



# US Reporting Newsletter for Non-US Based Companies

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Global Offerings Services

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## June 2006

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

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## GAAP Matters

### AICPA Issues Technical Practice Aids on Loan Pool Accounting Under SOP 03-3

On May 15, 2006, the AICPA issued two Technical Practice Aids (TPAs) regarding the impact on cash flows for a group of loans accounted for as a pool in accordance with AICPA Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. The TPAs provide examples of the impact on the accounting for a pool of loans when there is a confirming event (e.g., bankruptcy and default by an obligor). The guidance under each TPA is summarized below:

TPA 2130.36 illustrates through an example, the impact on cash flows on a group of loans accounted for as a pool in accordance with SOP 03-3, if there is a confirming event and one loan is removed as expected, and the investor does not change its original expectation of cash flows.

TPA 2130.37 provides an example of the impact on cash flows on a group of loans accounted for as a pool in accordance with SOP 03-3, if there is a confirming event, one loan is removed from the pool, and the investor decreases its estimate of expected cash flows.

[Click here](#) to access the text of the TPAs.

### AICPA Issues TPA on Parent-Only Financial Statements and Relationship to GAAP

On June 6, 2006, the AICPA issued TPA 1400.31 relating to *Parent Only Financial Statements and Relationship to GAAP*. This TPA states that in circumstances in which an entity prepares parent-company only financial statements without preparing related consolidated financial statements, the parent company-only financial statements are not in accordance with GAAP.

[Click here](#) to access the text of the TPA.

### FASB Issues Proposed FSP FAS 123(R)-e That Would Amend FSP FAS 123(R)-1

On June 8, 2006, the FASB issued proposed FASB Staff Position (FSP) FAS 123(R)-e, "Amendment of FASB Staff Position FAS 123(R)-1." This FSP proposal addresses whether a modification of an instrument in connection with an equity restructuring or a business combination should be considered a modification for purposes of applying FSP FAS 123R-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)." Currently, FSP 123R-1 requires an entity to apply the recognition and

measurement provisions of FASB Statement No. 123 (R), *Share-Based Payment*, throughout the life of an instrument, unless the instrument is modified when the holder is no longer an employee. The recognition and measurement of an instrument that is modified when the holder is no longer an employee should then be determined by other applicable GAAP.

The FASB is proposing a clarification to instruments that were originally issued as employee compensation and then exchanged or changed, and the only change is made to the terms of an award to reflect an equity restructuring or a business combination that occurs when the holders are no longer employees. The proposed FSP provides that no change in the recognition and measurement (due to a change in classification) of those instruments will result under the following conditions:

- a. Either there is no increase in value to the holders of the instrument or the exchange or change in the terms of the award is not made in contemplation of an equity restructuring or a business combination; and
- b. All holders of the same class of equity instruments (e.g., stock options) are treated in a similar manner.

Comments on this proposed FSP are due July 8, 2006.

[Click here](#) to access the text of the proposed FSP.

### **FASB Issues Proposed FSP No. AUG AIR-a on Accounting for Planned Major Maintenance Activities**

On May 31, 2006, the FASB issued proposed FASB Staff Position (FSP) AUG AIR-a, "*Accounting for Planned Major Maintenance Activities*." This FSP would eliminate the "accrue-in-advance" method of accounting for planned major maintenance activities that is permitted in the AICPA Industry Audit Guide, *Audits of Airlines*. Currently, a company that incurs maintenance cost that is planned (e.g., jet engine overhauls) is permitted to account for such maintenance cost using one of four methods (direct expense, built-in overhaul, deferral and accrue-in-advance.)

If adopted as currently drafted, the guidance in the proposed FSP would be required to be applied retrospectively for all periods presented and would be effective as of the first fiscal year beginning after December 15, 2006. The proposed FSP would require disclosures of the effect of the change from accrue-in-advance method to another method.

Comments on this proposed FSP are due July 31, 2006.

[Click here](#) to access the text of the proposed FSP.

### **FASB Invites Comments on Bifurcation of Insurance Contracts by Insurance Companies and Corporate Policyholders to Improve Financial Reporting for Insurance Accounting**

The FASB has issued an Invitation to Comment, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*. The proposed accounting would apply to policyholders, insurers and reinsurers. The FASB's stated purpose of this document is to gather input from the buyers and sellers of insurance and reinsurance contracts and the users of their financial statements about the possible bifurcation of those contracts. Bifurcation would divide some or all of these contracts into the following components for financial reporting purposes:

- a. Components that transfer significant insurance risk and are accounted for as insurance - for policyholders, that means premiums are expensed during the contract period and the occurrence of an insured event generates an insurance recovery that is recorded as a gain in the income statement; and

- b. Financing components that are accounted for as deposits - for policyholders, that means premiums paid are recorded as an asset by the policyholder and the recovery from an insured event is a reduction to the deposit with no income statement benefit.

The FASB believes that the accounting by insurance companies and reinsurance companies (as policyholders) generally mirrors the accounting by noninsurance-company policyholders.

Comments on the Invitation to Comment are due August 24, 2006.

[Click here](#) to access the text of the Invitation to Comment.

### **Revised Draft SOP on the Scope of the Audit and Accounting Guide for Investment Companies Sent to FASB for Final Approval**

A discussion draft of the proposed Statement of Position (SOP), *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*, has been sent to the FASB for final approval. The proposed SOP, issued on March 16, 2006 states that for the purposes of the separate financial statements of an entity, the AICPA Audit and Accounting Guide, Investment Companies (Investment Company Guide), is applicable to:

- Entities regulated by the 1940 Act or similar requirements, and
- Separate legal entities whose business purpose and activity are investing in multiple substantive investments for current income, capital appreciation, or both, with investment plans that include exit strategies.

The proposed SOP also provides guidance for determining whether Investment Company accounting that is applied by a subsidiary or equity method investee should be retained in the consolidated financial statements of the parent or the equity method investor. The provisions of the proposed SOP would be effective for fiscal years beginning after December 15, 2006.

The FASB is expected to discuss whether to approve the proposed SOP during a July 2006 meeting.

[Click here](#) to access the text of the proposed SOP.

### **Highlights of the June EITF Meeting**

The Emerging Issues Task Force (EITF) discussed the following issues at its June 15, 2006 meeting:

- Issue No. 05-1, *Accounting for the Conversion of an Instrument That Becomes Convertible upon the Issuer's Exercise of a Call Option*
- Issue No. 05-7, *Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues*
- Issue No. 06-1, *Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider*
- Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences*
- Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)*

- Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*
- Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*

The EITF reached a consensus on Issues 05-1, 06-2 and 06-3, and reached tentative conclusions on Issues 06-1, 06-4 and 06-5. The EITF no longer reaches a consensus without first exposing its tentative conclusion for public comment. The consensus reached at this meeting resulted from tentative conclusions reached by the EITF at its March 16, 2006 meeting. The consensus reached in these three issues must still be ratified by the FASB before they become GAAP. The consensus reached were generally consistent with the draft abstracts of the tentative conclusions reached at the March 16, 2006 meeting that were exposed for public comment; however, certain modifications were made for transition and effective dates as well as a scope clarification in Issue 06-3.

Among the tentative conclusions reached at the June 15, 2006 meeting, was a decision in Issue 06-1 that a service provider should characterize any consideration given to a third-party manufacturer or reseller (that is not a customer of the service provider) based on the form of consideration directed by the service provider to be provided to the service provider's customer. If the form of the consideration to be provided to the service provider's customer is stipulated to be anything other than "cash," then the form of consideration would be characterized as "other than cash" for purposes of applying EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. If the service provider does not ultimately control the form of consideration provided to the service provider's customer, the consideration should be characterized as "other than cash" for purposes of applying Issue 01-9.

The FASB is scheduled to consider at its June 28, 2006 meeting ratifying the consensus reached in Issues 05-1, 06-2 and 06-3 and the various tentative conclusions reached at this meeting. If ratified by the FASB, the consensus will become authoritative and the tentative conclusions will be exposed for a 30-day comment period

[Click here](#) to access the highlights of the June 2006 meeting.

## Regulatory Matters

### PCAOB Announces Four-Point Plan to Improve Implementation of Internal Control Reporting Requirements

On May 17, 2006, the PCAOB announced a four-point plan to improve auditors' implementation of the internal control reporting provisions of the Sarbanes-Oxley Act of 2002 (the 'Sarbanes-Oxley Act').

Section 404 of the Sarbanes-Oxley Act requires public companies to annually assess and publicly report on the effectiveness of their internal control over financial reporting. PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements*, establishes the professional standards for auditors when conducting an audit of internal control over financial reporting.

In a continuation of its efforts to assist with the implementation of Auditing Standard No. 2, the PCAOB will undertake four initiatives:

1. Amend Auditing Standard No. 2. While preserving the principles of Auditing Standard No. 2, the PCAOB plans to consider amendments that would ensure that auditors' primary focus during an integrated audit is on areas that pose higher risk of

fraud or material error. The amendments to be proposed would reinforce the PCAOB's expectation that the integrated audit be conducted in the most efficient manner, while achieving the objectives of the standard, by incorporating key concepts contained in the guidance issued by the PCAOB on May 16, 2005. The PCAOB also plans to revisit and clarify the auditor's role, if any, with respect to evaluation of the process that a company uses to reach its own conclusion about the effectiveness of company controls.

Additional amendments to Auditing Standard No. 2 being considered by the PCAOB include:

- Clarifying the definitions of significant deficiency and material weakness in internal control;
- Reconsidering the "strong indicators of a material weakness" to allow for more judgment in determining whether a deficiency exists;
- Guiding auditors to increase their use of the work of others where appropriate;
- Clarifying materiality and scoping decisions;
- Emphasizing the integration of the audit of internal control with the audit of the financial statements; and
- Allowing for and promoting auditors' use of experience gained in previous years' audits to focus and make most efficient the work in subsequent years.

The PCAOB will establish an effective date for any amendments that would minimize any unnecessary disruption to on-going audits of internal control and would not hinder auditors' current efforts to fully implement the May 16, 2005 guidance.

2. Reinforce auditor efficiency through PCAOB inspections. As the PCAOB described in a statement issued May 1, 2006, the PCAOB's 2006 inspections of registered public accounting firms will focus on the firms' efficiency in conducting internal control audits.
3. Guidance and Education for Auditors of Small Companies. The PCAOB plans to develop or facilitate development of implementation guidance for auditors of smaller public companies. In addition, the PCAOB plans to explore various means of facilitating opportunities for auditors of smaller public companies to obtain effective training on auditing internal control over financial reporting.
4. Continue PCAOB Forums on Auditing in the Small Business Environment. The PCAOB will hold a total of eight forums during 2006 for the auditors, directors and financial officers of smaller public companies. In addition to providing general education about PCAOB issues, the PCAOB will use these forums to monitor real-time reaction to the various internal control-related implementation changes that are announced throughout the year.

[Click here](#) to access the PCAOB press release.

## Other Matters

### FASB Announces Appointment of New Board Member

Accounting professor Thomas J. Linsmeier has been appointed by the Financial Accounting Foundation to replace current FASB member Katherine Schipper. Previously, Mr. Linsmeier has served as an academic fellow in the Office of the Chief Accountant of the SEC and as a special consultant to the SEC with responsibility for formulating disclosure rules for reporting market risks inherent in derivatives and other financial instruments. Mr. Linsmeier's term will become effective July 1, 2006, and will run through June 30, 2011.

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#### **Sarbanes-Oxley**

- Enterprise Information Management: A Critical Step in Sarbanes-Oxley Compliance (June 22, 2:00 PM EDT (18:00 GMT))

#### **Financial Reporting**

- EITF Roundup: Highlights of the June Meeting (June 20, 2:00 PM EDT (18:00 GMT))

#### **Driving Enterprise Value**

- Marching to the Same Tune – Innovations in Performance Measurement and Business Analytics (June 21, 3:00 PM EDT (19:00 GMT))

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

## **Recent Deloitte Publications**

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

- ▶ [Accounting Roundup: April 2006](#)
- ▶ [Accounting Roundup: 1st Quarter in Review - 2006](#)
- ▶ [EITF Roundup: March 2006](#)
- ▶ [Heads Up: FSP Emphasizes Entity Design in Accounting Under Interpretation 46\(R\)](#)
- ▶ [Addressing the FASB Statement No. 123\(R\), Share-Based Payment Standard](#)

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### **Back to top**

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### [Back to top](#)

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