Deloitte & Touche

Accounting Roundup

April 29, 2002

Recent Announcements of the Financial Accounting Foundation

The Financial Accounting Foundation (FAF), the oversight body for the Financial Accounting Standards Board (FASB or "the Board"), made the following announcements on April 24, 2002.

New Chairman Appointed to the FASB

Robert H. Herz was named as the new Chairman of the FASB, effective July 1, 2002. Mr. Herz will succeed outgoing Chairman Edmund L. Jenkins, who will retire on June 30 upon completion of his five-year term.

Mr. Herz, a Certified Public Accountant and a Chartered Accountant, will resign from his current appointment as a part-time member of the International Accounting Standards Board prior to beginning his position at the FASB. A 28-year veteran of the accounting profession, Mr. Herz has authored publications on a variety of accounting, auditing, and business subjects and has served on numerous committees at the FASB and other professional organizations.

Changes Made to the FASB's Voting Requirement to Increase Efficiency

The FASB's voting process has been changed from a supermajority to a simple majority vote, but the FAF decided to retain a seven-member Board. The FAF Trustees determined that a change from a 5-to-2 to a 4-to-3 member voting requirement would make for a more efficient process without compromising the quality of the FASB's standard-setting process. The unanimous decision was made by the FAF Trustees at their quarterly meeting held in Washington, D.C. The change in the voting procedures of the seven-member FASB is effective immediately.

The press releases regarding the above announcements are available on the FASB's website, http://www.fasb.org.

FASB Continues Redeliberating Obligations Associated With Disposal Activities

At its April 17, 2002 meeting, the FASB unanimously agreed to retain the income statement continuing operations treatment for costs associated with a disposal activity under EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*, unless the disposal activity involves a component of an entity that is a discontinued operation covered by Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Additionally, the Board made it clear that "excess" accruals that are returned to income would need to be reflected on the same income statement line where the initial accrual was included.

The Board agreed to delete the requirement contained in the original Exposure Draft, *Accounting for the Impairment or Disposal of Long-Lived Assets and for Obligations Associated with Disposal Activities,* to describe the employee group to be terminated, but decided to retain the requirement to disclose (1) a description of the facts and circumstances leading to the expected disposal activity, (2) a reconciliation of the beginning and ending balances of the accrued liability for each major type of cost associated with the disposal activity, and (3) the income statement classification of the costs.

The FASB staff is expected to distribute a draft standard to the Board within the next two weeks. The only remaining issues for the Board to redeliberate are the effective date and the transition provisions.

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FASB Continues Discussions About Business Combinations

Also at its April 17, 2002 meeting, as part of ongoing discussions of its project on business combinations - purchase method procedures, the Board concluded that acquisition-related costs (e.g., finder's fees, advisory fees, and legal, accounting, or other professional fees) incurred by an acquirer should be expensed rather than included as part of the cost of the transaction. The Board also concluded that restructuring obligations incurred by the acquirer should be recorded as an assumed liability only if such costs (1) are recordable as liabilities by the target irrespective of the acquisition or (2) result from contractual agreements that are "triggered" by the business combination (e.g., change of control provisions in employment agreements).

FASB Approves Certain Statement 133 Implementation Issues

At its April 9, 2002 meeting, the Board cleared Statement 133 Implementation Issue No. B35, "Application of Statement 133 to a Not-for-Profit Organization's Obligation Arising from an Irrevocable Split-Interest Agreement."

The Board also approved amendments to the following two Statement 133 Implementation Issues, which were previously cleared by the Board and posted on the FASB website.

- Implementation Issue No. B16, "Calls and Puts in Debt Instruments," is amended to emphasize that an analysis under paragraph 13 of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* is required in determining whether puts and calls that can accelerate the settlement of debt instruments are clearly and closely related to the debt host contract.
- Implementation Issue No. A14, "Derivative Treatment of Stock Purchase Warrant for Shares Where Sale or Transfer Is Restricted," is amended to emphasize that the guidance regarding a restriction period of 32-days or more before shares delivered upon exercise of a warrant can be considered readily convertible to cash applies only to stock purchase warrants issued by a company for its own shares of stock.

Disclosure About Intangibles

At its April 9, 2002 meeting, the FASB continued its discussion relating to disclosures about intangible assets. While the Board made some tentative conclusions regarding quantitative disclosures at its February 27, 2002 meeting, it is now asking the FASB staff to consider the sufficiency of the qualitative information to be presented and to gather additional information on quantitative disclosures. Further discussion at a future Board meeting is expected.

Further information about the FASB can be obtained on the FASB's website, http://www.fasb.org.

SEC Proposes New Disclosure and Management Transaction Rules

On April 12, 2002, the U.S. Securities and Exchange Commission (SEC) proposed two rules aimed at accelerating the disclosure of financial reports and certain significant management transactions. The proposed rules are summarized below. The entire text of the proposed rules can be found on the SEC's website using the following links: For *Acceleration of Periodic Report Filing Dates and Disclosure Concerning Website Access to Reports,* access http://www.sec.gov/rules/proposed/33-8089.htm, and for *Form 8-K Disclosure of Certain Management Transactions,* access http://www.sec.gov/rules/proposed/33-8090.htm.

Acceleration of Periodic Report Filing Dates and Disclosure Concerning Website Access to Reports

This proposed rule would apply only to domestic reporting companies with a public float greater than $75 million that have been subject to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ("the Exchange Act") for more than 12 months and have filed at least one annual report pursuant to Section 13(a) or 15(d). This proposed rule would not change the reporting requirements for foreign companies.

Under the proposed rule, the deadline for filing annual statements on Form 10-K would be changed from 90 days to 60 days after the registrant's year-end. The deadline for filing quarterly statements on Form 10-Q would be changed from 45 days to 30 days after the registrant's quarter-end. The proposed rule would also require such companies to disclose where investors can obtain access to company filings, such as Form 10-K, Form 10-Q, and Form 8-K, and whether they are available on the company's website "free of charge, as soon as reasonably practicable and, in any event, on the same day as those reports are electronically filed with or furnished to the Commission."

Comments from constituents and other interested parties should be received within 30 days of the rule's publication in the *Federal Register*.

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Form 8-K Disclosure of Certain Management Transactions

This proposed rule would amend Form 8-K under the Exchange Act to require companies with a class of equity securities registered under Section 12 of the Exchange Act to report information about the following transactions involving a company's directors or executive officers:

- Transactions in the company's equity securities (including derivative securities transactions and transactions with the company)
- Arrangements for the purchase or sale of the company's equity securities intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act
- Loans of money to directors or executive officers made or guaranteed by the company or an affiliate of the company.

Transactions exceeding $100,000 would be required to be reported within two business days of the transaction. Transactions and loans with a smaller aggregate value, grants and awards pursuant to employee benefit plans, and Rule 10b5-1 arrangements would be due by the close of business on the second business day of the week following the transaction. Reports of transactions and loans with an aggregate value less than $10,000 would be deferrable until the aggregate cumulative value of those unreported events for the same director or executive officer exceeded $10,000.

Comments from constituents and other interested parties on this proposed rule should be received by the SEC within 60 days of the rule's publication in the *Federal Register*.

SEC Commissioner Speaks About Financial Statement Disclosure

On April 6, 2002, SEC Commissioner Isaac C. Hunt, Jr. spoke before the American Bar Association's Committee on Federal Regulations of Securities about various financial statement disclosure issues. Excerpts of his speech are provided below. The entire speech is available on the SEC's website at http://www.sec.gov/news/speech/spch550.htm.

The Commissioner discussed four issues that, he said, should be addressed to enhance the current financial disclosure system without jeopardizing its existing successes.

1. Commissioner Hunt said that Congress should consider prohibiting accounting firms from providing nonaudit services to their audit clients, and that the SEC should have the authority to define nonaudit services. He said, "I would continue to permit accounting firms to provide tax services to their audit clients," but "the one thing I would not permit is for an outside auditor to provide its clients with internal audit services." Commissioner Hunt noted that SEC Chairman Harvey Pitt has expressed a different view on separation of services, quoting the Chairman in part as saying, "we should think through the expansion of such separation carefully, lest we actually reduce the quality of audits, rather than enhance them."
2. Commissioner Hunt said that the question of whether the accounting literature should continue to provide an election for companies to either expense or only disclose certain employee stock options, as well as the importance of making "sure the valuation of options is accurate," should continue to be evaluated.
3. The Commissioner said that the SEC should consider requiring companies to disclose when audit committees seek the advice of independent counsel or accounting experts. Commissioner Hunt said that state legislatures and other appropriate bodies should continue to mandate corporate governance laws; however, the SEC "has the obligation to ensure that shareholders have the information needed to evaluate the corporate governance of their companies." Accordingly, he said, "this disclosure of the activities and choices of audit committees will allow shareholders to better evaluate their audit committee reports and recommendations."
4. Commissioner Hunt said that the SEC's Division of Corporation Finance "should consider conducting a full review of all S&P 500 companies each and every year." The Commissioner noted that this is a minority view at the SEC. He said his concerns about the S&P 500 companies are based on the more than $10 trillion dollars invested in the S&P 500, which is frequently used "as a benchmark to judge the performance of investment managers and mutual funds" and the ability of these companies "to go to market . . . at a moment's notice." The Commissioner said that the SEC is currently examining procedures that could address such concerns in a more cost-effective manner than by annually reviewing all S&P 500 companies.

April 30-May 1, 2002 AcSEC Meeting Agenda

At its meeting scheduled for April 30-May 1, 2002, in New York, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) plans to:

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- Consider issues related to accounting by insurance companies for deferred acquisition costs of internal replacement policies
- Discuss whether entities covered by the AICPA Audit and Accounting Guide, *Audits of Investment Companies,* should or may use a "blockage factor" to estimate the fair value of certain investments
- Hear recommendations of its task force on accounting for property, plant, and equipment
- Hold a liaison session with representatives of the FASB to discuss matters of mutual interest.

Further information about AcSEC can be obtained on the AICPA's website, http://www.aicpa.org.

April 16-19, 2002 IASB Meeting

At its April 16-19, 2002 meeting in London, the International Accounting Standards Board (IASB or "the Board") took the following actions:

- Approved publication of a revised Preface to International Financial Reporting Standards.
- Voted in principle to approve the issuance of three exposure drafts of standards that would supersede IAS No. 22, *Business Combinations,* and revise IAS No. 36, *Impairment of Assets,* and IAS No. 38, *Intangible Assets,* respectively.
- Considered comments received on an exposure draft of an amendment to IAS No. 19, *Employee Benefits,* that would eliminate a provision that has inadvertently permitted an asset and gain to be recognized solely as a result of certain actuarial losses. The Board agreed to proceed with the amendment.
- Discussed issues related to its projects on reporting financial performance (e.g., how a company should report revenues, gains, expenses, and losses) and on share-based payments (e.g., how a company should report transactions in which it pays for goods and services with shares of its stock or with options on such shares).
- Requested its staff to develop detailed proposals for the following six projects:
  1. Convergence topics - areas in which relatively limited changes to certain existing IASB standards (e.g., IAS No. 12, *Income Taxes,* and IAS 19) would result in better conformity between those standards and the related pronouncements of the FASB and other national accounting standard-setting bodies
  2. Business combinations - Phase II (application of the purchase method)
  3. Small and medium-sized enterprises and enterprises in emerging economies
  4. Consolidations - especially with regard to special-purpose entities
  5. Financial instruments - next steps, including an approach for addressing the recommendations of the Joint Working Group on Financial Instruments
  6. Conceptual framework - including definitions of the elements of financial statements and liability and revenue recognition.
- Announced that it soon expects to issue, for a 90-day comment period, an exposure draft resulting from the project to improve the quality of a number of existing IASB standards.
- Noted that it expects to issue in May an exposure draft of a standard that would amend IAS No. 32, *Financial Instruments: Disclosures and Presentation,* and IAS No. 39, *Financial Instruments: Recognition and Measurement.*

The next IASB meeting, which will include a liaison session with representatives of the FASB and national accounting standard-setting bodies, is scheduled for May 20-24, 2002, in London.

Further information about the IASB can be obtained on the IASB's website at http://www.iasc.org.uk and on Deloitte & Touche's IASPlus website at http://www.iasplus.com/index.htm.

For further information contact your local Deloitte & Touche office.

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