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Accounting Roundup

Audit and Enterprise Risk Services

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FASB Developments

FSP AAG INV-1 and SOP 94-4-1 on Fully Benefit-Responsive Investment Contracts

FSP AAG INV-1 and SOP 94-4-1[1] provides guidance for investment companies that:

- Are established under a trust adopted as part of one or more qualified employer-sponsored defined-contribution plans, and
- Invest in fully benefit-responsive investment contracts. Traditional and synthetic guaranteed investment contracts (GICs) and contracts that have similar characteristics may be fully benefit-responsive.

The proposed FSP requires such an investment company to present these contracts on its balance sheet at **fair value** with an additional **single line item** that adjusts the net assets attributable to the contracts from fair value to **contract value** (which generally equals the principal balance plus accrued interest).

[1] FASB Staff Position Nos. AAG INV-1 and SOP 94-4-1, "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans."

Appendix A of the proposed FSP provides the following example presentation for the statement of assets and liabilities:

Investments (at fair value)	$8,800,000
Wrapper contracts (at fair value)	100,000
Total assets	$8,900,000
Total liabilities	200,000
Net assets reflecting all investments at fair value	$8,700,000
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	1,100,000
Net assets	$9,800,000

Contract value is considered the relevant measurement attribute because that is the amount participants would receive if they initiated permitted transactions (e.g., withdrawals) under the terms of the underlying defined-contribution plan.

The FSP also:

- Includes the criteria that an investment contract must meet in order to be considered fully benefit-responsive, and
- Outlines additional disclosures required in the schedule of investments and the footnotes (e.g., a description of the nature of the investment contracts, the average yield earned by the entire fund, sensitivity analyses, etc.).

Effective Date and Transition — The financial statement presentation and disclosure guidance is effective for annual periods ending after December 15, 2006. The revised definition of fully benefit-responsive is effective for all investment contracts as of the last day of the annual period ending after December 15, 2006. Earlier application to interim or annual periods is permitted. If comparative financial statements are presented, the guidance should be applied retroactively to all prior periods presented.

To be considered within the scope of the FSP, any portion of the net assets attributable to a plan investee that is not held in trust for the benefit of participants in a qualified employer-sponsored defined-contribution plan is not permitted to increase after January 15, 2006, except for reinvestment of income earned. Investment companies that are not considered within the scope of the FSP as of the effective date for reasons described in this paragraph should report all investment contracts, regardless of whether they are considered fully benefit-responsive, at fair value.

The FSP and minutes of the November 29, 2005, meeting at which the Board finalized the FSP are available on the FASB's Web site.

FSP SOP 94-6-1 on Concentrations of Credit Risk in Loan Products

Statement 107[2] requires disclosures about all significant concentrations of credit risk arising from all financial instruments. FSP SOP 94-6-1[3] addresses (1) the circumstances under which the terms of loan products give rise to a concentration of credit risk and (2) the disclosures or other accounting considerations that apply for entities that originate, hold, guarantee, service, or invest in loan products with terms that may give rise to a concentration of credit risk.

Some loan products have contractual features that provide for reduced payment requirements in the early part of the loan's term. The terms of such loans may delay a creditor's determination that the conditions have been met for the accrual of a loss and the establishment of an allowance for loan losses. Other loans have initial payment requirements that are less than or equal to the contractual interest amount (e.g., negatively amortizing loans, interest-only loans, etc.). Future increases in repayment amounts can affect the borrower's ability to repay the loan.

The FSP is intended to emphasize the requirement to assess the adequacy of disclosures for all lending products and the effect of changes in market or economic conditions on the adequacy of those disclosures.

The FSP indicates that possible **shared characteristics for determining concentrations of credit risk** include:

- Borrowers subject to significant payment increases,
- Loans with terms that permit negative amortization, and
- Loans with high loan-to-value ratios.

Additionally, Statement 107 encourages the disclosure of (1) quantitative information regarding market risks of financial instruments consistent with the way those risks are managed or adjusted and (2) how underwriting procedures are designed to control the credit risk that may arise from future payment increases.

Entities should also **consider the applicability of the following accounting literature**:

- AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*.

2 FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*.

3 FASB Staff Position No. SOP 94-6-1, "Terms of Loan Products That May Give Rise to a Concentration of Credit Risk."

- FASB Statement No. 95, *Statement of Cash Flows*. The FSP indicates that to the extent interest income that is recognized before it is received (e.g., in negatively amortizing loans) is significant, it is required to be included in the reconciliation of net income to net cash flows from operating activities.
- FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. The FSP highlights Statement 140's requirement for disclosure of risk characteristics used to stratify recognized servicing assets for the purposes of measuring impairment.
- FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated With Originating or Acquiring Loans and Initial Direct Costs of Leases*. The FSP indicates that if a loan's stated interest rate increases during the term of the loan (so that interest accrued under the interest method in the early periods would exceed interest at the stated rate), interest income should not be recognized to the extent that the net investment in the loan would exceed the amount at which the borrower could settle the obligation.
- SEC Rules and Regulations:
  - SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Conditions and Results of Operations";
  - SEC Regulation S-X, Rule 9-03, "Balance Sheets"; and
  - SEC Industry Guide 3, "Statistical Disclosure by Bank Holding Companies."

The guidance for determining concentrations of credit risk is effective for interim and annual periods ending after December 19, 2005. The disclosures required by Statement 107 for products that are determined to represent a concentration of credit risk should be provided for all periods presented. The FSP and minutes of the December 7, 2005, meeting at which the Board approved the issuance of the final FSP are available on the FASB's Web site.

Proposed FSP FAS 142-d Addresses Amortization and Impairment of Acquired Renewable Intangible Assets

Paragraph B174 of FASB Statement No. 141, *Business Combinations*, indicates that when determining the fair value of an acquired intangible asset, estimates of future cash flows likely would reflect cash flows for periods that extend beyond the remaining term of the acquired asset. Paragraph 11(d) of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, indicates that determination of the useful life of the acquired intangible should include consideration of provisions that allow for renewal or extension of the asset's life without substantial cost, provided renewal or extension can be accomplished without material modifications to the existing terms and conditions. Constituents have indicated that the application of paragraph 11(d) of Statement 142 may result in a useful life that is shorter than the period of cash flows that was used in determining the fair value of the asset in accordance with Statement 141.

As such, proposed FSP FAS 142-d[4] would amend Statement 142 and provide a revised methodology for accounting for acquired renewable intangible assets. The proposed FSP would amend paragraph 11(d) of Statement 142 to allow companies to consider renewals in the useful lives of intangibles where renewals were **reasonably assured**. That is, the FSP would remove the requirement that renewals be accomplished without material modifications and replace it with a requirement that renewals be reasonably assured.

Amortization — Upon the acquisition of a finite-lived renewable intangible asset, the fair value of the asset should be attributed to (a) the initial contractual period of use and (b) each future renewal period **based on the relative value of the discounted cash flows of each period** compared with the total discounted cash flows. The amount attributed should be amortized over each respective period. Incremental and direct costs of renewal should be capitalized and amortized over the respective renewal period.

Impairment — Renewable intangible assets should be tested for impairment using the same methodology as indefinite-lived intangible assets. The impairment test (which should be performed annually, or more frequently if events or circumstances indicate the asset may be impaired) should consist of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds its fair value, an impairment loss should be recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the intangible should be its new accounting basis. The updated cash flow information should be used for purposes of attributing amortization to the contractual period of use and all future renewal periods.

Effective Date and Transition — The FSP would be applied prospectively to both newly acquired renewable intangible assets and preexisting renewable intangible assets that are renewed after June 15, 2006. A perpetually renewable intangible asset that was previously deemed to have a finite useful life due to material modifications at renewal, but for

4 Proposed FASB Staff Position No. FAS 142-d, "Amortization and Impairment of Acquired Renewable Intangible Assets."

which renewal was reasonably assured for the foreseeable future, would be accounted for as an indefinite-lived intangible asset in interim and annual periods beginning after June 15, 2006.

The proposed FSP is available on the FASB's Web site. Comments are due March 27, 2006.

FASB Seeks Feedback on Codification Retrieval System

The FASB is currently codifying U.S. GAAP literature. Upon completion, the codification will become the authoritative source of U.S. GAAP for non-governmental entities and will supersede all existing non-governmental standards.

In addition to issuing the codified standards, the FASB plans to release an electronic research system to support access to the codification. The FASB is requesting that people who perform U.S. GAAP research complete a brief survey (approximately 5–10 minutes long) addressing the research system. The survey, which is due January 15, 2006, can be accessed on the FASB's Web site.

Recent FASB Meetings

Combinations of Not-for-Profit Organizations (December 20)

The Board developed the following requirements for not-for-profit organizations that acquire a business or nonprofit activity through a merger or acquisition:

- Goodwill and inherent contributions received should be accounted for using a single approach:
  - Goodwill is recognized if the consideration transferred is *more than* the identifiable net assets acquired.
  - Contributions received are recognized if the consideration transferred is *less than* the identifiable net assets acquired.
- Consistent with the proposed FASB Statement on business combinations, the acquiring nonprofit organization should:
  - Record assets acquired and liabilities assumed at fair value, except for assets held for sale, deferred taxes, operating leases, and certain employee benefits.
  - Exclude transaction costs incurred in connection with the merger or acquisition from the fair value of consideration transferred.
  - Apply the measurement period guidance and determine what is part of the exchange.
  - Apply the same disclosure requirements.
  - Disclose the information required by paragraph 74, if the acquirer is a public not-for-profit organization (including those organizations that have outstanding public debt). The disclosures, if practicable, include (a) the revenue and results of operations of the acquiree since the acquisition date and (b) the results of operations of the combined entity as if the acquisition occurred at the beginning of the period.
- Donor-related intangible assets should be accounted for in a manner consistent with customer-related intangible assets in the proposed Statement on business combinations.
- If a performance indicator is reported in accordance with the AICPA Audit and Accounting Guide, *Health Care Organizations*, any contribution inherent in a merger or acquisition should be presented separately from the performance indicator, unless the acquiree meets the criteria to be classified as held for sale.

The Exposure Drafts resulting from this project will have a 120-day comment period. The Board will conduct public roundtables after issuing the Exposure Drafts.

The effective date of the final Statement will be approximately six months after its issuance. The proposed amendments to Statement 142 and the application guidance for noncontrolling interests will be effective in the same period as the mergers and acquisitions guidance.

Conceptual Framework (December 14)

Reporting Entity — The Board reached the following conclusions:

- The reporting entity concept should (a) focus on determining the boundaries of the reporting entity, for both an individual and a group reporting entity, and (b) not be limited to those entities that have external users who are unable to demand the information they require and must therefore rely on information provided by the entity.
- The staff should conduct further research into whether (a) a parent-only entity is a reporting entity and (b) the boundaries of a group reporting entity should be based on a broader concept of control.

Definition of an Asset — The Board discussed the following proposed working definition of an asset:

An asset of an entity is a present right, or other access, to an existing economic resource with the ability to generate economic benefits to the entity.

The Board agreed that the staff should refine the proposed working definition to deal with certain possible ambiguities (e.g., what is meant by *other access*). The Board also noted that the definition will need to be considered together with recognition criteria to determine what assets are recognized in financial statements.

Benefits and Costs — The Board made the following determinations:

- The framework should indicate that, while information from preparers, users, and other constituents about their expectations concerning the nature and quantity of benefits and costs is likely to be incomplete, standard setters should consider in their deliberations the information they can obtain.
- The framework should describe what is and what is not included in the benefits and costs to be considered.
- There is no need to modify the cost-benefit constraint for application to smaller entities or any other particular type of entity. However, the results of considering whether benefits justify costs may differ for different types of entities.

The IASB also discussed the same topics and reached similar conclusions at its December 13–16 meeting.

Fair Value Option (November 22, December 7, December 14)

The Board decided that the project should be split into two phases, with the first phase addressing the creation of a fair value option for financial assets and liabilities. The second phase will address the creation of a fair value option for selected nonfinancial items.

The Board made the following decisions regarding the scope of the project and election of the fair value option:

- The scope should explicitly exclude the liability for income taxes (both current and deferred).
- Forward contracts that involve only financial instruments and would otherwise not be recognized at inception under existing GAAP should not be excluded from the scope of the project's first phase.
- Both written loan commitments that would otherwise not be recognized at inception under existing GAAP and financial liabilities for demand deposit accounts should be excluded from the scope of the fair value option election in Phase 1 of the project but should be included for consideration in Phase 2 of the project.
- The fair value option election can be applied by nonpublic entities that have elected the exemption in Statement 126[5] from being required to disclose the fair value of all financial instruments.
- The fair value option election should be made upon initial recognition of the applicable financial asset or financial liability. The election is irrevocable and should be documented concurrently. The application of new basis accounting would constitute the initial recognition of a financial asset or liability.

In each balance sheet presented, assets and liabilities that are subsequently measured at fair value should be reported separately from the carrying amounts of assets and liabilities subsequently measured using another measurement attribute. A company may either (a) display separate line items in its balance sheet for the fair value and non-fair-value carrying amounts or (b) present amounts that aggregate those fair value and non-fair-value amounts provided that those fair value and non-fair-value amounts are separately disclosed parenthetically on the face of the balance sheet.

The presentation requirement will also apply to the following Board projects: servicing of financial assets, life settlements, and hybrid financial instruments. The fair value option project will amend Statement 115[6] to require that securities reported at fair value in accordance with that Statement satisfy this presentation requirement.

For each period for which an income statement is presented, an entity should provide information to allow users to understand the impact of changes in the fair values of assets and liabilities subsequently measured at fair value as a result of a fair value election. This principle will also apply to the life settlements and hybrid financial instruments projects.

The Board determined that cash receipts and payments for financial assets and liabilities for which the fair value option has been elected should not be required to be classified as operating activities in the statement of cash flows. The cash receipts and payments for those financial assets and liabilities should be classified based on the nature and purpose for which the related financial assets and liabilities were acquired or incurred.

The Board also decided to require various disclosures to compensate for the lack of comparability created by the fair value option (e.g., where the income statement includes gains and losses on financial assets and liabilities for which the fair value option has been elected, etc.).

The Board determined that adoption of the forthcoming Statement should be required as of the beginning of an entity's first fiscal year beginning after December 15, 2006, with early adoption permitted. Retrospective application would not be permitted. The impact of adopting the Statement should be accounted for as a cumulative-effect adjustment to retained earnings. The Board directed the staff to prepare an Exposure Draft for Phase 1. The comment period will be 75 days.

Financial Instruments: Liabilities and Equity (November 29)

Focusing on the measurement of multiple-component instruments, the Board continued its discussion of the "ownership-settlement" approach for instruments with characteristics of equity, liabilities, or both.

[5] FASB Statement No. 126, *Exemption From Certain Required Disclosures About Financial Instruments for Certain Nonpublic Entities*.

[6] FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

For non-separated instruments, the Board established two measurement requirements:

- Instruments classified as equity that may ultimately be settled with cash or other assets would be separately displayed in the same section as single-component instruments that have cash or asset settlement requirements. Those instruments would be subsequently remeasured at the amount that results from applying the redemption formula at each reporting date. Changes would be recorded in equity. All other instruments classified in equity would not be remeasured.
- Instruments classified as either a liability or as an asset that contain two or more nonequity components would be subsequently measured at fair value with changes reflected in net income if at least one of the nonequity components represents an outcome with a payoff at settlement that would vary based on an underlying.

To determine its initial fair value, a nonequity component separated using the obligation-first approach should be described by constructing a hypothetical freestanding instrument with terms that would affect the same outcome (as observed by the payoff profile under the nonequity outcome). That description would consider the following:

- Factors such as share prices, put, call, and conversion features may affect the amount and timing of the nonequity outcome.
- Under the obligation-first approach, a minimum settlement amount results in describing a fixed amount that is 100 percent likely to be paid.
- If the amount or timing of a settlement obligation varies or is uncertain, the fair value of the nonequity component would be described by considering the probability-weighted (expected) settlement date(s) and amount(s) due.
- However, if the nonequity component would be subsequently accreted, the probability-weighted (expected) settlement date is determined first and then used to calculate (1) the amount due at that date and (2) the implicit interest rate for the settlement period.

The Board revised a previous decision by requiring that the above description for determining fair value of the nonequity component should be applied to all separated nonequity component instruments and not just those with contingent settlement date features.

The Board further decided that certain separated nonequity components (i.e., derivatives and nonequity components that have varying or uncertain settlement amounts) would be subsequently measured at fair value (by continuing to apply the descriptions described above). Nonequity components that are not subsequently measured at fair value would be accreted to the amount due at the initially determined expected settlement date based on the implicit interest rate. Additionally, reallocation of the accreted nonequity and equity components would be required only if (1) the forecasted expected settlement date lapses and the nonequity component remains outstanding or (2) early settlement occurs. That reallocation would be performed by applying the extinguishment accounting procedures outlined at the October 5, 2005, meeting.

Financial Performance Reporting (December 7, 2005)

The Board decided not to issue an Exposure Draft on Segment A decisions at this time. Instead, the Board will continue work on a Preliminary Views document that will incorporate decisions reached in both Segment A and Segment B.

Hybrid Financial Instruments (December 14)

As a result of issues raised by respondents on the Exposure Draft, *Accounting for Certain Hybrid Financial Instruments*, as well as issues raised in the December 8, 2005, education session, the Board decided to:

- Require that any cumulative effect resulting from electing the fair value option for existing bifurcated hybrid instruments be accounted for in a manner consistent with the guidance established in EITF Issue 02-3.[7]
- Eliminate the term *beneficial* from the final Statement to clarify that the scope of the hybrid Statement is not limited to interests issued by qualifying special-purpose entities (SPEs).
- Clarify that the intent regarding paragraph 35(c) of Statement 140 was not to imply that the separate-company reporting by a qualifying SPE could have implications on the qualified status of that SPE when evaluated by the beneficial interest holders in the SPE.
- Clarify that the fair value election is intended to apply to both issuers and holders of hybrid financial instruments.
- Clarify that unrecognized financial instruments are excluded from the scope of the final Statement and to change the term *inception* to *first acquired, issued, or modified*.
- Amend Statement 133 Implementation Issue B39[8] to clarify that if a prepayment option is passed through without modification, that option would continue to be considered clearly and closely related and would not require bifurcation by the beneficial interest holder.
- Require either of the following disclosures related to the effects of the fair value election:

  a. Separate balance sheet presentation of elements measured at fair value.

7 EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities."

8 FASB Statement 133 Implementation Issue No. B39, "Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor."

b. Parenthetical disclosure on the face of the balance sheet for each caption including hybrid instruments for which the fair value election had been applied.

- Require disclosure of information for each period for which an income statement is presented to allow users to understand the impact of changes in the fair values of hybrid instruments subsequently measured at fair value.

Insurance Risk Transfer (December 20)

The Board directed the staff to further develop approaches for bifurcating insurance and reinsurance contracts into financing and insurance components. The Board also approved the issuance of an Invitation to Comment (scheduled for the first quarter of 2006) soliciting feedback on bifurcation approaches and related implementation issues.

Postretirement Benefit Obligations Including Pensions (December 14)

In its deliberations relating to the first phase of its project to reconsider the accounting for postretirement benefits, the Board reached the following decisions:

- The objectives and scope of Phase 1 are as follows:
  - o To improve the reporting of employers' obligations for pensions and other postretirement benefits by recognizing the overfunded or underfunded status of defined benefit postretirement plans as an asset or a liability in the statement of financial position. That is, an employer will recognize all previously unrecognized items, even when the plan is fully funded.
  - o Not to change how plan assets and benefit obligations are measured under Statements 87[9] and 106.[10]
  - o Not to change the basic approach for measuring the amount of annual net benefit cost reported in earnings.
  - o Make the Phase 1 improvements effective for years ending after December 15, 2006.
- The provisions in Statements 87 and 106 that permit plan assets and obligations to be measured as of a date not more than three months prior to the balance sheet should be eliminated (i.e., companies would be required to report the overfunded or underfunded status measured as of the date of the financial statements).
- The current accounting for defined benefit plans in interim-period financial statements should not be changed.
- Recognition of an asset for overfunded plans and a separate liability for underfunded plans would be required.
- Previously unrecognized actuarial gains or losses and unrecognized prior service costs or credits would be recognized as a charge or credit to other comprehensive income (OCI). These items would be recycled out of OCI into earnings based on the amortization and recognition requirements in Statements 87 and 106. Previously unrecognized net transition assets or obligations would be recognized as an adjustment to retained earnings. Those amounts would not be subsequently recycled through earnings.
- The guidance in Q&A 41 of *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions* should be codified in Statement 87. The Q&A articulates the present requirement to recognize the current and noncurrent portions of the assets and liabilities recognized for postretirement benefits.
- Separate line item presentation of amounts recognized in the balance sheet would not be required. Amounts recognized in OCI would be subject to the separate presentation requirements of FASB Statement No. 130, *Reporting Comprehensive Income*.

Servicer Discretion Related to Qualifying Special-Purpose Entities (QSPEs) (December 20)

The Board added a project to its agenda to provide interpretive guidance regarding the passive nature of a QSPE. The objective of the project is to provide principles-based clarification and guidance on paragraph 35(b) of Statement 140. Paragraph 35(b) addresses the permitted activities of a QSPE. The interpretive guidance will be issued in the form of an FSP.

Given constituents' differing views as to whether the following activities are appropriate for a servicer, the FASB will use these fact patterns as examples of the application of the principles-based guidance on how to evaluate the permitted activities of a QSPE:

- The ability to waive a due-on-sale provision,
- The substitution of collateral with respect to a loan held by a QSPE, and
- The sale of real estate temporarily held by a QSPE.

A working group consisting of representatives of the commercial and residential mortgage securitization industry, the accounting firms, the PCAOB, the banking regulators, and the SEC will be formed to provide input to the FASB staff.

Transfers of Financial Assets (December 7)

The Board redeliberated the Exposure Draft, *Accounting for Transfers of Financial Assets*. The Statement on transfers of financial assets will be issued as a stand-alone document, while the Statements on servicing of financial assets and hybrid financial instruments will be issued concurrently. The Board expects to issue the final Statements on servicing of financial assets and hybrid financial instruments in the first quarter of 2006 and the final Statement on transfers of financial assets in the second quarter of 2006. The delay in issuing the transfers

[9] FASB Statement No. 87, *Employers' Accounting for Pensions*.

[10] FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

of financial assets Statement is due to the Board's determination that a wide variety of issues should be redeliberated prior to the Statement's final issuance. The final Statement will address the issue of initial measurement of a transferor's beneficial interest.

Uncertain Tax Positions (November 22)

The Board decided that the provisions of the final Interpretation will apply broadly to all tax positions taken by an enterprise and determined that it would not deliberate any issues concerning the uncertainty over new legislation in this project. Additionally, the final Interpretation will not prescribe a specific unit of account, but will state that the unit is a matter of facts and circumstances based on the manner in which the enterprise supports and documents its tax return and the level at which issues are addressed with taxing authorities.

The final Interpretation will adopt a benefit recognition model (as opposed to an impairment model) with a two-step approach (separate and distinct recognition and measurement evaluations). The first step is to evaluate the tax position for recognition, which includes determining if the available evidence indicates that it is more likely than not, based solely on the technical merits, that the position will be sustained upon audit. Detection risk (examination risk) cannot be considered in this assessment. The second step is the measurement of the appropriate amount of the benefit to recognize. The amount of benefit to be recognized will be measured using the best estimate of the amount that will be sustained. The Interpretation's use of the term *best estimate* is consistent with the term's use in Concepts Statement 7,[11] and is similar to the statistical mode. The final Interpretation will retain the Exposure Draft's original derecognition threshold (i.e., the tax position should be derecognized when it is more likely than not that the position will NOT be sustained upon audit).

FASB Project Summaries and Meeting Minutes

Project summaries maintained by the FASB staff, handouts distributed at each meeting, FASB meeting minutes, and summaries of FASB meetings and recent actions are available on the FASB’s Web site.

Further information about the FASB can be found on the FASB’s Web site, www.fasb.org.

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, Interpretation, or Staff Position) 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, Interpretation, or Staff Position.

GASB Developments

Implementation Guide to Statement 44 on the Statistical Section

The statistical section is the portion of a state or local government's comprehensive annual financial report that includes trend information for the last ten years about financial results, major revenue sources, outstanding debt, economic and demographic indicators, and operating activities. Statement 44[12] identifies the specific information required in a statistical section and sets forth the overall objectives of such information.

The Implementation Guide includes over 120 questions and answers on topics such as:

- Presenting newly required information (e.g., net assets, changes in net assets, fund balance, and total outstanding debt), and
- Selecting appropriate trend information about government employees, operating indicators, and capital assets.

In addition, the guide contains over 160 illustrations, including samples of complete statistical sections, alternative formats, and optional schedules. The Implementation Guide can be ordered from the GASB's Web site. Further information about the GASB can be found on the GASB’s Web site, www.gasb.org.

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.

AICPA Developments

TPAs Regarding the Application of SOP 03-3 on Acquired Loans and Debt Securities

The AICPA recently issued a series of TPAs[13] (27 in total) related to the application of AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* Some of the topics addressed by the TPAs include the following:

- The scope of SOP 03-3;
- Acquired loans that were classified by the seller as non-accrual;
- Carrying over the allowance for loan and lease losses on acquired loans;

[11] FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*.

[12] GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*.

[13] AICPA Technical Practice Aids, TIS Sections 2130.09–2130.35.

- EITF Issue No. 01-7, "Creditor's Accounting for a Modification or Exchange of Debt Instruments," implications with a restructured or refinanced loan under SOP 03-3; and
- Accounting for a loan upon removal from a pool of loans.

Full details of the TPAs may be viewed on the AICPA's Web site.

SAS 102 and SSAE 13 on Defining Professional Requirements

The Auditing Standards Board (ASB), which sets auditing and assurance standards for nonissuers, has issued AICPA Statement on Auditing Standards No. 102, *Defining Professional Requirements in Statements on Auditing Standards*, and AICPA Statement on Standards for Attestation Engagements No. 13, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*. The Statements define the terminology used by the ASB to describe the degrees of responsibility that requirements impose on an auditor or practitioner. Although the degree of responsibility had not previously been attached to such terms as *must*, *is required*, and *should*, the ASB believes that the terminology, as defined, is consistent with the existing interpretation of SASs and SSAEs. Additionally, the terms used in these Statements are substantially similar to those defined by the PCAOB in its Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*. The ASB believes that using a definition for audits of nonissuers in common with the PCAOB definition promotes a common understanding of an audit in the U.S.

These Statements **define two categories of professional requirements**:

- *Unconditional Requirements* — The auditor or practitioner is required to comply in all cases. An unconditional requirement is indicated by the words ***must* or *is required***.
- *Presumptively Mandatory Requirements* — The auditor or practitioner is also required to comply in all cases. However, in rare circumstances the auditor or practitioner may depart from a presumptively mandatory requirement provided he or she documents the justification for departure and how the alternative procedures performed were sufficient. Presumptively mandatory requirements are indicated by the word ***should***.

The provisions of these Statements are effective upon issuance and apply to existing SASs and SSAEs. A summary of the Statements may be reviewed on the AICPA's Web site.

SAS 103 on Audit Documentation

AICPA Statement on Auditing Standards No. 103, *Audit Documentation*, supersedes SAS 96 of the same name and **establishes audit documentation standards for an auditor of a nonissuer**. The SAS's audit documentation requirements are similar to the requirements of PCAOB Auditing Standard 3[14] and the International Auditing and Assurance Standards Board's ISA 230 (Revised), *Audit Documentation*.

Highlights of the SAS include the following:

- The auditor is required to prepare audit documentation in connection with each engagement in sufficient detail to provide an experienced auditor who has no previous connection to the audit with a clear understanding of the work performed, the audit evidence obtained and its source, and the conclusions reached.
- Enhanced guidance is provided on matters that should be documented and evidence that should be retained.
- Oral explanations alone are not sufficient to support the auditor's work or conclusions, but may be used to clarify or explain information contained in the audit documentation.
- The auditor must document audit evidence that is inconsistent with the final conclusions and how such inconsistencies were addressed.
- The auditor must **finalize the audit engagement file within 60 days** after the report release date. Subsequent to the 60 days, the auditor may not delete existing audit documentation, and must document any additions.
- Files must be retained for a minimum of five years from the report release date.

This SAS amends AU section 530, *Dating of the Independent Auditor's Report*, by requiring that the **auditor's report be dated no earlier than the date the auditor obtains sufficient audit evidence** to support the opinion on the financial statements.

The SAS is effective for periods ending on or after December 15, 2006, with early application permitted. A summary of the statement may be reviewed on the AICPA's Web site.

AICPA Hosts Annual Conference on SEC and PCAOB Developments

The AICPA hosted its 2005 National Conference on Current SEC and PCAOB Developments featuring speeches by, and question and answer sessions with, members of the SEC, PCAOB, and other standard setters. The speakers' remarks **provide insight into current concerns and priorities of their organizations**. The Conference also provides a forum

[14] PCAOB Auditing Standard No. 3, *Audit Documentation.*

for regulators to share information and express concerns in advance of the annual reporting season. Topics covered a wide range of matters, such as:

- Future opportunities for, and challenges of, the accounting profession;
- The PCAOB's auditing standards, audit firm inspection and enforcement matters, and internal control reporting requirements;
- Convergence of U.S. and international accounting standards;
- SEC filing rules and securities offering reform;
- Corporate governance and fraud; and
- Technical accounting issues (e.g., stock compensation, cash flows, revenue recognition).

For further information, refer to Deloitte & Touche's December 13 *Heads Up* and December 23 *Heads Up* on the Accounting Highlights of the AICPA's December 5–7, 2005 SEC and PCAOB Conference.

Further information about the AICPA can be found on the AICPA's Web site, www.aicpa.org.

SEC Developments

Amendment to Accelerated Filer Definition and Filing Deadlines

The SEC **delayed by one additional year the final phase-in of Form 10-K filing deadlines for "large accelerated filers."** Large accelerated filers will continue to be subject to the current 75-day deadline for Form 10-K for an additional year. Beginning with fiscal years ending on or after December 15, 2006, large accelerated filers will become subject to a 60-day deadline for Form 10-K.

The SEC amended the definition of "accelerated filer" by creating a new category, referred to as "large accelerated filers." This category is for companies that have an aggregate worldwide market value[15] of $700 million or more and meet the other conditions in Exchange Act Rule 12b-2 that apply to accelerated filers (e.g., having previously filed at least one annual report). Accelerated filers other than large accelerated filers are those companies with an aggregate worldwide market value of at least $75 million but less than $700 million.

Accelerated filers, other than large accelerated filers, will continue to be subject to the current 75-day deadline. The current Form 10-Q deadlines will be maintained for all filers. As such, the deadlines are as follows:

	Form 10-K Deadline	Form 10-Q Deadline
Large accelerated filers:		
• Fiscal years ending **prior to** December 15, 2006	75 days after year end	40 days after quarter end
• Fiscal years ending **on or after** December 15, 2006	60 days after year end	40 days after quarter end
Accelerated filers	75 days after year end	40 days after quarter end
Non-accelerated filers	90 days after year end	45 days after quarter end

The amendments will also modify the requirements to exit accelerated filer status by permitting an accelerated filer whose public float has dropped below $50 million to file an annual report on a nonaccelerated basis for the same fiscal year that the determination of public float is made. The amendments also permit a large accelerated filer to exit large accelerated filer status once its public float has dropped below $500 million.

Further information on the final rule, which is effective December 27, 2005, is available on the SEC's Web site.

SEC Updates Current Accounting and Disclosure Issues Document

In early December, the SEC published an updated version of *Current Accounting and Disclosure Issues in the Division of Corporation Finance.* The document, which is an update of the March 4, 2005, publication, captures the SEC's significant rulemaking developments and current thinking on a variety of accounting and disclosure topics.

In addition to specific rules proposed or adopted by the SEC (and covered in previous editions of *Accounting Roundup*), the document includes the following topics that have been added or revised since March:

- Dividend policy disclosures,
- Classification and measurement of warrants and embedded conversion features,
- Disclosure requirements regarding material funding obligations associated with employee benefit plans,
- Direct transfers between the allowance for loan losses and other credit loss allowances,
- Additional disclosure of residential loan products, and
- Preapproval of employee benefit plan audits.

[15] Aggregate worldwide market value is the market value of outstanding voting and non-voting common equity held by non-affiliates and, for purposes of applying these amendments, should be calculated as of the last business day of the issuer's most recently completed second fiscal quarter.

The December 2005 edition of *Current Accounting and Disclosure Issues in the Division of Corporation Finance* is available on the SEC's Web site.

Proposed Rule on Internet Availability of Proxy Materials

The SEC is proposing amendments to the proxy rules that would allow companies and other solicitors to **use the Internet to satisfy proxy material delivery requirements.** The electronic delivery option would require affirmative shareholder consent. Under the proposal, an issuer would post its proxy materials on a specified, publicly-accessible Web site and provide shareholders with a notice informing them that the materials are available. Notice must be given at least 30 days before the date of the meeting. If a shareholder requests a copy of the materials identified in the notice, the company would be obligated to send the materials within two business days, at no cost.

The proposal does not affect the availability of any existing method of furnishing proxy materials. This alternative communication method would not have to be applied to all proxy-related materials. That is, issuers and other solicitors could choose to rely on the proposed model as a means of furnishing some proxy-related documents and use other means, such as paper documents, with regard to other proxy-related materials. However, the proxy card must be provided together with, and using the same medium as, either the Notice of Internet Availability of Proxy Materials or the proxy statement.

Further information on the proposed rule is available on the SEC's Web site. Comments are due February 13, 2006.

Proposed Amendments to Tender Offer Best-Price Rule

The tender offer best-price rule requires that the consideration paid to any security holder in a tender offer is the highest consideration paid to any other security holder in the offer. The rule applies to offers by third parties and issuers. Diversity has emerged as to whether the rule applies to arrangements entered into by a bidder in a tender offer and the employees or directors of the target company in contemplation of the acquisition.

The proposed amendments clarify that the rule applies only with respect to the consideration offered and paid for securities tendered in an issuer or third-party tender offer. The best-price rule **does not include compensatory arrangements between subject company employees or directors** and the bidder or subject company, so long as the amount payable under the arrangement relates solely to past services performed or future services to be rendered (or refrained from being rendered), and is not based on the number of shares the employee or director owns or tenders.

Revisions to the best-price rule would clarify that there is **no time restriction** on its application (i.e., it is not limited to arrangements executed and performed between the time a tender offer formally commences and expires).

The proposal also would provide a safe harbor provision allowing the compensation committee of the subject company's or bidder's board of directors (depending on which entity is party to the arrangement) to approve an employment compensation, severance, or benefit arrangement and thereby deem it to be such an arrangement for purposes of the exemption.

The proposed amendments are available on the SEC's Web site. Comments are due February 21, 2006.

Proposed Rule to Ease Delisting by Foreign Private Issuers

Under current rules, foreign private issuers are allowed to terminate their Exchange Act registration and reporting requirements if the class of the issuer's securities has less than 300 record holders who are U.S. residents. The SEC is proposing Exchange Act Rule 12h-6 to **ease these requirements**.

Equity Securities — A foreign private issuer would be eligible to terminate its Exchange Act registration and reporting obligations regarding a class of equity securities under proposed Rule 12h-6 if it meets the following conditions: (1) it must have filed or furnished all required reports, including at least two annual reports, (2) it must not have sold securities in the U.S. during the preceding 12 months, and (3) it must have maintained a listing of securities on an exchange in the home country (as defined on Form 20-F), which constitutes the primary trading market for the securities. Well-known seasoned issuers may terminate the reporting obligation when:

- The U.S. daily average trading volume is no greater than 5 percent of the average trading volume in its primary market *and* U.S. residents hold no more than 10 percent of the issuer's worldwide public float, or
- U.S. registrants hold less than 5 percent of the issuer's worldwide public float.

Only the latter criterion applies to foreign private issuers that are not well-known seasoned issuers. Additionally a company may terminate its registration and reporting requirements if the class of securities is held by less than 300 persons on a worldwide basis or less than 300 U.S. residents.

Additionally, the proposal would immediately apply the exemption under Exchange Act Rule 12g3-2(b) to a foreign private issuer upon its termination of Exchange Act registration and reporting regarding a class of equity securities. However, a foreign private issuer must publish in English the home country materials required by Rule 12g3-2(b) on its Web site or through an electronic information delivery system that is generally available to the public in its primary trading market.

Debt Securities — A foreign private issuer would be eligible to terminate its Section 15(d) reporting obligations regarding a class of debt securities under proposed Rule 12h-6 if it meets the following two criteria: (1) the issuer has filed or furnished all required reports, including at least one annual report, and (2) the class of debt securities is either held by less than 300 persons on a worldwide basis or less than 300 U.S. residents.

Counting Method — The proposed rule also **limits the search a company is required to perform** when counting the number of U.S. residents holding its securities.

New Form 15F— Under proposed Rule 12h-6, a foreign private issuer would have to **file new Form 15F** certifying compliance with the requirements for termination of its Exchange Act reporting obligations and provide specified supporting information. The filing of Form 15F would automatically suspend an issuer's reporting duties and the suspension would become a permanent termination if the SEC has not objected within 90 days.

The proposed rule is available on the SEC's Web site. Comments are due February 28, 2006.

SEC Seeks Comments on PCAOB Auditing Standard 4 Regarding Reporting on the Elimination of a Material Weakness

On July 28, 2005, the PCAOB filed Auditing Standard 4[16] with the SEC for approval. The standard establishes guidance that applies when an auditor is engaged to report on management's assertion that a previously reported material weakness no longer exists. These stand-alone engagements are voluntary and are performed at the election of a company's management.

The SEC has not yet approved the rule and is now soliciting input, including whether the proposed rule is consistent with the requirements of Title I, "Public Company Accounting Oversight Board," of the Sarbanes-Oxley Act. Specifically, the SEC is seeking comment on the following two topics:

- Changes that should be made to the Standard to **encourage use** by management.
- Whether it is clear that management may select a date, which may fall outside of the quarterly review period, for its assertion that a material weakness no longer exists.

The Notice of Filing, which includes the full text of the Standard, is available on the SEC's Web site. Further information on the Standard is also available in the July 2005 issue of *Accounting Roundup*. Comments are due January 20, 2006.

Further information about the SEC can be found on the SEC's Web site, www.sec.gov.

International Developments

Amendment to IAS 21 on Net Investments in Foreign Operations

A principle in IAS 21[17] is that exchange differences arising on a monetary item that is, in substance, part of the reporting entity's net investment in a foreign operation are initially recognized in a separate component of equity in the consolidated financial statements of the reporting entity. However, a revision to IAS 21 was made in 2003 requiring that the monetary item be denominated in the functional currency of either the reporting entity or the foreign operation in order for exchange differences to be recognized in equity. If the monetary item was denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, the exchange differences were recognized in profit or loss.

In 2005, the Board concluded that the accounting treatment in the consolidated financial statements should not be dependent on the currency in which the monetary item is denominated or on which entity in the group transacts with the foreign operation. Therefore, the Board issued a limited amendment that requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be **recognized initially in a separate component of equity** in the consolidated financial statements. This requirement **applies irrespective of the currency of the monetary item** and irrespective of whether the monetary item results from a transaction with the reporting entity or with any of its subsidiaries.

The amendment is effective for annual periods ending on or after January 1, 2006. Earlier application is encouraged. To obtain further information on the amendment, visit the IASB's Web site.

IASB Updates Guidance on Implementing IFRS 4, *Insurance Contracts*

The IASB published revised Guidance on Implementing IFRS 4. The revision reflects the changes made to IFRS 4 in August 2005 by IFRS 7[18] and affects only the **disclosure** section of the guidance. A press release announcing the updates may be found on the IASB's Web site.

Recent IASB Meeting

The International Accounting Standards Board met December 13–16, 2005, in London and discussed:

- Conceptual framework
- Insurance contracts

[16] PCAOB Auditing Standard No. 4, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist.*

[17] IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

[18] IFRS 7, *Financial Instruments: Disclosures.*

- Short-term convergence: income tax
- Fair value measurement
- Puttable instruments at fair value
- Accounting standards for small and medium-sized entities
- Joint ventures
- Update on IFRIC activities
- Technical plan

Summaries of the meetings, the observer notes, and IASB staff presentations made at the meetings are available on the IASB's Web site. Summaries of the IASB meeting decisions and discussions also are available on Deloitte's IAS Plus Web site.

Recent IFRIC Meeting

The International Financial Reporting Interpretations Committee met on December 1, 2005, in London and discussed:

- D16, *Scope of IFRS 2, Share-based Payment* — proposal for a final Interpretation
- Interim financial reporting and impairment of goodwill and of investments in equity instruments — proposal for a draft Interpretation
- Tentative agenda decisions

Summaries of the IFRIC meeting decisions and discussions are available on the IASB Web site.

Further information about IASB and IFRIC can be found on the IASB's Web site, www.iasb.org, and on the IAS Plus Web site, www.iasplus.com/index.htm.

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.

Appendix A: Significant Adoption Dates and Deadlines

The chart below illustrates significant adoption dates and deadline dates for the FASB, EITF, GASB, AICPA/AcSEC, PCAOB, and IASB/IFRIC.

FASB	Status
Significant Adoption Dates	
Statement 154, *Accounting Changes and Error Corrections* — a replacement of APB Opinion No. 20 and FASB Statement No. 3	Effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.
Statement 153, *Exchanges of Nonmonetary Assets* —an amendment of APB Opinion No. 29	Effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.
Statement 152, *Accounting for Real Estate Time-Sharing Transactions* — an amendment of FASB Statements No. 66 and 67	Effective for fiscal years beginning after June 15, 2005.
Statement 151, *Inventory Costs* — an amendment of ARB No. 43, Chapter 4	Effective for inventory costs incurred during fiscal years beginning after June 15, 2005.
Statement 123(R), *Share-Based Payment* (reflecting change in effective dates for public companies as a result of the SEC's Final Rule amending Rule 4-01(a) of Regulation S-X)	Effective for public entities (other than those filing as small business issuers) as of the first interim or annual reporting period of the registrant's first fiscal year that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply Statement 123(R) in the first interim or annual reporting period of the registrant's first fiscal year that begins after December 15, 2005. Nonpublic entities will be required to apply Statement 123(R) in the first annual reporting period that begins after December 15, 2005.
Interpretation 47, *Accounting for Conditional Asset Retirement Obligations* — an interpretation of FASB Statement No. 143	Effective as of the end of fiscal years ending after December 15, 2005.
FSP FAS 150-5, "Issuer's Accounting Under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable"	Effective for the first reporting period beginning after June 30, 2005.
FSP FAS 143-1, "Accounting for Electronic Equipment Waste Obligations"	Effective the later of the first reporting period ending after June 8, 2005, or the date of the adoption of the Waste Electrical and Electronic Equipment Directive by the applicable EU-member country.
FSP FAS 140-2, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140"	Effective as of November 9, 2005.
FSP FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards"	Effective after November 10, 2005. Entities may take up to one year from the later of the initial adoption of Statement 123(R) or the effective date of the FSP to make its election.
FSP FAS 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)"	Effective upon initial adoption of Statement 123(R). For an entity that adopted Statement 123(R) prior to October 18, 2005, this FSP is effective for the first reporting period after October 18, 2005, for which financial statements or interim reports have not been issued.
FSP FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services Under FASB Statement No. 123(R)"	Effective upon initial adoption of Statement 123(R). For an entity that adopted Statement 123(R) prior to August 31, 2005, this FSP is effective for either (a) the first reporting period beginning after August 31, 2005, or (b) an earlier period if the financial statements for that period have not been issued.
FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"	Effective for reporting periods beginning after December 15, 2005.

FSP FAS 19-1, "Accounting for Suspended Well Costs"	Effective for the first reporting period beginning after April 4, 2005.
FSP FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period"	Effective for the first reporting period beginning after December 15, 2005. Lessees should cease capitalizing rental costs as of the effective date of this FSP for operating lease arrangements entered into prior to that date.
FSP FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners"	Effective for new minimum revenue guarantees issued or modified on or after the beginning of the first fiscal quarter following November 10, 2005.
FSP APB 18-1, "Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for Under the Equity Method in Accordance With APB Opinion No. 18 Upon a Loss of Significant Influence"	Effective as of the first reporting period beginning after July 12, 2005.
FSP SOP 94-6-1, "Terms of Loan Products That May Give Rise to a Concentration of Credit Risk"	Effective for interim and annual periods ending after December 19, 2005.
FSP SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5"	Effective after June 29, 2005, for new limited partnership agreements and for pre-existing limited partnership agreements that are modified; otherwise, effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005.
FSP EITF 85-24-1, "Application of EITF Issue No. 85-24, 'Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge,' When Cash for the Right to Future Distribution Fees for Shares Previously Sold Is Received From Third Parties"	Effective for reporting periods beginning after March 11, 2005.
FSP AAG INV-1 and SOP 94-4-1, "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans"	The financial statement presentation and disclosure guidance is effective for annual periods ending after December 15, 2006. The revised definition of fully benefit-responsive is effective for all investment contracts as of the last day of the annual period ending after December 15, 2006.
Statement 133 Implementation Issue No. G1, "Cash Flow Hedges: Hedging an SAR Obligation"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. E19, "Hedging — General: Methods of Assessing Hedge Effectiveness When Options Are Designated as the Hedging Instrument"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. C3, "Scope Exceptions: Exception Related to Share-Based Payment Arrangements"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. B39, "Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor"	Effective the first day of the first fiscal quarter beginning after December 15, 2005.
Statement 133 Implementation Issue No. B38, "Embedded Derivatives: Evaluation of Net Settlement With Respect to the Settlement of a Debt Instrument Through Exercise of an Embedded Put Option or Call Option"	Effective the first day of the first fiscal quarter beginning after December 15, 2005.
Projects in Exposure Draft Stage	
Proposed FSP FAS 142-d, "Amortization and Impairment of Acquired Renewable Intangible Assets"	Comments due March 27, 2006.
Codification Retrieval System Survey	Survey due January 15, 2006.

EITF	Status
Significant Adoption Dates	
Issue 05-8, "Income Tax Consequence of Issuing Convertible Debt With a Beneficial Conversion Feature"	Effective for the first interim or annual reporting period beginning after December 15, 2005.

Issue 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues"	Effective for future modifications of debt instruments that occur in all interim and annual reporting periods beginning after December 15, 2005. Public companies should also consider the remarks of the SEC Staff at the December 2004 AICPA Conference on Current SEC and PCAOB Developments stating that public companies should include the change in fair value of a modified conversion option in their Issue 96-19 cash flow analysis.
Issue 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased After Lease Inception or Acquired in a Business Combination"	Effective for leasehold improvements purchased or acquired in periods beginning after June 29, 2005.
Issue 05-5, "Accounting for Early Retirement or Postemployment Programs With Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements)"	Effective for fiscal years beginning after December 15, 2005.
Issue 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock'"	Effective for new instruments and modifications to existing instruments entered into after June 29, 2005.
Issue 04-13, "Accounting for Purchases and Sales of Inventory With the Same Counterparty"	Effective for new inventory arrangements entered into, or modifications or renewals of existing inventory arrangements occurring, in interim or annual reporting periods beginning after March 15, 2006.
Issue 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds"	Effective for fiscal years ending after September 15, 2005.
Issue 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry"	Effective for fiscal years beginning after December 15, 2005.
Issue 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights"	Effective after June 29, 2005, for new limited partnership agreements and for pre-existing limited partnership agreements that are modified; otherwise, effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005.
Amendment to Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholders Have Certain Approval or Veto Rights"	Effective for new investments and investment agreements modified after June 29, 2005.
Topic D-98, "Classification and Measurement of Redeemable Securities"	Effective for the first fiscal quarter ending after December 15, 2001, except that paragraph 19 is effective for the first fiscal period beginning after September 15, 2005.
GASB	**Status**
Significant Adoption Dates	
GASB Statement No. 47, *Accounting for Termination Benefits*	For termination benefits provided through an existing defined benefit OPEB plan, the provisions should be applied simultaneously with the requirements of GASB Statement 45. For all other termination benefits, effective for periods beginning after June 15, 2005.
GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* — an amendment of GASB Statement No. 34	Effective for fiscal periods beginning after June 15, 2005.
GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*	Effective in three phases based on a government's total annual revenues.
GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section* — an amendment of NCGA Statement 1	Effective for statistical sections prepared for periods beginning after June 15, 2005.
GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*	Effective one year prior to the effective date of GASB Statement 45 for the employer in a single-employer plan or the largest participating employer in a multi-employer plan.

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers*	For pension transactions, effective for financial statements for periods ending after December 15, 2004, with earlier application encouraged. For OPEB transactions, the provisions should be applied simultaneously with the requirements of GASB Statement 45.
AICPA/AcSEC	**Status**
Significant Adoption Dates	
SOP 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*	Effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Initial application of this SOP should be as of the beginning of an entity's fiscal year.
SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions*	Effective for fiscal years beginning after June 15, 2005.
SAS 102, *Defining Professional Requirements in Statements on Auditing Standards*, and SSAE No. 13, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*	Effective December 2005.
SAS 103, *Audit Documentation*	Effective for periods ending on or after December 15, 2006.
Project in Request for Comment Stage	
Accounting and Review Services Committee Survey, "Need for Independence in Compilation Engagements"	Survey due May 19, 2006.
SEC	**Status**
Significant Adoption Dates	
Final Rule, *Postponement of the Phase-in Period for Acceleration of Periodic Report Filing Dates for Large Accelerated Filers and Accelerated Filers*	Effective December 27, 2005.
Final Rule, *Securities Offering Reform*	Effective December 1, 2005.
Final Rule, *Use of Form S-8, Form 8-K, and Form 20-F by Shell Companies*	Effective August 22, 2005, except that Form 8-K, Item 5.06 is effective November 7, 2005.
Final Rule, *First-Time Application of International Financial Reporting Standards* (amendments to Form 20-F)	Rule will apply to foreign private issuers that adopt IFRS prior to or for the first financial year starting on or after January 1, 2007.
Final Rule, *Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (revised 2004)*, Share-Based Payment	Effective for public entities (other than those filing as small business issuers) as of the first interim or annual reporting period of the registrant's first fiscal year that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply Statement 123(R) in the first interim or annual reporting period of the registrant's first fiscal year that begins after December 15, 2005.
Final Rule, *Asset-Backed Securities*	Effective as of March 8, 2005.
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 certain "accelerated filers." Effective for fiscal years ending on or after July 15, 2007, for "nonaccelerated filers," including foreign private issuers that are not accelerated filers. Effective for fiscal years ending on or after July 15, 2006, for foreign private issuers that are accelerated filers and file annual reports on forms 20-F or 40-F.
SAB 107 (on the interaction between FASB Statement No. 123(R), *Share-Based Payment*, and certain SEC rules and regulations)	Effective upon the adoption of Statement 123(R).
Projects in Request for Comment Stage	
Notice of Filing, *Proposed Rule on Auditing Standard No. 4*, Reporting on Whether a Previously Reported Material Weakness Continues to Exist	Comments due January 20, 2006.

Proposed Rule, *Internet Availability of Proxy Materials*	Comments due February 13, 2006.
Proposed Rule, *Amendments to the Tender Offer Best-Price Rule*	Comments due February 21, 2006.
Proposed Rule, *Termination of a Foreign Private Issuer's Registration of a Class of Securities Under Section 12(g) and Duty to File Reports Under Section 15(d) of the Securities Exchange Act of 1934*	Comments due February 28, 2006.
PCAOB	**Status**
Significant Adoption Dates	
Auditing Standard No. 4, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist*	Effective upon approval by the SEC.
Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*	Effective for fiscal years ending on or after November 15, 2004, for certain "accelerated filers." Effective for fiscal years ending on or after July 15, 2007, for "nonaccelerated filers," including foreign private issuers that are not accelerated filers. Effective for fiscal years ending on or after July 15, 2006, for foreign private issuers that are accelerated filers and file annual reports on forms 20-F or 40-F.
Conforming Amendments to PCAOB Interim Standards Resulting From the Adoption of PCAOB Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements"	Effective for integrated audits of financial statements at the same time as Auditing Standard No. 2. Effective for audits of only financial statements for periods ending on or after July 15, 2005.
Rule 3501, *Definitions of Terms Employed in Section 3, Part 5 of the Rules*; Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*; Rule 3520, *Auditor Independence*	Effective 10 days after approval by the SEC.
Rule 3521, *Contingent Fees*	Effective for contingent fee arrangements that were not paid in their entirety, converted to fixed fee arrangements, or otherwise unwound before 60 days after approval by the SEC.
Rule 3522, *Tax Transactions*	Effective for tax services completed later than 60 days after approval by the SEC.
Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*	Rule will not apply to tax services being provided pursuant to an engagement in process at the time the SEC approves the rules, provided that such services are completed on or before the later of June 30, 2006, or 10 days after approval by the SEC.
Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*	Rule will not apply to any tax service pre-approved before 60 days after approval by the SEC, or, in the case of an issuer that pre-approves non-audit services by policies and procedures, the rule will not apply to any tax service provided by March 31, 2006.
IASB/IFRIC	**Status**
Significant Adoption Dates	
IFRS 7, *Financial Instruments: Disclosures*	Effective for annual periods beginning on or after January 1, 2007.
IFRS 6, *Exploration for and Evaluation of Mineral Resources*	Effective for annual periods beginning on or after January 1, 2006.
IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Effective for annual periods beginning on or after January 1, 2005.
IFRS 4, *Insurance Contracts*	Effective for annual periods beginning on or after January 1, 2005.
IFRS 2, *Share-based Payment*	Effective for annual periods beginning on or after January 1, 2005.

Amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and IFRS 6, *Exploration for and Evaluation of Mineral Resources*	Effective June 30, 2005.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 4, *Insurance Contracts*	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement — The Fair Value Option*	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement — Cash Flow Hedge Accounting of Forecast Intragroup Transactions*	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement — Transition and Initial Recognition of Financial Assets and Financial Liabilities*	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 32, *Financial Instruments: Disclosure and Presentation*	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 21, *The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation*	Effective for annual periods ending on or after January 1, 2006.
Amendment to IAS 19, *Employee Benefits*	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 1, *Presentation of Financial Statements — Capital Disclosures*	Effective for annual periods beginning on or after January 1, 2007.
Improvements to International Accounting Standards	Effective for annual periods beginning on or after January 1, 2005.
Amendment to SIC-12, *Consolidation — Special Purpose Entities*	Effective for annual periods beginning on or after January 1, 2005.
IFRIC Interpretation 7, *Applying the Restatement Approach Under IAS 29, Financial Reporting in Hyperinflationary Economies*	Effective for annual periods beginning on or after March 1, 2006.
IFRIC Interpretation 6, *Liabilities Arising From Participating in a Specific Market — Waste Electrical and Electronic Equipment*	Effective for annual periods beginning on or after December 1, 2005.
IFRIC Interpretation 5, *Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds*	Effective for annual periods beginning on or after January 1, 2006.
IFRIC Interpretation 4, *Determining Whether an Arrangement Contains a Lease*	Effective for annual periods beginning on or after January 1, 2006.
IFRIC Interpretation 2, *Members' Shares in Co-operative Entities and Similar Instruments*	Effective for annual periods beginning on or after January 1, 2005.
Projects in Exposure Draft Stage	
Discussion Paper, *Management Commentary*	Comments due April 28, 2006.
Discussion Paper, *Measurement Bases for Financial Accounting — Measurement on Initial Recognition*	Comments due May 19, 2006.

Appendix B: Abbreviations

AcSEC	Accounting Standards Executive Committee
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ARB	Accounting Research Bulletin
ASB	Auditing Standards Board
DIG	Derivatives Implementation Group
DTC	Draft Technical Correction
EITF	Emerging Issues Task Force
FAS	Financial Accounting Standard
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
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
MD&A	Management's Discussion & Analysis
NCGA	National Council on Governmental Accounting
PCAOB	Public Company Accounting Oversight Board
SAB	Staff Accounting Bulletin
SAS	Statement on Auditing Standards
SEC	Securities and Exchange Commission
SOP	Statement of Position
SSAE	Statement on Standards for Attestation Engagements
TPA	Technical Practice Aid

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