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The purpose of this publication is to briefly describe key regulatory and professional developments that have recently occurred in the field of accounting and to provide links to locations where additional information can be found on each topic. Readers seeking additional information about a topic should review the information referred to in the hyperlinks and not rely on the descriptions included in this communication.

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**FASB to Defer Discussion on Consolidation of Certain Special-Purpose Entities**

At its September 11, 2002 meeting, the Financial Accounting Standards Board (FASB or "the Board") stated that while it now has an inventory of the comment letters received on its Exposure Draft, *Consolidation of Certain Special-Purpose Entities, an interpretation of ARB No. 51*, an analysis of those letters has not yet been completed. Accordingly, the Board decided that it will defer making any decisions on the project until the analysis is complete and the Board can consider such responses in connection with constituents' views expressed at the September 30, 2002 public roundtable discussion.

**Preballot Draft Expected on Amendment of SFAS 123**

Also at the September 11, 2002 meeting, after reconsidering certain issues relating to the proposed amendment to the transition and disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, the Board gave its support for issuing an Exposure Draft and instructed the FASB staff to prepare the preballot draft for the Board's review.

**Limited-Scope Statement Expected as Part of Liabilities and Equity Project**

At its meeting on September 4, 2002, the FASB decided to issue a limited-scope standard ("the Statement") addressing certain financial instruments with characteristics of liabilities or equity. The Statement is expected to address the accounting for (1) derivative financial instruments that are indexed to and potentially settled in an entity's own stock, (2) financial instruments that embody obligations that require (or permit at the issuer's discretion) settlement by issuance of the issuer's equity shares (i.e., obligations consisting of a fixed monetary value that could be settled by a variable number of an entity's own equity shares), and (3) mandatorily redeemable securities that are required to be redeemed at a specified or determinable date or upon the occurrence of an event certain to occur. The Board said that the second phase of the liabilities and equity project would address the accounting for mandatorily redeemable instruments with conditional elements or economic compulsion.

The Statement would affect certain existing accounting guidance and would amend SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and EITF Issue No. 00-19, *Accounting for Derivative Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*.

Further details about these and other topics discussed by the FASB are available in the FASB's *Action Alert* newsletter, available on the FASB's website at <http://www.fasb.org/action>.

*Note: Conclusions of the FASB are subject to change at future Board meetings and generally do not affect current accounting requirements until an official position (Statement or Interpretation) is issued. Official positions of the FASB are determined only after extensive deliberation and due process, including a formal vote by written ballot to issue a Statement or Interpretation.*

## September 11-12, 2002 Meeting of the EITF

FASB's Emerging Issues Task Force (EITF or "the Task Force") addressed the following 11 issues at its September 11-12, 2002 meeting. The entire text of the Deloitte & Touche-prepared EITF minutes, including details of the consensuses reached and other viewpoints, is available at <http://www.deloitte.com/dt/cda/doc/content/0902%20DT%20EITF%20Minutes.pdf>.

### **Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables**

This Issue addresses certain aspects of the accounting by a vendor for arrangements under which the vendor will perform multiple revenue-generating activities.

*The Task Force reached a tentative consensus on this Issue based on the "modified alternative model." The Issue is expected to be discussed and possibly finalized at a special EITF meeting scheduled for October 25, 2002.*

### **Issue No. 01-8, Determining Whether an Arrangement Is a Lease**

This Issue addresses when an energy-related contract is a lease and subject to the accounting specified by SFAS No. 13, *Accounting for Leases*, rather than the fair value accounting required by EITF Issue No. 98-10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*.

*The Task Force rescinded part of the tentative consensus reached at its June 2002 meeting dealing with whether lease accounting could be applied to an undivided interest. Further discussion of this Issue is expected at a special EITF meeting scheduled for October 25, 2002.*

### **Issue No. 02-3, Recognition and Reporting of Gains and Losses on Energy Trading Contracts under EITF Issues No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities, and No. 00-17, Measuring the Fair Value of Energy-Related Contracts in Applying Issue No. 98-10**

This Issue addresses certain issues related to energy-trading activities, including (1) gross versus net presentation in the income statement, (2) whether the initial fair value of an energy-trading contract can be other than the exchange price, and (3) additional disclosure requirements for energy-trading activities.

*The Task Force stated that the consensus reached at its June 2002 meeting on the gross versus net presentation portion of this Issue is effective for financial statements issued for periods ending after July 15, 2002. Comparative financial statements presented are to be reclassified to conform to the consensus. A working group was instructed to continue to address the remaining parts of this Issue.*

### **Issue No. 02-9, Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold**

This Issue addresses how to apply the accounting requirements of paragraph 55 of SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to beneficial interests held by the transferor and loans that do not meet the definition of *security*, including whether the transferor should recognize a gain or loss when paragraph 55 is applied.

*The Task Force did not reach a consensus on this Issue and asked the FASB Staff to further develop the viewpoints and examples. Further discussion at a future meeting is expected.*

### **Issue No. 02-11, Accounting for Reverse Spinoffs**

This Issue addresses how to determine whether to account for a spinoff transaction as a reverse spinoff based on its substance instead of its legal form.

*The Task Force reached a consensus on this Issue that the accounting should be presumed to follow the legal form unless the presumptions are appropriately overcome. No further discussion is expected.*

## **Issue No. 02-12, Permitted Activities of a Qualifying Special-Purpose Entity in Issuing Beneficial Interests under FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities**

SFAS 140 is specific about the types of assets a qualifying special-purpose entity (QSPE) may hold and the types of derivatives into which it may enter; however, there is little guidance on the issuance of beneficial interests. Specifically, SFAS 140 does not address (1) whether the terms of beneficial interests to be issued must be specified at the QSPE's inception or (2) whether the QSPE (or its designee or agent) is permitted to determine the terms of replacement beneficial interests.

*The Task Force did not reach a consensus on this Issue. Further discussion at a future meeting is expected.*

## **Issue No. 02-13, Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB Statement No. 142, Goodwill and Other Intangible Assets**

This Issue addresses (1) whether deferred income taxes should be included in the carrying amount of a reporting unit for purposes of step 1 of the SFAS 142 goodwill impairment test, (2) what income tax bases an entity should use for a reporting unit's assets and liabilities (i.e., whether an entity should use the existing income tax bases or assume new income tax bases for the unit's assets and liabilities) in determining the implied fair value of a reporting unit's goodwill in step 2, and (3) when it is appropriate to estimate the fair value of a reporting unit by assuming that the unit could be bought or sold in a nontaxable transaction versus a taxable transaction.

*The Task Force reached a consensus on this Issue. No further discussion of this Issue is expected.*

## **Issue No. 02-14, Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means**

This Issue addresses when, if ever, a company should apply the equity method of accounting if it does not have an investment in the common stock of another entity yet is able to exercise significant influence over the operating activities of that entity.

*The Task Force did not reach a consensus on this Issue and instructed the FASB staff to consider additional guidance with respect to recognition and measurement of "other than temporary" impairment losses. Further discussion at a future meeting is expected.*

## **Issue No. 02-15, Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are within the Scope of FASB Statement No. 84, Induced Conversions of Convertible Debt**

This Issue addresses (1) whether SFAS 84 applies when the "offer" for consideration in excess of the original conversion terms was made by the bondholder, (2) whether that answer would change if an investment bank had purchased the bonds in the open market (at a significant discount from face value) and approached the company to increase the conversion terms of the notes, and (3) whether an "offer" to induce conversion must be extended by the debtor to all bondholders.

*The Task Force reached a consensus on this Issue that SFAS 84 applies regardless of the party that initiates the offer. No further discussion of this Issue is expected.*

## **Issue No. 02-16, Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)**

This Issue addresses how the customer or reseller should account for cash consideration received from a vendor.

*The Task Force asked the FASB staff to further develop this Issue. Discussion at a future meeting is expected.*

## **Issue No. 02-17, Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination**

Paragraphs A18-A21 of SFAS No. 141, *Business Combinations*, provide guidance on applying the separate recognition criteria to customer-related intangible assets including (1) order or production backlog, (2) customer contracts and related customer relationships, and (3) noncontractual customer relationships. Questions have been raised regarding the application of paragraphs A19-A21 to customer relationships with respect to determining the composition of related intangible assets.

*The Task Force reached a tentative consensus on part of this Issue. Further discussion of the entire Issue is expected at a future meeting.*

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

## **Deloitte & Touche Partner John T. Smith Appointed to the IASB**

On September 18, 2002, the International Accounting Standards Board (IASB or "the Board") announced that John T. Smith, a Deloitte & Touche National Office partner and director of accounting policies and standards, was appointed a part-time member of the Board, effective October 1, 2002.

Long active in the work of the IASB and its predecessor, the International Accounting Standards Committee (IASC), Mr. Smith currently serves as a member of the International Financial Reporting Interpretations Committee, from which he will resign. He previously served as a member of the IASC Board and chair of the IAS 39 (Financial Instruments) Implementation Guidance Committee. Additionally, as a member of Deloitte Touche Tohmatsu's international accounting committee, he has participated in responding to IASB and IASC standard-setting initiatives. In addition to his work with the IASB and the IASC, Mr. Smith has been an active member of the FASB's Emerging Issues Task Force and Derivatives Implementation Group.

Mr. Smith's term on the IASB will run through June 30, 2007. The press release announcing his appointment and further information about the IASB can be obtained on the IASB's website at <http://www.iasb.org.uk> and on Deloitte & Touche's IAS Plus website at <http://www.iasplus.com/index.htm>.

## **IFAC Offers Guidance on Financial Reporting on the Internet**

On August 26, 2002, the staff of the International Federation of Accountants (IFAC) published a paper entitled *Financial Reporting on the Internet—Responsibilities of Directors and Management*.

The paper suggests various policies and procedures intended to help company officials ensure that financial information (e.g., financial statements) provided on their company's website has the same integrity as financial information published in traditional paper form. The suggested policies and procedures relate to such matters as:

- Types and format of financial information provided, as well as changes in such information
- Differentiating between audited and nonaudited financial information
- Use of hyperlinks
- Control issues, such as the approval of financial information to be provided and website security.

The paper can be obtained on IFAC's website at <http://www.ifac.org/Store/Details.tmp?SID=1030393082223229>.

The related press release is available at <http://www.ifac.org/News/LastestReleases.tmp?NID=1030395040224021&RanID=34162>.

IFAC is an organization of national professional accountancy bodies that seeks to develop a harmonized worldwide accounting profession through the publication of guidance materials on auditing, ethics, and other professional matters. Currently, IFAC has 156 member bodies in 114 countries. Further information about IFAC is available at <http://www.ifac.org>.