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US Reporting Newsletter for Non-US Based Companies

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Deloitte periodically publishes Accounting Roundups and Heads Ups. Click here to access the published ones.

Webcasts:
Sarbanes-Oxley: Nearly Done or Nearly Started

Narrowing your options: Fair Value Accounting For Share Based Payments

GAAP Matters

Recent Emerging Issues Task Force (EITF) meeting

The EITF met on March 17-18, 2004. The following issues were discussed and the consensuses was reached:

- Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* Except for disclosure requirements already in place, the Issue 03-1 consensus will be effective prospectively for all relevant current and future investments in reporting periods beginning after June 15, 2004.
- Issue No. 03-6, *Participating Securities and the Two- Class Method under FASB Statement No. 128, Earnings per Share* is effective in fiscal periods beginning after March 31, 2004, the date of Board ratification, and should be applied by restating previously reported EPS.
- Issue No. 03-16, *Accounting for Investments in Limited Liability Companies.* The consensus must be applied in the first period beginning after June 15, 2004.
- Issue No. 04-3, *Mining Assets: Impairment and Business Combinations.* The consensuses must be applied prospectively to business combinations completed and goodwill and asset impairment tests performed in reporting periods beginning after March 31, 2004.
- Issue No. 04-2, *Whether Mineral Rights are Tangible or Intangible Assets and Related Issues.*

The FASB has ratified the first four consensuses. The Task Force consensus on Issue No. 04-2, "*Whether Mineral Rights Are Tangible or Intangible Assets and Related Issues*" is that mineral rights should be considered tangible assets. This would require an amendment to FAS Statements 141 and 142. The FASB has ratified the Task Force's consensus on Issue 04-2 subject to the finalization of proposed FSP FAS 141-a and FAS 142-a. Click here for the full text of the proposed FSP.

The Task Force also discussed the following issues without reaching a consensus:

- Issue No. 02-14, *Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means*
- Issue No. 03-9, *Interaction of Paragraphs 11 and 12 of FASB Statement No. 142, Goodwill and Other Intangible Assets, Regarding Determination of Useful Life and Amortization of an Intangible Asset*
- Issue No. 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations.*

During the meeting, the SEC Observer clarified the SEC staff's position with respect to conditionally redeemable preferred shares as related to the interaction of EITF Topic No. D-98, *Classification and Measurement of Redeemable Securities,* and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.*

Read more on the overview of the consensuses and on the Staff Announcement.

An overview of consensuses reached and discussions held at EITF meetings can be found in the EITF Roundup newsletter published by Deloitte which can be accessed on the Deloitte website at http://www.deloitte.com/us/eitfroundup

SEC Chief Accountant's remarks at the February 11, 2004 Tax Council Institute conference on the corporate tax practice

At the February 11, 2004 Tax Council Institute Conference on the Corporate Tax Practice, Donald T. Nicolaisen, Chief Accountant U.S. Securities and Exchange Commission, expressed his views regarding conditions necessary for the recognition of tax consequences of transactions and adequacy of related financial statement disclosure of these tax consequences.

Read more on the overview of the SEC Chief Accountant's remarks.

The FASB Issues an Exposure Draft (ED), Share- Based Payment - An Amendment of FASB Statements No. 123 and 95.

The FASB has issued a proposed Statement on stock-based compensation that would remove the option of accounting using the intrinsic value model in APB Opinion 25 and require the use of the fair value model in FAS Statement 123 - but with some amendments. Comments on the ED are due June 30, 2004.

Read more on the Exposure Draft.

SEC And Other Regulatory Matters

SEC releases Staff Accounting Bulletin (SAB) No. 105, "Loan Commitments Accounted for as Derivative Instruments."

On March 9, 2004 the SEC announced the release of Staff Accounting Bulletin (SAB) No. 105, "Loan Commitments Accounted for as Derivative Instruments." This SAB provides interpretive guidance that registrants should consider when recognizing certain loan commitments and emphasizes certain disclosure requirements that may be relevant in the context of mortgage banking activities. The full text of SAB No. 105 is available at http://sec.gov/interps/account/sab105.htm.

Miscellaneous

AICPA Issues Audit and Accounting Guide: Depository and Lending Institutions - Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies

The American Institute of Certified Public Accountants (AICPA) issued the Audit and Accounting Guide, *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies,* which has been prepared to assist preparers of financial statements and to assist independent accountants in reporting on financial statements. Consistent with the scope in SOP 01-6, *Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others,* this Guide applies to all banks, savings institutions, credit unions, finance companies, and other entities (including entities with trade receivables). This Guide supersedes the AICPA Audit and Accounting Guides Banks and Savings Institutions, Audits of Credit Unions, and Audits of Finance Companies.

Click here to purchase the guide online.

FEI CEO'S Top Financial Reporting Issues for 2004

In the January/February 2004 Financial Executives International (FEI) Magazine, the FEI's president and CEO offered a list of financial reporting issues that require special attention during 2004. The 11 issues are:

- Internal controls
- Variable Interest Entities (VIEs)
- Pension disclosures
- MD&A guidance
- Revenue recognition
- Off-balance-sheet arrangements disclosures
- Embrace transparency
- Audit committee governance
- Financial instruments with characteristics of both liabilities and equity
- Stock options
- International convergence

Click here for the original FEI release.To assist financial executives and audit committees in addressing these issues, Deloitte & Touche LLP has prepared a special edition of the Audit Committee Brief (click here), which includes the firm's resources relevant to each issue listed.

GAAP Matters

The following is a summary of the consensuses reached at the EITF meeting of March 17-18, 2004

Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* The scope of this impairment model is applicable for investments in debt and equity securities that are within the scope of SFAS 115 and SFAS 124, and cost method equity investments. Equity method investments under APB Opinion 18 are not within the scope of Issue 03-1. The determination whether an investment is impaired must be made at each reporting period. As a result of the SFAS 107 practicability exception, an investor might not determine fair value for certain cost method equity investments. Whether or not the fair value of an investment is disclosed under SFAS 107, an investor is required to estimate the fair value of a cost method investment upon the occurrence of an impairment indicator. The investor should make an evidence-based judgment about a market price recovery of the investment by considering the severity (the extent to which fair value is below cost) and duration (period of time that a security has been impaired) of the impairment in relation to the forecasted market price recovery. There are no "bright lines" to determine the period of time that the impairment of an underwater security should be considered other-than-temporary (e.g., 12 months). An other-than-temporary impairment should be recognized in earnings in an amount equal to the difference between the investor's adjusted cost basis and its fair value at the balance-sheet date of the reporting period for which the assessment is made. The fair value of the investment then becomes the new cost basis of the investment and cannot be adjusted for subsequent recoveries in fair value, unless required by other authoritative literature. The Task Force added special disclosures for cost method equity investments applicable when the fair value of such investments may not be currently estimated

Issue No. 03-6, *Participating Securities and the Two- Class Method under FASB Statement No. 128, Earnings per Share.* The consensus finalizes a definition of a participating security. The consensus now requires the use of the two-class method for including

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participating convertible securities in the computation of basic EPS (i.e., an issuer can no longer use the if-converted method in basic EPS calculations). The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. The Task Force also addressed some of the practical issues related to including participating securities in the calculation of EPS.

Issue No. 03-16, *Accounting for Investments in Limited Liability Companies.* Current authoritative literature does not address the accounting for investments in limited liability corporations (LLCs) that are not consolidated. LLCs have characteristics of both corporations and partnerships but are dissimilar from both in certain respects. The Task Force concluded that investments in LLCs that have separate ownership accounts for each investor should be accounted for like investments in partnerships. As a result of this consensus, many LLC investors that have previously accounted for their investment at cost (or SFAS 115 if the shares were publicly traded) will now be required to apply the equity method under the lower ownership threshold of SOP No. 78-9, *Accounting for Investments in Real Estate Ventures.*

Issue No. 04-3, *Mining Assets: Impairment and Business Combinations.* In connection with testing mining assets for impairment under SFAS 144, some mining companies have historically excluded cash flow estimates associated with the economic value of mining assets (including mineral properties and rights) beyond those assets' proven and probable reserves. In addition, some companies do not allocate fair value to mining assets related to anticipated market-price fluctuations of the minerals. Consequently, because these companies do not consider these cash flows in testing the mining assets for impairment under SFAS 144, these companies do not assign any value related to the value beyond proven and probable reserves nor the anticipated fluctuations in the future market price of minerals to the mining assets as part of the business combination under SFAS 141. The Task Force reached a consensus that the authoritative guidance under SFAS 141 requires a purchaser to assign value based on the estimated fair values of the assets at the date of acquisition. As the value beyond probable and proven reserves, as well as anticipated market price fluctuations, are considered in the purchase price, the related value should be assigned to the mining assets. Likewise, for testing for impairment, the Task Force reached a consensus that SFAS 144 requires companies to consider assumptions used in developing its internal budgets and projections. Therefore, these cash flows should be considered when testing the mining assets for impairment.

SEC Chief Accountant's remarks at the February 11, 2004 Tax Council Institute conference on the corporate tax practice

Mr. Nicolaisen acknowledged that the FASB's standard on income taxes (Statement No. 109, Accounting For Income Taxes (SFAS 109)) is largely principles-based requiring a considerable degree of judgment for appropriate application based on business purpose and economic substance for certain tax transactions. Mr. Nicolaisen indicated that adequate disclosure and communication are critical to transparent financial reporting and provided a list of certain questions related to income taxes that should be discussed in the MD&A. Mr. Nicolaisen anticipates that an entity's management and internal auditors will be documenting their procedures for preparation of tax accounts, evaluating compliance functions, considering how key estimates are developed and recorded, and reviewing how tax planning strategies are developed, evaluated, and approved. Click here for a full text of the remarks http://www.sec.gov/news/speech/spch021104dtn.htm.

The FASB Issues an Exposure Draft (ED), Share-Based Payment

The proposed Statement addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments.

As proposed, companies would be required to recognize an expense for compensation cost related to share-based payment arrangements including stock options. The cost of employee services received in exchange for equity instruments would be measured based on the grant-date fair value of those instruments. The ED proposes several significant amendments to FASB Statement No. 123, Accounting for Stock-Based Compensation, including:

- The ED prefers a "lattice model" (e.g., binomial model) that incorporates employee's expected exercise and expected post-vesting employment termination behavior rather than a "closed-form model", such as the Black-Scholes-Merton model with a single weighted-average expected option term as an input.
- The ED requires that the compensation cost resulting from all share-based payment transactions be recognized in the financial statements. This ED also prospectively eliminates Statement 123's requirement for pro forma disclosures of the effect of applying the fair-value-based accounting method.
- The ED requires an entity to base its accruals of compensation cost on the number of options expected to vest and to adjust that estimate if the actual number of options differs from the previous estimates. The ability under Statement 123 to assume 100% vesting and recognize forfeitures only as they occur will not be permitted.
- Stock option awards with graded vesting would be treated as separate awards for each vesting date. The ability to treat such awards as a single award, currently permitted under Statement 123, would not be allowed.
- The ED requires entities to use the classification criteria in Statement 150, as they are effective at the reporting date, in determining whether an instrument granted to an employee is a liability or equity. The ED also provides guidance for determining when certain instruments issued to employees as compensation subsequently become subject to Statement 150.
- The ED requires an entity realizing income tax benefits less than the related deferred tax asset recorded to charge the difference to operations on the exercise date. An entity may not charge the difference directly to the equity accounts.

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- The ED amends FASB Statement No. 95, Statement of Cash Flows by reflecting the value of excess tax benefits as a financing cash inflow rather than an operating cash inflow in their cash flow statements.

As proposed, the new standard would be applied on a modified prospective basis as defined in the ED, and would be effective for public companies for fiscal years beginning after December 15, 2004.

The ED does not cover transactions with non-employees as those transactions will be covered in a separate FASB project. However, the FASB reconfirmed that non-employee directors are not employees although they generally would be subject to the guidance in the ED. In addition, the ED does not address the accounting for employee stock ownership plans, which currently are subject to the accounting requirements in AICPA Statement of Position (SOP) 93-6, *Employers' Accounting for Employee Stock Ownership Plans.*

Deloitte is providing the initial insights into the proposed standard on share-based payment awards in the latest issue of Heads Up, *Narrowing Your Options! Fair Value Accounting for Share-Based Payments* - click here to access.

Webcasts

Deloitte is hosting a webcast entitled *Sarbanes-Oxley: Nearly Done or Nearly Started, Capitalizing on Lessons Learned* for the banking & finance, securities and insurance clients on Thursday, April 29, 2004 12:00-2:00 p.m. EDT on issues and approaches that leading financial services institutions are taking to comply with Sarbanes-Oxley. Guest speakers include Marge Deverell, Prudential Insurance Company of America, Rick Hittner and Missi Borst, PNC Financial Services Group, and Chip Steppacher, Bear Stearns. This webcast will help CFOs, controllers and senior executives from the internal audit, risk and finance functions gain insight into how to develop a successful Sarbanes-Oxley compliance program. If you would like to participate, please contact Gina Madore Tel: +1 888 330 9573.

"*Narrowing Your Options! Fair Value Accounting For Share-Based Payments*" - this is a 90-minute webcast on Thursday, April 29, 2004, 4:00 - 5:30 pm EDT on the FASB's exposure draft on Share-Based Payment, an amendment of FASB Statement No, 123 and 95. If you would like to participate, please contact your Deloitte & Touche partner or send an email to ddecorral@deloitte.com.

Recent Deloitte Publications

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

- **Heads Up - Narrowing Your Options! Fair Value Accounting for Share-Based Payments** - click here
- **Accounting Roundup - First Quarter in Review - 2004** - click here
- **Accounting Roundup - March 29, 2004** click here
- **EITF Roundup - March 2004** - click here
- **A Roadmap to Applying the New Consolidation Guidance - FIN 46R** click here
- **Highlights of the PCAOB Auditing Standard No. 2: An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements** click here
- **New Corporate Governance Listing Standards: Audit Committee Handbook** http://www.auditcommittee.com (This handbook is available on Audit Committee Online or through your Deloitte & Touche partner. If you are not a registered user of Audit Committee Online and would like to gain access, please contact your Deloitte & Touche partner or send an email to corpgovernance@deloitte.com.
- **Business Ethics and Compliance in the Sarbanes-Oxley Era** - click here
- **Corporate Culture and the Control Environment: The Foundation of Internal Control** - click here
- **How to Choose the Right Partner to Guide You Through the Sarbanes-Oxley Maze** - click here
- **Audit Committee Financial Expert Designation and Disclosure Practices Survey** - click here
- **Audit Committee Brief (January 2003)** click here
- **Audit Committee Resource Guide** click here
- **Is There Life After Options? Deloitte Technology Stock Compensation Survey Summary Results** - click here
- **Conditions For Use of Non-GAAP Financial Measures** - click here
- **Industry Brief: Securities** - click here
- **IASPlus Website** - The International Accounting Standards Board recently revised several pronouncements, such as IAS 1, 2, 8, 10, 16, 17, 24, 28, 32, 33, 39 and 40. Deloitte's IASPlus website discusses these revisions as well as other current and future developments in the International Financial Reporting Standards (IFRS) environment. http://www.iasplus.com
- **E-learning training materials for International Financial Reporting Standards** Deloitte is pleased to make available e-learning training materials for IFRS. Click here to Access Deloitte's IFRS e-Learning Material. Content on the following standards is now available: IAS 1, IAS 2, IAS 8, IAS 11, IAS 14, IAS 17, IAS 18, IAS 21, IAS 27, IAS 28, IAS 31, IAS 34, IAS 37, IAS 40, IAS 41, and the Framework for the Preparation and Presentation of Financial Statements. Modules on the remaining standards are currently being developed and will be released in phases throughout 2004.

Other useful publications can be obtained on Deloitte's website - Click here

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