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Audit and Enterprise Risk Services

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# Accounting Roundup

First Quarter in Review — 2008



Audit • Tax • Consulting • Financial Advisory •



To our clients, colleagues, and other friends:

Welcome to the quarterly edition of *Accounting Roundup*. During the first quarter of 2008, accounting standard setters and regulators issued a number of pronouncements (e.g., final FASB Statements, FSPs, EITF consensuses, SEC rules, PCAOB rules, IFRSs) affecting accounting, financial reporting, and corporate governance.

*Accounting Roundup: First Quarter in Review — 2008* presents brief descriptions of these pronouncements and outlines other first-quarter regulatory and professional developments. Events that occurred in March or that were not addressed in the [January](#) and [February](#) issues of *Accounting Roundup* are marked with an asterisk (\*) in the article title. Events without asterisks have been covered in monthly issues. 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. Further details are also on the Web sites of the accounting standard setters and regulators, including the [FASB](#), [GASB](#), [SEC](#), [PCAOB](#), [AICPA](#), 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 — 2008*. Take a moment to tell us what you think by sending us an e-mail at [accountingstandards@deloitte.com](mailto:accountingstandards@deloitte.com).

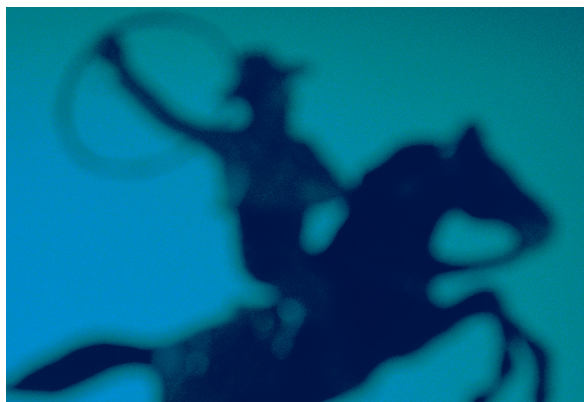
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Click a link below for more information about any of these upcoming *Dbriefs* webcasts (all webcasts begin at 2:00 PM EDT unless otherwise noted):

- Wednesday, April 9, 2008: [Strategic Discovery: Taking Steps to Avoid Litigation's Black Hole](#).
- Monday, April 14, 2008: [FIN 48 Adoption: Will Hedge Funds and Private Equity Firms Be Ready?](#)
- Tuesday, April 15, 2008: [FASB's Proposal to Narrow Equity: More Liabilities on Company Balance Sheets](#).
- Wednesday, April 16, 2008, 3:00 PM EDT: [Closing the Tax Expectations Gap: Perception Is Reality, and How to Change It](#).
- Thursday, April 24, 2008: [Transforming the Close Process: Strategies for Improvement](#).
- Monday, April 28, 2008: [FAS 109 and FIN 48: How State Tax Complexities Can Impact Your Tax Provision](#).



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# FASB Developments

## FASB Expands Disclosures About Derivative Instruments and Hedging Activities\*

- AFFECTS:** Entities with derivative instruments and that engage in hedging activities.
- SUMMARY:** On March 19, 2008, the FASB issued [Statement 161](#), which amends Statement 133 by requiring expanded disclosures about an entity's derivative instruments and hedging activities, but does not change Statement 133's scope or accounting.
- Statement 161 requires increased qualitative, quantitative, and credit-risk disclosures. Required qualitative disclosures include:
- How and why an entity is using a derivative instrument or hedging activity (e.g., for risk management or other purposes).
  - How the entity is accounting for its derivative instrument and hedged items under Statement 133 (and related guidance).
  - How the instrument affects the entity's financial position, financial performance, and cash flows.
- Quantitative disclosures should include information (in a tabular format) about the fair value of the derivative instruments, including gains and losses, and should contain more detailed information about the location of the derivative instrument in the entity's financial statements. Credit-risk disclosures should include information about the existence and nature of credit-risk-related contingent features included in derivative instruments. Credit-risk-related contingent features can be defined as those that require entities, upon the occurrence of a credit event (e.g., credit rating downgrade), to settle derivative instruments or to post collateral.
- Statement 161 also amends Statement 107 to clarify that derivative instruments are subject to Statement 107's concentration-of-credit-risk disclosures. Although the FASB intended Statement 107 to apply to all financial instruments, including derivatives, it believes the clarification was necessary to address differing views on whether entities' disclosures about concentration of credit risk should include derivative instruments.
- NEXT STEPS:** This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. Entities are encouraged, but not required, to provide comparative disclosures for earlier periods.
- OTHER RESOURCES:** Deloitte's [March 27, 2008, Heads Up](#). ●

## FASB Issues FSP Under Which Repurchase Financing Activities May Be Derivatives

- AFFECTS:** Transferors and transferees of financial assets, including broker-dealers, hedge funds, banks, and real estate investment trusts.
- SUMMARY:** On February 20, 2008, the FASB issued [FSP FAS 140-3](#) to resolve questions about the accounting for repurchase financings. Repurchase financings are repurchase agreements that:
- Relate to a previously transferred asset.
  - Are between the same counterparties.

- Are entered into contemporaneously with, or in contemplation of, the initial transfer.

The FSP discusses a series of transactions involving the acquisition of a security from a counterparty, usually a broker-dealer (step 1), along with a repurchase arrangement that involves the sale of the same security back to the broker-dealer (step 2) and an agreement to buy the security back by a specified future date at a fixed price (step 3). The FSP establishes criteria that could require parties to link the initial transfer (step 1) and the first transfer under the repurchase agreement (step 2) and treat them as one. This linkage, when required, substantially alters the financial reporting outcome of both parties. Two outcomes are possible:

- *Outcome 1* — The initial purchase and the repurchase agreement are treated separately. In other words, the initial transferee acquires a security and, as is typical for such arrangements, treats the repurchase agreement as if it had borrowed money from the transferor.
- *Outcome 2* — The initial purchase and the repurchase agreement are linked. As a result, the initial transferee of the security reports the transaction initially “off the books” as a forward that will result, upon future settlement, in the acquisition of a security. If the forward meets the Statement 133 definition of a derivative, it gets marked to fair value, which introduces accounting volatility to the initial transferee.

**NEXT STEPS:** The FSP is effective for repurchase financings in which the initial transfer is entered into in fiscal years beginning after November 15, 2008.

**OTHER RESOURCES:** Deloitte’s [February 26, 2008, Heads Up](#). ●

## FASB Approves Two Clarifications on Applying the Shortcut Method

**AFFECTS:** Entities applying the shortcut method under Statement 133.

**SUMMARY:** The FASB recently issued Implementation Issue E23, which amends Statement 133 to explicitly permit use of the shortcut method for hedging relationships in which:

- The interest rate swaps have a nonzero fair value at the inception of the hedging relationship, provided that this value is attributable solely to a bid-ask spread.
- The settlement date of the hedged items is after the swap trade date, provided that these dates differ because of generally established conventions in the marketplace in which the transaction is executed.

**Editor’s Note:** Before the amendment, for a hedging relationship to qualify for the shortcut method, the fair value of the swap at inception had to be zero. The transaction price was assumed to be fair value. Under Statement 157, the exit price is used in determining fair value. There was concern that the shortcut method would no longer be available because, for many hedges, the existence of a bid-ask spread would have meant that the swap would not have a fair value of zero at inception. Implementation Issue E23 clarifies that the shortcut method is available for hedging relationships in which the interest rate swap has a nonzero fair value at inception, as long as the difference between the transaction price and the instrument’s fair value is attributable **solely** to the bid-ask spread.

**NEXT STEPS:** Implementation Issue E23 is effective for hedging relationships designated on or after January 1, 2008. Preexisting shortcut hedging relationships must also be analyzed as of the Implementation Issue’s adoption date to determine whether they complied with the revised shortcut criteria at their inception. Hedging relationships that no longer meet the shortcut criteria must be dedesignated prospectively from January 1, 2008.



OTHER RESOURCES: Deloitte's [January 14, 2008, Heads Up](#). ●

## FASB Partially Defers Effective Date of Fair Value Statement 157

**AFFECTS:** Entities required to apply Statement 157.

**SUMMARY:** On February 12, 2008, the FASB issued [FSP FAS 157-2](#), which delays the effective date of Statement 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP FAS 157-2 states that a measurement is recurring if it happens at least annually and defines nonfinancial assets and nonfinancial liabilities as all assets and liabilities other than those meeting the definition of a financial asset or financial liability in Statement 159. Paragraphs 9 and 10 of the FSP include examples of items to which the deferral would and would not apply.

Entities are encouraged to adopt Statement 157 for measurements of nonfinancial assets and nonfinancial liabilities in its entirety as long as they have not yet issued financial statements during that year. An entity that chooses to adopt Statement 157 in its entirety must do so for all nonfinancial assets and nonfinancial liabilities within its scope. For example, an entity that chooses to early adopt Statement 157 for nonfinancial liabilities included in exit or disposal activities measured at fair value under Statement 146 must do so for all nonfinancial assets and nonfinancial liabilities within Statement 157's scope.

**NEXT STEPS:** The FSP is effective upon issuance. Entities that applied the measurement and disclosure guidance in Statement 157 in preparing either interim or annual financial statements issued before the effective date of the FSP are not eligible for the FSP's deferral provisions. An entity that has not applied Statement 157 in its entirety must disclose (1) that it has only partially adopted Statement 157 and (2) the categories of assets and liabilities recorded or disclosed at fair value to which Statement 157 was not applied until the entity applies the Statement in its entirety.

OTHER RESOURCES: Deloitte's [February 15, 2008, Heads Up](#). ●

## FASB Excludes Leases From Scope of Fair Value Statement 157

**AFFECTS:** Entities that engage in leasing activities.

**SUMMARY:** On February 14, 2008, the FASB issued [FSP FAS 157-1](#), which removes leasing transactions accounted for under Statement 13 and related guidance from the scope of Statement 157. The FSP addresses implementation issues affecting leasing transactions, including those associated with (1) the different definitions of fair value in Statements 13 and 157 and (2) the application of the fair value measurement objective under Statement 157 to estimated residual values of leased properties. The FASB noted in its Basis for Conclusions to Statement 157 that it did not intend to change lease accounting; however, applying the provisions of Statement 157 to leasing transactions may result in unintended changes to lease classification or measurement.

The scope exception does not apply to fair value measurements of lease transactions required under Statements 144 and 146 and Interpretation 21 (and, by extension, Statement 141).

**NEXT STEPS:** The FSP is effective upon the initial adoption of Statement 157. Entities that did not apply Statement 157 in a manner consistent with the FSP (i.e., entities that early adopted Statement 157) should retrospectively apply the FSP to the date of initial adoption.

OTHER RESOURCES: Deloitte's [February 15, 2008, Heads Up](#). ●

## FASB Issues FSP on Deferral of Interpretation 48 for Nonpublic Enterprises

**AFFECTS:** Nonpublic entities.

**SUMMARY:** On February 1, 2008, the FASB issued [FSP FIN 48-2](#), which defers the effective date of Interpretation 48 for certain nonpublic enterprises to annual periods beginning after December 15, 2007. For enterprises not eligible for the deferral, Interpretation 48 is effective for fiscal years beginning after December 15, 2006. Enterprises eligible for the deferral may choose not to use it.

The FSP reflects the FASB's recent decision to expand the scope of the proposed FSP and therefore the number of enterprises eligible for the deferral. Nonpublic enterprises are eligible for the deferral unless:

1. Before the issuance of the FSP, the nonpublic enterprise had issued a full set of U.S. GAAP annual financial statements using the recognition, measurement, and disclosure requirements of Interpretation 48, **or**
2. The nonpublic enterprise is a consolidated entity of a public enterprise that reports under or reconciles to U.S. GAAP.

The terms "public enterprise" and "nonpublic enterprise" are defined in paragraph 289 of Statement 109, as amended by FSP FAS 126-1.

Under FSP FIN 48-2, a nonpublic enterprise that has not yet issued a full set of annual financial statements that reflect the adoption of Interpretation 48 and that include the annual Interpretation 48 disclosures is eligible for the deferral (as long as the enterprise meets the definition of nonpublic enterprise in Statement 109 and is not consolidated into a public enterprise). The annual disclosures are outlined in paragraph 21 of Interpretation 48 and include the tabular reconciliation of the total amounts of unrecognized tax benefits and the "early warning disclosure."

Nonpublic enterprises that are eligible for the deferral for their stand-alone financial statements include those that:

- Previously issued interim financial statements or financial information to their lenders in accordance with their debt covenant requirements.
- Previously issued net asset values to third parties.
- Are equity method investees of public enterprise investors.

**NEXT STEPS:** Enterprises that are eligible for the deferral are required to adopt Interpretation 48 for annual periods beginning after December 15, 2007. Therefore, calendar-year-end nonpublic enterprises that are eligible for the deferral are required to adopt Interpretation 48 as of January 1, 2008, but are not required to reflect that adoption in their financial statements until they issue their annual financial statements for the year ending December 31, 2008.

The FSP does not change the effective date of FSP FAS 13-2. That is, FSP FAS 13-2 is still effective for fiscal years beginning after December 15, 2006. ●

## FASB Indefinitely Defers SOP 07-1 Affecting Investment Company Accounting

**AFFECTS:** Investment companies as well as entities with investments in investment companies, equity securities, commodities, securities based on indices, derivatives, and real estate.

**SUMMARY:** In 2007, the AICPA issued SOP 07-1 to clarify which entities were within the scope of the AICPA Audit and Accounting Guide *Investment Companies*. On February 14, 2008,

in response to a number of SOP-related implementation issues identified by constituents and the Board, the FASB issued [FSP SOP 07-1-1](#), which indefinitely defers the effective date of SOP 07-1.

The FSP permits, but does not require, entities that adopted the SOP before December 15, 2007, to continue to apply its provisions. However, as indicated in paragraph 6 of the FSP, entities that did not early adopt before this date are prohibited from adopting the SOP except in the following situation:

If a parent entity that early adopted the SOP chooses not to rescind its early adoption, an entity consolidated by that parent entity that is formed or acquired after that parent entity's adoption of the SOP must apply the provisions of the SOP in its standalone financial statements.

**NEXT STEPS:** The FASB will review and address implementation issues associated with SOP 07-1. ●

## FASB Proposes Guidance on Measuring the Fair Value of Liabilities

**AFFECTS:** Entities that apply Statement 157.

**SUMMARY:** The FASB has issued proposed [FSP FAS 157-c](#), which provides guidance on measuring liabilities under Statement 157. The proposed FSP was issued in response to entities' concerns about a lack of observable markets or inputs available for the measurement of a liability at a price that "would be paid to transfer the liability . . . at the measurement date" (e.g., an exit price).

To address these concerns, the FASB has proposed adding two paragraphs to Statement 157. The first paragraph states that a quoted price for the identical liability (unadjusted) in an active market (Level 1 input) is the best evidence of fair value for that liability. The second paragraph states that in the absence of a quoted price for the identical liability in an active market, the reporting entity may measure the fair value of its liability at the amount that it would receive as proceeds if it were to issue that liability as of the measurement date.

The guidance in this proposed FSP is subject to change depending on the comments the FASB receives. If adopted, the FSP would be applied prospectively on the later of (1) the beginning of the period that includes the issuance date of the FSP or (2) the beginning of the period in which an entity initially applies Statement 157. Earlier application is not permitted.

**NEXT STEPS:** Comments were due by February 18, 2008. The proposed FSP is currently in redeliberations. ●

## FASB Proposes New Disclosures for Defined Benefit Plans\*

**AFFECTS:** Entities that sponsor postretirement defined benefit plans.

**SUMMARY:** On March 18, 2008, the FASB released proposed [FSP FAS 132\(R\)-a](#) for public comment. The proposed FSP would amend Statement 132(R) by requiring more detailed disclosures about employers' postretirement plan assets, including categories of investments, concentration of risks, and fair value measurements. The FASB hopes that this will improve the transparency of disclosures about plan assets held in postretirement defined benefit plans.

### Technical Amendment

The proposed FSP includes a technical correction that reinstates the requirement that a nonpublic entity disclose its net periodic benefit cost.

## New Disclosures

Statement 132(R) currently requires disclosure of the percentage of the fair value of total plan assets “for each major category of plan assets, which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets.” In its research, the Board found that most entities only disclosed the broad categories specified. To increase the transparency of disclosures about the types of assets held by defined benefit plans and the concentrations of risk, the proposed FSP requires fair value disclosures for a significantly expanded list of asset categories, including:

- Cash and cash equivalents.
- Equity securities.
- Debt securities issued by national, state, and local governments.
- Corporate debt securities.
- Asset-backed securities.
- Structured debt.
- Derivatives (segregated by type of contract).
- Hedge funds.
- Private equity funds.
- Venture capital funds.
- Real estate.

In addition, the proposed FSP requires entities to disclose the nature and amount of concentrations of risk within and across the categories of investments. Such disclosures may be necessary when different types of investments have the same underlying risk. For example, investments in real estate could be made directly by the plan, through a real estate investment trust, or through a hedge fund.

The other significant disclosures proposed in the FSP are based on Statement 157 requirements. The purpose of these disclosures is to supply financial statement users with the information they need to assess the valuation techniques and inputs used by the company to measure the fair value of its plan assets. These disclosures include:

- Categorization of plan assets by level within the fair value hierarchy (Level 1, 2, or 3 as defined in Statement 157).
- For asset categories valued using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, with separate presentation of plan asset actual returns; net purchases, sales, and settlements; and transfers.
- Information about the valuation technique(s) and inputs used to measure fair value and a discussion of any changes in valuation techniques and inputs that occurred during the period.

**NEXT STEPS:** Comments on the proposed FSP are due by May 2, 2008.

**OTHER RESOURCES:** Deloitte’s [March 21, 2008, Heads Up](#). ●

## FASB Proposes FSP on Fresh-Start Reporting

**AFFECTS:** Entities emerging from bankruptcy.

**SUMMARY:** On February 27, 2008, the FASB issued proposed [FSP SOP 90-7-a](#), which eliminates the requirement in paragraph 38 of SOP 90-7 that entities emerging from bankruptcy, when

preparing their financial statements, apply all new accounting standards that will be effective within 12 months after adopting fresh-start reporting. In other words, entities applying fresh-start reporting will adopt standards on the basis of effective dates stated in new pronouncements.

**NEXT STEPS:** Comments were due by March 28, 2008. ●

## FASB Proposes FSP on Net Asset Classification of Endowment Funds

**AFFECTS:** Not-for-profit organizations.

**SUMMARY:** On February 22, 2008, the FASB issued proposed [FSP FAS 117-a](#), aimed at improving the quality and consistency of financial reporting for endowments held by not-for-profit organizations. The FSP would require:

1. That not-for-profit organizations subject to UPMIFA classify amounts held in donor-restricted funds "of perpetual duration" as permanently restricted if (1) the donor has specified that the funds must be retained permanently or (2) the governing board designates funds as permanently restricted, when (a) the donor has not explicitly stated how it wants the funds to be held and (b) the Board concludes that the enacted law requires a permanently restricted classification.
2. Transparent disclosures regarding "net asset classification, net asset composition, changes in net asset composition, spending policy(ies), and related investment policy(ies) about its endowment funds (both donor-restricted and board-designated)."

The FSP would be effective for fiscal years ending after June 15, 2008, with early adoption permitted.

**NEXT STEPS:** Comments on the FSP are due by April 18, 2008. ●

## FASB Launches Accounting Standards Codification for Verification

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

**SUMMARY:** On January 15, 2008, the FASB unveiled its long-awaited [FASB Accounting Standards Codification](#) for a one-year verification by constituents. While the Codification does not change U.S. GAAP, it combines all authoritative accounting standards issued by organizations that are in levels A through D of the GAAP hierarchy, such as the FASB, AICPA, and EITF, into a comprehensive, topically organized, online database.

In its [press release](#) on the Codification, the FASB indicated that it expects the Codification will (1) make it easier to research and resolve accounting issues, (2) reduce noncompliance risks, (3) allow more timely updates, (4) help the FASB with its convergence efforts, and (5) be used as the authoritative source for the XBRL taxonomy.

The Codification does not represent authoritative guidance until after the verification period, at which time it will supersede all existing accounting literature (other than guidance issued by the SEC).

**NEXT STEPS:** The FASB is expected to formally approve the Codification after addressing any issues raised during the verification phase.

**OTHER RESOURCES:** Deloitte's [January 18, 2008, Heads Up](#). ●

## FASB Reduces Board From Seven to Five Members

**AFFECTS:** All entities.

**SUMMARY:** On February 26, 2008, the Board of Trustees of the Financial Accounting Foundation (FAF)<sup>1</sup> approved changes to the “oversight, structure, and operations” of the FAF, FASB, and GASB, including a reduction in the FASB from seven members to five. This reduction will take effect on July 1, 2008. The FAF believes that a smaller Board will react more quickly to a changing financial reporting landscape while maintaining quality and due process. The trustees also voted to create a “leadership agenda process” that gives the FASB chairman the sole authority, after appropriate consultation with other Board members, to establish the agenda and prioritize projects.

The FAF also approved other changes that will probably not receive as much attention. These include (1) changing the size, members’ term length, and composition of the FAF Board of Trustees; (2) enhancing the trustees’ governance and oversight activities related to the efficiency and effectiveness of the standard-setting process; and (3) securing a stable and permanent funding source for the GASB.

**OTHER RESOURCES:** For more information about the FAF and its approved changes, see the FAF’s [press release](#). Also see Deloitte’s [February 28, 2008, Heads Up](#). ●

## FASB’s Valuation Resource Group Discusses Six Topics

**AFFECTS:** All entities.

**SUMMARY:** On February 1, 2008, the VRG<sup>2</sup> met to discuss various implementation and application issues associated with Statement 157, including:

- *Defensive value* — This concept involves valuing and accounting for an asset that an acquiring entity does not intend to use in a way that maximizes its potential economic value (e.g., at its highest and best use). The VRG has indicated that certain intangible assets that an entity acquires in a business combination, but does not intend to use, may have value to market participants.
- *Customer relationships* — The VRG discussed whether overlapping customer relationships acquired in a business combination should be recognized as intangible assets apart from goodwill.
- *Effect of taxes on the current replacement cost valuation method* — Under the current replacement cost method of valuing intangible assets, the cost of reproducing or replacing the asset is used in calculating value. The VRG indicated that the calculation should be on a pretax basis (because capital investments are recorded gross of tax). In general, VRG members believe that practitioners may be inappropriately dealing with taxes in their valuations.
- *“Legally permissible” in the highest-and-best-use assessment* — The VRG discussed whether, in an entity’s assessment of the highest and best use, the term “legally permissible” means permissible as of the measurement date, or whether it can be more broadly interpreted to mean permissible in the future. For example, if an entity holds a piece of land that is zoned for residential use as of

<sup>1</sup> As stated on the FASB’s Web site, “The FAF is responsible for the oversight, administration, and finances of both the Financial Accounting Standards Board (FASB) and its counterpart for state and local government, the Governmental Accounting Standards Board (GASB). The Foundation is also responsible for selecting the members of both Boards and their respective Advisory Councils.”

<sup>2</sup> The VRG was established to provide the FASB staff with information about implementation issues regarding fair value measurements used in financial reporting and the alternative viewpoints associated with those implementation issues. The VRG comprises a cross-section of industry representatives, including financial statement preparers, auditors, and valuation experts. VRG meetings are coordinated by the FASB staff and observed by the SEC, the AICPA, and the PCAOB. The VRG does not make authoritative decisions. Authoritative decisions are subject to the FASB’s normal, open due process, including open deliberation by the Board.



the measurement date, but the highest and best use of the land is to rezone it to commercial use in the future, which assessment should be used as the highest and best use?

- *Inventory valuation* — The VRG addressed how to determine the fair value of finished goods inventory acquired in a business combination under Statement 157's exit price notion and highest-and-best-use concept. For example, in a business combination, should inventory be valued at the net realizable value or the retail value?
- *Impact of credit risk in valuing derivative contracts* — The FASB staff began the discussion by presenting four potential methods for allocating the portfolio-based credit adjustment to individual derivatives. The VRG did not discuss in detail the pros and cons of each method, but expressed its view that if an allocation is required under GAAP, guidance that provides a systematic method that is easy to apply would be preferable.

OTHER RESOURCES: Deloitte's [February 20, 2008, Heads Up](#). ●

## FASB's PCFRC Provides Input on Definitions of "Issuer" and "Nonissuer"

AFFECTS: All entities.

SUMMARY: On February 1, 2008, Judith H. O'Dell, chair of the Private Company Financial Reporting Committee (PCFRC),<sup>3</sup> wrote a letter to the FASB in response to the Board's request for clarification on the term "private company." Ms. O'Dell indicated that the PCFRC believes the best way to differentiate a private company from a public company is by consideration of the terms "nonissuer" and "issuer" (i.e., nonissuer applies to private, issuer to public, companies). The PCFRC indicated that the term "issuer" has already been defined in the United States Code under the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act of 2002 (see definitions below); therefore, entities that do not meet the criteria in these definitions should be classified as nonissuers:

*Securities Exchange Act of 1934, Section 3(8)* — The term "issuer" means any person who issues or proposes to issue any security; except that with respect to certificates of deposit for securities, voting-trust certificates, or collateral-trust certificates, or with respect to certificates of interest or shares in an unincorporated investment trust not having a board of directors or of the fixed, restricted management, or unit type, the term "issuer" means the person or persons performing the acts and assuming the duties of depositor or manager pursuant to the provisions of the trust or other agreement or instrument under which such securities are issued; and except that with respect to equipment-trust certificates or like securities, the term "issuer" means the person by whom the equipment or property is, or is to be, used.

*Sarbanes-Oxley Act of 2002, Section 2(7)* — The term "issuer" means an issuer (as defined in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c)), the securities of which are registered under section 12 of that Act (15 U.S.C. 78l), or that is required to file reports under section 15(d) (15 U.S.C. 78o(d)), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 (15 U.S.C. 77a et seq.), and that it has not withdrawn.

Ms. O'Dell pointed out that replacing the terms "public company" and "private company" with "issuer" and "nonissuer," respectively, would help simplify application of accounting standards. (She cited the example of the AICPA's recently released SSARS 17, which replaces these terms throughout the other SSARSs.) She noted that although this would "require the scope sections of many standards to be revised . . . this should be less of an issue now that the codification is out for verification." ●

<sup>3</sup> The PCFRC is a FASB advisory panel.

# EITF Developments

## EITF Issue No. 07-4, “Application of the Two-Class Method Under FASB Statement No. 128, *Earnings per Share*, to Master Limited Partnerships”\*

**AFFECTS:** Publicly traded master limited partnerships (MLPs) with incentive distribution rights (IDRs) whose incentive distributions are accounted for as equity distributions. The consensus (1) does not address whether incentive distributions are equity distributions or compensation expense and (2) applies regardless of whether the IDR is a freestanding limited partner (LP) interest or embedded in the general partner (GP) interest.

The MLP ownership structure is common in industries such as petroleum and natural gas extraction and transportation.

**SUMMARY:** In a typical publicly traded MLP, cash is distributed to common units held by LPs, a GP interest, and IDRs, in accordance with the terms specified in the partnership agreement.

Generally, the partnership agreement obligates the GP to distribute all of the partnership’s available cash<sup>4</sup> after the end of each quarter to the LPs and GP, and when certain thresholds are met, to the IDR holder. A complicating factor in computing earnings per unit is that available cash, as determined under the partnership agreement, often differs from earnings (loss). Consequently, distributions may be greater than (or less than) earnings (loss) for any given period.

At issue is how, when applying the two-class method under Statement 128, current-period earnings of an MLP should be allocated to the GP, to the LPs, and when applicable, to the IDR holder.

An additional application issue is whether the MLP becomes obligated to make distributions (and such distributions should be included in earnings per unit) as of the end of the period or once available cash has been determined by the GP. This issue arises because the partnership agreement usually allows the GP 30 to 60 days after the end of the reporting period to determine the amount of available cash.

The Task Force reached the following consensus:

*Earnings in excess of cash distributions* — Current-period earnings should be reduced by the amount of distributions to the GP, LPs, and IDR holder determined in accordance with the contractual terms of the partnership agreement. The remaining undistributed earnings should be allocated to the GP, LPs, and IDR holder by using the distribution waterfall for available cash (i.e., a schedule that prescribes distributions to the various interest holders at each threshold) specified in the partnership agreement. If an analysis of the contractual terms of the partnership agreement reveals that available cash represents a “specified threshold” for the reporting period presented, as described in Example F in paragraph 16 of Issue 03-6, no undistributed earnings should be allocated to the IDR holder. Conversely, if the partnership agreement does not address this issue or does not explicitly limit distributions to the IDR holder to the holder’s share of available cash determined in the reporting period presented, then a specified threshold would not exist and the MLP would effectively allocate all current-period earnings (including undistributed earnings) to the GP, LPs, and IDR holder by using the distribution waterfall for available cash specified in the partnership agreement. Thus, current-period earnings are effectively treated as though they are available cash distributions.

<sup>4</sup> “Available cash” is typically defined in the partnership agreement as all cash on hand at the end of each quarter less cash retained by the partnership as capital to (1) operate the business (e.g., future capital expenditures); (2) comply with applicable law, debt, and other agreements; and (3) provide funds for distribution to the LP common unit, GP, and IDR holders for any one or more future quarters.

*Cash distributions in excess of earnings* — Any excess of distributions over current-period earnings (loss) should be allocated to the GP and LPs on the basis of their respective sharing of losses specified in the partnership agreement (i.e., the provisions for allocation of losses to the partners' capital accounts for the reporting period presented). If the IDR holder is not contractually obligated to share in current-period losses, the excess of distributions over current-period earnings (loss) amount is not allocated to the IDR holder. However, if the IDR holders have a contractual obligation to share in the losses of the MLP on a basis that is objectively determinable (as described in paragraphs 17 and 18 of Issue 03-6), the excess of distributions over earnings (loss) should be allocated to the GP, LPs, and IDR holders on the basis of their respective sharing of losses specified in the partnership agreement for the reporting period presented.

The Task Force concluded that for the MLP to report current-period earnings per unit, the GP must use current-period information to determine the amount of available cash (i.e., the MLP becomes obligated to make distributions of available cash at the end of the current reporting period, which may be before available cash is determined).

**NEXT STEPS:**

On March 12, 2008, the EITF reached a consensus on this Issue, which the FASB ratified on March 26, 2008. This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and should be applied retrospectively for all financial statements presented. Earlier application is not permitted. ●

## EITF Issue No. 07-5, “Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity’s Own Stock”\*

**AFFECTS:**

Entities with (1) options or warrants on their own shares (not within the scope of Statement 150), including market-based employee stock option valuation instruments;<sup>5</sup> (2) forward contracts on their own shares, including forward contracts entered into as part of an accelerated share repurchase program; and (3) convertible debt instruments and convertible preferred stock. Also affected are entities that issue equity-linked financial instruments (or financial instruments that contain embedded equity-linked features) with a strike price that is denominated in a foreign currency.

**SUMMARY:**

The instruments described above may contain contract terms that call into question whether the instrument or embedded feature is indexed to the entity's own stock. A derivative instrument or embedded derivative feature that is deemed indexed to an entity's own stock **may** be exempt from the requirements of Statement 133 for derivatives. In addition, a freestanding instrument that is indexed to a company's own stock remains eligible for equity classification under Issue 00-19.

At issue are the following:

- How an entity should evaluate whether an instrument (or embedded feature) is indexed to its own stock.
- How the term “standard antidilution provisions” should be defined and whether there should be a conforming amendment to the definition of standard antidilution in Issue 05-2.
- How the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to an entity's own stock.
- How an issuer should account for market-based employee stock option valuation instruments.

<sup>5</sup> For example, employee stock option appreciation rights securities (ESOARS). See additional discussion about ESOARS in Deloitte's [October 24, 2007, Heads Up](#).

*How an entity should evaluate whether an instrument (or embedded feature) is indexed to its own stock* — The Task Force reached a consensus-for-exposure that an entity should use the following two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock:

**Step 1:** Evaluate the instrument's contingent exercise provisions, if any, on the basis of the existing consensus on contingent exercise provisions in Issue 01-6. That is, instruments whose exercisability is affected by one or more variables other than the entity's stock price are considered indexed to an entity's own stock provided that the exercise contingency is not based on (1) an observable market, other than the market for the entity's stock, or (2) an observable index, other than one that is solely referenced to the entity's own operations.<sup>6</sup> If the evaluation in step 1 would not preclude an instrument from being considered indexed to the entity's own stock, the analysis would proceed to step 2.

**Step 2:** Evaluate the instrument's settlement provisions. An instrument would be considered indexed to an entity's own stock if its settlement amount will equal the difference between the fair value of a fixed number of the entity's equity shares and a fixed amount of cash or another financial asset (also known as "fixed-for-fixed"). An instrument would also be considered indexed to an entity's own stock even when the strike price or the number of shares used to calculate the settlement amount is **not** fixed, as long as the only variables that could affect the settlement amount would be inputs to the determination of the fair value of a fixed-for-fixed forward or option on equity shares. In performing this step, all possible settlement alternatives should be considered. That is, entities must presume the occurrence of a contingent event or other condition that would adjust the settlement terms of that instrument or embedded feature when evaluating whether an instrument or embedded feature is indexed to its own stock.

Under the consensus-for-exposure, fair value inputs of a fixed-for-fixed forward or option on equity shares may include the entity's stock price, time, dividends or other dilutive activities, stock borrow cost, interest rates, stock price volatility, the entity's credit spread, and the ability to maintain a standard hedge position in the underlying shares. An instrument would not be considered indexed to the entity's own stock if its settlement amount is affected by variables that are leveraged or are extraneous to the pricing of a fixed-for-fixed option or forward contract on equity shares.

*How the term "standard antidilution provisions" should be defined and whether a conforming amendment should be made to Issue 05-2 to change the definition of standard antidilution provisions in that Issue* — The Task Force decided not to address these issues. Thus, entities would evaluate all provisions by using the two-step approach noted above (e.g., evaluate whether settlement adjustments for the effects of dilutive events such as equity restructurings and dividends are inputs to the determination of the fair value of a fixed-for-fixed forward or option). In addition, no changes will be made to Issue 05-2.

*How the currency in which the strike price of an equity-linked financial instrument (or embedded feature) is denominated affects the determination of whether the instrument is indexed to an entity's own stock* — The Task Force reached a consensus-for-exposure that an equity-linked financial instrument (or embedded equity-linked feature) would **not** be considered indexed to the entity's own stock if the strike price is denominated in a currency other than the issuer's functional currency (including a conversion option embedded in a convertible debt instrument that is denominated in a currency other than the issuer's functional currency). The determination of whether an equity-linked financial instrument is indexed to an entity's own stock is **not** affected by the currency used in the market(s) in which the underlying shares trade. This consensus-for-exposure is consistent with the FASB's proposed Implementation Issue C21.

<sup>6</sup> For example, the entity's sales revenue; earnings before interest, taxes, depreciation, and amortization; net income; or total equity.

*How an issuer should account for market-based employee stock option valuation instruments* — The Task Force also reached a consensus-for-exposure that market-based employee stock option valuation instruments are not considered indexed to an entity's own stock. The settlement amount of these instruments is affected by employee behavior, which is not an input in the determination of the fair value of a fixed-for-fixed option or forward. Consequently, such instruments would generally be accounted for as derivatives under Statement 133.

**NEXT STEPS:** On March 12, 2008, the EITF approved a [consensus-for-exposure](#), which the FASB ratified at its March 26, 2008, meeting. It will now be exposed for public comment. A consensus would be effective for fiscal years beginning after December 15, 2008, including interim periods within those fiscal years. This Issue would be applied to outstanding instruments as of the beginning of the fiscal year in which it is initially applied as a cumulative-effect adjustment to the opening balance of retained earnings. Early application would not be permitted. ●

## EITF Issue No. 08-1, “Revenue Recognition for a Single Unit of Accounting”\*

**AFFECTS:** Entities that enter into revenue arrangements that provide for multiple payment streams for a single deliverable or a single unit of accounting. For example, a service provider may receive an up-front payment upon inception of a service contract with a customer and then receive additional payments as services are provided to that customer. Other examples can be more complex, such as in biotechnology and pharmaceutical research and development arrangements involving multiple deliverables treated as a single unit of accounting, up-front payments, payments for specific services, and payments upon achievement of certain clinical milestones. This Issue is not limited to a particular industry.

**SUMMARY:** Before evaluating how to recognize revenue for transactions with multiple payment streams, entities should identify all the deliverables in an arrangement. Some arrangements may contain only one deliverable. If there are multiple deliverables, each deliverable must be evaluated to determine whether it should be treated separately or in combination with other deliverables (i.e., single unit of accounting) in accordance with Issue 00-21 or other applicable guidance. Thus, under Issue 00-21, an entity may be required to combine multiple deliverables into a single unit of accounting. **However, Issue 00-21 does not address how to recognize revenue.** Some interpret Issue 00-21 as requiring that entities use a **single attribution model** for revenue recognition for a single unit of accounting. Others interpret Issue 00-21 as permitting a **multiple attribution model** for revenue recognition for a single unit of accounting under certain facts and circumstances.

Under a single attribution model, a single method is used to recognize all arrangement consideration (e.g., arrangement consideration is recognized either systematically over the term of the arrangement or on a per-unit basis, but **not both**). Under a multiple attribution model, multiple methods may be used to recognize arrangement consideration (e.g., **both** a systematic basis and a per-unit basis may be used for the single unit of accounting). For example, an up-front payment may be recognized on a straight-line basis over the term of the arrangement, while a price paid per unit may be recognized as units are delivered.

At issue is whether, and under what circumstances, it is acceptable to use a multiple attribution model to account for a single unit of accounting consisting of (1) a single deliverable or (2) multiple deliverables.

**NEXT STEPS:** The Task Force did not reach a consensus-for-exposure. The Task Force asked the FASB staff to perform additional research to identify examples of potential practice issues related to revenue arrangements involving a single unit of accounting with a single deliverable or multiple deliverables. Further deliberations by the Task Force are expected at its June 2008 meeting. ●

## EITF Issue No. 08-2, “Lessor Revenue Recognition for Maintenance Services”\*

**AFFECTS:** Lessor entities, including, but not limited to, those in the airline, utility, and real estate industries, that are obligated under a lease arrangement to maintain a leased asset during the lease term. This includes arrangements that convey the right to use property, plant, or equipment and that are accounted for as leases under Issue 01-8 (e.g., certain power purchase agreements, airline capacity purchase arrangements, and take-or-pay contracts). However, this Issue does not apply to maintenance services within the scope of Technical Bulletin 90-1 (i.e., maintenance services that are under a separate, nonlease arrangement).

**SUMMARY:** Maintenance services are not defined in U.S. GAAP. However, examples of maintenance services might include janitorial services in an office space lease or planned major maintenance in an aircraft lease. Lessors bill for maintenance services in various ways. For example, in a lease of an aircraft, the lessor might bill for maintenance services on the basis of flight hours. In an office space lease, maintenance might be included in the base rent billed to the lessee. Alternatively, it might be billed separately as a common-area maintenance charge. While billings may occur evenly throughout the lease term, the lessor may incur the maintenance expense unevenly.

### Example

Entity A (a regional airline) enters into a lease arrangement with Entity B (a major airline). Under the lease arrangement, Entity A leases its regional jets to the major airline and agrees to perform certain planned major maintenance. Entity B makes payments to Entity A for the use of the leased regional jets, including a payment designed to compensate Entity A for planned major maintenance. The planned major maintenance payments are billed evenly throughout the lease term; however, the planned major maintenance is typically only performed every two or three years.

Statement 13 indicates that executory costs such as **maintenance**, insurance, and taxes, together with any profit thereon, should be excluded from minimum lease payments. However, the Statement does not provide guidance on accounting (e.g., revenue recognition for the lessor) for executory costs.

At issue is whether the scope of this Issue should include **all** payments for maintenance services in an arrangement accounted for as a lease or only those considered executory costs under Statement 13. Also at issue is how a lessor should recognize revenue related to maintenance services that are included within the scope of this Issue.

The Task Force did not reach a consensus-for-exposure. The Task Force asked the FASB staff to analyze the Issue’s scope in more detail, including whether certain major maintenance activities are separate services provided to the lessee or embedded in the right to use the asset. The Task Force also asked the FASB staff to analyze how this Issue would apply to (1) lessor entities whose policy is to capitalize maintenance (e.g., those that use the built-in-overhaul method), (2) lessor entities that contract with a third party to perform the required maintenance services, and (3) situations in which the benefits of planned major maintenance services extend beyond the lease term.

However, the Task Force did tentatively conclude that “revenue related to maintenance services should be recognized into income as those services are performed utilizing a proportional performance method that is determined to be the most appropriate method under the circumstances.” For example (and if appropriate in the circumstances), an entity might recognize revenue related to maintenance services over the lease term in proportion to the costs expected to be incurred in performing maintenance services under the contract. An entity would not be permitted to default to recognizing revenue on a straight-line basis.

**NEXT STEPS:** Further deliberations by the Task Force are expected at its June 2008 meeting. ●



## EITF Issue No. 08-3, “Accounting by Lessees for Nonrefundable Maintenance Deposits”\*

**AFFECTS:** Lessees that make **nonrefundable** maintenance deposits.

**SUMMARY:** Certain lease agreements require the lessee to make maintenance deposits to the lessor. During the lease term, the lessee is required to maintain the leased asset. Typically, the lessee is entitled to a reimbursement of the maintenance cost, to be paid by the lessor from the maintenance deposit upon completion of the required maintenance. Some lease agreements provide that if, at the end of the lease term, excess amounts are on deposit with the lessor (i.e., the total cost of cumulative maintenance events over the term of the lease is less than the cumulative deposits), the lessor is entitled to retain the excess amounts (nonrefundable maintenance deposit).

When the deposits are nonrefundable, some account for the payments as a **deposit** (i.e., the lessee records a deposit asset upon payment to the lessor). Then the deposit is expensed or capitalized (depending on the lessee’s maintenance accounting policy) when the underlying maintenance is performed. However, if it is determined that it is not probable that a portion of the deposit will be used to fund future maintenance expense, that amount is recognized as additional rent expense in the period in which this determination is made. Others account for the deposit payments as **contingent rent expense** or maintenance expense at the time the payment is made. At issue is whether lessees should account for nonrefundable maintenance deposits as a deposit or as contingent rental expense.

The Task Force reached a consensus-for-exposure that all nonrefundable maintenance deposits that are contractually and substantively related to maintenance should be accounted for as deposits. Accordingly, the maintenance deposit made to the lessor initially capitalized as a deposit should be expensed or capitalized as part of a fixed asset (depending on the lessee’s maintenance accounting policy) when the underlying maintenance is performed. If it is determined that it is not probable that a portion of the deposit will be used to fund future maintenance expense, it is recognized as additional rent expense at the time this determination is made.

**NEXT STEPS:** On March 12, 2008, the EITF approved a [consensus-for-exposure](#), which the FASB ratified at its March 26, 2008, meeting. It will now be exposed for public comment. This Issue would be effective for fiscal years beginning after December 15, 2008, and would be applied by recognizing the cumulative effect of the change in accounting principle in the opening balance of retained earnings as of the beginning of the fiscal year in which this consensus is initially applied. Earlier application would not be permitted.

## EITF Administrative Matters\*

The following topics were also discussed at the March 12, 2008, EITF meeting:

*Topic D-98* — The SEC observer announced revisions to Topic D-98. The revisions primarily address the SEC staff’s views regarding the interaction between Topic D-98 and Statement 160. The revisions also reflect other clarifications to Topic D-98 that are unrelated to Statement 160. The revised Topic D-98 will indicate that the classification, measurement, and earnings-per-share guidance applies to noncontrolling interests (e.g., when the noncontrolling interest is redeemable at a fixed price by the holder or upon the occurrence of an event that is not solely within the control of the issuer). This

includes noncontrolling interests redeemable at fair value. The revisions to Topic D-98 that are specific to accounting for noncontrolling interests should be applied no later than the effective date of Statement 160. Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. At the March 26, 2008, FASB meeting, the FASB ratified this Issue (under Issue 08-4) as a [consensus-for-exposure](#).

*Issue 00-27* — Issue 00-27 currently includes 10 final consensuses and nine tentative conclusions (including subissues) on application issues related to Issue 98-5. The Task Force voted to discontinue discussion of the remaining nine tentative conclusions and to remove those issues from the EITF's agenda.

In a separate decision, the Task Force **voted not to codify** Issues 98-5 and 00-27 into a single EITF abstract. The FASB staff noted that the **final** consensuses in Issues 98-5 and 00-27 will be codified as part of the Codification project.

*Issue 98-5* — The FASB staff discussed certain proposed updates to Issue 98-5. The staff indicated that these updates are necessary because a constituent indicated that some entities have continued to apply certain guidance in Issue 98-5 after such guidance was nullified by the final consensuses in Issue 00-27 or Statement 150. Application of Issue 98-5 without the consideration of subsequent nullifications could be considered an error; however, some believe that transition guidance for related transactions is necessary since Issue 98-5 was not updated to reflect the changes resulting from the issuance of Issue 00-27 and Statement 150. The Task Force reached a consensus-for-exposure that transition guidance for all conforming changes made to Issue 98-5 should be provided. The conforming changes would be effective for financial statements issued for fiscal years ending after December 15, 2008, applied retrospectively.

The Task Force also decided not to provide guidance on whether convertible instruments that have terms that provide for settlement through the issuance of (1) a variable number of shares with a fixed monetary amount if settlement occurs when the share price is less than a certain amount or (2) a fixed number of shares if settlement occurs when the share price is equal to or greater than a certain amount, should be evaluated as having (1) a single compound embedded feature (i.e., one embedded feature with the characteristics of a share-settled "put warrant") or (2) two separate embedded features (i.e., an embedded put option and an embedded conversion feature).

*Proposed EITF project plan* — The Task Force discussed the FASB staff's proposed project plan for a potential EITF Issue that would address whether payments to incentive distribution rights holders in master limited partnerships represent equity distributions or compensation expense. The Task Force voted not to add this issue to the EITF's agenda. ●

## AICPA Developments

### AICPA Issues Revisions to Accounting and Review Services Guidance

**AFFECTS:** Accountants providing accounting and review services.

**SUMMARY:** On February 13, 2008, the AICPA's Accounting and Review Services Committee issued [SSARS 17](#), which clarifies the scope of, and makes the language consistent throughout, AR Sections 100, 200, 300, and 400, as well as various AICPA Interpretations. SSARS 17 makes amendments in the following areas:

- Compilations and reviews of financial statements.
- Communications to management and others.

- Change in engagement from audit to review or compilation (or from review to compilation).
- Reporting when one period is audited.
- Replacement of the terms “public entity” and “nonpublic entity” with the terms “issuer” and “nonissuer,” respectively.
- Changes to certain definitions associated with compilations and reviews.
- Analytical procedures.

**NEXT STEPS:** This SSARS is effective for compilations and reviews for periods ending on or after December 31, 2008. Early application is permitted. ●

## SEC Developments

### SEC Issues Technical Amendments to Proxy Material Requirements\*

**AFFECTS:** Public entities.

**SUMMARY:** On March 17, 2008, the SEC issued a [final rule](#) containing technical corrections to multiple rules and releases on topics such as Internet availability of proxy materials; regulation of takeovers and security holder communications; and cross-border tender and exchange offers, business combinations, and rights offerings. Specific amendments include, but are not limited to, the following:

- *Rules 14a-3(a)(3)(i) and 14a-16(m) of the Securities Exchange Act of 1934* — Language in these rules was amended to clarify that use of the “notice and access model” is not required for business combination transactions (as defined in Rule 165 of the Securities Act of 1933), including cash transactions under Item 14 of Schedule 14A.
- *Exchange Act Rules 14b-1 and 14b-2* — The original rules referred to Legends 1 and 2. The reference should have been to Legends 1 and 3.
- Changes have been made to integrate a new disclosure schedule for tender offers (TO) that should be used in place of Schedules 13E-4 and 14D-1. All references to the prior schedules will be amended to refer to the TO schedule.
- Typographical errors and cross-reference changes.
- SEC staff contact information.

**NEXT STEPS:** The final rule became effective on April 1, 2008. ●

### SEC Issues Final Rule for Self-Regulatory Organizations\*

**AFFECTS:** Self-regulatory organizations (SROs).

**SUMMARY:** On March 19, 2008, the SEC issued a [final rule](#) that will require SROs submitting proposed rule changes in accordance with Section 19(b)(7)(A) of the Securities Act of 1934 to file all rule changes (1) electronically and (2) on their Web sites. These requirements are designed to streamline the electronic filing process and make it more cost-effective.

**NEXT STEPS:** The final rule became effective on April 28, 2008. ●

## SEC Issues Disclosure Rules for Smaller Companies

- AFFECTS:** Small business issuers and nonaccelerated filers.
- SUMMARY:** The SEC recently adopted new disclosure rules for smaller registrants (i.e., public companies with a public float of less than \$75 million). The new rules will eventually require smaller public companies to file the same forms as their larger counterparts (i.e., they will be required to file using standard forms, such as Form 10-K and Form S-1, rather than the current smaller-company forms, such as Form 10-KSB and Form SB-2). Smaller companies are also eligible to use Form S-3 or F-3 for primary securities offerings if they meet certain criteria (listed on the SEC's Web site).
- NEXT STEPS:** The disclosure rules are effective as of February 4, 2008. Form S-3 and F-3 eligibility is effective as of January 28, 2008.
- OTHER RESOURCES:** For more information, see the [SEC's Small Entity Compliance Guide](#) and the [SEC's Compliance and Disclosure Interpretations](#). Also see Deloitte's [July 17, 2007, Heads Up](#).

## SEC Mandates Electronic Filing of Form D

- AFFECTS:** All entities.
- SUMMARY:** On February 6, 2008, the SEC issued a [final rule](#) that will require registrants to file information required by Form D<sup>7</sup> over the Internet. The electronic filings will be easily accessible on the SEC's Web site.
- NEXT STEPS:** Most provisions of the new rule are effective September 15, 2008; a few other provisions will be phased in. Registrants will be allowed to file Form D electronically or in paper format from September 15, 2008, until March 16, 2009. On March 16, 2009, the electronic filing becomes mandatory.
- OTHER RESOURCES:** Deloitte's [July 17, 2007, Heads Up](#). ●

## SEC Amends Proxy Rules to Facilitate Electronic Shareholder Forums ●

- AFFECTS:** Listed entities.
- SUMMARY:** To improve communications between listed entities and their shareholders, the SEC has adopted a [final rule](#) that amends the proxy rules under the Securities Exchange Act of 1934 to allow electronic shareholder forums through the Internet and other technology.
- The final rule:
1. Amends the proxy rules to state that "participation in an electronic shareholder forum that could potentially constitute a solicitation subject to the proxy rules is exempt from most of the proxy rules if all of the conditions to the exemption" outlined in the amended rule are satisfied.
  2. Removes the "liability under the federal securities laws associated with . . . establishing, maintaining, or operating an electronic shareholder forum" for a "company, shareholder, or third party" that does so "on behalf of a shareholder or a company for any statement or information provided by another person participating in the forum."
- NEXT STEPS:** The final rule became effective on February 25, 2008. ●

<sup>7</sup> According to the final rule, "Form D serves as the official notice of an offering of securities made without registration under the Securities Act in reliance on an exemption provided by Regulation D. Both public and nonpublic companies file information using this form."

## SEC Advises Registrants to Further Explain Fair Value in MD&A\*

**AFFECTS:** Public entities.

**SUMMARY:** Recently, the SEC's Division of Corporation Finance sent a letter to certain financial institutions concerning additional MD&A disclosure considerations regarding fair value for their upcoming filings on Form 10-Q. While the letter was sent only to financial institutions, the SEC staff has indicated that the letter "can be applicable to any company."

The letter reminds registrants that have significant amounts of financial instruments to consider the SEC's requirements for disclosures in MD&A. Regulation S-K, Item 303, requires registrants to discuss in their periodic filings any known trends, demands, commitments, events, or uncertainties that the registrants reasonably expect to have a material impact, either favorable or unfavorable, on their results of operations, liquidity, or capital resources. A [sample letter](#) is available on the SEC's Web site.

### Context for the SEC Staff Letter

This letter is in response to the challenges, resulting from current market conditions, in determining the fair value of certain financial instruments, such as asset-backed securities, loans carried at fair value or lower of cost or market (fair value), credit default swaps, and other derivative assets and liabilities. Because of the decline in or disappearance of liquidity in some markets, judgment has become increasingly important in estimating fair values. In addition, there may be a broader range of reasonable fair value estimates for some financial instruments. As a result, judgments may materially affect a registrant's reported results of operations, liquidity, or capital resources.

Most registrants have adopted Statement 157 as of January 1, 2008, for financial instruments. This Statement provides a framework for determining fair value and includes detailed disclosure requirements for fair value measurements, including requirements to annually<sup>8</sup> describe the valuation techniques used to measure fair value and to categorize all fair value measurements into a hierarchy that contains the following three levels:

- *Level 1* — Measurements that are based on quoted prices (unadjusted) in active markets.
- *Level 2* — Measurements that are primarily based on observable market information.
- *Level 3* — Measurements that use significant unobservable inputs.

Statement 157 requires additional disclosures for Level 3 measurements, including a reconciliation for recurring measurements of beginning and ending balances for the period (i.e., a rollforward from the previous period to the end of the current period) and total unrealized gains and losses reported for the period, and a description of the inputs and the information used to develop the inputs for all nonrecurring measurements.

While the Statement 157 disclosures provide financial statement users with detailed information about fair value measurements, the SEC expects that its suggested MD&A disclosures will offer additional insight into registrants' fair value measurements of financial instruments.

**OTHER RESOURCES:** Deloitte's [March 31, 2008, Financial Reporting Alert](#). ●

<sup>8</sup> Statement 157 also requires these disclosures in the first interim period in which this Statement is applied. In addition, in the year of adoption of a new accounting pronouncement, SEC registrants are required to carry forward all disclosures (annual and interim) in their filings on Form 10-Q through the end of the year of adoption.

## SEC Issues Clarification on Accounting Associated With the Streamlined Foreclosure and Loss Avoidance Framework

**AFFECTS:** Servicers, issuers, and investors that deal with subprime mortgage loans.

**SUMMARY:** On January 8, 2008, SEC Chief Accountant Conrad Hewitt issued a [letter](#) addressing the Statement 140 accounting implications of the American Securitization Forum's [Streamlined Foreclosure and Loss Avoidance Framework for Securitization Subprime Adjustable Rate Mortgage Loans](#) (ASF Framework). The ASF, coordinating with the Department of the Treasury, developed the Framework to encourage mortgage loan servicers to refinance or modify classes of adjustable-rate subprime mortgage loans with certain risk characteristics that make them susceptible to default.

One potential hurdle is whether the modifications of mortgage loans violate qualifying special-purpose entity (QSPE) status under Statement 140. The letter indicates that the OCA "will not object to continued status as a QSPE if Segment 2 subprime [adjustable-rate mortgage] ARM loans are modified pursuant to the specific screening criteria in the ASF Framework." The letter also states that the "OCA believes that it would be reasonable to conclude that Segment 2 subprime ARM loans are 'reasonably foreseeable' of default in absence of a modification based upon a qualitative consideration of the expectation of defaults." Appendix A of the letter contains disclosures that the SEC staff generally expects will be included in registrants' MD&A and notes to the financial statements.

Note that the SEC has not approved the letter as staff guidance. Therefore, it may not apply to any mortgage modification that does not occur pursuant to the screening criteria of Segment 2 of the ASF Framework.

**NEXT STEPS:** In the letter, the OCA has requested that the FASB "immediately address the issues that have arisen in the application of the QSPE guidance in Statement 140." The OCA also requested that any amendments the FASB makes to Statement 140 be effective no later than years beginning after December 31, 2008.

**OTHER RESOURCES:** Deloitte's [August 29, 2007, Heads Up](#) and [January 9, 2008, Financial Reporting Alert](#). ●

## SEC Financial Reporting Advisory Committee Releases Progress Report

**AFFECTS:** All entities.

**SUMMARY:** On February 14, 2008, the SEC Advisory Committee on Improvements to Financial Reporting (CIFIr) released a [progress report](#) summarizing the Committee's proposals for reducing the complexity in financial reporting and increasing the usefulness of financial information provided to investors.

CIFIr's proposals cover various processes that affect U.S. public companies (e.g., standard setting, regulatory oversight, delivery of financial information). The report proposes, among other things, that:

- Investors should have more influence over and involvement in the financial reporting system.
- Regulators should respect professional judgments made under an established framework.
- The SEC and FASB should revise the current processes for setting standards and issuing implementation guidance.
- Preparers should communicate decision-useful and timely information to investors.



- Financial statements should be more uniform and should be prepared in accordance with principles-based accounting standards.
- U.S. GAAP and IFRSs should be coordinated.

Of the 12 “developed proposals” in the report, the following are likely to receive a fair amount of publicity in the coming months:

- Creating a formal FASB Agenda Advisory Group.
- Implementing investor pre-reviews of new FASB standards.
- Conducting post-adoption effectiveness reviews of new FASB standards.
- Reducing the number of restatements.
- Increasing the use of professional judgment.
- Phasing in the adoption of XBRL.

**NEXT STEPS:**

CIFiR encourages readers to [submit comments](#) on the progress report and to view the comments of others. In future deliberations, the Committee will consider these comments and will discuss in detail topics that have not yet been covered, such as (1) international convergence; (2) the ideal design of standards (i.e., principles-based vs. rules-based, fair value vs. historical cost); and (3) the interaction between companies, auditors, the SEC, and the PCAOB.

The Committee will continue to hold public meetings between now and early August 2008, when its charter expires. The Committee’s most recent meeting was March 13–14, 2008, in San Francisco. A final Committee report is expected to be issued to the SEC chairman in August 2008.

**OTHER RESOURCES:** Deloitte’s [February 19, 2008, Heads Up](#). ●

## SEC Launches “Financial Explorer” to Help Investors Analyze Corporate Performance

**AFFECTS:** Financial statement users.

**SUMMARY:** In a February 15, 2008, [press release](#), the SEC announced the launch of the “[Financial Explorer](#)” tool, which is intended to help investors analyze the financial results of public companies. The Financial Explorer tool presents a company’s XBRL financial data in easy-to-read graphs, diagrams, ratios, and charts to help financial statement users understand the company’s overall financial performance. The tool will also make it easier for users to compare companies’ financial performance. ●

## SEC Proposes One-Year Deferral of Section 404 Requirement for Smaller Public Companies

**AFFECTS:** Nonaccelerated filers.

**SUMMARY:** The SEC is currently conducting a cost-benefit study regarding small businesses and Section 404 of the Sarbanes-Oxley Act of 2002. To give itself time to complete the study, the SEC has released for public comment a [proposed rule](#) that would allow nonaccelerated filers (public companies with a public float of less than \$75 million) a one-year deferral from including an auditor’s attestation report on management’s assessment of internal controls in their annual reports. The effective date would be deferred until fiscal years ending on or after December 15, 2009.

**NEXT STEPS:** Comments were due by March 10, 2008. ●

## SEC Proposes Disclosure Requirements for Companies Implementing the Sudan Accountability and Divestment Act of 2007

**AFFECTS:** Investment companies.

**SUMMARY:** On February 11, 2008, the SEC issued a [proposed rule](#) that would require registered investment companies to provide disclosures when they divest, under the Sudan Accountability and Divestment Act of 2007,<sup>9</sup> from the securities of certain issuers that “conduct or have direct investments in certain business operations in Sudan.”

**NEXT STEPS:** Comments were due by March 17, 2008. ●

## SEC Proposes Foreign Issuer Reporting Enhancements

**AFFECTS:** Foreign private issuers.

**SUMMARY:** On February 13, 2008, the SEC voted to [propose amendments](#) to its disclosure requirements for foreign private issuers. The proposed amendments reflect the push for all-electronic disclosures and the Commission’s recent decision to eliminate hard-copy disclosure requirements.

The two sets of proposals (1) enhance the reporting requirements for foreign private issuers and (2) modify the exemption under Rule 12g3-2(b) of the Securities Exchange Act of 1934.

### Enhancements to Reporting by Foreign Issuers

These [proposed amendments](#) would do the following:

- Allow foreign private issuers to test their qualification to use the forms and rules available to foreign private issuers annually on the last business day of their second fiscal quarter rather than continually, as currently required.
- Change the filing deadline for annual reports of foreign private issuers from six months to 90 days after fiscal year-end for large accelerated filers and accelerated filers and to 120 days after fiscal year-end for all other foreign private issuers.
- Amend Item 17 of Form 20-F to remove the accommodation that allows certain foreign private issuers to exclude segment data from their financial statements.
- Update Rule 13e-3 of the Exchange Act regarding “going private transactions by reporting issuers or their affiliates” to reflect recent changes in deregistration and termination of reporting rules for foreign private issuers.

The proposal will also request public feedback on other possible amendments affecting foreign private issuers, including (1) amendments to the Form 20-F disclosure requirements and (2) eliminating the “availability of the limited U.S. GAAP reconciliation option” under Item 17 of Form 20-F.

### Amendment to Exchange Act Rule 12g3-2(b) Exemption

This amendment modifies the Rule 12g3-2(b) exemption, which “permits a foreign private issuer to exceed the shareholder thresholds for registration under Exchange Act Section 12(g) and effectively have its equity securities traded on a limited basis in the over-the-counter market in the United States.” Under the [proposed amendment](#), a foreign private issuer would no longer have to submit hard-copy “information

<sup>9</sup> On December 31, 2007, the Sudan Divestment Act, which addresses civil, criminal, and administrative protection for investment companies divesting or not investing in Sudan, was passed. The Act requires the SEC to put in place regulations addressing disclosure within 120 days of this date.

concerning its U.S. shareholders, and paper copies of its non-U.S. disclosure documents published since the beginning of its most recently completed fiscal year.” Rather, a foreign private issuer would automatically be granted the exception if it files this information electronically and meets the following requirements:

- The U.S. trading volume for the securities is no more than 20 percent of the issuer’s worldwide trading volume for its most recently completed fiscal year or the issuer is claiming the exemption with its deregistration under Exchange Act Rule 12h-6.
- The securities are listed on one or more exchanges in one or two foreign jurisdictions constituting its primary trading market.
- Certain non-U.S. disclosure documents are published in English either on the issuer’s Web site or via an “electronic information delivery system” that is readily available to those in its primary trading market, unless the issuer is claiming the exemption in connection with a deregistration.
- The entity has no reporting obligations under Section 13(a) or 15(d) of the Exchange Act.

The amendment also proposes transition periods to accommodate those currently applying the exemption.

**NEXT STEPS:** Comments on the proposed amendments are due by May 12, 2008, and April 25, 2008, respectively. ●

## SEC Moves Toward Mutual Recognition\*

**AFFECTS:** Public entities.

**SUMMARY:** To continue the theme of convergence, the SEC has [announced](#) a “series of actions it intends to take to further the implementation of the concept of mutual recognition for high-quality regulatory regimes in other countries.” These actions include the following:

- Comparing the regulatory regimes of the SEC and one or more of its foreign regulatory counterparts, and exploring the possibility of initial agreements with these counterparts on the basis of this comparison.
- Developing a formal process for addressing mutual recognition, including rule-making or “other appropriate mechanisms, possibly informed by one or more initial agreements with other regulators.”
- Establishing “a framework for mutual recognition discussions with jurisdictions comprising multiple securities regulators tied together by a common legal framework, including Canada (which has no national securities regulator, but rather provincial regulators) and the European Union (whose national securities regulators are subject to supranational legislation and directives).”
- Reforming Rule 15a-6 of the Exchange Act to improve the access of U.S. investors to foreign broker-dealers. ●

# PCAOB Developments

## PCAOB Adopts Auditing Standard 6 on Evaluating Consistency of Financial Statements

**AFFECTS:** Auditors of public entities.

**SUMMARY:** On January 29, 2008, the PCAOB voted to adopt [Auditing Standard 6](#) along with related amendments to the PCAOB's interim auditing standards. The goal is to bring the PCAOB's standards in line with Statement 154 as well as with the FASB's proposed issuance of a codification of the GAAP hierarchy.

The new standard and related amendments will:

- Require auditors to evaluate and report on the consistency of a company's financial statements.
- Require auditors to disclose the reason for an adjustment to previously issued financial statements (i.e., a change in accounting principle or a correction of a misstatement).
- Remove the GAAP hierarchy from the interim auditing standards (because the FASB will be issuing its standard on the GAAP hierarchy, it makes more sense to include the GAAP hierarchy in the accounting standards rather than the auditing standards).

**NEXT STEPS:** If approved by the SEC, Auditing Standard 6 will become effective 60 days after the date of the Commission's approval.

**OTHER RESOURCES:** A [press release](#) announcing the standard is available on the PCAOB's Web site. ●

## PCAOB Proposes New Auditing Standard on Engagement Quality Reviews

**AFFECTS:** Auditors of public companies.

**SUMMARY:** On February 26, 2008, the PCAOB released for public comment a [proposed auditing standard](#) on engagement quality reviews and a conforming amendment to the PCAOB's interim quality-control requirements. This proposal is intended to improve the second-partner review process by addressing the risks, judgments, and results of an audit and identifying any deficiencies before the issuance of the audit report. The proposal focuses on three key areas:

- The types of engagements in which a quality review would be required.
- Qualifications of the engagement quality reviewer.
- The engagement quality review process, including documentation and timing.

The new auditing standard would apply to all engagements performed in accordance with PCAOB standards and would be effective for engagement reports issued on or after December 15, 2008, with early adoption permitted.

**NEXT STEPS:** Comments on the proposal are due by May 12, 2008. ●

# GASB Developments

## GASB Issues Exposure Draft on Fund Reporting\*

**AFFECTS:** Governmental entities.

**SUMMARY:** On February 29, 2008, the GASB issued for public comment an [Exposure Draft](#) on fund balance reporting and the definitions of governmental fund types. The proposed Statement would improve fund balance reporting by:

1. Providing clearer classifications of funds by establishing a “hierarchy of fund balance classifications” on the basis of whether funds are “nonspendable” or “spendable.” The spendable fund balance would then be subcategorized as “restricted, limited, assigned, or unassigned.”

- *Nonspendable fund balance* “represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. For example, fund balance associated with inventories and prepaid items is not in spendable form, and the corpus or principal of a permanent fund is legally or contractually required to be maintained intact.”
- *Spendable fund balance* “represents amounts that are in spendable form and are considered available for spending, such as fund balance associated with cash, investments, and receivables.”

2. Requiring disclosure of:
  - Fund balance classification policies and procedures.
  - Information about encumbrances.
  - Details of fund balance categories and classifications displayed in the aggregate.
  - Stabilization arrangements.
  - Minimum fund balance policies.
3. Clarifying governmental fund definitions. The Statement classifies governmental fund types as follows:
  - General funds.
  - Special revenue funds.
  - Capital projects funds.
  - Debt service funds.
  - Permanent funds.

**NEXT STEPS:** Comments on the Exposure Draft are due by June 30, 2008. The proposed Statement would be effective for periods beginning after June 15, 2010, with early application permitted. ●

# FASAB Developments

## FASAB Issues Two Technical Releases\*

**AFFECTS:** Federal entities.

**SUMMARY:** On February 20, 2008, the FASAB issued [Technical Releases 8](#) and [9](#).

Technical Release 8 provides federal entities with guidance on three aspects of costing addressed in FASAB Statement 4:

- The costs that an entity should consider “broad and general.” The technical release includes a table listing examples of broad and general goods and services provided by various federal government agencies.
- How an entity should consider “directness of relationship to the entity’s operations” when assessing whether a transaction is material to an entity receiving goods and services. The technical release states that “directness of relationship to entity operations is generally determined by matching goods or services received to the output of the entity.”
- How the “identifiability factor” should be used to determine whether a transaction is material to an entity receiving goods and services.

Technical Release 9 provides federal entities with guidance on reporting on heritage assets and stewardship land, and covers the following four topics: (1) materiality considerations; (2) identification, categorization, and quantification; (3) assessing and reporting condition; (4) government-wide reporting.

**NEXT STEPS:** The two technical releases are effective for reporting periods beginning after September 30, 2008, with early adoption permitted. ●

## FASAB Issues Concepts Statement Exposure Draft on Entity and Display\*

**AFFECTS:** Federal entities.

**SUMMARY:** On March 26, 2008, the FASAB issued an [Exposure Draft](#) of a concepts statement that amends FASAB Concepts Statement 2 by outlining criteria federal entities must consider in preparing their financial statements when determining whether to classify information into the following categories: (1) basic, (2) required supplementary, or (3) other accompanying. This classification is important because different auditing standards and requirements are associated with each of these categories.

**NEXT STEPS:** [Comments](#) on the Exposure Draft are due by June 26, 2008. ●



# International Developments

## IASB Amends Financial Instruments Standard for Puttable Instruments and Obligations Arising on Liquidation

**AFFECTS:** Entities reporting under IFRSs.

**SUMMARY:** On February 14, 2008, the IASB released amendments to IAS 32 regarding the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. IAS 32 currently requires that if an issuer is required to pay or transfer cash or another financial asset in return for redeeming or repurchasing a financial instrument, the instrument is classified as a financial liability. The amendments will require that some financial instruments currently meeting the definition of a financial liability be classified as equity because they represent the residual interest in the net assets of the entity. Under the amendments, such instruments generally will include:

- Puttable instruments that are subordinate to all other classes of instruments and that entitle the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. A puttable instrument is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or that is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.
- Instruments, or components of instruments, that are subordinate to all other classes of instruments and that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

The IASB also amended [IAS 1](#) to add new disclosure requirements relating to puttable instruments and obligations arising on liquidation.

**NEXT STEPS:** The amendments will be effective for annual periods beginning on or after January 1, 2009, with early adoption permitted.

**OTHER RESOURCES:** A [press release](#) announcing the amendments is available on the IASB's Web site. ●

## IASB Revises Accounting for Business Combinations and Noncontrolling Ownership Interests

**AFFECTS:** Entities reporting under IFRSs.

**SUMMARY:** On the heels of the FASB's issuance of new standards on business combinations and noncontrolling interests, the IASB released its [counterpart standards](#):

- IFRS 3 (revised), *Business Combinations*.
- IAS 27 (revised), *Consolidated and Separate Financial Statements*.

The release of the new IASB standards brings to a close the second phase of the FASB/IASB joint business combinations project.

Below are highlights of revisions made in IFRS 3 (revised) and IAS 27 (revised):

- *Acquisition-related costs* — Expensed as incurred. Examples include, but are not limited to, fees paid to investment bankers, attorneys, accountants, and valuation professionals.

- *Contingent consideration (e.g., earnouts)* — Recognized at fair value as of the acquisition date. Subsequent changes to amounts classified as liabilities are recorded in the postcombination profit and loss statement. The cost of the business combination cannot be adjusted for information received after the acquisition date.
- *Noncontrolling interests (formerly minority interests)* — Recognized as of the acquisition date and measured at either (1) fair value, including the noncontrolling interests' share of goodwill, or (2) the noncontrolling interest's proportionate share of the acquiree's identifiable net assets.
- *Goodwill* — Measured as of the acquisition date, including a remeasurement of any previously recorded goodwill associated with the business acquired.
- *Step acquisitions* — All previously held interests, acquired before obtaining control, are remeasured at fair value once control is obtained, with recognition of a gain or loss.
- *Changes in ownership once control is obtained* — Recorded as equity transactions. No additional acquisition method accounting is required, and no gain or loss recognition is allowed as long as control is maintained.

The goal of the business combinations project was full convergence. Unfortunately, the IASB and FASB did not achieve full convergence in the following significant areas:

- *Noncontrolling interests (formerly minority interests)* — The IASB is giving acquirers the option to record goodwill attributable to the noncontrolling interests. The FASB is not granting this option, and requires acquirers to record the noncontrolling interest at fair value.
- *Acquired contingencies* — The IASB is requiring that **all** acquired contingencies be recorded at fair value on the acquisition date if they arise from a past event and can be measured reliably. On the other hand, the FASB is requiring that all contractual contingencies and noncontractual contingencies that meet the more-likely-than-not recognition threshold be recognized at fair value.

**NEXT STEPS:** The revised standards are effective for annual reporting periods beginning on or after July 1, 2009, with early adoption permitted.

**OTHER RESOURCES:** For more information, see [Deloitte's IAS Plus Newsletter — Global Edition, January 2008 \(Special Edition\)](#).

Also see Deloitte's [December 12, 2007, Heads Up](#). ●

## IASB Amends IFRS 2 on Share-Based Payments

**AFFECTS:** Entities reporting under IFRSs.

**SUMMARY:** On January 17, 2008, the IASB issued an amendment to IFRS 2 to do the following:

1. Clarify that "vesting conditions are service conditions and performance conditions" only and that "[o]ther features of a share-based payment are not vesting conditions."
2. State that "all cancellations, whether by the entity or by other parties, should receive the same accounting treatment" under IFRSs.

**NEXT STEPS:** The amendment applies to accounting periods beginning on or after January 1, 2009, with early application permitted.

**OTHER RESOURCES:** A [press release](#) announcing the amendment is available on the IASB's Web site. ●

## IFRIC Proposes Guidance on Distributions of Noncash Assets to Owners

**AFFECTS:** Entities reporting under IFRSs with noncash distributions to owners.

**SUMMARY:** On January 17, 2008, the IFRIC released [D23](#) for public comment in response to several inquiries about how an entity should measure distributions of noncash assets paid as dividends to its owners. The Interpretation applies to all distributions of noncash assets, except for transfers to entities within the same consolidated group.

The two questions addressed in the proposed Interpretation are:

1. How should an entity measure an obligation to distribute noncash assets to its owners (a dividend payable)?
2. When an entity settles the [obligation (dividend payable), how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the obligation (dividend payable)?

D23 proposes that all noncash asset distributions be measured at the fair value of the assets distributed. This treatment would only apply to distributions made after the effective date of the Interpretation.

**NEXT STEPS:** Comments on D23 are due by April 25, 2008.

**OTHER RESOURCES:** A [press release](#) announcing D23 is available on the IASB's Web site.

For more information, see [Deloitte's IAS Plus Newsletter — Global Edition, February 2008 \(Special Edition\)](#). ●

## IFRIC Proposes Guidance on Accounting for Customer Contributions

**AFFECTS:** Entities reporting under IFRSs that receive customer contributions.

**SUMMARY:** On January 17, 2008, the IFRIC issued [D24](#) for public comment. The Interpretation proposes new accounting for situations in which an entity receives from a customer (1) property, plant, and equipment, or (2) cash to acquire property, plant, and equipment that the entity will use to provide the customer access to a supply of goods or services. The Interpretation's objective is to eliminate current differences in accounting for these customer contributions.

The Interpretation would require entities to account for the contributed assets on their balance sheets as property, plant, and equipment and to record revenue received from providing access to a supply of goods or services over the period the access is provided. The proposed guidance would be applied prospectively.

**NEXT STEPS:** Comments on D24 are due by April 25, 2008.

**OTHER RESOURCES:** A [press release](#) announcing D24 is available on the IASB's Web site.

For more information, see [Deloitte's IAS Plus Newsletter — Global Edition, February 2008 \(Special Edition\)](#). ●

## IASB Publishes Discussion Paper on Employee Benefits\*

**AFFECTS:** Entities reporting under IFRSs.

**SUMMARY:** On March 27, 2008, the IASB published for comment a [discussion paper](#) (DP) presenting its Preliminary Views on amendments to IAS 19. The DP represents the first step in

a comprehensive [project](#) on accounting for postemployment benefit promises and addresses the following issues:

- The deferred recognition of some gains and losses arising from defined benefit plans (IAS 19 currently allows multiple options for deferring recognition).
- Presentation of defined benefit liabilities.
- Accounting for benefits that are based on contributions and a promised return.
- Accounting for benefit promises with a “higher of” option.

In the longer term, the IASB intends to work with the FASB on developing a common standard on postemployment benefit promises. Because that project will take many years to complete, the IASB has concluded that it must make short-term improvements to IAS 19 to provide users with better information about postemployment obligations. The IASB intends to review the responses to the DP, modify or confirm its Preliminary Views, and then develop an Exposure Draft of amendments to IAS 19 for public comment.

The Preliminary Views include the following:

- Recognition of all changes in the value of plan assets and in the postemployment benefit obligation in the financial statements in the period in which they occur. This means, among other things, removing the options for deferred recognition of gains and losses in defined benefit plans.
- Classification of benefit promises into defined benefit promises and contribution-based promises.
- Measurement of contribution-based promises (which include cash-balance plans) as follows (quoted from the press release):

[T]he measurement of the entity's liability for a contribution-based promise should be based on current best estimates, unbiased, probability-weighted amounts, and observable market values where they exist. Also, the entity should assume that the benefit promise does not change. The IASB believes that the measurement attribute *fair value assuming that the benefit promise does not change* best expresses this approach.

- Recognition of unvested past service cost in the period of a plan amendment.
- Recognition of both vested and unvested contribution-based promises as a liability.
- Allocation of the benefits earned under a contribution-based promise to periods of service in accordance with the benefit formula.

The IASB does not express a Preliminary View on the presentation of the components of postemployment benefit cost in comprehensive income (within or outside of profit and loss). Instead, several alternatives are discussed and comments invited.

#### NEXT STEPS:

The DP is being published by the IASB. However, the FASB will also consider issuing it to its constituents for comment. The [comment deadline](#) is September 26, 2008. The IASB's goal is to issue a revised IAS 19 by 2011. ●

## IASB Publishes Discussion Paper on Reducing Complexity in Financial Instrument Reporting\*

- AFFECTS:** Entities with financial instruments, or those that want to influence the reporting for financial instruments.
- SUMMARY:** On March 19, 2008, the IASB published a [discussion paper](#) (DP) on reducing complexity in financial instrument reporting. This DP is in response to requests to simplify IAS 39 and to create new principles-based, and less complex, methods for reporting on financial instruments.
- The DP focuses on the multiple measurement methods of financial instruments (e.g., fair value, amortized cost) as a primary cause of complexity. Problems resulting from this complexity include difficulty in applying the criteria for determining the measurement model, no clear measurement requirements for certain financial instruments, the requirement that management choose a measurement model in certain situations, different accounting treatment for gains and losses depending on which measurement model is used, and difficulty in determining which measurement model has been used for which financial instrument.
- The IASB proposes both intermediate and long-term solutions to financial instrument complexity issues. As a long-term solution, the paper recommends a single measurement method for all financial instruments — fair value. Intermediate approaches include (1) making limited amendments to the existing measurement requirements for financial instruments; (2) replacing the existing measurement requirements with a fair value measurement principle, but allowing some optional exceptions; and (3) simplifying hedge accounting. The FASB and IASB may consider each approach individually or in combination.
- Furthermore, on March 28, 2008, the FASB issued an [Invitation to Comment](#) seeking input from its constituents on whether it should add a project to its agenda on “simplifying and improving standards for measurement of financial instruments.”
- NEXT STEPS:** Appendix E of the DP includes several questions for consideration. The IASB invites its constituents to comment on the questions presented, as well as any additional issues, by September 19, 2008. The feedback on the FASB’s Invitation to Comment is also due by September 19, 2008.
- OTHER RESOURCES:** Deloitte’s [April 2, 2008, Heads Up](#). ●

## FASB Proposes to Narrow Definition of Equity; IASB Issues Discussion Paper Seeking Constituents’ Views

- AFFECTS:** All entities reporting under IFRSs.
- SUMMARY:** **FASB** — On November 30, 2007, the FASB issued for public comment a Preliminary Views document on how to distinguish liabilities from equity. If adopted, these Preliminary Views could radically change how contracts are classified either as liabilities or assets or as equity.
- The FASB has proposed a basic ownership approach because it believes this approach would improve and simplify the current accounting by narrowing the definition of equity. Under this approach, only the most subordinated class of common stock will qualify as equity. Other contracts currently classified as equity (such as preferred stock and certain option and forward contracts on an entity’s own equity) would instead be classified as liabilities (or, in some cases, assets). In addition to the basic ownership approach, the Preliminary Views document discusses two alternative views, referred to as the ownership-settlement approach and the reassessed expected outcomes (REO) approach.

The ownership-settlement approach is similar to the current concept of equity, except that it calls for separation of the equity and nonequity components of hybrid contracts (such as convertible debt). The REO approach, however, represents a totally different way of identifying, separating, and measuring equity and nonequity components of hybrid and derivative contracts. While the FASB preliminarily rejected these two approaches, it still invites constituents to comment on whether they are preferable to the basic ownership approach.

**IASB** — On February 28, 2008, the IASB published for comment a [discussion paper](#) (DP) on financial instruments with characteristics of equity. The DP has two parts: an Invitation to Comment and the FASB's November 2007 Preliminary Views document. The IASB's Invitation to Comment includes background information and invites responses to the questions already included in the FASB document and to a number of additional questions raised by the IASB. IAS 32 is the current IASB standard that addresses the distinction between liabilities and equity. The DP notes two general problems with IAS 32: uncertainties about how the principles in IAS 32 should be applied and, perhaps more significantly, whether application of those principles results in an appropriate distinction between equity instruments and nonequity instruments.

**Editor's Note:** The IASB has not deliberated any of the three approaches included in the FASB's Preliminary Views document, or any other approaches to distinguishing equity instruments and nonequity, and does not have a preliminary view.

The IASB's DP describes some implications for IFRSs of the three approaches in the FASB document for IFRSs. For instance:

- Significantly fewer instruments would be classified as equity under the basic ownership approach than under IAS 32.
- The ownership-settlement approach would be broadly consistent with the classifications achieved in IAS 32. However, under the ownership-settlement approach, more instruments would be separated into components and fewer derivative instruments would be classified as equity.

The DP's goal is to solicit views on whether the FASB's proposals are a suitable starting point for the IASB's deliberations. If the project is added to the IASB's active agenda (it is currently on the research agenda), the IASB intends to undertake it jointly with the FASB.

**NEXT STEPS:** Comments on the FASB's proposal are due by May 30, 2008. Comments on the IASB's proposal are due by September 5, 2008.

**OTHER RESOURCES:** Deloitte's [December 21, 2007, Heads Up](#). ●

## IASC Foundation Releases 2008 IFRS Taxonomy\*

**AFFECTS:** Entities reporting under IFRSs.

**SUMMARY:** In a March 31, 2008, [press release](#), the International Accounting Standards Committee (IASC) Foundation's XBRL Team presented to the public the nearly final [2008 IFRS Taxonomy](#). The Taxonomy consists of IFRSs, as published in IFRS Bound Volume 2008, translated into XBRL language. The Taxonomy's objectives are to (1) help users analyze and compare a company's financial data and (2) reduce the complexity of the filing process. The nearly final Taxonomy has been reviewed by the XBRL Quality Review Team (established by the IASC at the end of 2007) and is now ready for public comment.

**NEXT STEPS:** Comments on the 2008 Taxonomy are due by May 30, 2008. The final version of the 2008 Taxonomy is expected to be available by the end of June 2008 and will be available free of charge. ●

# Other Developments

## Recent Tax Ruling Affects Tax Positions Related to Executive Compensation

**AFFECTS:** All entities.

**SUMMARY:** On January 25, 2008, the IRS issued a Private Letter Ruling (PLR) indicating a change in its position on the deductibility of certain forms of executive compensation, such as cash, restricted stock, and restricted stock units. The PLR may have financial reporting implications for both year-end and first-quarter financial statements (for calendar-year-end entities). In addition, the PLR may affect an entity's previous conclusions about the recognition or measurement of past and current tax positions related to compensation arrangements. That is, an entity may determine that a tax position no longer meets the more-likely-than-not threshold in Interpretation 48. Tax professionals should be consulted to determine whether the PLR affects the deductibility of payments (or vesting) under an entity's compensation arrangements.

**OTHER RESOURCES:** Deloitte's [February 21, 2008, Financial Reporting Alert](#). ●

## GAO Issues Auditing Implementation Tool

**AFFECTS:** Yellow Book auditors.

**SUMMARY:** On January 2, 2008, the GAO issued an [implementation tool](#) to assist auditors with the "must" and "should" requirements included in the July 2007 version of government auditing standards, otherwise known as the Yellow Book. This tool is divided into four sections and allows auditors to make notations referencing the documents that support the applicable requirements. ●

## Audit Firm CEOs Propose Framework for Principles-Based Accounting Standards

**AFFECTS:** All entities.

**SUMMARY:** The CEOs of six international audit firms issued a [white paper](#) that proposes a framework for establishing principles-based accounting standards. The white paper recommends that high-quality, principles-based accounting standards do the following:

- Present an accurate picture of "economic reality."
- Be "[r]esponsive to users' needs for clarity and transparency."
- Be consistent with a "clear Conceptual Framework."
- Be "based on an appropriately-defined scope that addresses a broad area of accounting."
- Be written in "clear, concise and plain language."
- Allow "for the use of reasonable judgment."

The white paper also suggests that standards be continually improved, including "field-testing prior to issuance and a look-back after implementation, to ensure that they are providing meaningful information to investors."



The white paper was discussed at the Global Public Policy Symposium, “Global Financial Reporting and Auditing: A Strategic Dialogue among Capital Market Stakeholders,” held in New York on January 14–15, 2008. ●

# Appendix A: Recent Meetings

## Recent FASB Meetings

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

### March 5, 2008

The Board discussed the following topic:

- [Proposed FSP EITF 03-6-a](#).

### March 11, 2008

The Board discussed the following topic:

- [Accounting for Contingencies](#).

### March 12, 2008

The Board discussed the following topic:

- [Financial Statement Presentation](#).

### March 19, 2008

The Board discussed the following topic:

- [Determining the Useful Life of Intangible Assets](#).

### March 26, 2008

The Board discussed the following topics:

- [FASB Ratification of EITF Consensuses and Tentative Conclusions](#).
- [Convertible Debt Instruments That May Be Settled in Cash Upon Conversion \(Including Partial Cash Settlement\)](#).
- [Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations](#).
- [GAAP Hierarchy](#).

### April 2, 2008

The Board discussed the following topic:

- [Statement 140 Implementation — Transfers of Financial Assets](#).

## 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 EITF Meeting

### March 12, 2008

The EITF discussed the following topics:

- Issue 07-4.
- Issue 07-5.
- Issue 08-1.
- Issue 08-2.
- Issue 08-3.
- EITF Administrative Matters.

The next meeting is scheduled for June 11–12, 2008.

## Recent ASB Meetings

No ASB meeting was held in March 2008. The next meeting is scheduled for May 6–8, 2008.

## Recent AcSEC Meetings

### March 18–19, 2008

The AcSEC discussed the following topics:

- Health Care Guide.
- Liabilities and Equity Present Value.
- PC Insurance Guide.
- Airline Guide.
- Not-for-Profit Guide.
- Casino Guide.

The [agenda](#) is available on the AICPA's Web site.

The next meeting is scheduled for May 13–14, 2008.

## Recent FASAB Meetings

No FASAB meeting was held in March 2008. The next meeting is scheduled for April 16–17, 2008.

## Recent GASB Meetings

### March 25, 2008

The GASB discussed the following topics:

- Service Efforts and Accomplishments Reporting.
- Derivative Instruments.

The [agenda](#) is available on the GASB's Web site.

The next meeting is scheduled for April 15–17, 2008.

## Recent IASB Meetings

### March 11–14, 2008

The IASB discussed the following topics:

- Annual Improvements.
- Financial Statement Presentation.
- Fair Value Measurement.
- IFRS Small and Medium-Sized Entities.
- IAS 19.
- IAS 39.
- Update on IFRIC Activities.
- First-time Adoption of IFRSs.
- Extractive Activities Research Project.

The [agenda](#) is available on the IASB's Web site.

The next meeting is scheduled for April 14–18, 2008.

## Recent IFRIC Meetings

### March 6, 2008

The IFRIC discussed the following topics:

- IFRIC D21.
- IFRIC D22.
- IFRIC Agenda Decisions.
- Tentative Agenda Decisions.
- IFRIC Work in Progress.

The [agenda](#) is available on the IASB's Web site.

The next meeting is scheduled for May 8–9, 2008.

## 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 161, <i>Disclosures About Derivative Instruments and Hedging Activities</i> — an amendment of FASB Statement No. 133	Effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged.
Statement 160, <i>Noncontrolling Interests in Consolidated Financial Statements</i> — an amendment of ARB No. 51	Effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The standard should be applied prospectively. Presentation and disclosure requirements should be applied retrospectively to comparative financial statements. Earlier adoption is prohibited.
Statement 159, <i>The Fair Value Option for Financial Assets and Financial Liabilities</i> — including an amendment of 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 a fiscal year that begins on or before November 15, 2007, provided that the entity (1) also adopts the requirements of Statement 157 concurrently with or prior to the adoption of this Statement, (2) makes that choice within 120 days of the beginning of the fiscal year of adoption, and (3) at the time the entity chooses to early adopt, the entity has not yet issued financial statements, including required notes to those financial statements, for any interim period of the fiscal year that included the early adoption date.
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 the 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. FSP FAS 157-2 defers the Statement's effective date for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, and interim periods within those years.
Statement 141(R), <i>Business Combinations</i>	Effective prospectively for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited.
Interpretation 48, <i>Accounting for Uncertainty in Income Taxes</i> — an interpretation of FASB Statement No. 109	For public entities, effective for fiscal years beginning after December 15, 2006. For all other entities, FSP FIN 48-2 defers the effective date until fiscal years beginning after December 15, 2007.
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 157-2, "Effective Date of FASB Statement No. 157"	Effective February 12, 2008.
FSP FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13"	Effective upon the initial adoption of Statement 157.
FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions"	Effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted.
FSP FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises"	Effective February 1, 2008.
FSP FIN 48-1, "Definition of <i>Settlement</i> in FASB Interpretation No. 48"	Effective upon the initial adoption of Interpretation 48.

FSP FIN 46(R)-7, "Application of FASB Interpretation No. 46(R) to Investment Companies"	The effective date for applying the provisions of Interpretation 46 or Interpretation 46(R) is deferred for investment companies that are not subject to SEC Regulation S-X, Rule 6-03(c)(1), but that are currently accounting for their investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, <i>Investment Companies</i> , until the date that the investment company initially adopts AICPA Statement of Position 07-1, <i>Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies</i> . An entity that is required to discontinue application of the specialized accounting in the Guide as a result of adoption of SOP 07-1 is subject to the provisions of Interpretation 46(R) at that time. Paragraph 4(e) of FASB Interpretation No. 46(R), <i>Consolidation of Variable Interest Entities</i> , states that "[i]nvestments accounted for at fair value in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, <i>Investment Companies</i> , are not subject to consolidation according to the requirements of this Interpretation." [Footnote omitted] Accordingly, an entity that meets the definition of an investment company after adoption of SOP 07-1 should continue to apply the specialized accounting in the Guide to its investments.
FSP FIN 39-1, "Amendment of FASB Interpretation No. 39"	Effective for fiscal years beginning after November 15, 2007.
FSP SOP 07-1-1, "Effective Date of AICPA Statement of Position 07-1"	Effective as of December 15, 2007.
Implementation Issue E23, "Issues Involving the Application of the Shortcut Method Under Paragraph 68"	Effective for hedging relationships designated on or after January 1, 2008.
<b>Projects in Request-for-Comment Stage</b>	
Proposed FSP FAS 117-a, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures"	Comments due April 18, 2008.
Proposed FSP FAS 132(R)-a, "Employers' Disclosures About Postretirement Benefit Plan Assets"	Comments due May 2, 2008.
Preliminary Views, <i>Financial Instruments With Characteristics of Equity</i>	Comments due May 30, 2008.
Invitation to Comment, <i>Reducing Complexity in Reporting Financial Instruments</i>	Comments due September 19, 2008.
<b>EITF</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
Issue 07-6, "Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, Accounting for Sales of Real Estate, When the Agreement Includes a Buy-Sell Clause"	This Issue should be applied prospectively to new arrangements entered into, and assessments performed, in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Early application is not permitted.
Issue 07-4, "Application of the Two-Class Method Under FASB Statement No. 128, <i>Earnings per Share</i> , to Master Limited Partnerships"	Effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. This Issue should be applied retrospectively for all financial statements presented.
Issue 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities"	Effective for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Apply prospectively to new contracts entered into on, or after, the effective date.
Issue 07-1, "Accounting for Collaborative Arrangements"	This Issue is effective for fiscal years beginning after December 15, 2008.
Issue 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards"	Apply prospectively to the income tax benefits of dividends declared on affected securities in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is permitted as of the beginning of a fiscal year for which interim or annual financial statements have not been issued.
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 06-4, "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 06-1, "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.
<b>Projects in Request-for-Comment Stage</b>	
Proposed EITF Consensus on Issue 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5"	Comments due May 5, 2008.
Proposed EITF Consensus on Issue 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits"	Comments due May 5, 2008.

Proposed EITF Consensus on Issue 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock"	Comments due May 5, 2008.
<b>AICPA/AcSEC</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
SOP 07-1, <i>Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies</i>	FSP SOP 07-1-1 indefinitely delays the effective date of SOP 07-1.
SSARS 17, <i>Omnibus Statement on Standards of Accounting and Review Services — 2008</i>	Effective for compilations and reviews for periods ending on or after December 31, 2008, with early adoption permitted.
SSARS 16, <i>Defining Professional Requirements in Statements on Standards for Accounting and Review Services</i>	Effective December 18, 2007.
SSARS 15, <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>	Effective for periods ending on or after December 15, 2007.
AICPA Professional Standards, ET Section 100.01, "Conceptual Framework for AICPA Independence Standards"	Effective April 30, 2007.
AICPA Auditing Interpretation, Section 325, <i>Communicating Deficiencies in Internal Control Over Compliance in an Office of Management and Budget (OMB) Circular A-133 Audit</i>	Effective immediately (June 2007).
SSVS 1, <i>Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset</i>	Effective for engagements accepted on or after January 1, 2008.
<b>SEC</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
SAB 110, codified as part of SAB Topic 14.D.2, "Share-Based Payment: Certain Assumptions Used in Valuation Methods — Expected Term"	Effective January 1, 2008.
SAB 109, <i>Written Loan Commitments Recorded at Fair Value Through Earnings</i>	Apply prospectively to commitments issued or modified in fiscal quarters beginning after December 15, 2007.
Final Rule, <i>Electronic Shareholder Forums</i>	Effective February 25, 2008.
Final Rule, <i>Revisions to the Eligibility Requirements for Primary Securities Offerings on Forms S-3 and F-3</i>	The amendments to Forms S-3 and F-3 become effective January 28, 2008. The phase-in period for Form D electronic filing will begin on September 15, 2008, and will become mandatory on March 16, 2009.
Final Rule, <i>Electronic Filing and Revision of Form D Information</i>	Effective September 15, 2008.
Final Rule, <i>Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP</i>	Effective March 4, 2008. Foreign private issuers filing under IFRSs that have a fiscal year ending after November 15, 2007, and that want to exclude U.S. GAAP information from their filing, should contact the SEC staff in the Division of Corporation Finance if they want to file before the March 4, 2008, effective date.
Final Rule, <i>Prohibition of Fraud by Advisers to Certain Pooled Investment Vehicles</i>	Effective September 10, 2007.
Final Rule, <i>Adoption of Updated EDGAR Filer Manual</i>	Effective August 20, 2007.
Final Rule, <i>Definition of the Term Significant Deficiency</i>	Effective September 10, 2007.
Final Rule, <i>Shareholder Choice Regarding Proxy Materials</i>	Effective January 1, 2008, except Sections 240.14a-16(d)(3) and 240.14a-16(j)(3), which were effective October 1, 2007.
Final Rule, <i>Extension of Interactive Data Voluntary Reporting Program on the EDGAR System to Include Mutual Fund Risk/Return Summary Information</i>	Effective August 20, 2007.
Final Rule, <i>Amendments to Rules Regarding Management's Report on Internal Control Over Financial Reporting</i>	Effective August 27, 2007, except the amendment to Section 210.2-02T, which is effective from August 27, 2007, until June 30, 2009.
Final Rule, <i>Covered Securities Pursuant to Section 18 of the Securities Exchange Act of 1933</i>	Effective May 24, 2007.
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 the company 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), the auditor's attestation report on internal control over financial reporting must be included with annual reports for fiscal years ending on or after July 15, 2007. Management's report is required for fiscal years ending on or after July 15, 2006.
Final Rule, <i>Delegation of Authority to the Director of the Division of Corporation Finance</i>	Effective February 7, 2008.
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 that file annual reports on Form 20-F or Form 40-F.
Final Rule, <i>Internet Availability of Proxy Materials; Regulation of Takeovers and Security Holder Communications; Cross-Border Tender and Exchange Offers, Business Combinations, and Rights Offerings; Certain Other Related Rule Corrections</i>	Effective April 1, 2008.
Final Rule, <i>Proposed Rule Changes of Self-Regulatory Organizations</i>	Effective April 28, 2008.
<b>Projects in Request-for-Comment Stage</b>	
Proposed Rule, <i>Exemption From Registration Under Section 12(g) of the Securities Exchange Act of 1934 for Foreign Private Issuers</i>	Comments due April 25, 2008.
Proposed Rule, <i>Foreign Issuer Reporting Enhancements</i>	Comments due May 12, 2008.
<b>PCAOB</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
Auditing Standard 6, <i>Evaluating Consistency of Financial Statements</i>	If approved by the SEC, Auditing Standard 6 will become effective 60 days after the date of the Commission's approval.
Auditing Standard 5, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements</i>	Effective for audits of fiscal years ending on or after November 15, 2007. Earlier adoption is permitted. Auditors who elect to comply with Auditing Standard 5 before its effective date must also comply, at the same time, with PCAOB Rule 3525 and other PCAOB standards as amended by this release.
Rule 3525, <i>Audit Committee Pre-Approval of Non-Audit Services Related to Internal Control Over Financial Reporting</i>	Effective for audits of internal control for periods ending on or after November 15, 2007.
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 as of April 19, 2006, as long as such services are completed on or before October 31, 2006. Rule will not apply to tax services being provided on or before July 31, 2007, as long as those services were performed during the audit period and completed before the beginning of the professional engagement period.
Document, <i>Order Approving Proposed Rule Change and Amendment No. 1 Thereto Relating to Inspections</i>	Effective November 2, 2007.
<b>Project in Request-for-Comment Stage</b>	
PCAOB Proposed Auditing Standard, <i>Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards</i>	Comments due May 12, 2008.
<b>GASB/GAO</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
Statement 52, <i>Land and Other Real Estate Held as Investments by Endowments</i>	Effective for periods beginning after June 15, 2008. Early adoption is encouraged.
Statement 51, <i>Accounting and Financial Reporting for Intangible Assets</i>	Effective for periods beginning after June 15, 2009.

Statement 50, <i>Pension Disclosures</i>	Generally effective for periods beginning after June 15, 2007, with early adoption encouraged. For governments using the aggregate actuarial cost method, related provisions are effective for financial statements and required supplementary information that contains information from actuarial valuations as of June 15, 2007, or later.
Statement 49, <i>Accounting and Financial Reporting for Pollution Remediation Obligations</i>	Effective for financial statements for periods beginning after December 15, 2007.
Statement 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 43, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	Effective one year before 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.
Concepts Statement 4, <i>Elements of Financial Statements</i>	Effective June 2007.
<b>Projects in Request-for-Comment Stage</b>	
Exposure Draft, <i>Fund Balance Reporting and Governmental Fund Type Definitions</i>	Comments due June 30, 2008.
<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.
Technical Release 9, <i>Implementation Guide for Statement for FASAB 29: Heritage Assets and Stewardship Land</i>	Effective for reporting periods beginning after September 30, 2008, with early adoption permitted.
Technical Release 8, <i>Clarification of Standard Relating to Inter-Entity Costs</i>	Effective for reporting periods beginning after September 30, 2008, with early adoption permitted.
Technical Release 7, <i>Clarification of Standards Relating to the National Aeronautics and Space Administration's Space Exploration Equipment</i>	Effective May 25, 2007.
Concepts Statement 5, <i>Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements</i>	Effective December 26, 2007.
<b>Project in Request-for-Comment Stage</b>	
Concepts Statement Exposure Draft, <i>Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information</i>	Comments due June 26, 2008.
<b>IASB/IFRIC</b>	<b>Status</b>
<b>Significant Adoption Dates</b>	
IFRS 3 (revised), <i>Business Combinations</i>	Business combinations in annual financial statements beginning on or after July 1, 2009. Early adoption is permitted provided that the standard is applied with IAS 27; the revised IFRS 3 is not applied in an accounting period beginning before June 30, 2007; and early adoption is disclosed.
Amendments to IFRS 2, <i>Share-based Payment — Vesting Conditions and Cancellations</i>	Effective for annual periods beginning on or after January 1, 2009.
IAS 27 (revised), <i>Consolidated and Separate Financial Statements</i>	Early adoption is permitted provided that the standard is applied with IFRS 3; the revised IFRS 3 is not applied in an accounting period beginning before June 30, 2007; and early adoption is disclosed.
IFRS 8, <i>Operating Segments</i>	Effective for annual periods beginning on or after January 1, 2009.
Amendments to IAS 32, <i>Financial Instruments: Presentation</i> , and IAS 1, <i>Presentation of Financial Statements</i>	Effective for annual periods beginning on or after January 1, 2009, with early adoption permitted.
Amendment to IAS 23, <i>Borrowing Costs</i>	Effective for annual periods beginning on or after January 1, 2009.
IFRIC Interpretation 14, <i>IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction</i>	Effective for annual periods beginning on or after January 1, 2008.
IFRIC Interpretation 13, <i>Customer Loyalty Programmes</i>	Effective for annual periods beginning on or after July 1, 2008.
IFRIC Interpretation 12, <i>Service Concession Arrangements</i>	Effective for annual periods beginning on or after January 1, 2008.

<b>Projects in Request-for-Comment Stage</b>	
IFRIC Draft Interpretation D23, <i>Distributions of Non-cash Assets to Owners</i>	Comments due April 25, 2008.
IFRIC Draft Interpretation D24, <i>Customer Contributions</i>	Comments due April 25, 2008.
Discussion Paper, <i>Financial Instruments With Characteristics of Equity</i>	Comments due September 5, 2008.
Discussion Paper, <i>Reducing Complexity in Reporting Financial Instruments</i>	Comments due September 19, 2008.
Discussion Paper, <i>Preliminary Views on Amendments to IAS 19, Employee Benefits</i>	Comments due September 26, 2008.

## Appendix C: Glossary of Standards

FASB Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities* — an amendment of FASB Statement No. 133

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment of ARB No. 51

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

FASB Statement No. 157, *Fair Value Measurements*

FASB Statement No. 154, *Accounting Changes and Error Corrections* — a replacement of APB Opinion No. 20 and FASB Statement No. 3

FASB Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*

FASB Statement No. 146, *Accounting for Costs Associated With Exit or Disposal Activities*

FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*

FASB Statement No. 141(R), *Business Combinations*

FASB Statement No. 141, *Business Combinations*

FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* — a replacement of FASB Statement No. 125

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*

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FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*

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EITF Issue No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits"

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EITF Issue No. 01-6, "The Meaning of 'Indexed to a Company's Own Stock'"

EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments"

EITF Issue No. 00-21, "Revenue Arrangements With Multiple Deliverables"

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IASB Discussion Paper, *Reducing Complexity in Reporting Financial Instruments*

IASB Discussion Paper, *Financial Instruments With Characteristics of Equity*



## Appendix D: Abbreviations

<b>AcSEC</b>	Accounting Standards Executive Committee	<b>IASC</b>	International Accounting Standards Committee
<b>AICPA</b>	American Institute of Certified Public Accountants	<b>IDR</b>	incentive distribution rights
<b>ARB</b>	Accounting Research Bulletin	<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>ARM</b>	adjustable-rate mortgage	<b>IFRS</b>	International Financial Reporting Standard
<b>ASB</b>	Auditing Standards Board	<b>LP</b>	limited partner
<b>ASF</b>	American Securitization Forum	<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>CIFIR</b>	SEC Advisory Committee on Improvements to Financial Reporting	<b>MLP</b>	master limited partnership
<b>DP</b>	discussion paper	<b>OCA</b>	Office of the Chief Accountant
<b>EDGAR</b>	Electronic Data Gathering, Analysis, and Retrieval	<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>EITF</b>	Emerging Issues Task Force	<b>PCFRC</b>	Private Company Financial Reporting Committee
<b>FAF</b>	Financial Accounting Foundation	<b>PLR</b>	Private Letter Ruling
<b>FAS</b>	Financial Accounting Standard	<b>QSPE</b>	qualifying special-purpose entity
<b>FASAB</b>	Federal Accounting Standards Advisory Board	<b>REO</b>	reassessed expected outcomes
<b>FASB</b>	Financial Accounting Standards Board	<b>SAB</b>	Staff Accounting Bulletin
<b>FIN</b>	FASB Interpretation	<b>SEC</b>	Securities and Exchange Commission
<b>FSP</b>	FASB Staff Position	<b>SOP</b>	Statement of Position
<b>GAAP</b>	generally accepted accounting principles	<b>SRO</b>	self-regulatory organization
<b>GAO</b>	Government Accountability Office	<b>SSARS</b>	Statement on Standards for Accounting and Review Services
<b>GASB</b>	Governmental Accounting Standards Board	<b>SSVS</b>	Statement on Standards for Valuation Services
<b>GP</b>	general partner	<b>UPMIFA</b>	Uniform Prudent Management of Institutional Funds Act of 2006
<b>IAS</b>	International Accounting Standard	<b>VRG</b>	Valuation Resource Group
<b>IASB</b>	International Accounting Standards Board	<b>XBRL</b>	extensible business reporting language

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