



US Reporting Newsletter for Non-US Based Companies

Global Offerings Services

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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 Consolidation of Variable Interest Entities

On April 29, 2006, the AICPA issued four Technical Practice Aids (TPAs) relating to FASB Interpretation (FIN) No. 46(R), *Consolidation of Variable Interest Entities*. The guidance under each TPA is summarized below:

TPA 1400.29, *Consolidated Versus Combined Financial Statements under FIN 46R* states that a reporting entity that is the primary beneficiary of a variable interest entity (VIE) under FIN 46(R) should not issue combined financial statements (including the VIE); rather, the primary beneficiary should issue consolidated financial statements.

TPA 1400.30, *Stand-Alone Financial Statements of a VIE* states that in certain circumstances, it may be appropriate to issue standalone financial statements of a VIE (i.e., subsidiary-only financial statements).

TPA 1400.31, *GAAP Departure for FIN 46(R)* states that the failure of the primary beneficiary of a VIE under FIN 46(R) to consolidate that VIE should be considered a departure from GAAP. A qualified or adverse opinion should be issued to the extent that the effects of the departure are considered material to the financial statements.

TPA 1500.06, *Application of FIN 46(R) to Income Tax Basis Financial Statements* states that the consolidation provisions of FIN 46(R) do not apply to financial statements prepared on an income tax basis. The Internal Revenue Code (IRC) provides guidance for income tax basis financial statements, and the threshold for consolidation under the IRC is 80 percent ownership. The required disclosures of FIN 46(R) should be made, or enough information should be provided to communicate the substance of those disclosures, in income tax basis financial statements.

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

AICPA Issues Alert With An Update to SEC Staff Position on the Statement of Cash Flows Relating to Discontinued Operations (Addendum to CPCAF Alert #90)

On April 19, 2006, the AICPA's Center for Public Company Audit Firms (CPCAF) issued CPCAF Alert #98, which provides guidance on interim periodic reports and registration and proxy statements filed subsequent to February 15, 2006, when dealing with situations discussed in CPCAF Alert #90. This relates to the SEC Staff Position regarding changes to the statement of cash flows relating to discontinued operations.

Alert #90, issued on February 15, 2006, discusses considerations related to changing cash flow statements for inappropriate presentations of discontinued operations. Under that Alert, registrants were allowed to retrospectively modify their presentations in a manner similar to a change in accounting method. Alert #90 stipulated that corrections must be made in the next periodic report filed subsequent to February 15, 2006.

Alert #98 discusses the appropriate revisions and disclosures that must be included in interim periodic reports on Form 10-Q filed subsequent to February 15, 2006. The Alert states that Form 10-Q should:

- Present the year-to-date information using the presentation guidance noted in Alert #90, and
- Revise the comparative prior period condensed Statement of Cash Flows to reflect the guidance noted in Alert #90 and label the information as "revised" or "restated" (if the company has not previously filed revised prior period cash flow information).

Generally, the Alert requires the following disclosures for Forms 10-Q and registration/proxy statements filed subsequent to February 15, 2006, but before filing an annual report on Form 10-K that includes the revised cash flow presentation:

- The registrant's intent to revise its previously issued annual Statements of Cash Flows in its next annual report;
- The reasons for the revisions; and
- The quantitative effect of the revision on the three latest fiscal years (and the most recent interim-to-date period, if applicable — the Alert discusses disclosure alternatives that may satisfy this requirement).

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

FASB Issues Exposure Draft to Improve Accounting for Postretirement Benefit Plans, Including Pensions

On March 31, 2006, the FASB issued a proposed statement *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*. This Statement represents the initial phase of a comprehensive project on employers' accounting for defined benefit postretirement plans. The objective of this Statement is to make employers' financial statements with respect to those plans more complete and understandable and, thus, more useful for users of financial statements by amending the recognition and disclosure requirements of FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

The proposed Statement is issued to address the concern that existing standards on employers' accounting for defined benefit postretirement plans fail to produce representationally faithful and understandable financial statements. That is because existing standards do not require an employer to report the current economic status (the overfunded or underfunded status) of a defined benefit postretirement plan in its statement of financial position and because they do not provide for complete recognition in comprehensive income of events occurring during the period. The proposed statement would improve financial reporting and require an employer that sponsors a defined benefit postretirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its statement of financial position, which would eliminate the need for a reconciliation in the notes to financial statements. Moreover, the proposed Statement also would require an employer to measure the plan assets and plan obligations as of the date of its statement of financial position rather than as a measurement date that is up to three months before the end of its fiscal year. As a result of

this, the reported financial information would be improved by being more complete and more representationally faithful, by measuring plan assets and benefit obligations as of the same date as the employer's other assets and liabilities, and by including, as recognized items, all changes in a plan's overfunded or underfunded status as they arise.

The proposed statement requires an employer that sponsors one or more defined benefit pension or other postretirement plans to recognize an asset or liability for the over-funded status or under-funded status of the defined benefit postretirement plan. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation (PBO). For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation (APBO). Employers must record all unrecognized prior service costs and credits and unrecognized actuarial gains and losses in accumulated other comprehensive income (OCI). Such amounts will then be reclassified into earnings as components of net periodic benefit cost/income pursuant to the current recognition and amortization provisions of Statements 87 and 106. Unrecognized transition obligations or assets remaining from the initial application of Statements 87 and 106 will be recorded as an adjustment to the opening balance of retained earnings upon adoption and will no longer be subsequently amortized as a component of net periodic benefit cost/income.

The exposure draft applies to plan sponsors that are public and private companies and nongovernmental not-for-profit organizations.

The proposed statement, other than the requirement to measure plan assets and obligations as of the date of the employer's statement of financial position, would be effective for fiscal years ending after December 15, 2006, for all companies. The requirement to measure the plan assets and benefit obligations as of the date of the employer's statement of financial position is effective for public companies for fiscal years beginning after December 15, 2006. For nonpublic entities including not-for-profit organizations, this requirement will be effective for fiscal years beginning after December 15, 2007. Retrospective application is prohibited for this requirement.

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

Regulatory Matters

SEC Approves PCAOB Rules on Auditor Ethics, Independence and Tax Services

On April 19, 2006, the Securities and Exchange Commission (the "SEC") approved PCAOB's "Ethics and Independence Rules Concerning Independence, Tax Services and Contingent Fees" without change other than to accept the amendments that PCAOB had made to the effective dates. In approving the rules, the SEC did state that it expects the PCAOB to issue additional implementation guidance in a number of areas. Some of the key points of these rules are:

Rule 3501 sets forth the requirement for the public accounting firm to be independent of its audit clients throughout the audit and professional engagement period as a fundamental obligation of the auditor. Rule 3502 establishes a standard for ethical conduct for persons associated with registered public accounting firm by indicating that they have a responsibility to not cause violations of the Sarbanes-Oxley Act, the rules of the PCAOB or the provisions of securities law due to actions they take or 'omit' to take that directly and substantially contribute to the violation. Rule 3520 (Auditor Independence), Rule 3502 as well as the definitions in Rule 3501 will become effective on April 29, 2006.

Rule 3521 which prohibits contingent fees from clients will take effect 60 days after the date of SEC order. If fees are paid in entirety, converted to fixed fees or otherwise unwound before 60 days elapses no violation will occur. This rule applies to audit and professional engagement period which includes the period covered by the financial statements.

Rule 3522 (Tax Transactions) will apply to tax services that are not completed by June 18, 2006. Engagements to provide tax services to a person who fills a financial reporting oversight role (Rule 3523) have been added to the list of prohibited services. Engagements that are in place on April 19, 2006 can continue but must be completed by October 31, 2006. An engagement will be considered in process, if as on April 19, 2006, (1) an engagement letter has been issued (2) substantial work on the engagement had commenced.

Rule 3524 (Audit Committee Pre-Approval of Certain Tax Services) will apply to tax services pre-approved on an engagement-by-engagement basis on or after June 18, 2006. In the case of tax services provided to audit clients whose audit committees pre-approve tax services via policies and procedures, Rule 3524 will not apply to any such tax service that begins within one year of April 19, 2006.

[Click here](#) to access the SEC's order approving the PCAOB's rules.

SEC Announces Next Steps for Sarbanes-Oxley Implementation

On May 17, 2006, the SEC announced a series of actions that it intends to take to improve the implementation of the Section 404 internal control requirements of the Sarbanes-Oxley Act of 2002. These actions include issuing SEC guidance for companies and working with the PCAOB on revisions of the Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. These actions are based on extensive analysis and commentary in recent months from investors, companies, auditors and others. The expected actions will also include SEC inspections of PCOAB efforts to improve Section 404 oversight and a brief further postponement of the Section 404 requirements for the smallest company filers, although ultimately all public companies will be required to comply with the internal control requirements of Section 404. These steps are designed to further improve the reliability of financial statements and to better protect investors while making the Section 404 process more efficient and cost effective.

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

SEC's Advisory Committee on Smaller Public Companies Issues Final Report

The SEC established an Advisory Committee on Smaller Public Companies (the "Committee") to examine the impact of the Sarbanes-Oxley Act of 2002 and other federal securities laws on smaller companies. The Committee has been meeting, and has held hearings in various parts of the country since April 2005.

On April 23, 2006, the Committee issued its final report to the SEC. The final report includes 33 recommendations to the SEC concerning the regulatory system for smaller companies under the U.S. securities laws. One of the report's primary recommendations is to provide relief from the internal control provisions of the Sarbanes Oxley Act of 2002 for certain public companies with a market capitalization of \$787.1 million or less. Several of the report's primary recommendations are outlined in an article included in the March 2006 edition of Accounting Roundup.

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

Overview of PCAOB Auditing Standard No. 4

On April 27, 2006, the PCAOB provided overview of Auditing Standard No. 4, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist* (AS No. 4) for informational purposes. Compliance with AS No. 4 will continue to be determined by reference to the standard. Accordingly, auditors should refer to and apply the provisions of AS No. 4 and related PCAOB standards when performing an engagement to report on whether a previously reported

material weakness continues to exist. The details of AS No. 4 are outlined in an article included in March 2006 edition of external news letter.

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

Other Matters

Federal Agencies Request Comment on Revised Statement Concerning Elevated Risk Complex Structured Finance Activities

On May 9, 2006, five federal agencies namely the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the SEC requested public comment on a revised proposed statement on the complex structured finance activities of financial institutions. The revised statement describes the types of internal controls and risk management procedures that should help financial institutions identify, manage and address the heightened legal and reputational risks that may arise from certain complex structured finance transactions.

The agencies have modified the revised statement in several important respects in light of the comments received on the original proposed statement, which was issued for comment on May 19, 2004. For example, the agencies have reorganized, streamlined and modified the statement to make the document more principles-based and focused on those complex structured finance transactions that may pose heightened levels of legal or reputational risk to a financial institution. The revised statement would represent supervisory guidance for institutions supervised by the four banking agencies and a policy statement for institutions supervised by the Securities and Exchange Commission.

Comments on the revised statement are requested within thirty days of publication in the Federal Register, expected shortly.

[Click here](#) to access the press release and the proposed statement.

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Upcoming Webcasts include the following:

Sarbanes-Oxley

- Control Rationalization: Are You Doing the Right Things? (May 25, 2:00 PM EDT (18:00 GMT))

Financial Reporting

- Proposed FASB Statement on Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (May 18, 2:00 PM EDT (18:00 GMT))

Driving Enterprise Value

- Finance Operations Improvement: Taking a More Strategic Role in the Enterprise (May 17, 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](#)
- ▶ [Accounting 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](#)

[IAS Plus Website](#)

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