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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 Issues FSP on One-Time Termination Benefits Offered in Connection With an Exit or Disposal Activity

On September 3, 2003, the FASB posted to its website FSP FAS 146-1, *Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement*. This FSP requires that in order for additional termination benefits offered in connection with an exit or disposal activity to be considered an enhancement to an ongoing benefit arrangement and, therefore, subject to provisions of SFAS No. 87, *Employers' Accounting for Pensions*, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS No. 106, *Employers' Accounting for Postretirement Benefits*, or SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, the additional termination benefit must represent a revision to the ongoing arrangement that is not limited to a specified termination event or a specified future event. Otherwise, the additional termination benefits should be considered one-time termination benefits and accounted for under SFAS No. 146, *Accounting for Costs Associated with Exit of Disposal Activities*.

This guidance is effective for exit or disposal activities initiated in interim or annual reporting periods beginning after September 15, 2003. An entity may elect to report the change in accounting as a cumulative-effect adjustment in accordance with APB Opinion No. 20, *Accounting Changes*, for exit activities initiated after December 31, 2002 (the original effective date of SFAS 146). This FSP is available on the FASB's website at http://www.fasb.org/fasb_staff_positions/final_fsp.shtml.

FASB Issues Proposed FSPs on SFAS 150 and FIN 46

On August 27, 2003, the FASB posted to its website the following proposed FSPs that clarify application of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* to certain transactions. The comment period ends on September 27, 2003.

- Proposed FSP FAS 150-a, *Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*.
- Proposed FSP FAS 150-b, *Accounting for Mandatorily Redeemable Shares Requiring Redemption by Payment of an Amount that Differs from the Book Value of Those Shares, under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*.

On September 3, 2003, the FASB posted to its website the following proposed FSPs related to the accounting under FIN No. 46, *Consolidation of Variable Interest Entities*. The comment period ends on October 3, 2003.

- Proposed FSP FIN 46a, *Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, for Nonregistered Investment Companies*—This FSP proposes a deferral of the effective date for applying FIN 46 for investment companies that are not subject to SEC Regulation S-X, Rule 6-03(c)(1), but are currently accounting for their investments in accordance with the AICPA Audit and Accounting Guide, *Audits of Investment Companies* ("the Audit Guide"). The effective date of FIN 46 for these investment companies would be delayed until the AICPA finalizes its proposed SOP on the clarification of the scope of the Audit Guide on investment companies. Upon issuance of a final SOP, the FASB will consider modifying paragraph 4(e) of FIN 46 to provide an exception for companies that apply the Audit Guide on investment companies as revised by the SOP.
- Proposed FSP FIN 46b, *Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, for Certain Decision Makers*—This FSP proposes a deferral of the effective date for applying FIN 46 for a decision maker that receives fees paid by a variable interest entity if the fee has no variability and the decision maker has no exposure to the expected losses of the entity and no right to expected residual returns of the entity. In those circumstances, the decision maker would not apply FIN 46 to that variable interest entity until the FASB has completed its consideration of a modification to the application of FIN 46, paragraph 8(c), that may affect those parties.
- Proposed FSP FIN 46c, *Impact of Kick-Out Rights Associated with the Decision Maker on the Computation of Expected Residual Returns under Paragraph 8(c) of FASB Interpretation No. 46, Consolidation of Variable Interest Entities*—This FSP proposes that the ability of investors or other parties to remove a decision maker does not obviate the requirement to include fees to the decision maker in the computation of expected residual returns in accordance with paragraph 8(c) of FIN 46 and in the evaluation of whether the decision maker is the primary beneficiary of the entity.

In addition, on September 10, 2003, the FASB posted to its website the following proposed FSP related to the accounting under FIN 46. The comment period ends on October 10, 2003.

- Proposed FSP FIN 46d, *Treatment of Fees Paid to Decision Makers and Guarantors as Described in Paragraph 8 in Determining Expected Losses and Expected Residual Returns of a Variable Interest Entity under FASB Interpretation No. 46, Consolidation of Variable Interest Entities*—This proposed FSP replaces a previously unnumbered proposed FSP, *Treatment of Fees Paid to Decision Makers and in Determining Expected Losses and Expected Residual Returns of a Variable Interest Entity under FASB Interpretation No. 46, Consolidation of Variable Interest Entities*, which was posted to the FASB website for comment in March 2003. FSP FIN 46d provides guidance on how fees described in paragraph 8(c) and 8(d) of FIN 46 that are paid by a variable interest entity affect the calculation of expected losses and expected residual returns of a variable interest entity. The exhibit of this FSP illustrates a calculation of the expected losses and expected residual returns and the determination of the primary beneficiary when fees are paid to a decision maker.

The proposed FSPs are available on the FASB's website at http://www.fasb.org/fasb_staff_positions/proposed_fsp.shtml.

EITF Issues Proposed Draft Abstract on Issue 03-10

The EITF posted to the FASB website a draft Abstract related to EITF Issue No. 03-10, *Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers*. Issue 03-10 addresses whether consideration received by

a reseller in the form of a reimbursement by the vendor for honoring the vendor's sales incentives offered directly to consumers should be recorded as revenue or as a reduction of the cost of the reseller's purchases from the vendor under guidance in Issue No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*. At its July 31, 2003 meeting, the EITF tentatively concluded that sales incentive arrangements that meet certain criteria specified in the Abstract are not subject to the guidance in Issue 02-16. However, the EITF agreed to post the proposed Abstract to the FASB website for review and consideration of public comments prior to finalizing and ratifying Issue No. 03-10.

The draft Abstract is available on the FASB's website at <http://www.fasb.org/eitf/0310DraftAbstract.pdf>. The comment period ends on October 15, 2003.

September 3, 2003 FASB Meeting

Permitted Activities of Qualifying SPEs

The FASB discussed a summary of the comments of respondents received on the FASB exposure draft, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*, and made at the FASB open roundtable discussion on August 28, 2003. No tentative decisions were reached.

August 27, 2003 FASB Meeting

The FASB discussed the following projects and reached certain tentative conclusions, summarized below. No final conclusions were reached on these projects, and further consideration is expected at future meetings.

Business Combinations: Purchase Method Procedures

The FASB discussed the outcome of its educational meeting on August 12, 2003 with members of the financial statement user community. Specifically, the Board discussed (1) certain existing and proposed business combination disclosures, (2) proposals for the display of the effect of transactions with noncontrolling interests in the consolidated financial statements, and (3) a proposed noncontrolling interest disclosure requirement.

Stock-Based Compensation

As part of its stock-based compensation project, the FASB discussed several issues relating to the method of accounting for stock-based compensation transactions classified as modifications or settlements. The FASB expects to issue an exposure draft in the first quarter of 2004. The Board tentatively decided that:

- The definition of *modification* should include all changes in terms and conditions of an award, including changes in quantity, price, transferability, settlement provisions, and vesting requirements.
- Any incremental value transferred to an employee as the result of a modification of an award should be recognized as additional compensation.
- Short-term inducements should be treated as modifications for award holders that accept the inducement.
- The guidance in paragraph 36 of SFAS No. 123, *Accounting for Stock-Based Compensation*, will be retained for stock splits and stock dividends, and that guidance will be extended to certain other antidilutive provisions (for example, for unusually large cash dividends).
- Guidance in SFAS 123 for settlements that establishes the following will be retained: (1) a settlement of a stock-based compensation award should be accounted for as the repurchase of an equity instrument, (2) the excess of the

amount paid by the issuing enterprise to settle such an award over its settlement date value should be recognized as additional compensation, and (3) the settlement of an unvested award represents a substantive vesting acceleration event and, therefore, all unrecognized compensation cost associated with the settled award should be immediately recognized on the date of the settlement.

- The reconveyance of an award from the employee to the employer would be recognized by the issuing entity as a credit in the income statement in an amount equal to the lesser of (1) the fair value of the award on the reconveyance date or (2) the recognized cumulative compensation cost associated with the award.

Financial Instruments: Liabilities and Equity

The FASB discussed whether nonpublic entities should be exempt from applying, or given further time to apply, the provisions of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, that require mandatorily redeemable shares to be classified as liabilities. The Board tentatively decided:

- Not to exempt nonpublic entities from applying the provisions of SFAS 150 that require mandatorily redeemable shares to be classified as liabilities
- For mandatorily redeemable financial instruments of a nonpublic entity, SFAS 150 should be effective for existing or new contracts for fiscal periods beginning after December 15, 2004, instead of December 15, 2003.

The Board directed the FASB staff to draft a change to the effective date for applying the provisions of SFAS 150 to mandatorily redeemable financial instruments of nonpublic companies, which will be issued in a proposed FSP.

Fair Value Measurement

The FASB discussed the guidance for using present value to estimate fair value in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements* ("CON 7"). The Board decided to revise one aspect of that guidance and to clarify the terminology used to describe various methods that will be carried forward to the fair value standard.

The Board decided to refer to the *expected cash flow approach* in CON 7 as an *expected present-value technique*. The Board clarified that an expected present-value technique is consistent with the use of probability-weighted (expected) cash flows that either are (1) explicitly adjusted for systematic risk and discounted at a risk-free rate or (2) discounted using a rate that incorporates a risk premium for the systematic risk inherent in the expected cash flows. In reaching that decision, the Board emphasized the need to adjust for systematic risk (in either the expected cash flows or the discount rate) and decided to eliminate the potential default of no-risk adjustment in certain circumstances in paragraphs 62 and 68 of CON 7.

The Board also decided to refer to the *traditional approach* in CON 7 as a *discount rate adjusted approach* (present-value technique). The Board clarified that a discount rate adjustment present-value technique is consistent with the use of contractual cash flows, a most-likely estimate of cash flows, or a best estimate of cash flows, each discounted at a discount rate commensurate with the risks inherent in the cash flows.

The handouts distributed at this meeting are available on the FASB's website at http://www.fasb.org/board_handouts/08-27-03.pdf.

August 20, 2003 FASB Meeting

The FASB discussed the following projects and reached certain tentative conclusions, summarized below. No final conclusions were reached on these projects, and further consideration is expected at future meetings.

Fair Value Measurement

The FASB discussed its fair-value measurement project and the APB and FASB pronouncements that require fair-value measurements. The Board generally decided that the guidance for measuring fair value developed in this project would apply to those pronouncements, except for those that relate to stock-based compensation and leasing transactions, and SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*.

Permitted Activities of Qualifying SPEs

The FASB discussed a summary of the comments of respondents to the FASB exposure draft, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*. No tentative decisions were reached.

Pension Disclosures

The FASB discussed certain issues related to disclosures for pensions and other postretirement benefits. The FASB also discussed certain issues concerning a draft of the proposed statement on employers' disclosures about pensions and other postretirement benefits.

The FASB tentatively agreed:

- Disclosures similar to those required for pensions should be required for other postretirement benefits. The Board unanimously agreed that none of the potential disclosures should be required for multiemployer pension plans.
- There should be no quantitative significance threshold for either pension or other postretirement benefit disclosures; management should use its discretion in determining whether plans are immaterial.
- The income statement classification of net pension cost should be eliminated; interim period disclosures of net pension cost and disclosure of the projected benefit payments should be retained.
- Disclosures of significant changes that have occurred after the measurement date and about the cash and non-cash components of company contributions should be provided.

The Board discussed two alternative illustrations of required disclosures and opted for the condensed version of the illustration that eliminates the reconciliation of plan assets and obligations, while retaining key information such as actual return on plan assets, benefit payments, and contributions. It streamlines disclosures of projected benefit payments and combines assumptions into one table. The Board reaffirmed that expected contributions should be split between minimum funding requirements and additional contributions to be made at management's discretion.

The Board agreed that the proposed Statement should have a year-end 2003 effective date. The Board directed the FASB staff to prepare a draft of a proposed Statement for vote by written ballot at a future meeting. The Board expects to issue the proposed Statement in the third quarter of 2003.

The handouts distributed at this meeting are available on the FASB's website at http://www.fasb.org/board_handouts/08-20-03.pdf.

Project Summaries and FASB Minutes

Project summaries maintained by the FASB staff are available on the FASB's website at <http://www.fasb.org/project>. The FASB meeting minutes are available at http://www.fasb.org/board_meeting_minutes/board_meeting_minutes.shtml. Summaries of FASB meetings and recent actions are available 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.

GASB Issues an Exposure Draft of Proposed Standards, *Economic Condition Reporting: The Statistical Section*

On September 11, 2003, the GASB issued an exposure draft of proposed standards that would enhance and update the supporting information that governments present with their annual financial statements. The proposal, *Economic Condition Reporting: The Statistical Section*, would revise the statistical section that accompanies a state or local government's basic financial statements to include more comprehensive government-wide financial information.

This proposed standards would be effective for periods beginning after June 15, 2005. A related press release can be found on the GASB's website at <http://accounting.rutgers.edu/raw/gasb/news/index.html>. Information on obtaining a copy of this exposure draft is available at the GASB's website at <http://store.yahoo.com/gasbpubs/publications-exposure-drafts.html>.

IFRIC Issues Draft Interpretation D2 on Changes in Decommissioning, Restoration, and Similar Liabilities

On September 4, 2003, the IFRIC released Draft Interpretation No. D2, *Changes in Decommissioning, Restoration and Similar Liabilities*. The proposed Interpretation contains guidance on accounting for certain changes in decommissioning, restoration, and similar liabilities that are recognized both as part of the cost of an item of property, plant, and equipment in accordance with IAS No. 16, *Property, Plant and Equipment*, and as a liability in accordance with IAS No. 37, *Provisions, Contingent Liabilities and Contingent Assets*. Under IAS 37, a provision must be recognized when an asset is acquired if the acquirer is obligated to incur costs for decommissioning, restoration, and similar future activities. The costs are included as part of the cost of the asset. The proposed Interpretation addresses accounting for subsequent changes in the estimated cash flows relating to the provision. The proposed Interpretation concludes, among other things, that such liabilities should be remeasured at each balance-sheet date using a current market-assessed discount rate.

A related press release can be found on the IASB's website at <http://www.iasb.org.uk/cmt/0001.asp?s=9698806&sc={2A84B7DA-79BA-47C1-9B63-F8F3B4C8F8C5}&n=4199>. Further information on this matter is also available on Deloitte & Touche's IAS Plus website at <http://www.iasplus.com/interps/ifricd002.htm>. The comment period ends on November 3, 2003.

Abbreviations Frequently Used in *Accounting Roundup*

AcSEC	Accounting Standards Executive Committee	IAS	International Accounting Standard
AICPA	American Institute of Certified Public Accountants	IASB	International Accounting Standards Board
ED	Exposure Draft	IFRIC	International Financial Reporting Interpretations Committee
EITF	Emerging Issues Task Force	IFRS	International Financial Reporting Standard
FASAC	Financial Accounting Standards Advisory Committee	PCAOB	Public Company Accounting Oversight Board
FASB	Financial Accounting Standards Board	SEC	Securities and Exchange Commission
FIN	FASB Interpretation	SFAS	Statement of Financial Accounting Standards
FSP	FASB Staff Position	SOP	Statement of Position
GASB	Governmental Accounting Standards Board	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, the SEC, and the IASB, 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.

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