supervised by the four banking agencies and serves as a policy statement for institutions supervised by the SEC. As part of the ongoing supervisory process, the agencies will use the final Statement in reviewing the internal controls and risk management policies, procedures, and systems of financial institutions that are engaged in complex structured finance transactions.

EFFECTIVE: The guidance is effective immediately.

## SEC Issues Q&As on Executive Compensation and Related Person Disclosure

AFFECTS: All public companies.

SUMMARY: In January 2007, the staff of the SEC's Division of Corporation Finance issued interpretive guidance on Regulation S-K, Item 402, "Executive Compensation." The guidance addresses frequently asked questions about application of the executive compensation and related person disclosure rules issued by the SEC in August 2006 and the executive compensation amendments issued in December 2006. It also contains questions and answers (Q&As) regarding general applicability of the interim final rules and offers interpretive responses for specific situations.

The Q&As were updated in February 2007 to provide guidance to a registrant that files a preliminary proxy statement and omits the required executive and director compensation disclosure. The SEC staff concluded that because the executive and director compensation rules were significantly

revised during 2006 for situations in which a company, complying with the revised rules for the first time, files a preliminary proxy statement excluding the required executive and director compensation disclosure, the SEC staff will not request a revised proxy statement or deem the 10-day period expired as long as (1) the omitted executive and director compensation disclosure is included in the definitive proxy statement, (2) the omitted disclosure does not relate to the matter that caused the company to originally file the preliminary proxy, and (3) the omitted disclosure is not otherwise made available to the public before the filing of the definitive proxy statement.

This guidance replaces the Regulation S-K, Item 402, interpretations in the July 1997 *Manual of Publicly Available Telephone Interpretations* and the March 1999 *Supplement to the Manual of Publicly Available Telephone Interpretations*.

EFFECTIVE: The guidance is effective immediately.

# PCAOB Developments

## **Chairman Discusses Cooperation on Auditor Oversight With EU and Asian Counterparts\***

AFFECTS: Auditors of public companies.

SUMMARY: Currently, more than 760 non-U.S. firms from 83 countries are registered with the PCAOB. Of these firms, those that meet certain criteria are subject to the inspection requirements of the Sarbanes-Oxley Act of 2002.

PCAOB Chairman Mark Olson met with European Union (EU) Commissioner Charlie McCreevy during March to discuss enhancing collaboration between the PCAOB and EU regulators. Those PCAOB and EU auditor regulators that have independent and rigorous oversight systems have established a goal of relying on the home-country regulator's inspection and regulation work by 2009. This would result in saved resources and less regulatory overlap, in addition to increasing the international confidence in audited financial statements. Chairman Olson and Commissioner McCreevy will meet again in October 2007 to review the progress the PCAOB has made on issuing further guidance concerning reliance on non-U.S. regulators and the EU's statutory auditor directive requirements on equivalency and other determinations.

Chairman Olson also participated in an International Forum of Independent Audit Regulators (IFIAR) meeting in Tokyo during March. The meeting discussed cooperation in the oversight of public-company auditors. The IFIAR extended an invitation to the PCAOB to become a member, which the PCAOB has accepted.

During the trip to Asia, Chairman Olson also met with the Certified Public Accountants and Auditing Oversight Board (the PCAOB's Japanese equivalent) and the Japanese Financial Services Agency to discuss auditor oversight cooperation, and with the Korean Financial Supervisory Commission and the Korean Financial Supervisory Service to discuss coordination enhancements and establishing a framework for cooperation during audit firm inspections within the jurisdiction of the PCAOB and Korean regulators. In addition, a PCAOB board member, Charles Niemeier, met with the People's Republic of China Ministry of Finance and the China Securities Regulatory Commission in Beijing to discuss auditor oversight developments.

## PCAOB Observation on Auditors' Responsibilities With Respect to Fraud

AFFECTS: Auditors of public companies.

SUMMARY: In January, the PCAOB issued a report that focuses on the implementation of PCAOB interim standards regarding auditors' responsibilities concerning fraud.

This report does not change or propose to change any existing PCAOB standard, nor is the PCAOB providing any new interpretation. Rather, the report identifies observations made during the PCAOB inspection process and is intended to help auditors focus on their responsibilities concerning fraud and provide information to audit committees.

The report covers the following topics:

- Auditor's overall approach to the detection of financial fraud.
- Required brainstorming sessions and fraud-related inquiries.
- Auditor's response to fraud risk factors.
- Financial statement misstatements.
- Risk of management's override of controls.
- Other areas to improve fraud detection.

# GASB Developments

## Proposed Standard for Reporting Land and Other Real Estate Held as Investments\*

AFFECTS: State and local governmental entities with endowments.

SUMMARY: The GASB has required that endowment entities record land and other real estate held as investments at historical cost. However, similar entities, such as pension plans, record these investments at fair value. As a result, the GASB has issued an Exposure Draft, *Land and Other Real Estate Held as Investments by Endowments*, to address this diversity in practice.

The proposed Statement would establish a common approach to reporting land and other real estate held as investments and enhance the comparability and usefulness of financial reporting by endowments. The proposed Statement would be effective for permanent endowments, term endowments, and permanent funds, but not for quasi-endowments. Under the proposed Statement, land and other real estate held by an endowment as investments should be reported at the reporting date at fair value. Any changes to fair value during the period should be reported as investment income.

EFFECTIVE: The proposed Statement would be effective for financial statements for periods beginning after June 15, 2008, with earlier application encouraged.

TRANSITION: During the first period in which the proposed Statement is applied, changes made as a result of adoption would be treated as a prior-period adjustment, with financial statements of the periods affected being restated, and a disclosure of the nature of the restatement and its effect. If restatement is not practical, the cumulative effect should be reported as a restatement of beginning net assets for the earliest period presented.

NEXT STEPS: Comments are due by June 29, 2007.

# FASAB Developments

## FASAB Issues Interpretation 7\*

AFFECTS:	Those who use, prepare, and audit federal financial statements.
SUMMARY:	<p>On March 16, 2007, the FASAB issued an Interpretation<sup>35</sup> that provides guidance on items that are held for remanufacture and how they should be classified, valued, and reported under existing federal financial accounting standards. The Interpretation does not apply to stand-alone or independently functioning items, such as entire airplanes, ships, tanks, or intercontinental ballistic missiles.</p> <p>The Interpretation defines items “held for remanufacture” as direct materials or work in process that is being inspected, disassembled, cleaned, evaluated, rebuilt, refurbished, or restored to a serviceable, updated, or upgraded condition. Because items held for remanufacture share characteristics with items “held for repair,” judgment is required when classifying such items.</p> <p>The Interpretation provides separate recognition and measurement guidance regarding items held for remanufacture that are intended for sale and those intended for internal use.</p> <p>Items held for remanufacture and intended for sale may be valued in accordance with either paragraphs 20–22 or paragraphs 32–33 of FASAB Statement 3.<sup>36</sup> Paragraphs 20–22 of FASAB Statement 3 state that inventory should be valued at either historical cost or latest acquisition cost, while paragraphs 32–33 state that inventory held for repair should be treated under the allowance method (valued at the same value as a serviceable item) or the direct method (valued at the same value as a serviceable item, less the estimated repair costs). Items held for remanufacture and not intended for sale may be recognized as a category of operating materials and supplies and be valued in accordance with paragraphs 32–33 or paragraphs 42–44 of FASAB Statement 3.</p> <p>Inventory items held for remanufacture should be disclosed in accordance with paragraph 35 of FASAB Statement 3, while inventory items held for remanufacture that meet the definition of “operating materials and supplies” should be disclosed in accordance with paragraph 50 of FASAB Statement 3.</p>
EFFECTIVE:	The Interpretation was effective upon its issuance on March 16, 2007.

# International Developments

## Amendments to Standard on Borrowing Costs\*

AFFECTS:	Entities that report under IFRSs.
SUMMARY:	<p>The IASB has issued a revision of IAS 23.<sup>37</sup> In the revised standard, borrowing costs related to the acquisition, construction, or production of qualifying assets that require a substantial period to be placed in service or be ready for sale will no longer include an option to be immediately recognized as an expense. These costs must now be capitalized as part of the cost of the asset. Benefits of this amendment include the following: (1) an asset’s costs will include all costs incurred in preparing the asset for use or sale, (2) comparability will be increased in financial reporting as a result of the removal of an option for which two accounting treatments were available, and (3) consistency will be achieved with the objectives of the IASB’s short-term convergence project to eliminate major differences between IFRSs and U.S. GAAP.</p>

<sup>35</sup> FASAB Interpretation of Federal Financial Accounting Standards No. 7, *Items Held for Remanufacture*.

<sup>36</sup> FASAB Statement No. 3, *Accounting for Inventory and Related Property*.

<sup>37</sup> IAS 23, *Borrowing Costs*.

**EFFECTIVE:** The revised standard is effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted.

### **IASB Announces Membership of Employee Benefits Working Group\***

**AFFECTS:** Entities that report under IFRSs.

**SUMMARY:** In March 2007, the IASB announced the membership of the Employee Benefits Working Group. The objective of this working group is to provide expert perspectives on the IASB's project on postemployment benefits, including those of actuaries, auditors, preparers and users of financial statements, and regulators. The working group comprises 16 professionals with extensive experience in the operations, management, valuation, financial reporting, auditing, or regulation of postemployment benefit arrangements. In addition, the European Financial Reporting Advisory Group, the European Commission, and the International Organization of Securities Commissions will be official observers at working group meetings.

### **IASB Welcomes Korea's Roadmap for Adoption of IFRSs\***

**AFFECTS:** All entities that currently apply Korean GAAP, except financial institutions.

**SUMMARY:** The Korean government (Financial Supervisory Commission) and the Korean Accounting Standards Board have issued a roadmap for Korea's adoption of IFRSs. According to the roadmap, all companies in Korea, excluding financial institutions, will be permitted to apply IFRSs by 2009, with IFRSs becoming mandatory for all exchange-listed businesses by 2011.

## Appendix A: Recent Meetings

This appendix summarizes standard-setter meetings that took place during March.

### Recent FASB Meetings

To jump to the minutes of a FASB meeting, click a date or link below.

#### March 14, 2007

The Board discussed the following topics:

- [Transfers of Financial Assets](#).
- Agenda Decision: Valuation of Commodity Inventory.
- [Statement 133 Implementation Issue — Convertible Debt With Elements of Foreign Exchange Risk](#).

#### March 21, 2007

The Board discussed the following topics:

- [Statement 133 Implementation Issue — Hedging Functional Currency Equivalent Proceeds to Be Received From a Forecasted Foreign Currency Denominated Debt Issuance](#).
- [Financial Statement Presentation](#).
- [Accounting for Leases](#).
- [Business Combinations: Applying the Acquisition Method](#).
- Agenda Decision: Intangible Assets.

#### March 27, 2007

- Not-for-Profit Business Combinations Roundtable.

#### March 28, 2007

The Board discussed the following topics:

- [Earnings per Share](#).
- [Conceptual Framework](#).
- [FASB Ratification of EITF Consensuses and Tentative Conclusions](#).

### FASB Project Summaries and Meeting Minutes

[Project summaries](#), [handouts](#) distributed at each meeting, [FASB meeting minutes](#), and [summaries](#) of FASB meetings and recent actions are available on the FASB's Web site.



## Recent AcSEC Meetings

At its March 20–21, 2007, meeting, the AcSEC discussed the following topics:

- Comment Letters on Derivatives Disclosures.
- Comment Letters on FASAB's Exposure Draft on Accounting for Social Insurance.
- Casino Audit and Accounting Guide.
- Airline Audit and Accounting Guide.
- Not-for-Profit Audit and Accounting Guide.

The AcSEC [meeting highlights](#) and [agenda and materials](#) are available on the AICPA's Web site.

## Recent ASB Meetings

There was no ASB meeting in March 2007. The next ASB meeting is scheduled for May 15–17, 2007.

## Recent FASAB Meetings

At its March 21–22, 2007, meeting, the FASAB discussed the following topics:

- Implementation Guidance on FASAB Statement No. 31, *Reporting on Fiduciary Activities*.
- Partial Draft of Concepts Statement on Elements of Financial Reporting.
- Staff Briefing Paper on Financial Reporting.
- Status Report on Fiscal Sustainability.
- Staff Briefing Paper on Definition of Entity and Reporting Entity.
- Exposure Draft on Oil and Gas Resources.
- Revisions to Proposed Standard on Reporting Gains/Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates.
- Project Plan on Appropriate Source of GAAP.

The [agenda](#) and [meeting materials](#) are available on the FASAB's Web site.

## Recent IASB Meetings

At its March 20–22, 2007, meeting in London, the IASB discussed the following topics:

- Annual Improvement Process.
- Business Combinations.
- Conceptual Framework.
- Earnings per Share.
- Financial Instruments — Due Process Document.
- Financial Statement Presentation.
- IFRIC Update.
- Leases.
- Liabilities — Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- Postemployment Benefits.

- Technical Plan.

The [full agenda](#) of the meeting and the [agenda papers](#) for various topics discussed at the meeting are available on the IASB's Web site.

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

## Recent IFRIC Meetings

At its March 7–9, 2007, meeting in London, the IFRIC discussed the following topics:

- IAS 39, *Financial Instruments: Recognition and Measurement*.
  - o Hedging Future Cash Flows With Purchased Options.
  - o Hedging Multiple Risks With a Single Derivative Hedging Instrument.
  - o Scope of Paragraph 11A.
- IAS 18, *Revenue*.
  - o Customer Contributions.
  - o Gaming Transactions.

The [full agenda](#) of the meeting and the [agenda papers](#) for various topics discussed at the meeting are available on the IASB's Web site.

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

## Appendix B: Significant Adoption Dates and Deadlines

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

FASB	Status
<b>Significant Adoption Dates</b>	
Statement 159, <i>The Fair Value Option for Financial Assets and Financial Liabilities</i> — including an amendment to FASB Statement No. 115	Effective as of the beginning of the entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year, has not yet issued financial statements, and also elects to apply the provisions of Statement 157.
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"> <li>For entities with publicly traded equity securities, effective for fiscal years ending after December 15, 2006.</li> <li>For all other entities, effective for fiscal years ending after June 15, 2007.</li> </ul> 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. Earlier adoption is permitted, provided that no financial statements have yet been issued within that fiscal year.
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.
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 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides"	Effective concurrently with the requirements of Statement 158.
FSP FAS 126-1, "Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities"	Effective for fiscal periods beginning after December 15, 2006. If an entity issues interim financial statements, the FSP shall be applied to the first interim period after the date of adoption.
FSP FAS 123(R)-6, "Technical Corrections of FASB Statement No. 123(R)"	Effective for the first reporting period beginning after October 20, 2006, or an earlier period for which financial statements have not yet been issued.
FSP FAS 123(R)-5, "Amendment of FASB Staff Position FAS 123(R)-1"	Effective for the first reporting period beginning after October 10, 2006, or an earlier period for which financial statements have not yet been issued.
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 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 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 EITF 00-19-2, "Accounting for Registration Payment Arrangements"	Effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified after December 21, 2006. Otherwise, effective for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years.
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.
<b>Projects in Exposure-Draft or Request-for-Comment Stage</b>	
Exposure Draft, <i>Valuation Guidance for Financial Reporting</i>	Comments due April 15, 2007.
Proposed FSP FAS 154-a, "Considering the Effect of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements"	Comments due April 30, 2007.
<b>EITF</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
Issue 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements"	Effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. Earlier application is permitted.
Issue 06-9, "Reporting a Change in (or the Elimination of) a Previously Existing Difference Between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or Between the Reporting Period of an Investor and That of an Equity Method Investee"	Effective for changes occurring in interim or annual reporting periods beginning after November 29, 2006.
Issue 06-8, "Applicability of the Assessment of a Buyer's Continuing Investment Under FASB Statement No. 66, <i>Sales of Real Estate</i> , for Sales of Condominiums"	Effective for first annual reporting period beginning after March 15, 2007.
Issue 06-7, "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> "	Effective for interim and annual periods beginning after December 15, 2006.
Issue 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments"	Applies to modifications (or exchanges) occurring in interim or annual reporting periods beginning after November 29, 2006.
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, 2007.
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 05-1, "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.
<b>AICPA/AcSEC</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
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 114, <i>The Auditor's Communication With Those Charged With Governance</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 113, <i>Omnibus — 2006</i>	The amendments in paragraphs 1–5 of this SAS are effective for audits of financial statements for periods beginning on or after December 15, 2006.  The amendments in paragraphs 7–14 of this SAS are effective for audits of financial statements for periods ending on or after December 15, 2006.
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 audits of financial statements for periods ending on or after December 15, 2006.
SSAE 14, <i>SSAE Hierarchy</i>	Effective when the subject matter or assertion is as of or for a period ending on or after December 15, 2006.
Conforming changes to AICPA <i>Professional Standards</i> , AT Section 501, Reporting on an Entity's "Internal Control Over Financial Reporting," 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 <i>Professional Standards</i> , ET Section 100.01, "Conceptual Framework for AICPA Independence Standards"	Effective April 30, 2007.

Revision to AICPA <i>Professional Standards</i> , ET Section 501.02	Effective April 30, 2006.
Center for Public Company Audit Firms Alert (CPACF) #98, <i>Update to SEC Staff Position Regarding Changes to the Statement of Cash Flows Relating to Discontinued Operations (Addendum to CPACF Alert #90)</i>	Effective April 19, 2006.
<b>Project in Exposure-Draft Stage</b>	
Exposure Draft, AICPA Statement on Standards for Accounting and Review Services, <i>Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services</i>	Comments due May 18, 2007.
<b>SEC</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
Final Rule, <i>Termination of a Foreign Private Issuer's Registration of a Class of Securities Under Section 12(g) and Duty to File Reports Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934</i>	Effective June 4, 2007.
Final Rule, <i>Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers and Newly Public Companies</i>	For nonaccelerated filers, auditor's attestation report on internal control over financial reporting must be included with annual reports for fiscal years ending on or after December 15, 2008. Management's report is required for fiscal years ending on or after December 15, 2007. For a newly public company, the requirement to provide either a management assessment of internal control over financial reporting or an auditor attestation report will be effective when it files its second annual report with the SEC.
Final Rule, <i>Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Foreign Private Issuers That Are Accelerated Filers</i>	For foreign private issuers 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.
Interim Final Rule, <i>Executive Compensation Disclosure</i>	Effective December 29, 2006.
Final Rule, <i>Executive Compensation and Related Person Disclosure</i>	In Form 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.
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>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>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 Form 20-F or Form 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.

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 after publication.
Final Rule, <i>Internet Availability of Proxy Materials</i>	Effective March 30, 2007. The issuers may not issue a notice of availability of proxy materials over the Internet until July 30, 2007.
<b>Projects in Request-for-Comment Stage</b>	
Proposed Rule, <i>Amendments to Financial Responsibility Rules for Broker-Dealers</i>	Comments due on or before May 18, 2007.
<b>PCAOB</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
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 Form 20-F or Form 40-F.
Rule 3524, <i>Audit Committee Pre-approval of Certain Tax Services</i>	Rule will not apply to any tax service preapproved on an engagement-by-engagement basis before June 18, 2006. With respect to tax services provided to audit clients whose audit committees preapprove 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 during the professional engagement period pursuant to an engagement in process at April 19, 2006, provided that such services are completed on or before October 31, 2006. Rule will not apply to tax services being provided on or before April 30, 2007, provided that those services were performed during the audit period and completed prior to the beginning of the professional engagement period.
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.
Release No. 2006-008, <i>Amendments to Board Rules Relating to Inspections</i>	Effective December 8, 2006.
<b>GASB/GAO</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
Statement No. 49, <i>Accounting and Financial Reporting for Pollution Remediation Obligations</i>	Effective for financial statements for periods beginning after December 15, 2007.
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.

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"> <li>Phase 1 governments in periods beginning after December 15, 2006.</li> <li>Phase 2 governments in periods beginning after December 15, 2007.</li> <li>Phase 3 governments in periods beginning after December 15, 2008.</li> </ul>
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 multiple-employer plan.
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.
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.
<b>Project in Exposure-Draft or Invitation-to-Comment Stage</b>	
Exposure Draft, <i>Land and Other Real Estate Held as Investments by Endowments</i>	Comments are due by June 29, 2007.
<b>FASAB</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
Technical Bulletin 2006-1, <i>Recognition and Measurement of Asbestos-Related Cleanup Costs</i>	Effective for periods beginning after September 30, 2009.
Statement 31, <i>Accounting for Fiduciary Activities</i>	Effective for periods beginning after September 30, 2008.
Statement 30, <i>Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts</i>	Effective for periods beginning after September 30, 2006.
Statement 29, <i>Heritage Assets and Stewardship Land</i>	Effective for periods beginning after September 30, 2006.
Statement 26, <i>Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25</i>	Effective for periods beginning after September 30, 2006.
Interpretation 7, <i>Items Held for Remanufacture</i>	Effective March 16, 2007.
<b>Project in Request-for-Comment Stage</b>	
Exposure Draft of a proposed Statement, <i>Accounting for Social Insurance</i>	Comments due April 16, 2007.
<b>IASB/IFRIC</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
IFRS 8, <i>Operating Segments</i>	Effective for annual periods beginning on or after January 1, 2009.
IFRS 7, <i>Financial Instruments: Disclosures</i>	Effective for annual periods beginning on or after January 1, 2007.
Amendment to IAS 23, <i>Borrowing Costs</i>	Effective for annual periods beginning on or after January 1, 2009.
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 12, <i>Service Concession Arrangements</i>	Effective for annual periods beginning on or after January 1, 2008.
IFRIC Interpretation 11, <i>Group and Treasury Share Transactions</i>	Effective for annual periods beginning on or after March 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.
<b>Projects in Request-for-Comment Stage</b>	
IASB Exposure Draft, proposed amendments to IFRS 1, <i>First-time Adoption of International Financial Reporting Standards — Cost of an Investment in a Subsidiary</i>	Comments due April 27, 2007.
IASB Discussion Paper, <i>Fair Value Measurements</i>	Comments due May 4, 2007.
IASB Exposure Draft, proposed amendments to IAS 24, <i>Related Party Disclosures</i>	Comments due May 25, 2007.
IASB Exposure Draft, proposed <i>IFRS for Small and Medium-sized Entities</i>	Comments due October 1, 2007.

## Appendix C: 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 D: Abbreviations

<b>AcSEC</b>	Accounting Standards Executive Committee	<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>AICPA</b>	American Institute of Certified Public Accountants	<b>IFRS</b>	International Financial Reporting Standard
<b>APB</b>	Accounting Principles Board	<b>ITAC</b>	Investors Technical Advisory Committee
<b>ARB</b>	Accounting Research Bulletin	<b>ITC</b>	Invitation to Comment
<b>ASB</b>	Auditing Standards Board	<b>MD&amp;A</b>	Management's Discussion & Analysis
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission	<b>NAIC</b>	National Association of Insurance Commissioners
<b>DIG</b>	Derivatives Implementation Group	<b>NCGA</b>	National Council on Governmental Accounting
<b>DTC</b>	Draft Technical Correction	<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>EITF</b>	Emerging Issues Task Force	<b>SAB</b>	Staff Accounting Bulletin
<b>FAS</b>	Financial Accounting Standard	<b>SAS</b>	Statement on Auditing Standards
<b>FASAB</b>	Federal Accounting Standards Advisory Board	<b>SEC</b>	Securities and Exchange Commission
<b>FASB</b>	Financial Accounting Standards Board	<b>SFFAC</b>	Statement of Federal Financial Accounting Concepts
<b>FIN</b>	FASB Interpretation	<b>SFFAS</b>	Statement of Federal Financial Accounting Standards
<b>FSP</b>	FASB Staff Position	<b>SOP</b>	Statement of Position
<b>GAAP</b>	Generally Accepted Accounting Principles	<b>SSAE</b>	Statement on Standards for Attestation Engagements
<b>GASB</b>	Governmental Accounting Standards Board	<b>SSARS</b>	Statement on Standards for Accounting and Review Services
<b>IAS</b>	International Accounting Standard	<b>TPA</b>	Technical Practice Aid
<b>IASB</b>	International Accounting Standards Board		
<b>IFAC</b>	International Federation of Accountants		

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](http://www.fasb.org) (FASB); [www.fasb.org/eitf/agenda.shtml](http://www.fasb.org/eitf/agenda.shtml) (EITF); [www.aicpa.org](http://www.aicpa.org) (AICPA); [www.sec.gov](http://www.sec.gov) (SEC); [www.gasb.org](http://www.gasb.org) (GASB); [www.fasab.gov](http://www.fasab.gov) (FASAB); and [www.iasb.org](http://www.iasb.org) or [www.iasplus.com/index.htm](http://www.iasplus.com/index.htm) (IASB and IFRIC).

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