

Accounting Roundup

Deloitte
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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 solely on the descriptions included in this communication.

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FASB Approves Issuance of SPE Guidance

At its January 15, 2003 meeting, the FASB approved the issuance of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. The Interpretation, which includes certain provisions that become effective as early as two weeks after its issuance, is available on the FASB's website at <http://www.fasb.org/int46.shtml>.

FASB Issues Amended Rules on Transition and Disclosure for Stock Compensation

On December 31, 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, which amends SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. (Under the fair value based method, compensation cost for stock options is measured when options are issued.) In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation.

The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002.

A statement summary is available on the FASB's website at <http://www.fasb.org/st/summary/stsum148.shtml>. The related press release is available at <http://www.fasb.org/news/nr123102.shtml>.

FASB Board Member Resigns

The FASB announced the resignation of Board member John Wulff, who has decided to return to private industry after June 30, 2003.

Commenting on Mr. Wulff's decision, FASB Chairman Robert Herz stated, "Given his unwavering support for private sector standard setting and for the FASB, I know that this has been a very tough decision for John—one that he has been considering over the past year. I want to thank John for his contributions to the FASB and wish him the very best in his future endeavors."

The Trustees of the FAF have commenced a search for Mr. Wulff's replacement and expect to announce his successor well before his departure on June 30.

The press release is available on the FASB's website at http://www.fasb.org/john_wulff_resign.shtml.

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

GASB Exposure Drafts on Budgetary Comparisons and on Asset Impairment and Insurance Recoveries

The GASB recently issued two exposure drafts of proposed GASB Statements: *Budgetary Comparison Schedules—Perspective Differences*, and *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Budgetary Comparisons

This exposure draft would amend GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, so that governmental reporting entities could base their budgetary comparison schedules (which are required to be presented as supplementary information) on the fund, organization, or program structure used for their legally adopted budgets.

Asset Impairment and Insurance Recoveries

Under the provisions of this exposure draft, governmental reporting entities would be required to evaluate major events affecting capital assets to determine whether such assets are impaired and, then, account for the effects of any impairment using one of several prescribed methods.

The exposure draft also addresses the accounting for insurance recoveries, as well as a number of proposed new disclosures related to both insurance recoveries and asset impairment.

Other

Comments on both exposure drafts should be received by the GASB by February 28, 2003. Further information about each exposure draft is available on the GASB's website at <http://www.gasb.org/news/nr121302.html> and <http://www.gasb.org/news/nr121602.html>, respectively.

Note: Conclusions of the GASB 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 GASB are determined only after extensive deliberation and due process, including a formal vote by written ballot to issue a Statement or Interpretation.

SEC Issues Proposed Rule Relating to Listed Company Audit Committees

On January 8, 2003, the SEC proposed a rule that would direct the national securities exchanges and national securities associations to prohibit the listing of any security of an issuer that is not in compliance with the audit committee requirements established by the Sarbanes-Oxley Act of 2002. This proposed rule would implement the requirements of Section 10A(m)(1) of the Securities Exchange Act of 1934, as added by Section 301 of the Sarbanes-Oxley Act of 2002.

Under the proposed rule, national securities exchanges and national securities associations would be required to prohibit the listing of any security of an issuer that is not in compliance with the following.

- Each member of the audit committee of the issuer must be independent according to the specified criteria in Section 10A(m).
- The audit committee must be directly responsible for the appointment, compensation, retention, and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or related work or performing other audit, review, or attest services for the issuer, and the registered public accounting firm must report directly to the audit committee.
- The audit committee must establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- The audit committee must have the authority to engage independent counsel and other advisors, as it determines necessary to carry out its duties.
- The issuer must provide appropriate funding for the audit committee.

The proposed rule would apply to both domestic- and foreign-listed issuers.

Special Circumstances of Particular Foreign Jurisdictions

Several provisions have been included in the proposed rule that seek to address the special circumstances of particular foreign jurisdictions. These provisions include:

- Allowing nonmanagement employees to serve as audit committee members, consistent with "co-determination" and similar requirements in some countries

- Allowing shareholders to select or ratify the selection of auditors, which is also consistent with requirements in many foreign countries
- Allowing alternative structures, such as boards of auditors, to perform auditor oversight functions where such structures are provided for under local law
- Addressing the issue of foreign government shareholder representation on audit committees.

Updates to Current Disclosure Requirements Regarding Audit Committees

The proposed rule would also make several updates to the SEC's current disclosure requirements regarding audit committees, including (1) disclosure of the use of any exemptions to the recommendations, (2) the identification of the audit committee in annual reports, and (3) updates to the audit committee independence disclosure in proxy statements.

The proposed rule must become effective by April 26, 2003, and the new requirements would need to be operative no later than the first anniversary of the publication of the SEC's final rule.

The proposed rule is available on the SEC's website at <http://www.sec.gov/rules/proposed/34-47137.htm>.

SOP on Foreclosed Assets Withdrawn

The AICPA's Accounting Standards Executive Committee recently announced that it has rescinded SOP 92-3, *Accounting for Foreclosed Assets*, because that SOP is effectively superseded by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

This announcement appears in the January 2003 issue of the *Journal of Accountancy* and on the AICPA's website at <http://www.aicpa.org/pubs/jofa/jan2003/news.htm#ACCOUNTING>.

Further information about AcSEC can be found on the AICPA's website at <http://www.aicpa.org/members/div/acct-std/index.htm>.

December 18-20, 2002 IASB Meeting

At its December 18-20, 2002 meeting in London, the IASB took the following actions:

- Agreed to make certain changes to the proposed IFRSs on *First-Time Application of International Financial Reporting Standards* and *Improvements to International Accounting Standards*, in response to comments received on the respective exposure drafts
- Discussed various issues in the following projects and reached certain tentative conclusions
 - Business combinations (phase II)
 - Convergence (postemployment benefits, joint ventures, and restructuring costs)
 - Financial activities
 - Income statement (formerly known as reporting performance)
 - Revenue recognition and liabilities
- Decided to hold a series of roundtables (public hearings) in early 2003 with respondents to the exposure draft of proposed amendments to IAS No. 32, *Financial Instruments: Disclosure and Presentation*, and IAS No. 39, *Financial Instruments: Recognition and Measurement*
- Discussed various issues for which its International Financial Reporting Interpretations Committee sought the Board's guidance.

The next IASB meeting, originally scheduled for January 22-24, 2003, will instead be held January 22-23 only, in London.

Further information about the December 2002 IASB meeting can be obtained on the IASB's website at <http://www.iasb.org.uk/docs/update/upd0212.pdf> and on Deloitte & Touche's IAS Plus website at <http://www.ias-plus.com/agenda/0212.htm>. Additional information about the IASB and its activities is available on its website at <http://www.iasb.org.uk> and on the IAS Plus website at <http://www.iasplus.com>.

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

Certain IFAC Materials Now Available Free

Individuals interested in international accounting practices may now obtain, without charge, online access to certain guidance materials developed by IFAC.

IFAC is an organization of national professional accountancy bodies and certain specialized groups, which seeks to develop a harmonized worldwide accounting profession, chiefly through the publication of guidance materials on auditing, ethics, and certain other professional matters. Currently, IFAC has nearly 160 member bodies in more than 110 countries.

Further information about IFAC and its materials is available on IFAC's website at <http://www.ifac.org>.

Acting PCAOB Chairman Chosen

On January 8, 2002, the SEC designated PCAOB member Charles D. Niemeier to serve as Acting PCAOB Chairman until it names a permanent Chairman to replace William H. Webster, who resigned from the PCAOB last month. At the time of his appointment to the PCAOB in October 2002, Mr. Niemeier was Chief Accountant in the SEC's Enforcement Division.

An SEC press release about Mr. Niemeier is available on the SEC's website at <http://www.sec.gov/news/press/2003-2.htm>.

January 9, 2003 PCAOB Meeting

At its January 9, 2003 meeting in Washington, DC, the first to be held in open session, the PCAOB set salaries for its members and senior staff positions, ratified a lease for office space, and approved a request for a government loan to meet its current expenses.

Further information about the PCAOB meeting can be found in various media sources, for example, the January 10, 2003 editions of the *New York Times* ("Six Months Later, Audit Board Holds First Talk") and the *Washington Post* ("Audit Standards Board Sets Up, Looks for Staff").

Changes Recommended to PCAOB Selection Process

After the SEC appointed the first PCAOB members, the General Accounting Office (GAO), Congress' investigative arm, was asked to review the selection process in light of certain factors that were perceived as having led to a breakdown of that process.

On December 19, 2002, the GAO issued a report on the results of its review. The report recommends that the SEC should take the following actions before it appoints any additional PCAOB members, especially the next PCAOB chairman:

- Define and reach agreement on a documented process
- Set selection criteria
- Develop a "vetting" process and complete necessary reviews [Editor's note: While not defined in the report, "vetting" is generally understood to mean a thorough screening of candidates.]
- Make greater use of available technology to do background checks on candidates.

The report is available on the GAO's website at <http://www.gao.gov/new.items/d03339.pdf>.

Deloitte & Touche Publications on Year-End Financial Reporting Matters

In addition to the recently released *Accounting Roundup: The Year 2002 in Review*, which is available at <http://www.deloitte.com/vc/0.1639.sid%253D2002%2526cid%253D8715.00.html>, Deloitte & Touche has also issued the following publications with articles covering various developments that may affect the preparation of 2002 financial statements. The links to those publications are as indicated.

- November/December 2002 issue of *For the Record*, published by Deloitte & Touche's Technology, Media & Telecommunications Group: <http://www.deloitte.com/vc/0.1639.sid%253D2245%2526cid%253D8003.00.html>
- December 9, 2002 issue of *Heads Up*, developed by Deloitte & Touche's Capital Markets Group: <http://www.deloitte.com/vc/0.1639.sid%253D2212%2526cid%253D8597.00.html>
- December 2002 issue of *Banking Industry Briefs*, published by Deloitte & Touche's Financial Services Group: <http://www.deloitte.com/vc/0.1639.sid%253D2212%2526cid%253D9027.00.html>
- January 2003 issue of *IAS Plus Newsletter*, released by Deloitte & Touche's IAS Global Office: <http://www.ias-plus.com/iasplus/iasp02inreview.pdf>
- January 2003 *Audit Committee Brief*, published by Deloitte & Touche's Global Strategic Clients Group: <http://www.deloitte.com/vc/0.1639.sid%253D2006%2526cid%253D9366.00.html>.

Abbreviations Frequently Used in Accounting Roundup

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|-------|----------------------------------------------------|-------|---------------------------------------------|
| AcSEC | Accounting Standards Executive Committee | IASB | International Accounting Standards Board |
| AICPA | American Institute of Certified Public Accountants | IFAC | International Federation of Accountants |
| ED | Exposure Draft | IFRS | International Financial Reporting Standard |
| EITF | Emerging Issues Task Force | PCAOB | Public Company Accounting Oversight Board |
| FASB | Financial Accounting Standards Board | SEC | Securities and Exchange Commission |
| GASB | Governmental Accounting Standards Board | SFAS | Statement of Financial Accounting Standards |
| IAS | International Accounting Standard | SOP | Statement of Position |

Deloitte Accounting Research Tool Available

Deloitte & Touche is making available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called the Deloitte Accounting Research Tool (DART), the library includes material from the FASB, the EITF, the AICPA, and the SEC, in addition to Deloitte & Touche's own accounting manual and other interpretative accounting guidance.

Updated every business day, DART has an intuitive design and navigation system, which, together with its powerful search features, enables users to quickly locate information anytime, from any computer. Additionally, DART subscribers receive periodic e-mails highlighting recent additions to the DART library.

For more information, including subscription details and an online DART demonstration, visit www.deloitte.com/us/dart.