

Accounting Roundup

Audit and Enterprise Risk Services

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New Look and Features for 2006

In keeping with our New Year's resolution to make *Accounting Roundup* more user friendly, we are pleased to announce some exciting new changes:

- **Roundup Flash** — Now you can view the whole issue — at a glance. New [Roundup Flash](#), in Appendix C, lets you see right away whether an article affects you, and if it does, you can jump directly to it.
- **Single-Column Format** — Our new single-column format offers easier reading on a computer screen.
- **Recent Meetings Appendix** — We've moved coverage of meetings held by the FASB and other standard setters to Appendix A for easy access and quick reference.
- **Links to Additional Information** — Our easy-to-find links offer additional information on nearly every topic covered. Look for them underlined in blue throughout the issue.

As usual, clicking the title of any article in the Table of Contents (on the left) takes you directly to the article. We value your feedback and would appreciate any comments you may have on *Accounting Roundup*. Take a moment to tell us what you think by sending us an e-mail at accountingstandards@deloitte.com.

FASB Developments

Proposed Statement on Fair Value Option for Financial Assets and Liabilities

The proposed Statement¹ would create a fair value option under which companies may irrevocably elect to report certain financial assets and liabilities at fair value at initial recognition. Changes in fair value would be **recognized in earnings** in the period that they occur. The proposed Statement represents the first phase of a two-phase fair value option project. In phase

¹ Proposed FASB Statement, *The Fair Value Option for Financial Assets and Financial Liabilities* — including an amendment of FASB Statement No. 115.

two, the Board will consider extending the fair value option to certain nonfinancial assets and liabilities and to some of the financial assets and liabilities excluded from the proposed Statement.

Scope — Among other financial assets and liabilities, the proposed Statement would apply to:

- Investments accounted for under Statement 115,² and investments in equity securities that do not have readily determinable fair values;
- Equity method investments;
- Insurance and reinsurance contracts that are financial instruments;
- Warranty rights and obligations that are financial assets or liabilities; and
- Unconditional purchase obligations that are recorded as financial liabilities.

The following are excluded from the scope of the proposed Statement:

- Investments that would otherwise be consolidated (e.g., an investment in a subsidiary);
- Obligations for pension benefits, other postretirement benefits, stock option and stock purchase plans, and other certain forms of deferred compensation arrangements;
- Financial liabilities recognized under lease contracts;
- Written loan commitments not accounted for as derivatives; and
- Financial liabilities for demand deposit accounts.

Financial Statement Presentation — Assets and liabilities measured at fair value pursuant to the fair value option should be separated on the face of the balance sheet from assets and liabilities measured at other than fair value. The presentation may be separated using either separate line items on the balance sheet or parenthetical disclosure on line items that aggregate assets and liabilities that are recorded at fair value and other than fair value.

Disclosures — The proposed Statement would also require both quantitative and qualitative disclosures for financial assets and liabilities accounted for under the fair value option.

Effective Date and Transition — The proposed Statement is effective as of the beginning of each reporting entity's first fiscal year that begins after December 15, 2006. Upon adoption as of the beginning of the fiscal year, companies may elect the option for existing financial assets and liabilities. The effect of the adoption should be accounted as a cumulative-effect adjustment to retained earnings as of the effective date. Retrospective application is not permitted.

The [proposed Statement](#) is available on the FASB's Web site. Comments are due April 10, 2006.

Proposed FSP FAS 123(R)-d Addresses Classification of Options and Similar Instruments Issued as Employee Compensation

FASB Statement No. 123(R), *Share-Based Payment*, requires options or similar instruments to be classified as liabilities if "the entity can be required **under any circumstances** to settle the option or similar instrument by transferring cash or other assets."³ [Emphasis added] This provision currently requires liability classification and mark-to-market accounting for employee stock options if cash settlement can be required outside of the control of the company. The FASB has been in contact with many of its constituents and has determined the following:

- Option arrangements that would result in liability accounting under paragraph 32 are not uncommon, and
- A number of preparers did not understand the requirements of paragraph 32, nor did they appreciate that Statement 123(R) differed in this area from APB Opinion No. 25, *Accounting for Stock Issued to Employees*.

Proposed FSP FAS 123(R)-d⁴ would require liability classification (and thus mark-to-market accounting) for options and similar instruments only when a contingent event that is outside the employee's control, and would require cash settlement, is **probable**

² FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

³ Paragraphs 32 and A229 of Statement 123(R).

⁴ Proposed FASB Staff Position No. FAS 123(R)-d, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement Upon the Occurrence of a Contingent Event."

of occurring. If the contingent event is not probable of occurrence, equity classification is required. However, public companies will still be required to present equity classified options as “mezzanine equity” outside of permanent equity, in accordance with ASR 268⁵ and Topic D-98.⁶

Example

Enterprise A issues stock options to its employees. The stock options include a provision under which the employees can require Enterprise A to cash settle the options if there is a change in control of Enterprise A (e.g., another enterprise purchases Enterprise A in a business combination). Under the proposed FSP, absent any other features that would require liability classification, Enterprise A would classify the options as equity until the change in control is probable of occurring. At that point, Enterprise A would classify the options as a liability.

Effective Date and Transition — The FSP would be applied upon initial adoption of Statement 123(R). If an entity has adopted or will adopt Statement 123(R) prior to the issuance of the FSP, the FSP should be applied to the first reporting period beginning after the date the final FSP is posted to the FASB’s Web site. Retrospective application is required only if an entity, in its initial application of Statement 123(R), treated options or similar instruments that allow for cash settlement upon the occurrence of a contingent event in a manner inconsistent with the guidance in the FSP. Early application of the FSP is permitted for periods for which financial statements have not yet been issued.

The [final FSP](#) was posted to the FASB’s Web site on February 3, 2006. The [proposed FSP](#) and [minutes](#) of the January 11, 2006, meeting at which the Board approved the proposed FSP are available on the FASB’s Web site.

EITF Developments

EITF and FASB Boards Approve Editorial Change to EITF Issue No. 04-6, “Accounting for Stripping Costs Incurred During Production in the Mining Industry”

The EITF and FASB Boards approved and finalized an editorial change to clarify the definition of the “**production phase**” of a mine as contained in paragraph 4 of Issue 04-6. The new definition of a production phase of a mine is as follows (additions are underscored and deletions are struck through):

The production phase of a mine is deemed to have begun when saleable minerals are extracted (produced) from an ore body, regardless of the level of production ~~or revenues~~. However, the production phase does not commence with the removal of *de minimis* saleable mineral material that occurs in conjunction with the removal of overburden or waste material for the purpose of obtaining access to an ore body.

GASB Developments

Proposed Statement on Pollution Remediation Obligations

The proposed Statement⁷ would require entities to estimate the components of expected pollution remediation costs and to **record such costs as a liability** when any one of five specified obligating events occur (e.g., the government is compelled to take pollution remediation action because of imminent endangerment of others). The proposed Statement would be applied to remediation activities, such as site assessment and cleanups related to existing pollution. The pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset (e.g., landfill closure and post closure care and power plant decommissioning), are excluded from the scope of the proposed Statement.

The proposed Statement would be effective for periods beginning after June 15, 2007, and would be applied retroactively, if practicable. Otherwise, net assets should be restated as of the beginning of the period of adoption. For more information, a [press release](#) and the [proposed Statement](#) can be found on the GASB’s Web site. Comments are due May 1, 2006.

⁵ SEC Accounting Series Release No. 268 (FRR Section 211), *Redeemable Preferred Stocks*.

⁶ EITF Topic No. D-98, “Classification and Measurement of Redeemable Securities.”

⁷ Proposed GASB Statement, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

AICPA Developments

TPAs on Nonregistered Investment Partnerships

The AICPA recently issued a series of TPAs⁸ on **disclosure and presentation** requirements for investments held by Nonregistered Investment Partnerships, as follows:

- *Presentation of Boxed Investment Positions* — Long and short positions in the same security (“boxed positions”) should be evaluated on a gross basis for the purposes of performing the 5-percent-of-net-assets test⁹ for determining the appropriate level of disclosure and presentation in the schedule of investments.
- *Disclosure of Long and Short Positions* — Total long and total short positions in any one issuer should be considered separately for disclosure in the condensed schedule of investments. That is, if a nonregistered investment partnership has a long position that exceeds 5 percent of net assets and a short position in the same issuer that is less than 5 percent of net assets, disclosure of the long position is required while disclosure of the short position is not.
- *Disclosure of an Investment in an Issuer When One or More Securities and/or One or More Derivative Contracts Are Held* — If a nonregistered investment partnership holds (a) one or more securities of the same issuer and (b) one or more derivative contracts for which the underlying is a security of the same issuer, such securities and derivative contracts should be presented in the condensed schedule of investments on a basis consistent with the classification of the securities or contracts on the statement of assets and liabilities. Securities and derivative contracts that are classified as assets should be aggregated. To the extent that the sum exceeds 5 percent of net assets, each position should be separately disclosed on the condensed schedule of investments. Liability positions should be treated similarly. The TPA provides several illustrative examples.
- *Information Required to Be Disclosed When Comparative Financial Statements Are Presented* — The AICPA Audit and Accounting Guide, *Audits of Investment Companies*, does not require comparative financial statements for nonregistered investment partnerships. However, if an entity elects to prepare comparative financial statements, the schedule of investments for the prior year should also be included.
- *Presentation of Purchases and Sales/Maturities of Investments in the Statement of Cash Flows* — In general, a nonregistered investment partnership should present purchases and sales/maturities of long-term investments (securities purchased with no stated maturity or with a stated maturity of greater than one year at the date of acquisition) on a gross basis in the statement of cash flows. Purchases and sales/maturities of short-term investments, however, may be presented on a net basis.

The full text of the [TPAs](#) is available on the AICPA's Web site.

Proposed SSAE on Reporting on an Entity's Internal Control Over Financial Reporting

The ASB issued a revised proposed SSAE entitled *Reporting on an Entity's Internal Control Over Financial Reporting* that is appropriate for **examinations of internal controls of nonissuers** and reflects guidance from (1) the PCAOB's Auditing Standard 2¹⁰ and (2) the PCAOB's “Staff Questions and Answers” related to Auditing Standard 2.

Among other requirements, the proposed SSAE:

- Provides guidance on evaluating management's basis for making an assertion about an entity's internal control over financial reporting.
- Incorporates the definitions of the terms “control deficiency” and “material weakness” as used in PCAOB Auditing Standard 2 and replaces “reportable condition” with “significant deficiency” and its related definition as used in PCAOB Auditing Standard 2.
- Provides guidance on evaluating (1) deviations in the design or operation of the controls and whether they constitute control deficiencies and (2) the severity of any (more than inconsequential) control deficiencies identified; also provides

⁸ AICPA Technical Practice Aids, TIS Sections 6910.16–6910.20.

⁹ The 5-percent-of-net-assets test is described in paragraph 7.13 of the AICPA Audit and Accounting Guide, *Audits of Investment Companies*.

¹⁰ PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

examples of circumstances that would ordinarily be considered at least significant deficiencies and/or strong indicators of material weaknesses.

- Requires written communication of any significant deficiencies and material weaknesses identified, and any known or suspected fraud.

The proposed SSAE would supersede SSAE 10,¹¹ Chapter 5, “Reporting on an Entity’s Internal Control Over Financial Reporting.” The comment period on the proposed SSAE ends May 19, 2006. For more information, a [press release](#) and the [proposed SSAE](#) can be found on the AICPA’s Web site.

SEC Developments

SEC Proposes Changes to Disclosure Requirements Concerning Executive Compensation and Related Matters

On January 17, 2006, the SEC proposed revisions to the disclosure requirements of executive and director compensation, related party transactions, director independence and other corporate governance matters, and security ownership of officers and directors. The proposed rules would require most disclosures to be provided in plain English and would primarily impact the disclosures in proxy statements, annual reports, and registration statements. Additionally, the current reporting requirements of Form 8-K would be modified as they relate to compensation arrangements. Requirements of the proposed rules are summarized below:

Executive and Director Compensation — The currently required **tabular disclosures will be enhanced** with more informative narrative around compensation of the principal executive officer, the principal financial officer, and the three other highest-paid executive officers. The proposed rule would also require disclosure for up to three additional employees who are not executive officers whose total compensation for the last completed fiscal year was greater than that of any of the named executive officers. The disclosure would include the amount of each employee’s total compensation for the most recent fiscal year and a description of his or her job position, but would not include the employee’s name.

The proposed rules will eliminate the compensation committee report and stock performance graph and replace them with a new disclosure section that will take the form of a Compensation Discussion and Analysis. This new section will focus on an entity’s compensation practices, including a description of the compensation objectives and elements. The Compensation Discussion and Analysis will be deemed filed with the SEC and therefore subject to liability and disclosure requirements including the CEO and CFO certification provisions.

The proposed rule will segregate disclosures about executive compensation into three primary categories: (1) historical compensation, (2) exercises and holdings of outstanding equity-related interests, and (3) post-employment compensation.

The following is an example of the summary compensation table from the proposed rule:

Name and Principal Position	Year	Total (\$)	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Stock Incentive Plan Compensation (\$)	All Other Compensation (\$)

- Compensation related to stock and option awards is based on the grant date fair value.
- All other compensation includes, but is not limited to, earnings on deferred compensation, increases in pension value, perquisites and other personal benefits, and additional other compensation not included elsewhere.
- This table would reflect information for the principal executive officer, the principal financial officer, and the three other highest paid executive officers for the preceding three years.

¹¹ AICPA Statement on Standards for Attestation Engagements No. 10, *Attestation Engagements: Revision and Recodification*, as amended.

Under the proposal, perquisites and other personal benefits exceeding \$10,000 would be disclosed including identification of the particular nature of the benefit received.

The summary compensation table will be supplemented with tables of grants of performance-based awards and grants of all other equity awards. In addition, a table similar to the summary compensation table will be required for directors, but will only include one year of compensation information.

The section disclosing exercises and holdings of outstanding equity-related interests is proposed to contain two tables: (1) outstanding equity awards at fiscal year end and (2) option exercises and stock vesting. The post-employment compensation section is also proposed to include tables disclosing the amounts and types of defined benefit pension plan compensation, non-qualified defined contribution plans and other deferred compensation plans, and compensation arrangements triggered upon termination and on changes in control.

Related Party Transactions, and Director Independence and Other Corporate Governance Matters — The proposed rules would require disclosure of an entity's policies and procedures for approving related party transactions and change the threshold for disclosing related party transactions from \$60,000 to \$120,000. Additionally, with respect to director independence, the proposed rules include Item 407, requiring (1) the disclosure of director and director nominee independence, (2) a description of relationships that were considered in determining director independence, and (3) disclosure around any audit, nominating, or compensation committee members that are not independent.

Security Ownership of Officers and Directors — Disclosure of the number of shares pledged by management would be required.

Form 8-K — The proposed rules would require Form 8-K disclosures to capture certain employment arrangements and amendments for named executives. Additionally, disclosures regarding employment arrangements would be consolidated under a single item.

Comments on the proposed rules are due to the Commission on or before April 10, 2006. For more information, a [press release](#) discussing the [proposed rules](#) can be found on the SEC's Web site.

SEC Offers Incentives for Companies to File Financial Data in XBRL

The SEC announced that it will offer **expedited reviews** of registration statements and annual reports to companies that volunteer for a test group as part of the Commission's interactive data initiative. Companies that volunteer to participate will furnish financial data contained in their periodic and investment company reports utilizing eXtensible Business Reporting Language (XBRL), a computer language that makes financial data interactive. Volunteers will participate for at least one year and provide feedback to the SEC on their experiences, including the costs and benefits associated with the additional reporting.

In return, volunteers that have been selected for review by the SEC will receive an expedited review. For well-known seasoned issuers, the Division of Corporation Finance staff will inform volunteers within 30 days after the filing of their Form 10-K if they have been selected for review, and then provide comments within 45 to 60 days of the filing. More information on the [volunteer program](#) can be accessed on the SEC's Web site.

Other Developments

U.S. Chamber of Commerce Issues Report on Strengthening the Audit Profession

The U.S. Chamber of Commerce issued a report entitled, "Auditing: A Profession at Risk," calling for action to enhance the value of audits and ensure the long-term viability of the auditing profession. The report calls for the following **three-part action plan** involving coordinated support among policy makers, Wall Street, the auditing profession, and the broader business community:

- Help the profession become insurable,
- Clarify PCAOB standards, and
- Support expansion of and competition among the Big Four firms.

Help Profession Become Insurable — The Chamber points out that audit firms today are facing increasing legal risks that can be so uncertain, and their implications so dire, that the profession effectively becomes uninsurable. This calls into question the stability and survival of audit firms, which may ultimately lead to clients and experienced audit partners leaving the audit firms.

The Chamber calls for four initiatives that, short of comprehensive tort reform, could have a significant positive impact on the auditing environment. These initiatives include:

- *Better define an auditor's procedures for fraud detection and the limits of an auditor's responsibility* — The Chamber recommends that the PCAOB issue a standard for fraud detection that clearly defines the nature and extent of procedures that an audit firm must perform to detect fraud.
- *Create an alternative dispute resolution (ADR) system for disputes about audits* — The Chamber suggests that the audit profession, the PCAOB, and Congress establish a civil structure (e.g., mandatory expert arbitration) where disputes over accounting issues are decided by experts with a deep understanding of the issues.
- *Permit parties to agree to ADR and reasonable limits on litigation.*
- *Regulate threats of indictment against firms* — The Chamber asks Congress to establish clear rules under which entities may be criminally indicted, according to clear processes for having such indictments carefully evaluated.

Clarify PCAOB Standards — The Chamber states that PCAOB Auditing Standard 2¹² is largely a principles-based document that provides room for a significant amount of auditor judgment when performing an audit of internal controls over financial reporting; however, the lack of specific guidance lends itself to significant second guessing by the PCAOB inspection staff and others. The Chamber asks the PCAOB to provide more specific guidance to define when “enough work” has been done by an auditor in certain key areas (e.g., IT systems). In cases where “enough work” cannot be defined, the PCAOB’s inspection process should be used as a means to educate and reveal reasonable limits, rather than second guess auditor professional judgment.

Support Expansion and Competition Among Big Four — In an effort to provide companies a choice in auditors and to increase competition among the top-tier firms, the Chamber suggests that the SEC reconsider the regulations that prohibit audit firms from performing audits for companies for which they have previously performed a disqualifying service within the past five years. The Chamber proposes that the SEC modify the existing rule to reduce the waiting period from five years to one year. Finally, the Chamber calls upon the SEC, the PCAOB, the New York Stock Exchange, the National Association of Securities Dealers Automated Quotations, and the FASB to make long-term expansion of the Big Four a high policy priority.

A copy of the Chamber’s [report](#) can be found on the Chamber’s Web site, www.uschamber.com.

International Developments

IASB Publishes Convergence Proposals on Segment Reporting

The IASB has published for public comment ED 8, *Operating Segments*. ED 8 would require certain disclosures to be made related to a public company’s operating segments based on a “**management approach**.” This approach looks to the information that management uses internally for evaluating the performance of the segments and determining how to allocate resources to the segments. ED 8 would also require explanations of the basis on which segment information is prepared, and reconciliations to the amounts recorded in the financial statements. The Exposure Draft’s comment period will end on May 19, 2006. A [press release](#) announcing the release of the Exposure Draft can be found on the IASB’s Web site.

IFRIC Issues Interpretation on Share-Based Payment

IFRIC Interpretation 8, *Scope of IFRS 2*, clarifies that the accounting standard IFRS 2, *Share-based Payment*, applies to arrangements where an entity makes share-based payments to employees and nonemployees for consideration that is **less than the fair value** of the equity instrument granted or liability incurred.

IFRIC 8 clarifies that this situation indicates that additional consideration has been or will be received. The identifiable consideration should be measured in accordance with IFRS 2 and the unidentifiable (i.e., additional) consideration should be measured as the difference between the fair value of the share-based payment and the fair value of the identifiable consideration received.

IFRIC 8 should be applied retrospectively in accordance with the requirements of IAS 8,¹³ subject to the transitional provisions of IFRS 2, and is effective for annual periods beginning on or after May 1, 2006. Earlier application is encouraged. A [press release](#)

¹² PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

¹³ IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

announcing the issuance of the Interpretation may be found on the IASB's Web site, and a summary of the Interpretation is included in a January 2006 [IAS Plus](#) issue on Deloitte's IAS Plus Web site.

IFRIC Proposes Guidance on Interim Financial Reporting and Impairment

The IFRIC has released, for public comment, IFRIC Draft Interpretation D18, *Interim Financial Reporting and Impairment*. The proposed Interpretation clarifies that an entity **cannot reverse an impairment loss** that has been recognized in a previous interim reporting period as it relates to goodwill, an investment in an equity instrument, or a financial asset carried at cost. Comments are due March 31, 2006. For more information, a [press release](#) and the [Draft Interpretation](#) can be located on the IASB's Web site.

Appendix A: Recent Meetings

Recent FASB Meetings

Leveraged Leases (January 18)

The Board discussed issues raised in comment letters received on proposed FSP FAS 13-a, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction." The Board reached the following decisions:

- An entity's accounting policy for the recognition of tax benefits in a leveraged lease should be consistent with its accounting policy for recognition of tax benefits under the FASB's current project on uncertain tax positions.
- An entity should not reclassify a lease that does not qualify for leveraged lease accounting based on the most recent calculation.
- All assumptions should be updated based on the most current information when performing a recalculation of a leveraged lease transaction.
- Interest and penalties should not be included in the recalculation of a leveraged lease transaction.

Postretirement Benefit Obligations Including Pensions (January 18)

The Board decided that certain disclosure requirements of Statement 132(R)¹⁴ would be revised as follows:

- The reconciliation of the overfunded or underfunded status to amounts recognized in the financial statements will be eliminated.
- The disclosure of information about a recognized additional minimum liability will be replaced with the requirement to disclose the nature and amount of changes in plan assets and benefit obligations recognized in net income and in other comprehensive income (OCI) each period.
- Disclosure of the accumulated amount of changes in plan assets and benefit obligations that have been recognized in OCI and will be recycled into net income in future periods will be required.
- Existing examples will be amended to clarify and illustrate the existing requirement to disclose the current and noncurrent portions of postretirement plan assets and liabilities.
- Disclosure of the measurement date used will be eliminated when the measurement date change is effective.
- Disclosure of the estimated net actuarial gains and losses and prior service costs that will be amortized from accumulated comprehensive income into net income over the next fiscal year will be required.

The Board also decided the following:

- FASB Statements 87 and 106¹⁵ will be amended to incorporate existing guidance from other literature on the selection of the discount rate.
- Except as noted below, the proposed changes will be effective for fiscal years ending after December 15, 2006. Retrospective application will be required for all prior periods presented unless it is not practicable to estimate the amount of a deferred tax valuation allowance that would be required in those periods. Examples of initial application are to be provided in the Exposure Draft.
- An entity that currently measures its plan assets and obligations as of a date earlier than its financial statements will be required to change the measurement date to its fiscal-year-end date in years beginning after December 15, 2006. That entity will be required to adjust its opening balance of retained earnings for changes in plan assets and benefit obligations and changes that would be recognized in OCI between the previous measurement date and the beginning of 2007.

¹⁴ FASB Statement No. 132(R), *Employers' Disclosures About Pensions and Other Postretirement Benefits*.

¹⁵ FASB Statement No. 87, *Employers' Accounting for Pensions*, and FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

- Curtailments and settlement gains and losses will be recognized as a component of net benefit cost in the period in which they occur.
- The Exposure Draft is expected to be issued in March 2006 and will have a comment period of 60 days.

Uncertain Tax Positions (January 11)

The Board reached the following decisions:

Subsequent Recognition and Measurement — The best estimate of recognized tax benefit at a particular reporting date should be based on the information that is available at that reporting date, regardless of whether the tax position's outcome is absolute or final. Subsequent recognition, derecognition, and measurement should only be made based on new information rather than gradual shifts in judgment.

Change in Judgment — Unless other GAAP applies, the guidance in Opinion 28¹⁶ and Interpretation 18¹⁷ apply in accounting for changes in judgments about the recognition and measurement of tax benefits during interim periods.

Interest and Penalties — Liabilities for interest and penalties should be recognized when incurred based on the provisions of the tax law (i.e., in the period that the taxing authority would begin assessing the interest and/or penalties). Any amounts recorded for interest expense should not consider examination risk and should be based on the difference between the amount recognized in the financial statements and the benefit recognized in the tax return. The final Interpretation should not provide guidance on the classification of interest or penalties in the financial statements, but will require that companies establish a policy for classification of such amounts and disclose that policy in their summary of significant accounting policies. Additionally, companies must disclose the amounts of interest and penalties recognized in the financial statements.

Classification — Liabilities recognized should be classified as current only if they are expected to be settled within the next 12 months, or within the company's operating cycle if longer.

Transition and Effective Date — The change in net assets as a result of applying the provisions of the final Interpretation should be considered a change in accounting principle with a cumulative effect of the change recorded to beginning retained earnings in the period of transition. The final Interpretation will be effective as of the first annual period beginning after December 15, 2006.

FASB Project Summaries and Meeting Minutes

[Project summaries](#), [handouts](#) distributed at each meeting, [FASB meeting minutes](#), and [summaries](#) of FASB meetings and recent actions are available on the FASB's Web site.

Recent AcSEC Meeting

At its January 10, 2006, meeting, AcSEC discussed the following projects:

- Revisions to the AICPA Audit and Accounting Guide, *Audits of Airlines*.
- The application of FASB Interpretation No. 45,¹⁸ as it pertains to the audit and accounting guide for casinos.¹⁹
- Proposed SOP, *Clarification of the Scope of the Audit and Accounting Guide Audits of Investment Companies and Accounting by Parent Company and Equity Method Investors for Investments in Investment Companies*.

[Summaries](#) of the AcSEC meeting decisions and discussions are available on the AICPA's Web site.

¹⁶ APB Opinion No. 28, *Interim Financial Reporting*.

¹⁷ FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*.

¹⁸ FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

¹⁹ AICPA Audit and Accounting Guide, *Casinos*.

Recent IASB Meeting

The International Accounting Standards Board met January 24–25, 2006, in London and discussed:

- Business Combinations II
- Update on the Financial Instruments Working Group and Insurance Working Group meetings
- Short-term Convergence: Borrowing Costs — transition
- Performance Reporting — segment A “sweep issues”
- Accounting Standards for Small and Medium-sized Entities
- Earnings per Share — treasury stock method
- Update on IFRIC Activities

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

Recent IFRIC Meeting

The International Financial Reporting Interpretations Committee met in London on January 12–13, 2006, when it discussed the following topics:

- D15, Reassessment of Embedded Derivatives — proposal for final Interpretation
- Service concessions
- Customer loyalty programs
- Clarification of the scope of IFRS 6, *Exploration for and Evaluation of Mineral Resources*, related to exploration and evaluation activities
- Clarification of IAS 27, *Consolidated and Separate Financial Statements*
- Proposals for the IFRIC Handbook
- Hedging inflation risk

[Summaries](#) of the IFRIC meeting decisions and discussions are available on the IASB's Web site.

Appendix B: 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, <i>Accounting Changes and Error Corrections</i> — a replacement of APB Opinion No. 20 and Statement No. 3	Effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.
Statement 153, <i>Exchanges of Nonmonetary Assets</i> — an amendment of APB Opinion No. 29	Effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.
Statement 152, <i>Accounting for Real Estate Time-Sharing Transactions</i> — an amendment of FASB Statements No. 66 and 67	Effective for fiscal years beginning after June 15, 2005.
Statement 151, <i>Inventory Costs</i> — an amendment of ARB No. 43, Chapter 4	Effective for inventory costs incurred during fiscal years beginning after June 15, 2005.
Statement 123(R), <i>Share-Based Payment</i> (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, <i>Accounting for Conditional Asset Retirement Obligations</i> — 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 123(R)-d, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event"	Comments due January 31, 2006.
Proposed FSP FAS 142-d, "Amortization and Impairment of Acquired Renewable Intangible Assets"	Comments due March 27, 2006.

Proposed FASB Statement, <i>The Fair Value Option for Financial Assets and Financial Liabilities</i> — including an amendment of FASB Statement No. 115	Comments due April 10, 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, <i>Accounting for Termination Benefits</i>	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, <i>Net Assets Restricted by Enabling Legislation</i> — an amendment of GASB Statement No. 34	Effective for fiscal periods beginning after June 15, 2005.
GASB Statement No. 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i>	Effective in three phases based on a government's total annual revenues.
GASB Statement No. 44, <i>Economic Condition Reporting: The Statistical Section</i> — an amendment of NCGA Statement 1	Effective for statistical sections prepared for periods beginning after June 15, 2005.
GASB Statement No. 43, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	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, <i>Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers</i>	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.
Project in Exposure Draft Stage	
Proposed GASB Statement, <i>Accounting and Financial Reporting for Pollution Remediation Obligations</i> .	Comments due May 1, 2006.
AICPA/AcSEC	Status
Significant Adoption Dates	
SOP 05-1, <i>Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts</i>	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, <i>Accounting for Real Estate Time-Sharing Transactions</i>	Effective for fiscal years beginning after June 15, 2005.
SAS 102, <i>Defining Professional Requirements in Statements on Auditing Standards</i> , and SSAE No. 13, <i>Defining Professional Requirements in Statements on Standards for Attestation Engagements</i>	Effective December 2005.
SAS 103, <i>Audit Documentation</i>	Effective for periods ending on or after December 15, 2006.
Project in Request for Comment Stage	
Proposed AICPA Statement on Standards for Attestation Engagements, <i>Reporting on an Entity's Internal Control Over Financial Reporting</i>	Comments due May 19, 2006.
Accounting and Review Services Committee Survey, "Need for Independence in Compilation Engagements"	Survey due May 19, 2006.
SEC	Status
Significant Adoption Dates	
Final Rule, <i>Postponement of the Phase-in Period for Acceleration of Periodic Report Filing Dates for Large Accelerated Filers and Accelerated Filers</i>	Effective December 27, 2005.
Final Rule, <i>Securities Offering Reform</i>	Effective December 1, 2005.
Final Rule, <i>Use of Form S-8, Form 8-K, and Form 20-F by Shell Companies</i>	Effective August 22, 2005, except that Form 8-K, Item 5.06 is effective November 7, 2005.
Final Rule, <i>First-Time Application of International Financial Reporting Standards</i> (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, <i>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</i>	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, <i>Asset-Backed Securities</i>	Effective as of March 8, 2005.
Final Rule, <i>Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports</i> (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), <i>Share-Based Payment</i> , and certain SEC rules and regulations)	Effective upon the adoption of Statement 123(R).
Projects in Request for Comment Stage	
Proposed Rule, <i>Internet Availability of Proxy Materials</i>	Comments due February 13, 2006.
Proposed Rule, <i>Amendments to the Tender Offer Best-Price Rule</i>	Comments due February 21, 2006.
Proposed Rule, <i>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</i>	Comments due February 28, 2006.
Proposed Rule, <i>Executive Compensation and Related Party Disclosure</i>	Comments due April 10, 2006.
PCAOB	Status
Significant Adoption Dates	
Auditing Standard No. 4, <i>Reporting on Whether a Previously Reported Material Weakness Continues to Exist</i>	Effective upon approval by the SEC.
Auditing Standard No. 2, <i>An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements</i>	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.
<i>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"</i>	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, <i>Definitions of Terms Employed in Section 3, Part 5 of the Rules</i> ; Rule 3502, <i>Responsibility Not to Knowingly or Recklessly Contribute to Violations</i> ; Rule 3520, <i>Auditor Independence</i>	Effective 10 days after approval by the SEC.
Rule 3521, <i>Contingent Fees</i>	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, <i>Tax Transactions</i>	Effective for tax services completed later than 60 days after approval by the SEC.

Rule 3523, <i>Tax Services for Persons in Financial Reporting Oversight Roles</i>	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, <i>Audit Committee Pre-approval of Certain Tax Services</i>	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, <i>Financial Instruments: Disclosures</i>	Effective for annual periods beginning on or after January 1, 2007.
IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i> , and IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>	Effective June 30, 2005.
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement</i> , and IFRS 4, <i>Insurance Contracts</i>	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement — The Fair Value Option</i>	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement — Cash Flow Hedge Accounting of Forecast Intragroup Transactions</i>	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 21, <i>The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation</i>	Effective for annual periods ending on or after January 1, 2006.
Amendment to IAS 19, <i>Employee Benefits</i>	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 1, <i>Presentation of Financial Statements — Capital Disclosures</i>	Effective for annual periods beginning on or after January 1, 2007.
IFRIC Interpretation 8, <i>Scope of IFRS 2</i>	Effective for annual periods beginning on or after May 1, 2006.
IFRIC Interpretation 7, <i>Applying the Restatement Approach Under IAS 29, Financial Reporting in Hyperinflationary Economies</i>	Effective for annual periods beginning on or after March 1, 2006.
IFRIC Interpretation 6, <i>Liabilities Arising From Participating in a Specific Market — Waste Electrical and Electronic Equipment</i>	Effective for annual periods beginning on or after December 1, 2005.
IFRIC Interpretation 5, <i>Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	Effective for annual periods beginning on or after January 1, 2006.
IFRIC Interpretation 4, <i>Determining Whether an Arrangement Contains a Lease</i>	Effective for annual periods beginning on or after January 1, 2006.
Projects in Exposure Draft Stage	
IFRIC Draft Interpretation, D18, <i>Interim Financial Reporting and Impairment</i>	Comments due March 31, 2006.
Discussion Paper, <i>Management Commentary</i>	Comments due April 28, 2006.
Discussion Paper, <i>Measurement Bases for Financial Accounting — Measurement on Initial Recognition</i>	Comments due May 19, 2006.
ED 8, <i>Operating Segments</i>	Comments due May 19, 2006.

Appendix C: Roundup Flash

Roundup Flash briefly summarizes the decisions and news covered this month, and highlights the entities affected and next steps. To jump to the corresponding article in this issue, click a title below.

FASB Developments

Proposed Statement on a Fair Value Option for Financial Assets and Liabilities

- AFFECTS:** Companies that hold financial assets and financial liabilities.
- SUMMARY:** The proposed Statement would create a fair value option under which an entity may irrevocably elect to report certain financial assets and liabilities at fair value at initial recognition. Subsequent changes in fair value would be recognized in earnings in the period they occur.
- NEXT STEPS:** Comment period ends April 10, 2006. The FASB estimates issuance of the final Standard in the third quarter of 2006.

Proposed FSP FAS 123(R)-d Addresses Classification of Options and Similar Instruments Issued as Employee Compensation

- AFFECTS:** Companies that issue options or similar instruments.
- SUMMARY:** The proposed FSP would require liability classification (and thus mark-to-market accounting) for options and similar instruments only when a contingent event that is outside the employee's control, and would require cash settlement, is **probable** of occurring. The final FSP was posted to the FASB's Web site on February 3, 2006.
- NEXT STEPS:** When finalized, the proposed FSP would be applied upon initial adoption of Statement 123(R). If an entity has adopted or will adopt Statement 123(R) prior to the issuance of the FSP, the FSP should be applied to the first reporting period beginning after the date the final FSP is posted to the FASB's Web site.

EITF Developments

EITF and FASB Boards Approve Editorial Change to EITF Issue No. 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry"

- AFFECTS:** Companies in the mining industry that account for stripping costs.
- SUMMARY:** The EITF and FASB Boards finalized an editorial change to clarify the definition of the "production phase" of a mine as contained in paragraph 4 of Issue 04-6.
- NEXT STEPS:** The editorial change is effective immediately.

GASB Developments

Proposed Statement on Pollution Remediation Obligations

- AFFECTS:** State and local governments.
- SUMMARY:** The proposed Statement²⁰ would require entities to record estimated costs related to remediation of existing pollution as a liability when any one of five specified obligating events occur.
- NEXT STEPS:** Comment period ends May 1, 2006. The GASB estimates issuance of the final Standard in the fourth quarter of 2006.

AICPA Developments

TPAs on Nonregistered Investment Partnerships

- AFFECTS:** Nonregistered Investment Partnerships.
- SUMMARY:** The AICPA recently issued a series of TPAs²¹ related to disclosure and presentation of investments held by Nonregistered Investment Partnerships.

Proposed SSAE on Reporting on an Entity's Internal Control Over Financial Reporting

- AFFECTS:** Auditors of nonpublic companies.
- SUMMARY:** The ASB issued a revised proposed SSAE²² that is appropriate for examinations of internal controls of nonissuers and reflects guidance from (1) the PCAOB's Auditing Standard 2²³ and (2) the PCAOB's "Staff Questions and Answers" related to Auditing Standard 2.
- NEXT STEPS:** Comment period ends May 19, 2006.

SEC Developments

SEC Proposes Changes to Disclosure Requirements Concerning Executive Compensation and Related Matters

- AFFECTS:** Public companies.
- SUMMARY:** The proposed rules would require more detailed disclosure of executive and director compensation, related party transactions, director independence and other corporate governance matters, and security ownership of officers and directors.
- NEXT STEPS:** Comment period ends April 10, 2006.

²⁰ Proposed GASB Statement, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

²¹ AICPA Technical Practice Aids, TIS Sections 6910.16–6910.20.

²² Proposed AICPA Statement on Standards for Attestation Engagements, *Reporting on an Entity's Internal Control Over Financial Reporting*.

²³ PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

SEC Offers Incentives for Companies to File Financial Data in XBRL

- AFFECTS:** Public companies.
- SUMMARY:** The SEC is offering expedited reviews of registration statements and annual reports to companies that volunteer for a test group as part of the Commission's interactive data initiative.

Other Developments

U.S. Chamber of Commerce Issues Report on Strengthening the Audit Profession

- AFFECTS:** Policy makers, Wall Street, accounting firms, and the broader business community.
- SUMMARY:** The report calls for the following three-part action plan involving coordinated support among the auditing professions' stakeholders:
- Help the profession become insurable,
 - Clarify PCAOB standards, and
 - Support expansion of and competition among the Big Four firms.

International Developments

IASB Publishes Convergence Proposals on Segment Reporting

- AFFECTS:** Public companies that apply IFRS.
- SUMMARY:** The IASB has issued for public comment ED 8, *Operating Segments*, which would require certain disclosures to be made related to a company's operating segments based on a "management approach."
- NEXT STEPS:** Comment period ends May 19, 2006.

IFRIC Issues Interpretation on Share-Based Payment

- AFFECTS:** Companies that issue share-based payments and apply IFRS.
- SUMMARY:** IFRIC Interpretation 8, *Scope of IFRS 2*, clarifies that the accounting standard IFRS 2, *Share-based Payment*, applies to arrangements where an entity makes share-based payments to employees and nonemployees for consideration that is less than the fair value of the equity instrument granted or liability incurred.
- NEXT STEPS:** Effective for annual periods beginning on or after May 1, 2006.

IFRIC Proposes Guidance on Interim Financial Reporting and Impairment

- AFFECTS:** Companies that prepare interim financial statements under IFRS.
- SUMMARY:** IFRIC Draft Interpretation D18, *Interim Financial Reporting and Impairment*, clarifies that an entity cannot reverse an impairment loss that has been recognized in a previous interim reporting period as it relates to goodwill, an investment in an equity instrument, or a financial asset carried at cost.
- NEXT STEPS:** Comment period ends March 31, 2006.

Appendix D: Abbreviations

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

Conclusions of the FASB, GASB, IASB, and IFRIC are subject to change at future meetings and generally do not affect current accounting requirements until an official position (e.g., Statement, Interpretation, Staff Position, or IFRS) is issued. Official positions are determined only after extensive deliberation and due process, including a formal vote.

Further information about the standard setters can be found on their respective Web sites as follows: www.fasb.org (FASB); www.fasb.org/eitf/agenda.shtml (EITF); www.gasb.org (GASB); www.aicpa.org (AICPA); www.sec.gov (SEC); and www.iasb.org or www.iasplus.com/index.htm (IASB and IFRIC).

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On March 21 at 2:00 PM EST, we will host a 90-minute webcast, "EITF Roundup: Highlights of the March Meeting." [Register](#) for this webcast today.

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