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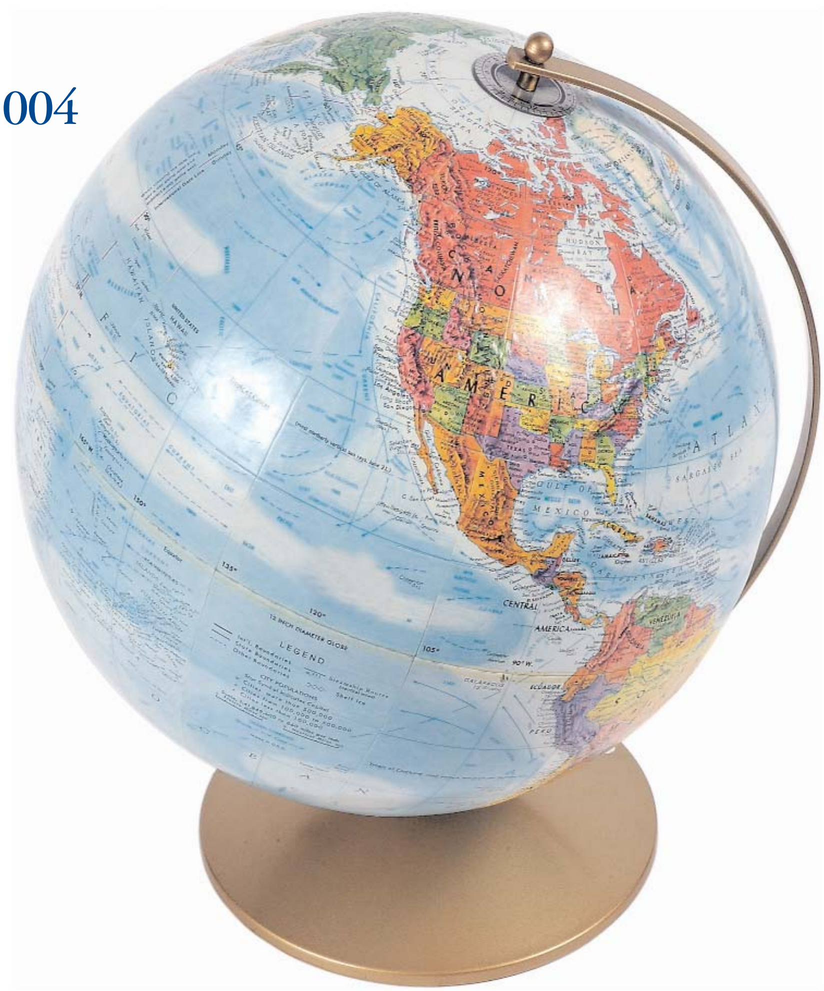
Accounting Roundup

First Quarter in Review—2004



April 9, 2004

Preface

Accounting Roundup: First Quarter in Review—2004

During the first quarter of 2004, accounting standard-setters and accounting regulators issued a number of final and proposed SFASs*, FSPs, EITF consensuses, GASB Statements, AcSEC SOPs, SEC rules, PCAOB rules, IASs, etc. (collectively, pronouncements) affecting accounting, financial reporting, and corporate governance.

This publication, *Accounting Roundup: First Quarter in Review—2004*, presents brief descriptions of those pronouncements, as well as certain other regulatory and professional developments in accounting and financial reporting. The articles included herein were primarily drawn from issues of the *Accounting Roundup* newsletters published in the first quarter of 2004 and have been updated when appropriate. These articles also provide links to locations where additional information can be found on each topic.

Readers seeking additional information about these topics or other activities of key standard-setters and regulators should review the information available via the hyperlinks. Further information can be found on the websites of the organizations discussed in this publication, including the FASB, GASB, SEC, PCAOB, AICPA, and IASB. Readers should also consult upcoming issues of *Accounting Roundup* for reports of new developments.

*See the appendix for a key to abbreviations used in this publication.

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FASB Developments

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FASB Issues Exposure Draft, *Share-Based Payment, an Amendment of FASB Statement No. 123*, Accounting for Stock-Based Compensation, *and APB Opinion No. 95*, Accounting for Stock Issued to Employees

In March 2004, the FASB issued an exposure draft on share-based payments to improve existing accounting rules and provide more complete, higher quality information for investors. The exposure draft addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (1) equity instruments of the enterprise or (2) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The proposal would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally would require that such transactions be accounted for using a fair-value-based method. The proposal would also achieve substantial convergence in this area between U.S. and international accounting standards.

A related press release can be found on the FASB's website at http://www.fasb.org/news/nr033104.shtml. The exposure draft is available on the FASB's website at http://www.fasb.org/draft/ed_intropg_share-based_payment.shtml. The comment period ends June 30, 2004.

FASB Issues Final FSP FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*

In January 2004, the FASB issued FSP FAS 106-1 to provide temporary guidance concerning the recently enacted Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. FSP FAS 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer recognizing the effects of the Act (1) in the accounting for its plan under SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and (2) in providing the plan disclosures required by SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits (Revised 2003)*, until authoritative guidance on accounting for the federal subsidy is issued or a significant event occurs that would call for remeasurement of a plan's assets and liabilities (e.g., a plan amendment, curtailment, or settlement). Regardless of whether a sponsor elects that deferral, the FSP requires certain disclosures (and encourages additional disclosures) pending further consideration of the underlying accounting issues. Required disclosures for those electing deferral include:

- The existence of the Act and that any measures of the accumulated postretirement benefit obligation (APBO) or net periodic postretirement benefit cost included in the financial

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statements or accompanying notes do not reflect the effects of the Act on the plan

- That specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the sponsor to change previously reported information.

Sponsors electing not to take the deferral should make the following minimum disclosures:

- The impact of the Act on the APBO and current and future net postretirement benefit costs
- The effect of the Act on estimated participation rates or per capita claims costs
- That authoritative guidance is pending that may require retroactive adjustments to the financial statements.

FSP FAS 106-1 is effective for interim or annual financial statements ending after December 7, 2003. The election to defer accounting for the Act is a one-time election that must be made before net periodic postretirement benefit costs for the period that includes the Act's enactment date are first included in reported financial information pursuant to the requirements of SFAS 106. The deferment election expires if a significant event that ordinarily would trigger remeasurement of a plan's assets and obligations occurs subsequent to January 31, 2004, but prior to the issuance of additional authoritative guidance.

This temporary guidance is expected to be superseded when FSP FAS 106-b (discussed below) is finalized and issued.

FSP FAS 106-1 is available on the FASB's website at http://www.fasb.org/fasb_staff_positions/fsp_fas106-1.pdf.

FASB Issues Proposed FSP FAS 106-b, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*

In March 2004, the FASB issued proposed FSP FAS 106-b 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, will supersede FSP FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. In this proposed FSP, the FASB provides guidance on:

- How to account for the effects of the subsidy on the ABPO for benefits attributable to past services and on current measures of net periodic postretirement benefit cost
- Accounting for the effects of changes in the estimated subsidy
- Accounting for the effects of amending a plan to become actuarially equivalent or to become no longer actuarially equivalent
- Disclosure requirements for employers unable to determine whether benefits provided are actuarially equivalent
- Disclosure of the effects of initial application on interim and annual financial statements.

The final version of this FSP is expected to be effective for the first interim or annual period beginning after June 15, 2004, except for certain nonpublic entities.

Proposed 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 period ends April 12, 2004.

FASB Issues Proposed FSP FAS 129-a, *Disclosure Requirements under FASB Statement No. 129,* Disclosure of Information about Capital Structure, *Relating to Contingently Convertible Financial Instruments*

In January 2004, the FASB issued proposed FSP FAS 129-a to provide guidance on disclosures of contingently convertible financial instruments, including those containing contingent conversion requirements that have not been met and are not otherwise required to be included in the calculation of diluted earnings per share (EPS). The proposed FSP requires disclosures concerning the terms of the conversion features, the inclusion of shares of contingently convertible financial instruments in the diluted EPS calculation, and the terms of derivative transactions entered into in connection with the issuance of contingently convertible financial instruments.

The guidance would be effective for financial statements issued after the final FSP is posted to the FASB website and would apply to all existing and newly created financial instruments.

Proposed FSP FAS 129-a is available on the FASB's website at http://www.fasb.org/fasb_staff_positions/prop_fsp_fas129-a.pdf. The comment period ended March 26, 2004.

FASB Issues Proposed FSP FIN 46(R)-a, *Technical Corrections 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"*

In March 2004, the FASB issued proposed FSP FIN 46(R)-a to correct Appendix F of FIN 46(R), which incorrectly states that FIN 46(R) fully nullifies Question 12 of EITF 96-21. 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.

Proposed 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 period ends April 12, 2004.

FASB Issues Revised FSPs Related to FIN 46(R), *Consolidation of Variable Interest Entities*

In February 2004, the FASB issued revised FSPs pertaining to FIN 46(R). The following revised FSPs replace certain previously issued FIN 46 FSPs for entities to which FIN 46(R) is now applicable:

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- FSP FIN 46(R)-1, *Reporting Variable Interests in Specified Assets of Variable Interest Entities as Separate Variable Interest Entities under Paragraph 13 of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities,"* replaces FSP FIN 46-2.
- FSP FIN 46(R)-2, *Calculation of Expected Losses under FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities,"* replaces FSP FIN 46-5.
- FSP FIN 46(R)-3, *Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions about an Entity's Activities through Voting Rights or Similar Rights under FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities,"* replaces FSP FIN 46-8.

The guidance in the revised FSPs should be applied to all entities in accordance with the effective dates and transition provisions of FIN 46(R).

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

FASB Issues Revised SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* Implementation Guidance

SFAS 133 Implementation Issue No. E22, *Accounting for the Discontinuance of Hedging Relationships Arising from Changes in Consolidation Practices Related to Applying FASB Interpretation No. 46 or 46(R)*

In February 2004, the FASB revised Implementation Issue E22 to reflect the issuance of FIN 46(R).

Revised Implementation Issue E22 is available on the FASB's website at http://www.fasb.org/derivatives/issuee22.shtml. A marked version of Issue E22 that highlights the revisions can be accessed at http://www.fasb.org/derivatives/02-10-04.pdf.

SFAS 133 Implementation Issue No. A15, *Effect of Offsetting Contracts on the Existence of a Market Mechanism That Facilitates Net Settlement*

In March 2004, the FASB revised Implementation Issue A15 to update the Issue's reference to Implementation Issue A2, which was superseded by Implementation Issue A21.

Revised Implementation Issue A15 is available on the FASB's website at http://www.fasb.org/derivatives/issuea15.shtml.

SFAS 133 Implementation Issue No. C6, *Derivative Instruments Related to Assets Transferred in Financing Transactions*

In March 2004, the FASB revised Implementation Issue C6 to update references to SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* which was superseded by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement 125,* as well as updating the language to reflect SFAS 149's revisions to SFAS 133.

Revised Implementation Issue C6 is available on the FASB's website at http://www.fasb.org/derivatives/issuec6.shtml.

FASB Issues Proposed SFAS 133 Implementation Guidance

SFAS 133 Implementation Issue No. G25, *Hedging the Variable Interest Payments on a Group of Prime-Rate-Based Interest-Bearing Loans*

In January 2004, the FASB issued proposed Implementation Issue G25. The proposed guidance primarily states that (1) an entity may not designate the risk of changes in the identified prime interest rate as the hedged risk in a cash flow hedging relationship; (2) an entity wishing to hedge the risk of overall changes in cash flows related to a portfolio of similar assets or liabilities may not identify the hedged cash flows as the first interest payments received or paid in a particular period on a specified amount of principal, because doing so would ignore the credit risk component of the overall changes in cash flows; and (3) prepayment of prime-rate-indexed loans whose interest payments either are or had been hedged items in a cash flow hedge of the total variability in the hedged cash flows does not preclude satisfying the hedging requirement that occurrence of a hedged forecasted transaction must be probable, because the hedged risk, which is the risk of overall changes in the hedged cash flows, includes credit default risk.

The effective date of the implementation guidance in this Issue will be the first day of the first fiscal quarter beginning after the date the cleared guidance is posted. The implementation guidance in this Issue should be applied to all of the reporting entity's hedging relationships at the effective date. Early application is permitted.

Proposed Implementation Issue G25 is available on the FASB's website at http://www.fasb.org/derivatives/01-21-04.pdf. The comment period ended March 25, 2004.

FASB Major Projects

The FASB currently has several ongoing projects in various stages of deliberation at the FASB. The following graph illustrates the status of the FASB's major projects. Project summaries are maintained by the FASB staff and made available on the FASB's website at http://www.fasb.org/project.

See chart on following page.

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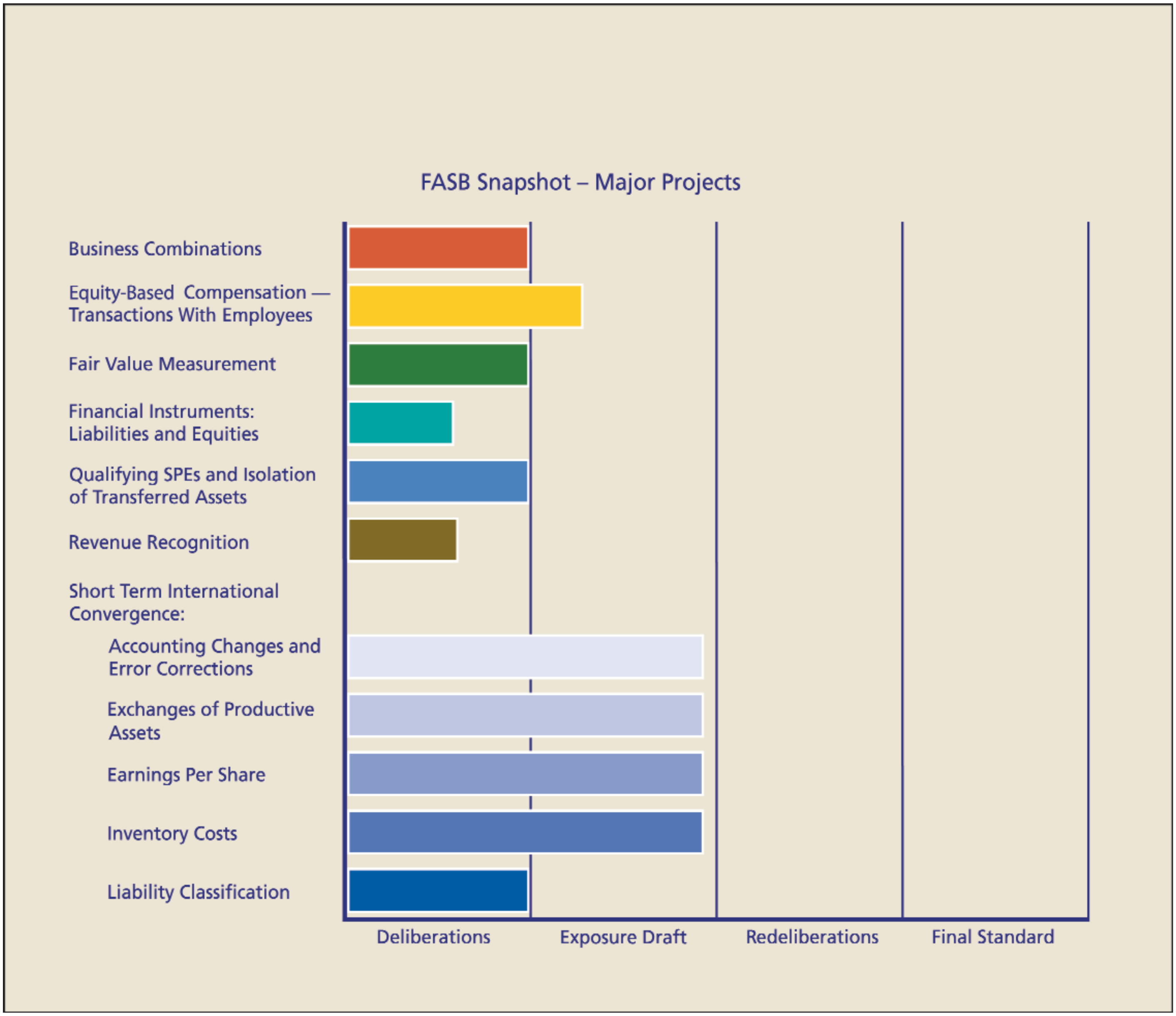

FASB Meeting Minutes

Handouts distributed at each FASB meeting are available on the FASB's website at http://www.fasb.org/board_handouts/index.shtml. 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.

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Emerging Issues Task Force (EITF) Developments

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EITF Activity in the First Quarter of 2004

The following table summarizes EITF activity for the first quarter of 2004. [Note: Issues in boldfaced type indicate those for which a final consensus was reached.]

Further information on EITF Issues 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. Recent issues of this newsletter can be viewed at http://www.deloitte.com/us/eitfroundup.

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Issues	Summary	Consensus
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 02-14 addresses whether an investor must use the equity method of accounting for its investments when it has the ability to exercise significant influence over the investee through economic interests other than common stock.	Further discussion of this Issue is expected.
Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments*	**The Issue 03-1 consensus provides a three-step impairment model for determining whether an investment is other-than-temporarily impaired: (1) determine whether an investment is impaired, (2) evaluate whether an impairment is other-than-temporary, and (3) if the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the investment's cost and fair value at the reporting date.**	**Final consensus was reached and is effective for impairment tests performed in reporting periods beginning after June 15, 2004. Disclosures required by this consensus are for annual periods only. (Prior consensus reached on SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, disclosures was effective for annual periods ending after December 15, 2003).**
Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128, "Earnings Per Share"*	**The Issue 03-6 consensus defines a participating security under SFAS 128 as: (1) a security that may participate in undistributed earnings with common stock; (2) certain dividend equivalents; and (3) certain forward contracts. In addition, the consensus addresses how to treat participating securities in the calculation of earnings per share (the two-class method is mandated). This consensus nullifies EITF Topic D-95.**	**Final consensus was reached. The consensus is effective for fiscal periods beginning after March 31, 2004, and should be applied by restating previously reported earnings per share.**
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 03-9 addresses how to evaluate whether renewal of a contractual term can be made without "substantial cost" and "material modifications," as stated in paragraph 11(d) of SFAS 142 and how those factors affect the determination of the useful life of an intangible asset.	Further discussion of this Issue is expected.
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 03-13 sets out to clarify when to report discontinued operations under paragraph 42 of SFAS 144. The Issue focuses on how to determine if the cash flows of a discontinued component have been eliminated and whether any remaining continuing involvement constitutes significant continuing involvement under SFAS 144. This issue also addresses when it is appropriate to reassess whether the discontinued operations criteria have been satisfied.	Further discussion of this Issue is expected.

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Issues	Summary	Consensus
Issue No. 03-16, *Accounting for Investments in Limited Liability Companies*	**The Issue 03-16 consensus requires investments in LLCs that have separate ownership accounts for each investor to be accounted for similar to a limited partnership investment under SOP No. 78-9, *Accounting for Investments in Real Estate Ventures*. Investors would be required to apply the equity method of accounting to their investments at a much lower ownership threshold (typically any ownership interest greater than 3-5%) than the 20% threshold applied under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock.***	**Final consensus was reached. The consensus is effective for the first period beginning after June 15, 2004, and the change should be reported as a retroactive cumulative effect, with certain exceptions.**
Issue No. 04-1, *Accounting for Preexisting Contractual Relationships between the Parties to a Purchase Combination*	Issue 04-1 addresses whether a business combination entered into by parties with a pre-existing contractual relationship should be accounted for as a single transaction or one with two or more elements.	Further discussion of this Issue is expected.
Issue No. 04-2, *Whether Mineral Rights are Tangible or Intangible Assets*	**The Issue 04-2 consensus states that mineral rights are tangible assets, and requires disclosure of mining rights separate from property, plant, and equipment either on the face of the financial statements or in the footnotes.**	**Final consensus was reached. The FASB ratified this consensus subject to finalization of an FSP that would amend SFAS 141 and SFAS 142 to remove perceived inconsistencies within this consensus. The FSP will be posted to the FASB website with a 15-day comment period. The consensus will be effective when the FSP is finalized.**
Issue No. 04-3, *Mining Assets: Impairment and Business Combinations*	**The Issue 04-3 consensus requires mining companies to consider cash flows related to the economic value of mining assets (including mineral properties and rights) beyond those assets' proven and probable reserves, as well as anticipated market-price fluctuations, when assigning value in a business combination in accordance with SFAS 141 and when testing the mining assets for impairment in accordance with SFAS 144.**	**Final consensus was reached. The consensus is effective for fiscal periods beginning after March 31, 2004, and should be applied prospectively. Early application is permitted in periods for which financial statements have not been issued.**
Issue No. 04-4, *Allocation of Goodwill to Reporting Units for a Mining Enterprise*	Issue 04-4 discussed whether assigning goodwill to reporting units, which may be individual operating mines, is appropriate, since the wasting nature of an individual mine will make a goodwill impairment charge inevitable.	This Issue was removed from the agenda because the authoritative guidance on allocating goodwill to reporting units, which may be an individual operating mine, is clear, and concluding otherwise would require amendments to SFAS 142 or SFAS 131. No further discussion is expected.
SEC Staff Announcement, *Conditionally Redeemable Preferred Shares Interaction with Topic 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 SEC staff clarified that any difference between the fair value and carrying amount of conditionally redeemable preferred shares that exists due to the reclassification of those shares to a liability recorded at fair value in accordance with SFAS 150 (as a result of resolution of the condition) should be accounted for as an adjustment to net earnings available to common shareholders in the calculation of earnings per share.**	**Topic D-98 will be updated to reflect this announcement.**

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GASB Developments

Contents

GASB Elects New Chairman

The Financial Accounting Foundation has announced that Robert H. Attmore, a former deputy state comptroller with the New York State Comptroller's Office, has been elected chairman of the GASB effective July 1, 2004. Mr. Attmore will succeed current GASB Chairman Tom L. Allen.

A press release on this matter is available on the GASB's website at http://www.gasb.org/.

GASB Issues Revised Exposure Draft, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

In February 2004, the GASB issued a revised exposure draft that addresses how state and local governments should account for and report their costs and obligations related to postemployment health care and other nonpension benefits provided to retirees. GASB is re-exposing the proposed standard to provide an opportunity for comment on a change related to accounting for "implicit rate subsidies" for retirees' postemployment healthcare benefits.

The exposure draft is available on the GASB's website at http://www.gasb.org/exp/rev_ed_opeb_employers.pdf. The comment period ends April 30, 2004.

GASB Issues Proposed Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*

In January 2004, the GASB issued a proposed Technical Bulletin that addresses accounting by state and local governments in connection with settlements made by U.S. tobacco companies. The proposed Technical Bulletin clarifies accounting guidance on whether a Tobacco Settlement Authority that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, the proposed Technical Bulletin clarifies asset and revenue recognition guidance for these transactions.

The Proposed Technical Bulletin is available on the GASB's website at http://www.gasb.org/exp/tb2003-b.pdf. The comment period ended March 2, 2004.

Further information about GASB can be found on the GASB's website, http://www.gasb.org/.

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 to issue a Statement or Interpretation.

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AICPA Developments

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Major Topics Discussed by AcSEC During the First Quarter of 2004

AcSEC discussed the following projects at its first quarter meeting:

- Airlines Audit and Accounting Guide
- Allowance for credit losses
- Short-term international convergence.

A summary of the meeting is available on the AICPA's website at http://www.aicpa.org/download/acctstd/2004_01_27_HI.pdf.

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

Note: Conclusions of the AcSEC are subject to change at future Committee meetings and generally do not affect current accounting requirements until an official position (Statement of Position or Guide) is issued and cleared by the FASB. Official positions of the AcSEC are determined only after extensive deliberation and due process.

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SEC Developments

Contents

SEC Appoints Andrew D. Bailey, Jr., as Deputy Chief Accountant

In January 2004, the SEC appointed Andrew D. Bailey, Jr., as Deputy Chief Accountant for the Commission. Mr. Bailey will share responsibilities for the day-to-day operations of the Office of the Chief Accountant, including resolution of accounting and auditing issues, rulemaking projects, and oversight of private sector standard-setting efforts and regulation of auditors. He will also work closely with the PCAOB on all auditing-related matters.

A press release on this matter is available on the SEC's website at http://www.sec.gov/news/press/2004-7.htm.

SEC Issues Final Rule, *Management's Report on Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports*—an Extension of Compliance Dates

In February 2004, the SEC issued a final rule extending the compliance dates adopted on June 5, 2003 for amendments to the Securities Exchange Act of 1934, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. The amendments require a company to include a report by management on the company's internal controls over financial reporting in its annual report along with the accompanying auditor's report. As adopted, this final rule requires a company that is an "accelerated filer" (as defined) to begin to comply with the amendments for its first fiscal year ending on or after November 15, 2004. A nonaccelerated filer must comply with the amendments for its first fiscal year ending on or after July 15, 2005. In addition, the extended compliance dates apply to related requirements regarding management's evaluation of internal control over financial reporting and management certification requirements, including certification and related requirements applicable to registered investment companies.

A press release on this matter is available on the SEC's website at http://www.sec.gov/news/press/2004-21.htm. The final rule is available on the SEC's website at http://www.sec.gov/rules/final/33-8392.htm.

SEC Issues Amendments to Form 8-K and Proposes Amendments to Form 20-F and Fund Manager Disclosure Requirements

In March 2004, the SEC adopted amendments to Form 8-K. The amendments add eight new disclosure items to Form 8-K. The eight new disclosures are:

- Entry into a material nonordinary course agreement
- Termination of a material nonordinary course agreement
- Creation of a material direct financial obligation or a material obligation under an off-balance-sheet arrangement
- Triggering events that accelerate or increase a material direct financial obligation or a material obligation under an off-balance-sheet arrangement

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- Material costs associated with exit or disposal activities
- Material impairments
- Notice of delisting or failure to satisfy a continued listing rule or standard; transfer of listing
- Nonreliance on previously issued financial statements or a related audit report or completed interim review (restatements).

The amendments also transfer two items—(1) unregistered sales of equity securities and (2) material modifications to rights of security holders—to the current report on Form 8-K from the periodic reports and expand two existing disclosure items: (1) departure of directors or principal officers, election of directors, or appointment of principal officers; and (2) amendments to Articles of Incorporation or bylaws and change in fiscal year.

In addition, the amendments provide investors with timelier disclosure by replacing the current five-business-day and 15-calendar-day Form 8-K deadlines with a new four-business-day deadline. Compliance with the amendments will be required as of August 23, 2004.

Separately, the SEC proposed amendments to Form 20-F that would affect foreign private issuers that change their basis of accounting to international standards (IFRS). Under the proposal, companies that publish IFRS financial statements for the first time for any financial year beginning no later than January 1, 2007, would be allowed to include only two years of audited financial statements in their SEC filings. Additional disclosures would also be required. This proposal's comment period ends April 19, 2004.

The SEC also proposed amendments to its forms that are designed to improve the disclosure that mutual funds and other registered management investment companies provide about their portfolio managers. These proposals are intended to provide greater transparency regarding portfolio managers, their incentives in managing a fund, and the potential conflicts of interest that may arise when they also manage other investment vehicles. The proposals' comment period ends May 21, 2004.

The final rule is available on the SEC's website at http://www.sec.gov/rules/final/33-8400.htm. The proposed rules are available on the SEC's website at http://www.sec.gov/rules/proposed/33-8397a.htm and http://www.sec.gov/rules/proposed/33-8396.htm.

SEC Staff Issues Staff Accounting Bulletin No. 105, *Loan Commitments Accounted for as Derivative Instruments*

In March 2004, the SEC staff released SAB 105, which summarizes the views of the SEC staff regarding the application of generally accepted accounting principles to loan commitments accounted for as derivative instruments. SAB 105 must be applied to loan commitments entered into after March 31, 2004.

A press release on this matter is available on the SEC's website at http://www.sec.gov/news/press/2004-28.htm. The SAB is available on the SEC's website at http://www.sec.gov/interps/account/sab105.htm.

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 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 FIN 46 (revised December 2003) for certain foreign private issuers. The original letter noted that the effective dates of FIN 46(R) for certain foreign private issuers are earlier than that under the original FIN 46, which is inconsistent with the FASB's intent that FIN 46(R) would defer, not accelerate, the effective dates of FIN 46 and FIN 46(R). The effective dates provided in the appendix to the original letter were 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, Mr. 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 original letter. In addition, Mr. 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, http://www.sec.gov.

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PCAOB Developments

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PCAOB Approves Standard, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statement*, and Other Rules

In March 2004, the PCAOB approved an auditing standard that addresses both the work required to audit internal controls over financial reporting and the relationship between that audit and the audit of financial statements. The rule was issued in accordance with Sections 404(b) and 103 of the Sarbanes-Oxley Act of 2002, which directed the PCAOB to establish professional standards for the auditing of internal controls.

In addition, the PCAOB changed the registration deadline for non-US accounting firms to July 19, 2004.

These rules will be submitted to the SEC for final approval, as required by the Sarbanes-Oxley Act.

A related press release is available on the PCAOB's website at http://www.pcaobus.org/pcaob_news_03-09-04.asp.

Further information about the PCAOB can be found on the PCAOB's website, http://www.pcaobus.org/default.asp.

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International Developments

Contents

IASB Issues Final Standards

IFRS No. 5, *Non-current Assets Held for Sale and Discontinued Operations*

In March 2004, the IASB issued IFRS 5, which includes requirements related to asset disposals and discontinued operations. This standard was issued as part of a joint project of the IASB and the FASB aimed at reducing the differences between IFRSs and U.S. GAAP. IFRS 5 requires:

- A classification for noncurrent assets "held for sale" using the same criteria as those contained in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
- Assets sold in a single transaction to be accounted for as a disposal group
- Assets or disposal groups that are classified as held for sale to be carried at the lower of carrying amount or fair value less costs to sell
- An asset classified as held for sale, or included within a disposal group that is classified as held for sale, to not be depreciated
- An asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, to be presented separately on the face of the balance sheet.

In addition, IFRS 5 withdraws IAS No. 35, *Discontinuing Operations*, and replaces it with requirements that:

- Change the timing of the classification of an operation as discontinued
- Specify that the results of discontinued operations be shown separately on the face of the income statement
- Prohibit retroactive classification of an operation as discontinued when the criteria for that classification are not met until after the balance-sheet date.

IFRS 5 should be applied for annual periods beginning on or after January 1, 2005. Earlier application is encouraged. If an entity applies the IFRS for a period beginning before January 1, 2005, it should disclose that fact.

A related press release is available on IASB's website at http://www.iasb.org/news/index.asp?showPageContent=no&xml=10_119_25_31032004_31032005.htm.

IFRS No. 4, *Insurance Contracts*

In March 2004, the IASB issued IFRS 4 to provide international guidance on accounting for insurance contracts. This standard was issued as part of the IASB's insurance contract project, which aims to improve disclosures for insurance contracts and recognition and measurement practices. IFRS 4, among other things:

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- Applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, excluding specified contracts covered by other IFRSs
- Clarifies that an insurer need not account for an embedded derivative separately at fair value if the embedded derivative meets the definition of an insurance contract
- Requires an insurer to unbundle (i.e., account separately for) deposit components of some insurance contracts to avoid the omission of assets and liabilities from its balance sheet
- Clarifies the applicability of the practice sometimes known as "shadow accounting"
- Permits expanded presentation for insurance contracts acquired in a business combination or portfolio transfer
- Addresses limited aspects of discretionary participation features contained in insurance contracts or financial instruments
- Requires disclosures to help users understand:
  - o The amounts in the insurer's financial statements that arise from insurance contracts
  - o The amount, timing, and uncertainty of future cash flows from insurance contracts.

IFRS 4 should be applied for annual periods beginning on or after January 1, 2005, but earlier application is encouraged. If an entity applies IFRS 4 for a period beginning before January 1, 2005, it should disclose that fact. An insurer need not apply some aspects of the IFRS to comparative information for annual periods beginning before January 1, 2005.

A related press release is available on IASB's website at http://www.iasb.org/news/index.asp?showPageContent=no&xml=10_116_25_31032004_31032005.htm.

IFRS No. 3, *Business Combinations*, and Revised IAS No. 36, *Impairment of Assets*, and IAS No. 38, *Intangible Assets*

In March 2004, the IASB issued IFRS 3 and revised IAS 36 and IAS 38 to improve the quality of and seek international convergence on the accounting for business combinations and for goodwill and intangible assets. IFRS 3 addresses accounting for business combinations and the ongoing accounting for goodwill acquired in business combinations. In addition, IFRS 3 replaces IAS No. 22, *Business Combinations*. The main features of the new and revised standards are:

- All business combinations within the scope of IFRS 3 must be accounted for using the purchase method.
- Costs expected to be incurred to restructure an acquired entity's (or the acquiree's) activities generally must be treated as postcombination expenses.
- Intangibles acquired must be recognized as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measured reliably.
- Identifiable assets acquired and liabilities and contingent liabilities incurred or assumed must be initially measured at fair value.
- Amortization of goodwill and intangible assets with indefinite useful lives is prohibited. Instead, impairment testing must be performed annually or when events or changes in circumstances occur that would indicate a possible impairment.

Entities should apply the IFRS to business combinations for which the *agreement date* is on or after March 31, 2004. This IFRS also applies to goodwill arising from a business combination for which the agreement date is on or after March 31, 2004, or any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities over the cost of a business combination for which the agreement date is on or after March 31, 2004.

A related press release is available on IASB's website at http://www.iasb.org/news/index.asp?showPageContent=no&xml=10_117_25_31032004_31032005.htm.

IFRS No. 2, *Share-based Payment*

In February 2004, the IASB issued IFRS 2 to address accounting for share-based transactions, including grants of share options to employees. The IASB issued the standard to improve the quality, neutrality, transparency, and comparability of financial statements that follow IFRS by providing explicit guidance on how to account for share-based payments, the use of which has expanded greatly in recent years. IFRS 2 requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. Measurement principles and requirements are specified in the standard for the following types of share-based payments:

- Equity-settled share-based payment transactions in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options)
- Cash-settled share-based payment transactions in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity
- Transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash or by issuing equity instruments.

The requirements in IFRS 2 replace the disclosure requirements in IAS No. 19, *Employee Benefits*. IFRS 2 is effective for annual periods beginning on or after January 1, 2005. Earlier application is encouraged, and an entity electing to apply the IFRS before January 1, 2005 should disclose that fact.

A related press release is available on IASB's website at http://www.iasb.org/news/press.asp?showPageContent=no&xml=10_84_30_19022004.htm.

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IASB Issues an Amendment to IAS No. 39, *Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk*

In March 2004, the IASB issued amendments to IAS 39 in an effort to simplify implementation guidance within the standard. The amendments allow fair value hedge accounting to be used more frequently for a portfolio hedge of interest rate risk than under IAS 39.

Entities should apply the amendments for annual periods beginning on or after January 1, 2005.

A related press release is available on IASB's website at http://www.iasb.org/news/index.asp?showPageContent=no&xml=10_120_25_31032004_31032005.htm.

IASB Issues Exposure Draft (ED) No. 6, *Exploration for and Evaluation of Mineral Resources*

In January 2004, the IASB issued ED 6, which addresses accounting practices in the extractive industries (oil, gas, and mining sectors) to provide greater transparency in the financial statements. ED 6 proposes guidance for entities in the extractive industries that will be expected to comply with IFRS in 2005. At present, no IFRS applies to such entities, and various aspects of extractive industries' activities are excluded from the scope of existing standards.

The exposure draft is available on IASB's website at http://www.iasb.org/uploaded_files/documents/8_38_ed6.pdf. The comment period ends April 16, 2004.

IFRIC Issues Proposed Interpretations

Proposed Interpretation D3, *Determining Whether an Arrangement Contains a Lease*

In January 2004, the IFRIC issued draft Interpretation D3, which addresses:

- How to determine whether an arrangement is or contains a lease as defined in IAS 17
- When the assessment or a reassessment of whether an arrangement is or contains a lease should be made
- If an arrangement is or contains a lease, how lease payments should be separated from payments for any other elements in the arrangement.

The guidance would be effective for annual periods beginning on or after January 1, 2005, with earlier application encouraged.

The exposure draft is available on the IASB's website at http://www.iasb.org/uploaded_files/documents/8_39_ifric-d03.pdf. The comment period ended March 19, 2004.

Proposed Interpretation D4, *Decommissioning, Restoration and Environmental Rehabilitation Funds*

In January 2004, the IFRIC issued draft Interpretation D4, which proposes the accounting for decommissioning, restoration, and environmental rehabilitation funds (also referred to as "decommissioning funds") including:

- How a contributor should account for its interest in a fund
- How an obligation should be accounted for when a contributor has an obligation to make additional contributions.

The guidance would be effective for annual periods beginning on or after three months after the Interpretation is finalized.

The exposure draft is available on the IASB's website at http://www.iasb.org/uploaded_files/documents/8_39_ifric-d04.pdf. The comment period ended March 19, 2004.

Proposed Interpretation D5, *Applying IAS 29*, Financial Reporting in Hyperinflationary Economies, *for the First Time*

In March 2004, the IFRIC issued draft Interpretation D5, which proposes guidance on how an entity should restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency. The proposed guidance addresses practice issues that have arisen regarding the initial application of hyperinflationary accounting, including calculation of deferred tax balances and how to restate comparatives. The proposal requires an entity to apply IAS 29 in the first year in which the existence of hyperinflation is identified as if it had always applied the standard. The draft Interpretation also explains that if detailed records of the acquisition dates of items of property, plant, and equipment are not available or capable of estimation, an independent professional assessment of the fair value of the items should be used as the basis of their restatement.

The exposure draft is available on the IASB's website at http://www.iasb.org/uploaded_files/documents/8_39_ifric-d05.pdf. The comment period ends May 14, 2004.

Major Topics Discussed by IASB During the Quarter

The IASB discussed the following topics during the first quarter:

- Accounting and financial reporting standards for small and medium size entities
- Board priorities
- Business combinations (phase I and phase II)
- Consolidation
- Convergence—IAS No. 37, *Definitions and Recognition of contingent Assets and Liabilities*
- Convergence—IAS No. 22, *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
- Financial instruments—issues surrounding the fair value option in IAS No. 39, *Financial Instruments: Recognition and Measurement*
- IFRIC issues—employee benefits plans
- IFRS 5 noncurrent assets held for sale and presentation of discontinuing operations
- Insurance contracts (phase I)
- Leasing
- Multiemployer plans (draft IFRIC Interpretation)
- Postemployment benefits
- Reporting comprehensive income

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- Revenue recognition
- Short-term convergence: asset disposals and discontinued operations
- Short-term convergence—withdrawal of IAS No. 20, *Government Grants and Disclosure of Government Assistance*.

Summaries of the first quarter meetings are available on the IASB's website at http://www.iasb.org/meetings/iasb_decisionsummaries.asp. The observer notes and IASB staff presentations are available at http://www.iasb.org/meetings/iasb_observernotes.asp. Summaries of decisions and discussions, based on the notes taken by observers at the IASB meetings, are also available on Deloitte's IAS Plus website at http://www.iasplus.com/agenda/iasbpast.htm. (Note: This summary should not be regarded as an official or final summary.)

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.

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Appendix A: Significant Upcoming Dates

The chart below illustrates significant upcoming dates for the FASB, GASB, SEC, and IASB (EITF Issues' effective dates are illustrated in the EITF table above).

FASB	STATUS
Upcoming Adoption Dates	
Revised SFAS No. 132, *Employer's Disclosures about Pensions and Other Postretirement Benefits*	Effective for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003.
FIN 46(R), *Consolidation of Variable Interest Entities*	For interests in entities created after December 31, 2003: • FIN 46(R) must be applied immediately. Public companies that are not small business issues: • For interests in SPEs, FIN 46 or FIN 46(R) must be applied no later than for financial statements ending after December 15, 2003. • For all interests in all entities, FIN 46(R) must be applied no later than for financial statements ending after March 15, 2004. Small business issues: • FIN 46(R) must be applied no later than for financial statements ending after December 15, 2004. Nonpublic Entities: • FIN 46(R) must be applied by the beginning of the first annual period beginning after December 15, 2004. For guidance related to foreign private issuers, refer to the related article, "SEC Issues Letter to AICPA Regarding FIN 46(R) Effective Date Provisions With Regard to Foreign Private Issuers."
Implementation Issue E22, *Accounting for the Discontinuance of Hedging Relationships Arising from Changes in Consolidation Practices Related to Applying FASB Interpretation No. 46 or 46(R)*	Effective as of the date of initial application of FIN 46.
FASB Projects in Exposure Draft Stage	
Short-Term International Convergence:	
Accounting Changes & Error Corrections	Comments due Apr il 13, 2004.
Exchange of Productive Assets	Comments due April 13, 2004.
Earnings per Share	Comments due April 13, 2004.
Inventory Costs	Comments due April 13, 2004.
Share-Based Payment, an amendment SFAS 123 and SFAS 95	Comments due June 30, 2004.
FSP FAS 106-a, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*	Comments due April 12, 2004.
FSP FIN 46(R)-a, *Technical Correction of FASB Interpretation No. 46 (revised December 2003)*	Comments due April 12, 2004.

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GASB	**STATUS**
Upcoming Adoption Dates	
GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*	Effective for fiscal years beginning after December 15, 2004.
GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*	Effective for fiscal years beginning after June 15, 2004.
GASB Projects in Exposure Draft Stage	
Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (Revised ED)	Comments due April 30, 2004.
SEC	**STATUS**
Upcoming Adoption Dates	
SAB No. 105, *Application of Accounting Principles to Loan Commitments*	Effective for loan commitments after March 31, 2004.
Final Rule, *Additional Form 8 -K Disclosure Re quirements and Acceleration of Filing Date*	Effective for August 23, 2004.
Final Rule, *Management's Report on Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports* (an extension of compliance date)	Effective for fiscal years ending on or after November 15, 2004 for "accelerated filers ." Effective for fiscal years ending on or after July 15, 2005 for "nonaccelerated filers."
IASB/IFRIC	**STATUS**
Upcoming Adoption Dates	
IFRS No. 2, *Share-Based Payment*	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS No. 39, *Financial Instruments: Recognition and Measurement*	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS No. 32, *Financial Instruments : Disclosure and Presentation*	Effective for annual periods beginning on or after January 1, 2005.
Improvements to International Accounting Standards	Effective for annual periods beginning on or after January 1, 2005.
IASB Projects in Exposure Draft Stage	
ED No. 6, *Exploration for and Evaluation of Mineral Resources*	Comments due April 16, 2004.
Proposed Interpretation D5, *Applying IAS 29,* Financial Reporting in Hyperinflationary Economies, *for the First Time*	Comments due May 14, 2004.

Appendix B: Abbreviations

AcSEC	Accounting Standards Executive Committee
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ARB	Accounting Research Bulletin
EITF	Emerging Issues Task Force
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation
FSP	FASB Staff Position
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
PCAOB	Public Company Accounting Oversight Board
SAB	Staff Accounting Bulletin
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SOP	Statement of Position
TPA	Technical Practice Aid

Prepared by Deloitte's National Office Accounting Standards and Communications Group. For further information, contact your local Deloitte office.

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