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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 Staff Proposes New FSP

On March 12, 2003, the FASB staff issued for comment a proposed FSP, *Accounting for Intellectual Property Infringement Indemnifications under FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

The proposed FSP is available on the FASB's website at http://www.fasb.org/fasb_staff_positions/03-12-03_prop_fsp.pdf. The comment period ends on April 12, 2003.

FASB Announces New Projects on Stock-Based Compensation and Pensions

After discussions at its March 12, 2003 meeting, the FASB announced it will add two projects to its agenda. The scope of the first project will include issues relating to stock-based compensation, including whether to require that the cost of employee stock options be treated as an expense. The Board indicated that an exposure draft would be issued later this year.

The scope of the second project will include a reconsideration of the provisions of SFAS No. 87, *Employers' Accounting for Pensions*. The Board expects to issue an exposure draft on this project later this year.

A press release concerning the new projects is available on the FASB's website at <http://www.fasb.org/news/nr031203.shtml>.

Exposure Drafts of SFAS Outstanding

The FASB has previously issued a number of exposure drafts of proposed SFASs that are expected to result in final SFASs soon. Following are brief descriptions about each FASB project. Further information can be obtained on the FASB's website via the link provided.

Liabilities and Equity—Phase One

In October 2002, the FASB issued two exposure drafts: *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both*, and *Proposed Amendment to FASB Concepts Statement No. 6 to Revise the Definition of Liabilities*. During its redeliberations of issues identified during the comment period, the FASB decided to immediately address concerns relating to financial instruments embodying obligations that could be settled by the issuance of an entity's own shares through a limited-scope SFAS. The limited-scope SFAS is expected to address the following instruments:

- Financial instruments embodying or indexed to an obligation to repurchase an issuer's equity shares that requires or could require settlement by transfer of assets
- Mandatorily redeemable instruments

- Financial instruments embodying an obligation that the issuer must or could settle by issuing a variable number of its equity shares if the monetary value of the obligation is based solely or predominantly on (1) a fixed monetary amount known at inception, (2) variations in something other than the fair value of the issuer's equity shares, or (3) variations in the fair value of the issuer's equity shares, but in the direction opposite to those variations.

At the March 12, 2003 Board meeting, the FASB staff indicated that several comments have been received, including comments from the SEC staff that relate to the interaction between this proposed SFAS and the embedded derivative provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SEC Accounting Series Release (ASR) No. 268, *Presentation in Financial Statements of "Redeemable Preferred Stock."* The Board indicated that the proposed SFAS will be revised to address the interaction of the proposed SFAS with the specific guidance mentioned above. The Board also noted that the FASB website should be updated to specifically indicate the reasons for revisions, particularly that changes are necessary to appropriately consider the interaction of the embedded derivative provisions of SFAS 133 and ASR 268. The FASB staff indicated that a meeting would be scheduled, with the SEC staff present, to discuss the revisions. A final SFAS is expected to be issued in the second quarter of 2003.

More information on this project is available on the FASB's website at <http://www.fasb.org/project/liabeq.shtml>.

Amendment of Statement 133

In May 2002, the FASB issued an exposure draft, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The final SFAS will amend the definition of a derivative in paragraph 6(b) of SFAS 133 and will contain certain amendments for various decisions of the FASB's Derivatives Implementation Group (DIG).

At the March 12, 2003 Board meeting, the FASB staff asked the Board to reconsider the effective date and transition provisions of the proposed SFAS. The Board tentatively decided to revise the provisions such that the proposed SFAS would be effective as follows:

- This SFAS will be effective for contracts entered into or modified after June 30, 2003, or hedging relationships designated after June 30, 2003, and will be applied prospectively given that it is transaction/hedging-relationship based.
- Statement 133 Implementation Issues that have been cleared by the Board as part of the DIG process and that are effective for fiscal quarters that began prior to June 15, 2003 would continue to be effective based on their respective effective dates.
- Paragraphs relating to forward purchases or sales of when-issued or other securities that do not yet exist would be applicable to both existing transactions as well as new transactions entered into after June 30, 2003.

According to the FASB's technical plan, the SFAS is expected to be issued by the end of the first quarter of 2003.

Further information on this project is available at http://www.fasb.org/project/amend_st_133.shtml.

Recent FASB Meetings

The following additional topics were also discussed at recent Board meetings. Final conclusions were not reached and further discussion relating to these projects is expected at future meetings. The project summaries maintained by the FASB staff are available on the FASB's website at <http://www.fasb.org/project>.

March 5, 2003 Meeting:

- Short-term international convergence
- Financial performance reporting by business enterprises
- Disclosures about fair value
- Consolidations—FIN 46 application guidance.

The handouts distributed at the March 5 meeting are available at http://www.fasb.org/board_handouts/03-05-03.pdf.

March 12, 2003 Meeting:

- Permitted activities of a qualifying special-purpose entity.

The handouts distributed at the March 12 meeting are available at http://www.fasb.org/board_handouts/03-12-03.pdf.

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.

Review of Periodic Reports by the SEC's Division of Corporation Finance

In December 2001, the Division of Corporation Finance announced that it would monitor the annual reports filed with the SEC in 2002 by all Fortune 500 companies. The Division noted that specific focus would be placed on disclosures that appeared to be critical to an understanding of each company's financial position and results but that seemed to conflict significantly with generally accepted accounting principles or SEC rules or to be materially deficient in explanation or clarity.

The Division recently issued a summary of significant issues addressed during its reviews. The summary, which is not intended to be an evaluation of the quality of disclosures, discusses the principal areas in which the Division issued comments to registrants. The Division noted that although certain areas of disclosure were not addressed in its comments, that should not be taken as an indication that the Division did not see issues or potential for improvement.

Highlights of selected portions of the summary are included below. The entire summary is available on the SEC's website at <http://www.sec.gov/divisions/corpfin/fortune500rep.htm>.

Management's Discussion & Analysis (MD&A)

The Division issued comments on the MD&A section of financial statements more than on any other topic. According to the summary, a significant number of comments sought greater analysis of the company's financial condition and results of operations. Comments addressed, among other situations, instances in which companies simply recited financial statement information without analysis or presented boilerplate analyses that did not provide insight into the companies' past performance or business prospects as understood by management. The Division said that it is seeking information regarding the existence of known trends, uncertainties, or other factors that required disclosures that were not included.

The Division issued a significant number of comments regarding company- or industry-specific MD&A disclosures. The Division posed specific questions relating to information presented in the financial statements that it believed warranted further discussion in the MD&A section of the financial statements.

Critical Accounting Policy Disclosure

A number of companies were asked to present or to expand a current presentation of a discussion of their critical accounting policies in their MD&A. The Division noted that a substantial number of companies did not provide any critical accounting policy disclosures that would have been required under SEC FR-60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*. The critical accounting policy disclosures of many companies also did not adequately respond to the guidance provided in SEC FR-60 and failed to provide the sensitivity analysis the SEC encouraged in that guidance.

Non-GAAP Financial Information

In general, the Division asked companies either to remove non-GAAP financial measures, because it was considered to be misleading or susceptible to misinterpretation, or to present them less prominently with better explanation and more balanced disclosure. As previously reported in the January 24, 2003 edition of *Accounting Roundup*, the SEC adopted rules implementing section 401(b) of the Sarbanes-Oxley Act of 2002, which provides specific guidance for non-GAAP financial information disclosures.

Other Areas of Comment

The summary also provides details about comments issued in the following areas:

- Revenue recognition
- Restructuring charges
- Impairment charges
- Impairment of goodwill and other intangible assets
- Pension plans
- Segment reporting
- Securitized financial assets and off-balance-sheet arrangements
- Environmental and product liability disclosures.

March 4, 2003 AcSEC Meeting

At its March 4, 2003 meeting in New York, the AICPA's Accounting Standards Executive Committee took the following actions:

- Approved issuance of an SOP, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*
- Approved a letter of comment on the IASB's exposure drafts on (1) *Business Combinations* and (2) *Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets*, subject to AcSEC's clearance of a final draft
- Discussed the disposition of various AcSEC projects in progress, in light of the AICPA's agreement with the FASB that AcSEC will stop issuing general-purpose SOPs. For example, it was announced that AcSEC would be permitted

to continue its work toward issuance of an SOP, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*; however, the final SOP would exclude certain issues that were addressed in the exposure draft.

The next AcSEC meeting is scheduled for April 29-30, 2003, in Norwalk, Connecticut.

Further information about AcSEC can be found at <http://www.aicpa.org/members/div/acctstd/index.htm>.

Proposed AICPA Practice Aid on Valuation of Certain Equity Securities

An AICPA task force is seeking comments on its draft of a proposed practice aid, *Valuation of Privately-Held-Company Equity Securities Issued in Other Than a Business Combination*.

The proposed practice aid, which provides suggested best practices on this topic, is available on the AICPA website at http://www.aicpa.org/members/div/acctstd/vpes_021803.asp. Comments should be received by April 30, 2003, as discussed in the draft.

AICPA Offers Free Fraud Training Course

To help the U.S. business community provide corporate fraud prevention training to personnel at all levels, the AICPA, in connection with the Association of Certified Fraud Examiners, has developed a one-hour program entitled *How Fraud Hurts You and Your Organization*.

The program shows, through real-life examples and interviews, how employees at all levels can become tempted to embezzle corporate funds or commit intentional errors in financial statements, and it explains what all employees can do to help protect their jobs and their organizations from such fraud.

Further information about this program, including information on how to download a free copy, is available on the AICPA's website at <http://www.aicpa.org/news/2002/p021211.asp>.

Change in Dates of March 2003 IASB Meeting

On March 3, 2003, the IASB announced that its next meeting, originally scheduled for March 19-21, in London, would instead be held March 19-20 only.

Update: Certain IASB Projects

The IASB has a number of projects in various stages of deliberations, including the following. Further information about each project is available on the IASB website at <http://www.iasb.org.uk/cmt/0001.asp?s=6831722&sc={56C0E2A9-658C-4E06-86C4-46A1B7924BE9}&n=66> and on Deloitte & Touche's IAS Plus website at <http://www.iasplus.com/agenda/timetabl.htm>.

Exposure Draft of Proposed IFRS With Open Comment Period

- *Business Combinations (phase one)*—Comment period ends April 4, 2003.

Final IFRS Expected to Be Issued in the Second Quarter

- *Improvements to Existing IAS*
- *First-Time Application of IFRS*

Exposure Drafts of Proposed IFRS Expected to Be Issued in the Second Quarter

- *Business Combinations (phase two)*
- *Insurance Contracts (phase one)*

IFAC Publication on the Quality of Earnings

IFAC recently published *Quality of Earnings: A Case Study Collection*, an educational tool consisting of more than a dozen case studies (based on actual situations) covering such topics as business ethics, loan losses, in-process research and development costs, business combinations, inventory valuation, use of estimates, and revenue recognition.

Further information about this publication, including information on how to obtain a free copy, is available on IFAC's website at <http://www.ifac.org/News/LastestReleases.tmpl?NID=104690271539170>.

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.

March 4, 2003 PCAOB Meeting

At its March 4, 2003 meeting in Washington, D.C., the PCAOB voted to issue a proposal concerning the registration of public accounting firms. Under the proposal, a firm (regardless of whether it is a U.S. or non-U.S. firm) would be required to register with the PCAOB if it either (1) prepares or issues an audit report on any issuer (i.e., any public company that is required to file reports with the SEC or that has filed a registration statement for a public offering of securities) or (2) plays "a substantial role in the preparation and furnishing of such reports."

The proposal can be obtained on the PCAOB's website at <http://www.pcaobus.org/pcaob1/rulelistings.asp>. Comments on the proposal should be received by the PCAOB by March 31, 2003.

The PCAOB announced that it expects to hold a public hearing to obtain views from interested parties on whether the proposed registration requirements should be modified for non-U.S. firms.

An archived webcast of the PCAOB meeting can be accessed at <http://www.connectlive.com/events/pcaob>.

Process for Selecting Next PCAOB Chair

As discussed in the January 20, 2003 issue of *Accounting Roundup*, after the SEC appointed the first PCAOB members, the General Accounting Office (GAO), Congress' investigative arm, was asked to review the selection process. The GAO's review resulted in recommendations that it said the SEC should implement before appointing any additional PCAOB members, especially the next PCAOB chair.

On March 4, 2003, the SEC announced that it has adopted a process for selecting the next PCAOB chair that "builds upon" the GAO recommendations. That process includes the following steps:

- The SEC staff will provide the SEC chairman and commissioners with a list of candidates based on input received from various sources, including key members of Congress, investor advocates, academics, and members of the business community.

- The SEC chairman and commissioners will narrow the list of candidates based on prescribed criteria and then will meet with leading candidates after a preliminary screening of all candidates has been performed and a thorough background review of leading candidates has been completed.

The SEC's statement, which discusses both the selection process and the selection criteria, can be found on its website at <http://www.sec.gov/news/press/2003-28.htm>.

Abbreviations Frequently Used in Accounting Roundup

AcSEC	Accounting Standards Executive Committee	IASB	International Accounting Standards Board
AICPA	American Institute of Certified Public Accountants	IFAC	International Federation of Accountants
EITF	Emerging Issues Task Force	IFRS	International Financial Reporting Standard
FASB	Financial Accounting Standards Board	PCAOB	Public Company Accounting Oversight Board
FIN	FASB Interpretation	SEC	Securities and Exchange Commission
FSP	FASB Staff Position	SFAS	Statement of Financial Accounting Standards
GASB	Governmental Accounting Standards Board	SOP	Statement of Position
IAS	International Accounting Standard	TPA	Technical Practice Aid

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, enable 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 <http://www.deloitte.com/us/dart>.

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