



US Reporting Newsletter for Non-US Based Companies

Global Offerings Services

September 2004

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

New York – Joel Osness
+1 (212) 436 3352

Hong Kong – Jay Harrison
+852 2852 6337

London - Donna Ward
+44 (20) 7007 0902

Madrid – Manuel Arranz
+34 (91) 514 5072

Mexico City – Trent Clifton
+52 (55) 5080 6781

Paris – Don Andrade
+33 (1) 4088 2508

Sao Paulo – Ed Ruiz
+55 (11) 5185 2500

Tokyo – Paul Thurston
+81 (3) 6213 3159

Toronto - Rod Barr
+1 (416) 874 3630

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GAAP Matters

FASB issues FSP FAS 142-2, *Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil and Gas-Producing Entities*

On September 2, 2004, the Financial Accounting Standards Board (FASB) issued FSP FAS 142-2, *Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil and Gas-Producing Entities*. Paragraph 8(b) of Statement 142 states that it does not change the accounting prescribed in FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. Questions have arisen as to whether the scope exception in paragraph 8(b) of Statement 142 includes the balance sheet classification and disclosures for drilling and mineral rights of oil- and gas-producing entities. The FASB staff acknowledges that the accounting framework in Statement 19 for oil- and gas-producing entities is based on the level of established reserves—not whether an asset is tangible or intangible. Accordingly, the FASB staff concludes that Statement 142 is not applicable to the disclosure provisions for drilling and mineral rights of oil- and gas-producing entities. However, an entity is not precluded from providing information about its drilling and mineral rights in addition to the information required by FASB Statement No. 69, *Disclosures about Oil and Gas Producing Activities*.

The guidance in this FSP shall be applied to the first reporting period beginning after September 2, 2004. If the guidance in this FSP results in the reclassification of an asset, prior-period amounts on the statements of financial position shall be reclassified. Early application of this guidance is permitted in periods for which financial statements have not yet been issued. [Click here](#) for the full text of the FSP.

FASB Clears SOP, Accounting for Real Estate Time-Sharing Transactions

On August 25, 2004, the FASB cleared AICPA's Accounting Standards Executive Committee's (AcSEC) Statement of Position (SOP) related to real estate time-sharing transactions. The SOP will be effective for fiscal periods beginning after June 15, 2005, with earlier application encouraged. Initial application should be recorded as a cumulative effect of a change in accounting principle. Companies will not be required to provide a pro forma information for the effects of retroactive application. Final issuance of the approved SOP is expected in the near term. [Click here](#) for the summary of the FASB's decisions on the approved SOP.

Highlights Of The July 27, 2004 Conference Call Of The AICPA's International Practices Task Force

The AICPA SEC Regulations Committee's International Practices Task Force (the "Task Force") met by conference call on July 27, 2004 with the Staff of the SEC to discuss emerging technical accounting and reporting issues relating to SEC rules and regulations. The Task Force discussed the issues related to Venezuela, and the following SEC staff issues – (a) Filing reviewer procedures and PCAOB registration, (b) References to local GAAS in audit reports and (c) PCAOB registration and quarterly reviews. [Read more](#) on the summary of the issues below.

SEC and Other Regulatory Matters

SEC Posts Technical Corrections to Final Rule on Additional Form 8-K Disclosure Requirements and Acceleration of Filing

On August 4, 2004, the SEC posted technical corrections to final rules related to Form 8-K disclosures and accelerated filing dates. Importantly, the corrections included an acceleration of the deadline for reporting events of Form 8-K from five to four business days. No filing extension to the four business day due date is available. However, the deadline for filing audited financial statements of a significant acquired business remains unchanged from the previous deadline. The new Form 8-K rules were adopted earlier this year and increased the number of events requiring disclosure on Form 8-K from 12 to 22. For your convenience, attached below is the summary of the rule changes and the reportable events – [read more](#). The requirements of Form 8-K are not applicable to Foreign Private Issuers.

The U.S. Firm's National Office pointed out that the following implementation questions have arisen with respect to the following two new reporting requirements on the Form 8-K:

- when a company concludes that its previously issued financial statements should not be relied upon due to an error as defined in APB Opinion No. 20, *Accounting Changes*.
- when the current or former independent registered public accounting firm notifies or advises the company pursuant to paragraph 6 of AU Section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, that it should take action or make disclosure to preclude future reliance on a previously issued audit report or interim review of the company's previously issued financial statements.

[Read more](#) on these implementation questions.

The corrections were effective on August 23, 2004.

[Click here](#) for the full text of the rule.

SEC Adopts a Technical Amendment on Quarterly Portfolio Disclosure Of Registered Management Investment Companies

On August 9, 2004, the SEC adopted a technical amendment to Form N-1A that corrects an instruction to the requirement for a registered open-end management investment company to include in its shareholder reports disclosure of fund expenses borne by shareholders during the reporting period. The SEC recently issued a release adopting amendments to Form N-1A that require registered open-end management investment companies to disclose in their reports to

shareholders fund expenses borne by shareholders during the reporting period. The amendments require shareholder reports to include: (1) the cost in dollars associated with an investment of \$1,000, based on the fund's actual expenses and return for the period; and (2) the cost in dollars associated with an investment of \$1,000, based on the fund's actual expenses for the period and an assumed return of 5 percent per year. The rule is effective from August 12, 2004. [Click here](#) for the full text of the release.

SEC Adopts a Rule to Improve the Disclosure Regarding Portfolio Managers Of Registered Management Investment Companies

On August 23, 2004, the SEC adopted amendments to its forms under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 to improve the disclosure provided by registered management investment companies regarding their portfolio managers. The amendments extend the existing requirement that a registered management investment company provide basic information in its prospectus regarding its portfolio managers to include the members of management teams. The amendments also require a registered management investment company to disclose additional information about its portfolio managers, including other accounts that they manage, compensation structure, and ownership of securities in the investment company. The rule is effective from October 1, 2004. [Click here](#) for the full text of the release.

SEC Proposes Temporary Postponement of the Final Phase-In Period for Acceleration of Periodic Report Filing Dates

On August 25, 2004, the SEC proposed to postpone, for one year, the final phase-in period for acceleration of the due dates of quarterly and annual reports required for accelerated filers. Exchange Act Rule 12b-2 defines an "accelerated filer" to mean generally an issuer with a public float of \$75 million or more.

The SEC originally decided to phase-in the accelerated filing deadlines over a three-year period in an effort to balance the market's need for information with the time companies need to prepare that information without undue burden. In year three of the phase-in period, with respect to annual reports filed for fiscal years ending on or after December 15, 2004, the annual report deadline was to become accelerated to 60 days, and the deadline for the three subsequently filed quarterly reports was to change to 35 days. The SEC proposes to postpone for one year, i.e. to fiscal years ending on or after December 31, 2005, the completion of the final phase-in of the accelerated filing deadlines to allow additional time and opportunity for accelerated filers and their auditors to focus their efforts on complying with the new Sarbanes-Oxley Section 404 requirements regarding internal control over financial reporting. The deadline would therefore stay at 75 days for one year longer.

The proposed change would avoid subjecting accelerated filers at the same time to a further compression of filing deadlines. An accelerated filer in the U.S. must begin to include both a management report and auditor report on the effectiveness of its internal control over financial reporting in its annual report filed for its first fiscal year ending on or after November 15, 2004. The rules as currently drafted will result in most accelerated filers in the U.S. having to comply for the first time with the internal control reporting requirements within the same timeframe that their annual report deadlines are scheduled to change from 75 to 60 days for fiscal years ending on or after December 15, 2004. [Click here](#) for the full text of the release. The comment period ends October 1, 2004.

Miscellaneous

FEI's Sarbanes-Oxley Survey

Complying with Section 404 of The Sarbanes-Oxley Act will cost public companies an average 62% more than previously anticipated, according to a July 2004 FEI survey. The increase in Section 404 compliance costs stems from a 109% rise in internal costs, a 42% jump in external costs and a 40% increase in the fees charged by external auditors. FEI surveyed 224 public companies with average revenues of \$2.5 billion to gauge Section 404 compliance cost estimates. Results showed the total cost of compliance is now estimated at \$3.14 million, or 62% more than the \$1.93 million estimate identified in FEI's January 2004 survey. The companies surveyed expect to pay their auditors \$823,200 in fees for attestation of their internal controls, in addition to the annual audit fees. This compares to the \$590,100 companies expected auditors would charge for attestation in January 2004. [Click here](#) for the full text of the press release and the results.

Deloitte issues *Sarbanes-Oxley Section 404: 10 Threats to Compliance*

This white paper identifies 10 key internal control issues that many companies find especially challenging to address. Drawing on Deloitte & Touche LLP's field experience with over 800 Sarbanes-Oxley section 404 readiness projects, this paper, aimed at public companies, will allow these companies to take a proactive approach toward these issues and assist them in keeping their section 404 projects on track.

[Click here](#) to access the publication.

Webcasts

Addressing Corporate Section 404 Readiness

On September 22, 2004, Deloitte & Touche LLP and the Financial Executives Research Foundation (FERF) co-hosted a web conference entitled "*Sarbanes-Oxley Section 404: Where Are We Now?*" designed to help financial executives. These discussions are meant to provide financial executives with the opportunity to hear from thought-leaders on timely topics. The following topics were discussed: evaluating and remediating deficiencies, internal control over financial reporting, documentation and testing procedures, resources, including internal audit related questions. [Click here](#) to access the playback of the conference.

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GAAP Matters

Highlights Of The July 27, 2004 Conference Call Of The AICPA's International Practices Task Force

The following are the highlights of the July 27, 2004 meeting of the AICPA's International Practices Task Force with the SEC staff:

1. Issues related to Venezuela

The Task Force has discussed issues related to Venezuela, including inflationary status and the government's currency control regime. The Task Force noted that in March 2004, the Venezuelan government depreciated its currency to approximately 1,900 VEB per dollar, which continues to be the official rate. Given the increasing inflation rate trend during the year, and the continued uncertainties in the economic environment, the Task Force agreed that absent any significant changes before the end of 2004, Venezuela is likely to be considered highly inflationary no later than January 1, 2005.

The Task Force also reaffirmed its prior views that, (i) the use of the official rate would be appropriate to remeasure transactions and translate Venezuelan Bolivar financial statements, (ii) the use of the U.S. dollar as the functional currency is appropriate as a result of the currency restrictions in place; and that (iii) it is not appropriate to deconsolidate Venezuelan operations absent any other control considerations.

2. SEC Staff issues

(a) Filing reviewer procedures and PCAOB registration:

The Staff noted that it had received questions about whether a foreign audit firm's registration with the PCAOB would supercede existing means by which a firm demonstrates its qualifications to practice before the SEC. The Staff indicated that foreign auditors are still expected to demonstrate their qualifications to practice before the SEC. The Staff also emphasized the importance of the filing reviewer procedures and noted that they have been adopted as part of the PCAOB standards, and therefore, continues to be applicable.

(b) References to local GAAS in audit reports

The Staff noted that an issue has been raised about the acceptability of making reference to compliance with both home-country GAAS and PCAOB Standards in audit reports of foreign private issuers. The Staff indicated that they would not object to such references. The Staff also noted that, consistent with the discussion in the November 2003 Task Force highlights, auditors of Canadian MJDS filers may continue to refer to only Canadian GAAS in audit reports filed with the Commission.

(c) PCAOB registration and quarterly reviews

The Staff also noted that after July 19, 2004, a foreign audit firm is precluded by the Sarbanes-Oxley Act from commencing audit work or signing audit reports with respect to financial statements of registrants until it has completed its registration with the PCAOB.

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SEC and Other Regulatory Matters

Summary of the New Form 8-K Requirements

Below is the summary of the new 8-K rules adopted by the SEC earlier this year that became effective for all U.S. companies that are required to file periodic reports with the SEC on August 23, 2004. The new rules added eight types of reportable events to the form and expanded the disclosure requirements for the two pre-existing reportable events. The

new rules also require more timely reporting of two events that previously were reported on quarterly or annual reports by transferring those requirements to Form 8-K. In total, there are now 22 types of events that must be reported on Form 8-K, an increase from 12.

The following eight incremental events or transactions now require disclosure on Form 8-K:

1. Entry into a "material definitive agreement" that is NOT made "in the ordinary course of business;"
2. Termination of a "material definitive agreement;"
3. Creation of a material direct financial obligation or a material obligation under an off-balance sheet arrangement;
4. Occurrence of triggering events that accelerate or increase a material direct financial obligation or a material obligation under an off-balance sheet arrangement;
5. Commitment to an exit plan or disposal activities;
6. Material charge for impairment of one or more asset;
7. Transfer of listing from one national stock exchange or stock association to another, delisting, or notice of failure to satisfy a continued listing rule or standard; and
8. Inability to rely on previously issued financial statements or the associated audit report or interim review due to financial statement error.

The SEC also expanded the disclosure requirements for pre-existing reportable events:

1. Changes in Boards of Directors and executive officers, including disagreements with departing directors, whether or not communicated in writing. Previously, companies reported only departures of directors who had expressed in writing a disagreement with the company.
2. Changes in articles of incorporation or bylaws. Expanded from changes in fiscal years.

The SEC moved two items from annual and quarterly reports (Forms 10-K/KSB and 10-Q/QSB) to Form 8-K:

1. Information on the sale of unregistered equity; and
2. Description and general effect of material modifications to the rights of the holders of any class of the registrant's registered securities.

Under the new Form 8-K rules, the SEC adopted a limited safe harbor for registrants from liability for failure to timely file required Form 8-K reports. The safe harbor applies to all of the new items above except No. 7 (listing changes) and extends only until the due date of the next annual or quarterly report. Also, registrants that fail to timely file reports for the seven items will still be able to use Forms S-2 and S-3. However, the registrant must be current with its Form 8-K filings at the time it files the registration statement.

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Implementation Questions Related To Certain New Form 8-K Rules

Certain implementation questions have arisen with respect to the reporting requirements under new Item 4.02 of Form 8-K. Item 4.02(a) requires the filing of a Form 8-K when a company concludes that its previously issued financial statements should not be relied upon due to an error as defined in APB Opinion No. 20, Accounting Changes. Item 4.02(b) requires the filing of a Form 8-K when the current or former independent registered public accounting firm notifies or advises the

company pursuant to paragraph 6 of AU Section 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report, that it should take action or make disclosure to preclude future reliance on a previously issued audit report or interim review of the company's previously issued financial statements.

One question is whether an Item 4.02(a) Form 8-K is required to be filed for every revision to a company's previously issued financial statements that is the result of an error. Based on informal conversations with the SEC staff, it is our understanding that a filing under Item 4.02 may not be required for every revision to previously issued financial statements. There is a rebuttable presumption that any restatement for the correction of an error is, by nature, material and results in a conclusion that prior financial statements should not be relied upon, thus triggering the need to file an Item 4.02 Form 8-K. However, this presumption can be overcome if the company and its independent registered public accounting firm conclude, based on a materiality assessment made pursuant to Staff Accounting Bulletin No. 99 on materiality, that the prior financial statements may continue to be relied upon. In this case, an Item 4.02(a) Form 8-K would not need to be filed. However, the staff has indicated that it would be "surprised" if amounts in the primary financial statements were changed due to an error, but an Item 4.02 Form 8-K was not filed. Furthermore, the staff will likely question any situation in which previously issued financial statements were changed due to an error, but an Item 4.02 Form 8-K was not filed. Accordingly, any determination that results in a conclusion that a Form 8-K is not required to be filed must be supported by a reasoned materiality assessment performed and documented by the company.

Another question is whether an Item 4.02(b) Form 8-K must also be filed if a company has taken appropriate action to prevent reliance on the financial statements and has filed a Form 8-K under Item 4.02(a). Based on informal conversations with the SEC staff, it is our understanding that the staff would not expect an Item 4.02(b) Form 8-K to be filed every time there is an Item 4.02(a) Form 8-K filing. The staff has indicated that a company should report under Item 4.02(a) when it concludes that reliance should not be placed on previously issued financial statements because of an error in such financial statements, and should report under Item 4.02(b) when the independent registered public accounting firm has concluded and has notified or advised the company that action should be taken to prevent future reliance on the auditor's report or completed interim review. In determining whether a filing is required under Item 4.02(b), the staff acknowledges that an auditor advising a client to whether matters coming to the auditor's attention require revision to previously issued financial statements is different from notifying the company that the auditor has that steps should be taken to prevent future reliance on the auditor's report or completed interim review. The staff indicated that it does not believe that an Item 4.02(b) Form 8-K is triggered by the situation. However, the staff emphasized that filing under Item 4.02(a) (without also filing under Item 4.02(b)) would be acceptable only if the registrant otherwise made the requisite disclosures required by paragraph 6 of AU Section 561 without the auditor first concluding and notifying or advising the company that its previously issued audit report or completed interim review should no longer be relied upon.

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Recent Deloitte Publications

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

[▶ Antifraud Programs and Controls Whitepaper](#)

This publication provides questions, examples, and steps for management to consider when creating and implementing antifraud programs and controls. Antifraud activities represent an important component of Sarbanes-Oxley compliance and an essential element of a COSO-based system of internal control. This document may be a useful tool as your company works to meet the requirements of the law.

[▶ Quality Assessment Services. Achieving Greater Enterprise Value and Better Corporate Governance Through Better Effective Internal Audit Performance](#)

An independent quality assessment of their Internal Audit department is required by the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (Standards) at least once every five years. Companies should obtain a more broad strategic assessment review, which can provide a level of comfort and understanding to boards and audit committees about their Internal Audit function's efficiency and effectiveness for assessing management's actions related to managing and mitigating enterprise risk. To obtain this publication – please contact your GOs professional.

[▶ Audit Committee Brief: August 2004](#)

Review key regulatory, technical and professional developments in corporate governance and accounting in Deloitte's quarterly newsletter, *Audit Committee Brief*.

[▶ Strategies for Going Public](#)

Deloitte's U.S. Offerings Services released an external publication, *Strategies for Going Public*, which will help companies through the initial public offering process by providing practical, working knowledge of the complex procedures involved. Helpful tools include a timetable for going public, a sample due diligence checklist, and a discussion of the new Sarbanes-Oxley requirements. The guidebook will also assist companies in optimizing teamwork by outlining the role of company and its professional advisors in the IPO process. To obtain this publication – please contact your GOs professional.

[▶ Accounting Roundup: September 10, 2004](#)

[▶ Accounting Roundup: August 20, 2004](#)

[▶ Heads Up: Vol. 11, Issue 6. FASB to Tackle Two Tough Tax Topics](#)

[▶ Taking Control. A Guide to Compliance with Section 404 of the Sarbanes-Oxley Act of 2002](#)

[▶ Heads Up: Vol. 11, Issue 5. Consistency — A Fair-ly Good Idea! FASB Proposes to Make Fair Value Measurement Guidance Consistent](#)

[▶ Heads Up: Vol. 11, Issue 4. Who Said Retirement Is Easy? FASB Proposes to Interpret Asset Retirement Accounting](#)

[▶ Accounting Roundup: Second Quarter in Review - 2004](#)

[▶ IAS Plus Website -](#)

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The International Accounting Standards Board recently revised several pronouncements, such as IAS 1, 2, 3, 8, 10, 16, 17, 24, 28, 32, 33, 39 and 40. Deloitte's IAS Plus 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 free of charge. [Click here](#) to Access Deloitte's IFRS e-Learning Material. Content on the following standards is now available: IAS 1, IAS 2, IAS 7, IAS 8, IAS 10, IAS 11, IAS 14, IAS 16, 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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