

## U.S. Reporting Newsletter for Non-U.S. Based Companies

### Recent Developments



*This newsletter reports recent developments in U.S. GAAP and IFRS Accounting, as well as at the SEC and PCAOB that are of interest to non-U.S. companies listed in the U.S.*

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## U.S. GAAP Matters

### FASB Launches Accounting Standards Codification for Verification

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).

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

[Click here](#) to access the FASB's Accounting Standards Codification Website.

Also, [click here](#) to access Deloitte's Heads Up on the topic.

## Fair Value Accounting

### FASB Partially Defers and Limits Scope of Fair Value Measurement Standard; VRG Continues to Address Implementation Issues

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("FASB 157"), which is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Since its issuance, companies, valuation professionals, auditors, and others have contemplated various implementation issues associated with adopting FASB 157. In response, the FASB assembled the Valuation Resource Group ("VRG"), a group of accounting and valuation professionals to assist in its consideration of these implementation issues.

Because of unresolved implementation questions, the FASB staff recommended a deferral of FASB 157; however, the Board did not believe that was necessary and instead approved a limited scope deferral for nonrecurring, nonfinancial fair value measurements. Two of the specific concerns raised in the application of FASB 157 related to the accounting for leases. Because the resolution of these issues could have resulted in changes to lease accounting classification and measurements that exceeded the intended scope of FASB 157, the FASB issued two Staff Positions on FASB 157:

- (1) FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP FAS 157-2");
- (2) FASB Staff Position No. 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* ("FSP FAS 157-1").

### Partial Deferral

FSP FAS 157-2 delays the effective date of FASB 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 the FSP 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 FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The FSP includes examples of items to which the deferral would and would not apply.

The FSP is effective upon issuance. Entities that applied the measurement and disclosure guidance in FASB 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 FASB 157 in its entirety must disclose (1) that it has only partially adopted FASB 157 and (2) the categories of assets and liabilities recorded or disclosed at fair value to which FASB 157 was not applied.

[Click here](#) to access the FSP on FASB's Website.

### Leasing Excluded From Scope of Statement 157

FSP FAS 157-1 excludes FASB Statement No. 13, *Accounting for Leases* (FASB 13), as well as other accounting pronouncements that address fair value measurements on lease classification or measurement under FASB 13, from the scope of Statement 157. The FSP is effective upon an entity's initial adoption of FASB 157. Entities that did not apply FASB 157 in a manner consistent with the FSP (i.e., entities that early adopted FASB 157) should retrospectively apply the FSP to the date of initial adoption.

[Click here](#) to access the FSP on FASB's Website.

### VRG Implementation Issues

On February 1, 2008, the VRG met to discuss various implementation and application issues associated with Statement 157. **The VRG is not a standard-setting body, but rather provides insight on valuation matters to the FASB.** Agenda items discussed during this meeting include:

- **Defensive value** – A defensive value asset is an intangible asset acquired in a business combination that the acquiring entity does not intend to use but that has value to other market participants. The VRG commented that two key aspects to valuing a defensive asset are identifying (1) the characteristics that determine market participants and (2) other market participants' intended use for the asset. The VRG had varying views on the useful life of a defensive value asset, with some members believing that an acquired asset that provides value to existing indefinite-lived assets may result in an indefinite useful life for the defensive value asset. Others feel that the value associated with a brand or trade name not used in operations or supported by marketing and advertising cannot last indefinitely, and that

therefore a finite life is more appropriate. The views on impairment testing were similar to those of useful life, with supporters of indefinite life believing that the impairment analysis would include the direct and indirect cash flows of the combined assets. Those supporting a finite useful life believed that the impairment analysis would be performed under FASB 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. The VRG indicated to the FASB staff that constituents' views on useful life and impairment analysis will differ, which may lead to diversity in practice, and that therefore additional guidance may be necessary.

- **Customer relationships** – The FASB staff wanted to understand whether there was diversity in practice related to the valuation of overlapping customer relationships (i.e., when an entity with an existing customer relationship acquires an entity that also has a relationship with the same customer). The VRG referenced a 2005 speech by an SEC staff member, Pamela Schlosser, who stated that the SEC has difficulty accepting no value being given to a customer relationship intangible asset for overlapping customers. Some members believe that as a result, too much value may be placed on customer relationship intangibles for overlapping customers. The VRG indicated that guidance on overlapping customer relationships would be helpful.
- **Current replacement cost method of valuing intangible assets** – The VRG indicated that there is currently confusion in practice about the application of the current replacement cost valuation method. The current replacement cost method establishes value according to the cost of reproducing or replacing the asset and is calculated pretax since these investments are not tax-affected. Some practitioners inappropriately fail to tax-affect certain valuation methods because they believe they are applying a “cost approach” even though they are applying another valuation approach, such as the “cost” savings and “cost” avoidance valuation approaches, which are forms of the “income approach” and should be tax-affected. This confusion results in significant variations in fair value determinations.
- **“Legally permissible” in the highest and best use assessment** – The VRG discussed whether the term “legally permissible” in assessing the highest and best use should be considered as of the measurement date, or whether permissibility in the future can be considered (i.e., rezoning land from industrial to mixed-use development). The VRG indicated that a future view would generally be appropriate; however, the risks associated with legal changes and property transformation would need to be considered in the fair value measurement.
- **Fair value of inventory** – The VRG addressed the issue of valuing finished goods inventory acquired as part of a business combination using an exit price notion. If the principal market that provided the maximum exit value were the retail market, then the inventory's recorded value would be the expected future sales price resulting in no income recognition, or a loss, when sales and marketing costs are considered. The VRG indicated that the fair value should be close to the net realizable value (NRV) to allow the acquiring entity to realize a profit on the selling effort.
- **Allocation of portfolio-based credit adjustments for hedge effectiveness testing** – Current GAAP would appear to require an allocation of portfolio-based credit adjustments to individual derivatives for hedge effectiveness testing (i.e., derivatives in an asset position would consider their own credit risk while derivatives in a liability position would consider the credit risk of the counterparty). The FASB staff provided four potential allocation methods. Some members of the VRG do not believe it is feasible to allocate a portfolio-based credit adjustment to the individual derivatives because the unit of valuation (the portfolio) is different from the unit of account (the individual derivative) and there appears to be no rational method for allocation. Rather than discussing the merits of each of the four approaches provided by the FASB staff, the VRG stated that guidance that provides a systematic method with ease in application would be preferable.

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

The FASB has issued proposed FSP FAS 157-c, *Measuring Liabilities under FASB Statement No. 157* which provides guidance on measuring liabilities under Statement 157, *Fair Value Measurements*. 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 this concern, the FASB has proposed adding two paragraphs to Statement 157. The first paragraph states 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 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 at the measurement date.

The guidance in this proposed FSP is subject to change based on the comment letter process, and if adopted would be applied prospectively on the later of (a) the beginning of the period that includes the issuance date of the FSP or (b) the beginning of the period in which an entity initially applies Statement 157. Earlier application is not permitted.

Comments on the proposed FSP are due by February 18, 2008.

[Click here](#) to access the FSP on FASB's Website.

## Accounting for Income Tax

### Accrual Workpapers – Caught Between a Rock and a Hard Place

Deloitte LLP has issued a Heads Up, *Tax Accrual Workpapers – Caught Between a Rock and a Hard Place*. The issuance of Interpretation 48 is causing many to question its potential impact on the current IRS policy of restraint in requesting access to companies' tax accrual workpapers. The Heads Up analyzes the IRS's longstanding policy of restraint in connection with requesting a company's tax accrual workpapers and the importance of tax accrual workpapers to companies, their external tax return preparers, their independent auditors, and the IRS in light of recent developments. The Heads Up is a reprint of an article that was originally published by the Bureau of National Affairs Inc. in *Daily Tax Report*, Volume 2008, No. 7, January 11, 2008.

[Click here](#) to access the Heads Up.

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

On February 1, 2008, the FASB issued FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the effective date of Interpretation 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* 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 the deferral.

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 would be eligible for the deferral unless:

- 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
- 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 would be 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."

Examples of nonpublic enterprises that would be 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 investor

The FSP is effective immediately upon issuance.

[Click here](#) to access the FSP on FASB's Website.

[Click here](#) to access Deloitte's Heads Up.

[Click here](#) to access Deloitte's Financial Reporting Alert.

## **SEC Issues Clarification on Accounting for Streamlined Foreclosure and Loss Avoidance**

On January 8, 2008, SEC Chief Accountant Conrad Hewitt issued a letter addressing the accounting implications of Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of FASB Statement 125* due to 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 services 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.

[Click here](#) to access the letter on SEC's Website.

Deloitte LLP has also issued a Financial Reporting Alert 08-1, *SEC Issues Letter Clarifying Accounting Ramifications of Accelerated Efforts to Mitigate Subprime Crisis* on the same.

[Click here](#) to access the Financial Reporting Alert.

## **Importance of Comprehensive Disclosures in Current Market Conditions**

Deloitte LLP has issued Financial Reporting Alert 08-4, *Turmoil in the Credit Markets: The Importance of Comprehensive and Informative Disclosures*. The Financial Reporting Alert underscores the importance of providing comprehensive and informative disclosures about (1) the effects of the current credit environment on financial statements and (2) the potential exposures associated with this environment. The Alert also includes examples of recent comments made by the SEC about disclosures surrounding the current environment and excerpts from notes to the financial statements and MD&A disclosures (addressing the impact of the credit environment) that registrants have provided in recent annual and quarterly SEC filings.

[Click here](#) to access the Financial Reporting Alert.

## **Auction Rate Securities Warrant Scrutiny for Impairment**

Deloitte LLP has issued Financial Reporting Alert 08-2, *Auction Rate Securities Warrant Scrutiny for Impairment*. The Financial Reporting Alert reminds auditors and preparers about the importance of determining appropriate current balance sheet fair values for auction rate securities (ARS) and, when the investments are classified as held-for-maturity or available-for-sale, of the need to evaluate them for other-than-temporary impairments. Many issuances of ARS have been adversely affected by the turmoil in the credit markets; thus, their current fair value is at a discount, sometimes substantial, from par value. The Alert also highlights important considerations for auditors and preparers when evaluating ARS for other-than-temporary impairment.

[Click here](#) to access the Financial Reporting Alert.

## **Accounting Issues Related to the Reorganization of Visa Inc.**

Deloitte LLP has issued Financial Reporting Alert 08-3, *Member Bank Accounting Issues Related to the Reorganization of Visa Inc.* The Financial Reporting Alert addresses several accounting issues raised by Visa Inc.'s intention to become a public company, with an initial public offering (IPO) expected sometime this year, and its related worldwide reorganization. These issues have been discussed among several major banks with interests in Visa Inc., their independent auditors, and the SEC's Office of the Chief Accountant. Final resolution of certain details of these issues is pending.

[Click here](#) to access the Financial Reporting Alert.

## Special Reports: SEC Comment Letters on Domestic Registrants

Deloitte LLP issued a special report that includes examples of the most frequently issued SEC Staff comments from the Staff's financial statement reviews of all registrants at least once every three years. It provides a detailed discussion of these areas and links to related resources. Areas covered include:

- Business combinations, long-lived assets and impairments
- Contingencies
- Discontinued operations and assets held for sale
- Earnings per share
- Fair value and the turmoil surrounding the credit market
- Financial instruments
- Financial statement classification
- Management's discussion and analysis
- Revenue recognition
- Staff Accounting Bulletin 74
- SEC reporting (Regulation S-X misapplication)
- Segment reporting
- Share-based payments
- Uncertain tax positions
- Use of experts and consents

[Click here](#) to access a special report.

## Regulatory Matters

### Foreign Issuer Reporting Enhancements Proposals

The Securities and Exchange Commission has unanimously voted to propose amendments to modernize its disclosure requirements for foreign companies, including eliminating all requirements for paper submissions.

Some of the important proposals are as follows:

- Accelerate the reporting deadline for annual reports filed on Form 20-F by foreign private issuers from six months to 90 days after the issuer's fiscal year-end in the case of large accelerated filers and accelerated filers, and to 120 days after the issuer's fiscal year-end for all other issuers, after a two-year transition period;
- Require that Form 20-F include Rule c3-05 financial statements for acquisitions at the 50% level of significance (foreign private issuers do not at present need to file 3-05 financial statements for significant acquisitions, unlike a domestic issuer subject to the reporting requirements of Form 8K, in 34 Act filings)
- Amend Form 20-F by eliminating an instruction to Item 17 of that Form that permits certain foreign private issuers to omit segment data from their U.S. GAAP financial statements;
- In addition, the Commission voted to solicit public comment on other possible amendments that would affect foreign private issuers which include amendment to Form 20-F to require disclosure in annual reports filed on that Form about: any changes in and disagreements with the registrant's certifying accountant; the fees, payments and other charges relating to American Depositary Receipts; certain corporate governance matters; and information about highly significant, completed acquisitions;
- Also the Rule 12g3-2(b) proposed amendments would eliminate the paper submission requirements by automatically granting the Rule 12g3-2(b) exemption to a foreign private issuer that meets specified conditions, which do not depend on a count of an issuer's U.S. security holders, and which would require an issuer to publish electronically in English specified non-U.S. disclosure documents.

[Click here](#) to access the news release on SEC's Website.

## SEC Proposal to Extend Dates of Attestation Reports by Auditors of Non-accelerated Filers

On February 7, 2008 SEC issued a proposal to amend temporary rules that were published on December 21, 2006, in Release No. 33– 8760 [71 FR 76580]. These temporary rules require companies that are non-accelerated filers to include in their annual reports, pursuant to rules implementing Section 404(b) of the Sarbanes-Oxley Act of 2002, an attestation report of their independent auditor on internal control over financial reporting for fiscal years ending on or after December 15, 2008. Under the proposed amendments, a non-accelerated filer would be required to provide the auditor's attestation report on internal control over financial reporting in an annual report filed for fiscal years ending on or after December 15, 2009. Comments should be received by the SEC on or before March 10, 2008.

[Click here](#) to access the proposal SEC's Website.

## SEC Amends Proxy Rules to Facilitate Electronic Shareholder Forums

To improve communications between listed entities and their shareholders, the SEC has adopted a final rule, *Electronic Shareholder Forums*, which 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."

[Click here](#) to access the Final Rule on SEC's Website

## IFRS Matters

### IAS Plus Website

Deloitte's IAS Plus is a comprehensive resource that discusses current and future developments in the IFRS environment. Deloitte is pleased to make available e-Learning training materials for IFRS free of charge on IAS Plus.

[Click here](#) to access Deloitte's IFRS e-learning material.

### IASB Amends IFRS 2 on Share-Based Payment

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.

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

[Click here](#) to access the Revised Standard on IASplus Website.

### IFRIC Proposes Guidance on Distributions of Non-cash Assets to Owners

On January 17, 2008, the IFRIC released D23, *Distribution of Non-cash Assets to Owners* for public comment in response to several inquiries about how an entity should measure distributions of non-cash assets paid as dividends to its owners. The Interpretation applies to all distributions of non-cash 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 non-cash 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 non-cash 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.

Comments are due by 25 April 2008.

[Click here](#) to access the Proposed Interpretation on IASplus Website.

## **IFRIC Proposes Guidance on Accounting for Customer Contributions**

On January 17, 2008, the IFRIC issued Interpretation D24, *Customer Contributions* 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 the 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.

Comments are due by April 25, 2008.

[Click here](#) to access the Proposed Interpretation on IASplus Website.

## **Deloitte Analyzes SEC's Take on IFRS – CFO.com Article**

The Securities and Exchange Commission's November 2007 decision to drop the requirement for foreign issuers to reconcile financial statements with U.S. GAAP did not happen overnight. One measure the SEC took was to carefully review the IFRS filings of foreign issuers and comment on what was wrong with them.

A new Deloitte's report analyzes the 100 comment letters the SEC sent to companies during the last two years so that future filers will know what the regulator is looking for.

[Click here](#) to access the full article available on CFO.com website.

## **Special Reports: SEC Comment Letters on Foreign Private Issuers Using IFRSs**

As noted in CFO.com article mentioned above, Deloitte LLP issued a special report that is designed to help financial statement preparers understand the items that SEC Staff has focused on during its review of IFRSs financial statements of foreign private issuers over the past two years. It includes extracts from actual comment letters as well as forward-looking considerations. The main topics covered include:

- Financial instruments
- Income statement presentation
- Revenue
- Cash flow statements
- First-time adoption of IFRS
- Segment reporting
- Income taxes
- Employee benefits
- Impairment of assets
- Provisions

[Click here](#) to access a special report.



## **Tips on Applying IFRS: A Focus on the Balance Sheet**

This section contains some tips and guidance on matters to look out for when preparing financial statements in accordance with IFRS. It is not intended to be an exhaustive list of all the requirements relevant in an area of accounting. Rather, it describes some of the commonly misunderstood items that we have seen in practice and also provides you with some tips on the best practices to adopt. The focus of this edition is on the balance sheet and the requirements of IAS 1 (2003) Presentation Financial Statements as they relate to the balance sheet.

### **Tip #1: Classification as current and non-current**

The definition of a current liability in IAS 1 includes instances where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Therefore, it would not be appropriate to classify a liability as non-current where there is not an unconditional right to defer settlement, even if the entity does not expect the liability to be settled within twelve months from balance sheet date. For example, where employees have performed the requisite service period entitling them to take vacation at any time and the vacation will be paid out upon an employee leaving, the provision for vacation should be classified as current even if, historically the company can demonstrate that not all the vacation that have vested will be taken within twelve months from balance date.

### **Tip #2: Items classified as tax on the balance sheet**

IAS 1.68 requires current tax assets/liabilities and deferred tax assets/liabilities to be separately disclosed on the face of the balance sheet. However, the tax balances to be included in these line items should only be those taxes that are within the scope of IAS 12 *Income Taxes*. Accordingly, it would not be appropriate to include other tax balances that are not within the scope of IAS 12, such as payroll tax, value added tax and social tax, within these line items on the balance sheet.

### **Tip #3: Classification of deferred taxes**

In accordance with IAS 1.70, deferred tax assets and liabilities are always required to be classified as non-current. This is the case even if the temporary differences to which the deferred tax assets and liabilities relate to are expected to unwind in the next twelve months or if the underlying assets and liabilities to which those deferred taxes relate to are classified as current.

The requirement to always classify deferred taxes as non-current represents a difference from U.S. GAAP. Under U.S. GAAP, deferred taxes are classified as either current or non-current based on the classification of the underlying asset and liability. Where a deferred tax asset or liability is not related to an underlying asset or liability for financial reporting (e.g. carryforward tax losses), the deferred tax assets and liability is classified based on the expected reversal date of the temporary difference.

### **Tip #4: Inappropriate classification of “prepaid assets” as a “receivable”**

Prepaid assets, such as prepaid rent and prepaid insurance, are sometimes classified on the balance sheet as part of “trade and other receivables”. This implies that such assets falls into the category of a “loan and receivable” as defined by IAS 39 *Financial instruments: Recognition and Measurement*. However, prepaid assets generally do not meet the definition of a financial asset as they are not cash nor do they provide the entity with a contractual right to receive cash or another financial asset. Instead, prepaid assets generally provide the entity with a right to receive goods and services in the future and hence, should not be classified as a “trade or other receivable”.

### **Tip #5: Classification of derivatives**

Derivatives that are not designated as part of a hedge relationship are required to be classified as held-for-trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. However, the classification as held-for-trading under IAS 39 does not necessarily imply that such derivatives would automatically be classified as ‘current’ on the face of the balance sheet. The IFRIC clarified in May 2007 that the guidance on current or non-current classifications as set out in paragraphs 56-62 of IAS 1 should be applied in determining the appropriate classification.

## Other Matters

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

The CEOs of six international audit firms issued a white paper, *Principal-based Accounting Standards* which proposes a framework for establishing principles-based accounting standards. The white paper recommends that high-quality, principles-based accounting standards do the following:

1. Present an accurate picture of “economic reality.”
2. Be “responsive to users’ needs for clarity and transparency.”
3. Be consistent with a “clear Conceptual Framework.”
4. Be “based on an appropriately-defined scope that addresses a broad area of accounting.”
5. Be written in “clear, concise and plain language.”
6. Allow “for the use of reasonable judgment.”

The white paper also suggests that standards be continually improved, including “field-testing before 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.

[Click here](#) to access the White Paper.

### Deloitte Offers Dbriefs, Live Webcasts for Executive Level Audience

Now available to the audience outside of the U.S., Deloitte LLP offers Dbriefs, live webcasts that give valuable insights on a variety of business topics aimed at executive level audience across function and industry including:

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## Upcoming Selected Webcasts Include the Following:

### Driving Enterprise Value

- International Financial Reporting Standards: Strategies For Adopting a Single Set of Standards  
February 20, 3:00 PM EST (20:00 GMT)

### FAS 109

- Material Weaknesses and Restatements: Why Tax Is Still in the Hot Seat  
March 31, 2:00 PM EDT (18:00 GMT)

### Sarbanes-Oxley

- Spreadsheets: Balancing Convenience and Risk  
February 28, 2:00 PM EST (19:00 GMT)
- Practical Guide to Integrated GRC: Where Do You Begin?  
March 27, 2:00 PM EDT (18:00 GMT)

### Transactions & Business Events

- The Credit Crunch: Why Now and Where Do We Go From Here?  
February 13, 2:00 PM EST (19:00 GMT)
- Special Edition Webcast: SFAS 141R: Understanding the Valuation Implications  
February 19, 2:00 PM EST (19:00 GMT)
- SEC Enforcement Activities and Trends: What if Your Company Is Next?  
March 12, 2:00 PM EDT (18:00 GMT)

### Corporate Governance

- The Board's Role in Risk Oversight  
March 5, 2:00 PM EST (19:00 GMT)

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

## Recent Deloitte Publications

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

Other useful publications can be obtained on Deloitte's website – [Click here](#)

- [Accounting Roundup: January 2008](#)
- [Accounting Roundup: Year in Review - 2007](#)
- [EITF Snapshot: November 2007](#)
- [Heads Up: FASB Partially Defers and Limits Scope of Statement on Fair Value Measurements](#)
- [Heads Up: FASB Issues FSP on Deferral of Interpretation 48](#)
- [Heads Up: Tax Accrual Workpapers — Caught Between a Rock and a Hard Place](#)
- [Heads Up: FASB Releases U.S. GAAP Codification for Verification](#)
- [Heads Up: FASB Clarifies Application of the Shortcut Method](#)
- [Heads Up: FASB Proposes Narrow Definition of Equity](#)
- [Heads Up: Highlights of the 2007 AICPA National Conference on current SEC and PCAOB Developments](#)
- [Heads Up: SEC Holds Roundtables on IFRSs](#)

- [Heads Up: Major Changes to Business Combination Accounting as FASB and IASB Substantially Converge Standards](#)
- [Heads Up: XBRL U.S. GAAP Taxonomy Made Available for Public Comment](#)
- [Heads Up: SEC Removes Reconciliation Requirement, Approves Smaller Public Company Rules](#)
- [Financial Reporting Alert 08-5 FASB Expands the Scope of the Interpretation 48 Deferral](#)
- [Financial Reporting Alert 08-4 Turmoil in the Credit Markets: The Importance of Comprehensive and Informative Disclosures](#)
- [Financial Reporting Alert 08-3 Member Bank Accounting Issues Related to the Reorganization of Visa Inc.](#)
- [Financial Reporting Alert 08-2: Auction Rate Securities Warrant Scrutiny for Impairment](#)
- [Financial Reporting Alert 08-1: SEC Issues Letter Clarifying Accounting Ramifications of Accelerated Efforts to Mitigate Subprime Crisis](#)
- [Financial Reporting Alert 07-10: SEC Extends the Use of the Simplified Method in SAB 107 Under Certain Circumstances](#)
- [Special Reports: SEC Comment Letters on Domestic Registrants](#)
- [Special Reports: SEC Comment Letters on Foreign Private Issuers Using IFRSs](#)
- [IFRS in Your Pocket 2007](#)
- [Software Revenue Recognition: A Roadmap to Applying AICPA SOP 97-2](#)
- [Third Edition: A Roadmap to Applying Interpretation 46\(R\)'s Consolidation Guidance](#)
- [Uncertainty in Income Taxes: A Roadmap to Applying Interpretation 48](#)
- [A Roadmap to the Accounting and Regulatory Aspects of Postretirement Benefits: Including an Overview of Statement 158](#)
- [Accounting for Business Combinations, Goodwill, and Other Intangible Assets: A Roadmap to Applying Statements 141 and 142](#)
- [A Roadmap to Applying the Fair Value Guidance to Share-Based Payment Awards](#)
- [SOX Optimization: Improving Compliance Efficiency & Effectiveness](#)
- [Under Control: Sustaining Compliance with Sarbanes-Oxley in Year Two and Beyond](#)
- [Audit Committee Brief: Fourth Quarter 2007](#)
- [Optimizing SOX Compliance: Leading Retailer Shows the Way](#)

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