

Accounting Roundup

March 29, 2004

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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 Developments

FASB Issues Proposed FSPs

FSP FIN No. 46(R)-a, Technical Correction of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, Relating to Its Effects on Question No. 12 of EITF Issue No. 96-21, "Implementation Issues in Accounting for Leasing Transactions Involving Special-Purpose Entities"

On March 12, 2004, the FASB posted to its website a proposed FSP to correct Appendix F of FIN 46(R), which incorrectly states that FIN 46(R) fully nullifies question 12 of EITF Issue 96-1. The nullification noted in FIN 46(R) should apply only to a guarantor-lessee that is the primary beneficiary of a lessor that is a variable interest entity. A guarantor-lessee that is not the primary beneficiary of the lessor under FIN 46(R) should continue to apply the question 12 guidance for the timing of the accrual for a contingent loss under the guarantee.

The proposed correction would be applied in accordance with the effective dates and transition provisions of FIN 46(R). Appendix F of FIN 46(R) will be revised to reflect the guidance in this FSP.

FSP FIN 46(R)-a is available on the FASB's website at http://www.fasb.org/fasb_staff_positions/prop_fsp_fin46r-a.pdf. The comment deadline for this proposal is April 12, 2004.

FSP FAS No. 106-b, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003

On March 12, 2004, the FASB posted to its website a proposed FSP to provide guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug benefits. In addition, the proposed FSP provides disclosure requirements regarding the effect of the federal subsidy provided by the Act. This FSP, when effective, would also supersede FSP FAS No. 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which permitted either recognition or deferral of the effects of the Act and required

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specific disclosures, but did not provide guidance on how to recognize the effects of the Act. Positions reached in FSP FAS 106-b include:

- For benefits attributable to past service, the effects of the subsidy on the accumulated postretirement benefit obligation (APBO) should be accounted for as an actuarial experience gain.
- For current measures of net periodic postretirement benefit cost, the subsidy is included in measuring the costs of benefits attributable to current service, which will reduce service cost when it is recognized as a component of net periodic postretirement benefit cost.
- If an estimate of the expected subsidy subsequently changes, the effect of the change is an actuarial experience gain or loss.
- If a plan is amended to provide actuarially equivalent prescription drug benefits, the direct effect of the plan amendment on the APBO and the effect on the APBO of any resulting subsidy to which the employer is expected to be entitled as a result of the amendment should be combined. If the combined effect reduces APBO, it is recorded as an actuarial experience gain; if the combined effect increases APBO, it is deemed to be a prior-service cost.
- If a plan is amended and, as a result, is no longer actuarially equivalent, the combined net effect on the APBO of the reduction in benefits being provided under the plan and the elimination of the subsidy should be accounted for as prior-service cost (credit).
- Subsidies under the Act are exempt from federal taxation; therefore, there should be no effect on plan-related temporary differences accounted for under SFAS No. 109, *Accounting for Income Taxes*.
- Disclosures to be required for employers that are unable to determine whether benefits provided by their plans are actuarially equivalent include:
 - o The existence of the Act
 - o The fact that measures of the APBO or net periodic postretirement benefit cost do not reflect any amount associated with the subsidy, because the employer is unable to conclude whether the benefits are actuarially equivalent.
- Disclosures to be required for the first period in which the effects of the subsidy are included in interim or annual financial statements are:
 - o The reduction of APBO for the subsidy related to benefits from past service
 - o The effect of the subsidy on the measurement of net periodic postretirement benefit cost for the current period
 - o Any other disclosures required by SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (revised 2003).

The final version of FSP FAS 106-b is expected to be effective for the first interim or annual period beginning after June 15, 2004, except for certain nonpublic entities. When this FSP is initially applied, a remeasurement of the plan's assets and APBO, including the effects of the subsidy, if applicable, as well as the other effects of the Act, should be made as of the earlier of (1) the plan's measurement date that normally would have followed enactment of the Act or (2) the end of the employer's interim or annual period that includes the date of the Act's enactment. The measurement of the APBO should be based on the plan provisions in place on that measurement date. However, if the prescription drug coverage provided by a plan was amended after December 8, 2003, but before January 31, 2004, the effects of the prescription drug plan amendment and the consequential effects of the subsidy should be accounted for on a combined basis pursuant to the guidance in the FSP.

FSP FAS 106-b is available on the FASB's website at http://www.fasb.org/fasb_staff_positions/prop_fsp_fas106-b.pdf. The comment deadline for this proposal is April 12, 2004.

Recent FASB Meetings

The summary below highlights certain tentative decisions reached or topics discussed at the FASB meetings regarding their projects. Final conclusions were not reached and further consideration is expected. Additional information is available in the FASB's weekly *Action Alert* newsletter, which is available on the FASB website at <http://www.fasb.org/action/>. [Note: dates in parentheses indicate FASB meetings at which respective issues were discussed.]

- Equity-Based Compensation (EBC) (March 3)
 - o Discussed transition issues for the proposed Statement relating to deferred tax balances for public entities, current equity instruments that would be classified as liabilities under the proposed Statement, and compensation cost capitalized prior to the effective date of the Statement.
- Interpretation of SFAS No. 87, *Employers' Accounting for Pensions* (March 3)
 - o Discussed three alternatives for measuring a cash balance pension plan obligation and concluded that the hybrid approach is the appropriate methodology to be used. The FASB also reached tentative decisions on how the pension plan obligation would be measured under the hybrid approach.
- Mortgage Servicing Rights at Fair Value (March 10)
 - o Discussed issues facing the mortgage banking industry relative to the application of the current accounting model for mortgage servicing rights.
- Proposed FSPs (March 10)

- o The FASB directed the staff to issue two proposed FSPs: FAS No. 106-b, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, and FIN No. 46(R)-a, *Technical Correction of FASB Interpretation No. 46 (revised December 2003)*, Consolidation of Variable Interest Entities, *Relating to Its Effects on Question No. 12 of EITF Issue No. 96-21, "Implementation Issues in Accounting for Leasing Transactions Involving Special-Purpose Entities"* (refer to the discussions of [FSP FAS 106-b](#) and [FSP FIN 46\(R\)-a](#) above).

March 17-18, 2004 EITF Meeting

The following is a list of consensuses reached, other Issues discussed, and administrative discussions from the March 17-18, 2004 EITF meeting. Further information about the EITF and the Issues discussed below can be found on the FASB's website at <http://www.fasb.org/eitf>. In addition, Deloitte publishes the *EITF Roundup* newsletter, which provides an overview of consensuses reached and discussions held at EITF meetings. *EITF Roundup* can be accessed on the Deloitte website at <http://www.deloitte.com/us/eitfroundup>.

EITF Issues on Which Consensuses (or Partial Consensuses) Were Reached

- Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*
- Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share*
- Issue No. 03-16, *Accounting for Investments in Limited Liability Companies*
- Issue No. 04-2, *Whether Mineral Rights are Tangible or Intangible Assets and Related Issues*
- Issue No. 04-3, *Mining Assets: Impairment and Business Combinations*

Other EITF Issues Discussed

- 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*
- Issue No. 03-9, *Interaction of Paragraphs 11 and 12 of FASB Statement No. 142, Goodwill and Other Intangible Assets, Regarding Determination of Useful Life and Amortization of an Intangible Asset*
- Issue No. 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations*

- Issue No. 04-1, *Accounting for Pre-existing Contractual Relationships between the Parties to a Purchase Business Combination*

Administrative Discussions

The EITF discussed the following Issue at its March 17-18, 2004 meeting:

- Issue No. D-98, *Classification and Measurement of Redeemable Securities*, and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*.

The following Issue was removed from the EITF agenda:

- Issue No. 04-4, *Allocation of Goodwill to Reporting Units for a Mining Enterprise*.

FASB Project Summaries and Meeting Minutes

Project summaries maintained by the FASB staff are available on the FASB's website at <http://www.fasb.org/project>. The handouts distributed at each meeting are available on the FASB's website at http://www.fasb.org/board_handouts/index.shtml. 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>.

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

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.

SEC Developments

SEC Issues Letter to AICPA Regarding FIN 46(R) Effective Date Provisions With Regard to Foreign Private Issuers

On March 15, 2004, Donald T. Nicolaisen, the Chief Accountant of the SEC, responded to a March 9, 2004 letter from the chairmen of the AICPA's Executive and SEC Regulations Committees of the Center for Public Company Audit Firms that documented the AICPA's understanding of the effective date of FASB Interpretation No. 46 (revised December 2003) for certain foreign private issuers. The original letter from the chairmen noted that the effective dates of FIN 46(R) for certain foreign private issuers are earlier than the effective dates under the original FIN 46, which is inconsistent with the FASB's intent that FIN 46(R) would defer, not accelerate, the effective dates. The

effective dates provided in the appendix to the original letter are based on the assumption that foreign private issuers should not be required to apply FIN 46(R) before the effective date required by FIN 46.

In his response, Nicolaisen stated that the SEC staff would not object to the effective dates of FIN 46(R) for foreign private issuers as set forth in the appendix to the March 9 AICPA letter. In addition, Nicolaisen noted that the SEC encourages all registrants to consider early adoption of FIN 46(R), and he reminded registrants to provide clear and precise disclosures consistent with the provisions of FIN 46(R).

The related correspondence is available on the SEC's website at <http://www.sec.gov/info/accountants/staffletters/aicpa03152004.htm>.

Further information about the SEC can be found on the SEC's website at <http://www.sec.gov>.

[meetings/0403n.asp](http://www.iasb.org/meetings/0403n.asp). A summary of IASB meeting decisions and discussions is also available on Deloitte's IAS Plus website at <http://www.iasplus.com/agenda/0402.htm>.

The next IASB meeting is scheduled for April 21-23, 2004.

Further information about the IASB can be found on its website, <http://www.iasb.org>, and on the IAS Plus website, <http://www.iasplus.com/index.htm>.

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.

International Developments

March 17-19, 2004 IASB Meeting

The IASB discussed the following topics at its March 17-19, 2004 meeting:

- Accounting and financial reporting standards for small and medium size entities (Phase I)
- Board priorities
- Business combinations (Phase I)
- Consolidation
- Convergence—definitions and recognition of contingent assets and liabilities in IAS No. 37, *Provisions, Contingent Liabilities and Contingent Assets*
- Convergence—IAS No. 12, *Income Taxes*
- Financial guarantees and credit insurance—transition and effective date
- Financial instruments—fair value hedge accounting for a portfolio hedge of interest rate risk and IAS No. 39, *The Fair Value Option*
- Financial instruments—miscellaneous issues
- IFRIC issues—employee benefit plans
- IFRS 5 noncurrent assets held for sale and presentation of discontinuing operations
- Postemployment benefits
- Reporting comprehensive income
- Revenue recognition.

A summary of the March 2004 IASB meeting is available on the IASB's website at http://www.iasb.org/uploaded_files/documents/8_133_upd0403.pdf. The observer notes and IASB staff presentations made at the meetings are available on the IASB's website at <http://www.iasb.org/>

Appendix:

Abbreviations

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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 |
| APB | Accounting Principles Board | IFRIC | International Financial Reporting Interpretations Committee |
| ARB | Accounting Research Bulletin | IFRS | International Financial Reporting Standard |
| EITF | Emerging Issues Task Force | PCAOB | Public Company Accounting Oversight Board |
| FASB | Financial Accounting Standards Board | MD&A | Management's Discussion & Analysis |
| FIN | FASB Interpretation | SAB | Staff Accounting Bulletin |
| FSP | FASB Staff Position | SEC | Securities and Exchange Commission |
| GAAP | Generally Accepted Accounting Principles | 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 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 PCAOB, the IASB, and the SEC, in addition to Deloitte'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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