

Accounting Roundup

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FASB Developments

Proposed FSP on Modifications or Exchanges of Share-Based Payment Awards in Connection With an Equity Restructuring or a Business Combination

The FASB issued FSP FAS 123(R)-1¹ in August of 2005. It requires entities to apply the recognition and measurement provisions of Statement 123(R)² throughout the life of an instrument unless its terms are modified when the holder is no longer an employee. In that case the recognition and measurement of the instrument should be determined by other applicable GAAP. When an instrument becomes subject to other GAAP, the issuer may be required to reclassify an equity instrument as a liability (or vice versa). This newly [proposed FSP](#)³ states that instruments that were originally issued as employee compensation and then are exchanged or whose terms are changed⁴ (when the holders are no longer employees) to reflect an equity restructuring or a business combination **will not become subject to other applicable GAAP** for purposes of applying FSP FAS 123(R)-1, provided that:

- There is no increase in value to the holders of the instrument, and
- All holders of the same class of equity instruments are treated in a similar manner.

Therefore, share-based payment awards that meet the above criteria will continue to be subject to the recognition and measurement provisions of Statement 123(R). The provisions of the FSP would be applied in the first reporting period beginning after the date the FSP is posted to the FASB's Web site. If an entity did not initially apply Statement 123(R) in a manner consistent with the provisions of the FSP, that entity would be required to retrospectively apply the FSP to prior periods when those periods' financial statements are included with current period financial statements.

¹ FASB Staff Position No. FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services Under FASB Statement No. 123(R)."

² FASB Statement No. 123(R), *Share-Based Payment*.

³ Proposed FASB Staff Position No. FAS 123(R)-e, "Amendment of FASB Staff Position FAS 123(R)-1."

⁴ This includes modifications to add an antidilution provision when the modification is not made in contemplation of an equity restructuring or a business combination.

Proposed FSP on the Definition of a Public Entity

The [proposed FSP](#)⁵ clarifies that the definition of a public entity also includes an entity that is an **obligor for a conduit municipal bond** when the associated debt securities are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, which includes local or regional markets). A conduit municipal bond is issued by a governmental entity; however, a separate entity receives the proceeds and is the debt's obligor (the conduit bond obligor). Conduit bond obligors are typically limited by the federal tax code to (1) certain not-for-profit entities and (2) for-profit entities for whom the debt is issued in the form of an industrial revenue or developmental bond issued for a specific purpose allowed by the Internal Revenue Code. The proposed FSP's definition of a public entity will amend and conform certain accounting literature in which a "public entity" is defined.

Example

Small Town USA is the issuer of a \$12 million development bond to fund Hospital Inc.'s construction of Small Town USA Memorial Hospital. These bonds are traded on a public exchange. Typically, Small Town USA would not be required to include any of its own financial operating results in the initial bond offering or in future filings. Hospital Inc. is required to make all interest and principal payments as they become due, and any future financial reporting requirements are the responsibility of Hospital Inc. Hospital Inc. is the conduit bond obligor and would be considered a public entity under the proposed FSP.

The FSP would be effective for annual periods beginning after the date the final FSP is posted to the FASB's Web site. Entities would recognize the effects of applying the FSP through retrospective application, unless it is impractical to do so. Comments on the proposed FSP are due July 31, 2006.

Proposal to Enhance Standard Setting for Private Companies

The FASB and AICPA have issued a joint proposal to **enhance the standard-setting process for private company financial reporting**. Under the proposal (1) the FASB would formalize a process for determining whether differences are needed in accounting standards for private company financial reporting and (2) the FASB and AICPA would co-sponsor a committee designed to increase private company constituent input in the standard-setting process. The FASB and AICPA encourage all parties that play a role in private company financial reporting — bank lenders, sureties/bonding companies, investors, owners and preparers, and practitioners — to review the proposal and comment on it. A [press release](#) announcing the joint proposal can be found on the FASB's Web site. Additionally, a copy of the [Invitation to Comment](#),⁶ as well as other background information about this effort, is available on the [project Web site](#). Comments are due August 15, 2006.

EITF Developments

EITF Meeting

The EITF met on June 15, 2006, and discussed the topics below:

Issues on which final consensus was reached:

- Issue No. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible Upon the Issuer's Exercise of a Call Option."
- Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43."
- Issue No. 06-3, "How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)."

The FASB ratified the above issues at its June 28, 2006, meeting.

⁵ Proposed FASB Staff Position No. FAS 126-a, "Revision to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities."

⁶ Invitation to Comment, *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies* — a Joint Proposal by the Financial Accounting Standards Board and American Institute of Certified Public Accountants.

Issues on which tentative conclusions were reached:

- [Issue 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service From the Service Provider."](#)
- [Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements."](#)
- [Issue 06-5, "Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance With FASB Technical Bulletin No. 85-4."](#)

The above issues will be exposed for a 30-day comment period ending August 4, 2006, before being finalized by the EITF and ratified by the FASB. Click an issue to go the draft abstract that has been posted for comment.

Issue to be further discussed at future meetings:

- Issue 06-6, "Application of EITF Issue 05-7, 'Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues.'"

Further discussion on all the above items can be found in Deloitte & Touche's June 2006 [EITF Roundup Minutes](#) are available on the FASB's Web site.

GASB Developments

Final Technical Bulletin Clarifies Reporting of Medicare Part D Payments

The [Technical Bulletin](#)⁷ provides guidance to government employers and plans on how existing standards should be applied to account for retiree drug subsidy payments associated with Medicare Part D. Specifically, it clarifies:

- How an employer should account for and report Medicare Part D retiree drug subsidy payments from the federal government to the employer,
- How such payments to an employer affect the accounting for the transactions and financial reporting by a defined benefit OPEB plan,
- How an employer should account for and report such payments to the plan, and
- How a defined benefit OPEB plan should account for and report such payments to the plan.

The Technical Bulletin is effective for financial statements issued after June 30, 2006, except for portions of answers pertaining specifically to measurement, recognition, or required supplementary information requirements of Statements 43⁸ and 45.⁹ Those provisions would be applied upon the adoption of Statements 43 and 45. A [press release](#) announcing the final Technical Bulletin can be found on the GASB's Web site.

AICPA Developments

TPA on Consolidated Financial Statements

The AICPA recently issued a [TPA](#)¹⁰ addressing parent company financial statements. The TPA states that if consolidated financial statements are required under generally accepted accounting principles then there are no circumstances in which an entity may prepare parent-company-only financial statements in place of consolidated financial statements and still be in compliance with GAAP.

⁷ GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments From the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*.

⁸ GASB Statement No. 43, *Financial Reporting for Postretirement Benefit Plans Other Than Pension Plans*.

⁹ GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

¹⁰ AICPA Technical Practice Aids, TIS Section 1400.32, "Parent-Only Financial Statements and Relationship to GAAP."

Deferral of Guidance on Reporting on a Nonissuer's Internal Control Over Financial Reporting

On January 19, 2006, the ASB issued a revised proposed SSAE, *Reporting on an Entity's Internal Control Over Financial Reporting*, that would be appropriate for examinations of internal control over financial reporting of **nonissuers**. At its June 20–22, 2006, meeting, the ASB decided to defer the issuance of the revised proposed SSAE, pending the PCAOB's amendments to Auditing Standard 2. See [Highlights of the PCAOB's June 2006 Standing Advisory Group Meeting](#) for additional information. However, in the meantime, the ASB will incorporate the definitions of "material weakness," "significant deficiency," and "control deficiency" into the current standard over reporting on a nonissuer's internal control over financial reporting (SSAE 10¹¹). These conforming amendments will be made to achieve consistency with the recently issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. See [May 2006 Accounting Roundup](#) for additional information.

SEC Developments

SEC Adopts Final Rules on Funds That Invest in Funds

The SEC has adopted three new rules under the Investment Company Act of 1940 ("Investment Company Act") that address the ability of an investment company ("fund") to purchase shares of another fund. Currently, the Investment Company Act limits the ability of funds to invest in other funds, subject to certain exceptions. The [final rules](#)¹²:

- Allow funds to enter into "cash sweep arrangements" under which a fund may invest its available cash in a money market fund,
- Offer greater flexibility to a fund that invests primarily in funds of the same fund group, and
- Offer greater flexibility to a fund that invests small amounts in many unaffiliated funds to structure the sales load it charges (but does not increase the overall amount charged).

Additionally, the SEC has adopted amendments to investment company forms¹³ that require a "fund of funds" to disclose in its fee table the expenses charged by the purchased funds in aggregate. The final rules are effective July 31, 2006. All new registration statements filed on the investment company forms, and all post-effective amendments that are annual updates to effective registration statements on the investment company forms filed on or after January 2, 2007, must include the disclosure required by the form amendments.

SEC Seeks Comments on Investment Company Governance

The SEC is seeking comments to its [proposed rules](#)¹⁴ first released on January 15, 2004, related to investment companies ("funds") that rely on certain exemptive rules. The proposed rules would require fund boards to be (1) composed of at least 75 percent independent directors and (2) chaired by an independent director. Comments on the proposed rules are due August 21, 2006.

PCAOB Developments

PCAOB Issues Q&As on Adjustments to Prior-Period Financials Audited by a Predecessor Auditor

Circumstances may arise that require an entity to make adjustments to prior-period financial statements, including, for example, the reporting of discontinued operations and the retrospective application of a change in accounting principle, or the correction of an error in prior-period financial statements pursuant to FASB Statement

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

¹² SEC Final Rule, *Fund of Funds Investments*. The final rules include Rule 12d-1-1, 12d-2, and 12d-3.

¹³ Amendments are made to Forms N-1A, N-2, N-3, N-4, and N-6.

¹⁴ SEC Proposed Rule, *Investment Company Governance*.

No. 154, *Accounting Changes and Error Corrections*. The PCAOB has published [staff questions and answers](#)¹⁵ relating to the **auditing and reporting considerations of adjustments to prior-period financial statements** when the prior periods have been audited by a predecessor auditor. The staff questions and answers address situations from both the successor and predecessor auditors' perspectives.

Highlights of the PCAOB's June 2006 Standing Advisory Group Meeting

The PCAOB's Standing Advisory Group met in Washington, D.C., on June 12 and 13, 2006, and discussed the PCAOB's activities regarding Section 404 of the Sarbanes-Oxley Act of 2002 and PCAOB Auditing Standard 2¹⁶ (AS 2). The PCAOB announced that it is considering amending AS 2 to:

- Incorporate the [May 16, 2005, guidance issued by the PCAOB](#) to ensure that the auditor's primary focus is on areas that pose higher risk of fraud or material error;
- Clarify the auditor's role, if any, with respect to the evaluation process a company uses to reach its own conclusions about the effectiveness of company controls;
- Clarify the definitions of significant deficiency and material weakness in internal control;
- Reconsider the "strong indicators of material weakness" to allow for more judgment in determining whether a deficiency exists;
- Guide auditors to increase their use of the work of others where appropriate;
- Clarify materiality and scoping decisions;
- Emphasize the integration of the audit of internal control with the audit of the financial statements; and
- Allow for and promote the auditor's use of experience gained in previous years' audits to focus the work in subsequent years and improve efficiency.

Other highlights of the meeting included discussions on (1) the implementation of Section 404 and AS 2 as they relate to company-level controls and the auditor's involvement in management's assessment, (2) research related to auditing fair value and auditors' risk assessments, (3) implications of internal control over financial reporting, and (4) stock option backdating. More information on the meeting can be found in [CPCAF Alert #107](#),¹⁷ located on the AICPA's Web site.

SEC Announces Appointment of New PCAOB Chairman

Federal Reserve Board Governor Mark W. Olson has been appointed as the Chairman of the PCAOB. He succeeds William McDonough, who resigned as PCAOB Chairman in November 2005, and current acting PCAOB Chairman Bill Gradison. Mr. Gradison will remain as a member of the Board.

Mr. Olson has served as a Governor of the Federal Reserve Board since 2001. He has also served on the Federal Reserve Board Committee on Supervisory and Regulatory Affairs, served as Chairman of the Committee on Consumer and Community Affairs, and served as a Staff Director of the U.S. Senate Securities Subcommittee of the Banking, Housing, and Urban Affairs Committee. Mr. Olson is also a former partner at Ernst & Young LLP and former President and CEO of Security State Bank. Mr. Olson's term as PCAOB Chairman will end in 2010. A [press release](#) announcing the appointment can be found on the SEC's Web site.

Other Developments

New Texas Margin Tax Affects Tax Accounting as of May Enactment Date

On May 18, 2006, the State of Texas enacted [House Bill 3](#) ("the Bill"), which replaces the State's current franchise tax with a "margin tax." The margin tax is assessed at 1 percent of Texas-sourced taxable margin (except for retailers and wholesalers, which will be assessed at .5 percent). The taxable margin is computed as the lesser of

¹⁵ PCAOB Staff Questions and Answers, *Adjustments to Prior-Period Financial Statements Audited by a Predecessor Auditor*.

¹⁶ PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

¹⁷ AICPA Center for Public Company Audit Firms Alert #107, *Highlights of the PCAOB's June 2006 Standing Advisory Group Meeting*.

(1) 70 percent of total revenue or (2) total revenue less (a) cost of goods sold or (b) compensation. Definitions and guidance on the terms “revenue,” “cost of goods sold,” and “compensation” are provided in the bill.

Although the Bill states that the new tax is not an income tax, it has characteristics of an income tax and accordingly should be accounted for as an income tax under FASB Statement No. 109, *Accounting for Income Taxes*. Based on paragraph 18 of Statement 109, a deferred tax asset or liability should be measured using the enacted tax rate(s) expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. Therefore, if an entity expects to be subject to more than one measure of taxable margin in the future, it may be required to schedule the reversal of those temporary differences to measure the related deferred tax asset or liability. The Bill also provides for a temporary margin tax credit that can be claimed against margin tax due. This credit should be recognized as a deferred tax asset (subject to realizability under Statement 109).

The margin tax is effective for returns originally due on or after January 1, 2008. However, as required by Statement 109, all effects of a tax law change should be accounted for in the period of the law's enactment (i.e., the reporting period that includes May 18, 2006). A [worksheet](#) to estimate the Texas margin tax liability can be found on the State of Texas Comptroller's Web site. Also see Deloitte Tax LLP's [External Alert](#) for further information on the Texas margin tax.

International Developments

Proposed Amendments to Financial Instruments Presentation

The IASB issued an [Exposure Draft](#)¹⁸ that proposes amendments to IAS 32, *Financial Instruments: Disclosure and Presentation* and IAS 1, *Presentation of Financial Statements*, under which **certain instruments will be classified as equity rather than as liabilities**. Specifically, the amendments would require:

- Equity classification for financial instruments puttable to the issuer at fair value, provided specified criteria are met.
- An instrument that imposes an obligation to deliver to another entity a pro rata share of the net assets of the entity upon its liquidation to be classified as equity, provided specified criteria are met.

A [press release](#) announcing the issuance of the Exposure Draft can be found on the IASB's Web site. Comments are due October 23, 2006.

¹⁸ Proposed Amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements* — *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*.

Appendix A: Recent Meetings

Recent FASB Meetings

To jump to the minutes of a FASB meeting, click a title below.

Business Combinations (May 31)

The Board discussed exceptions to the recognition and fair value measurement principles regarding assets held for sale, employee benefit obligations, and operating leases and decided the following:

- Assets held for sale should be measured at fair value, and therefore FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, should be amended to replace “fair value less cost to sell” with “fair value.”
- Statement 144 should be amended to require an acquirer to meet all of the recognition criteria at the acquisition date to classify a long-lived asset as held for sale as of that date.
- All benefit obligations should be measured based on guidance in existing standards rather than at fair value.
- An acquirer must recognize an expected withdrawal liability from a multiemployer plan if withdrawal is probable at the acquisition date.
- An acquirer must recognize the rights and obligations related to an operating lease in which the acquiree is the lessee as a net amount and not as a separate asset and liability.
- An acquirer must recognize an intangible asset or liability if the terms of an acquired operating lease are favorable or unfavorable to market terms at acquisition date.
- An acquirer must recognize other value to an operating lease, for example value arising from a related intangible asset, in the same manner as other acquired intangible assets.

Conceptual Framework (June 20)

The Board continued discussions involving the working definition of an asset, which is as follows:

An asset is a present economic resource of an entity. An asset of an entity has three essential characteristics:

1. There is an underlying economic resource.
2. The entity has rights or other privileged access to the economic resource.
3. The economic resource and the rights or other privileged access both exist at the financial statement date.

When applying this working definition, the Board concluded that an entity's own shares (unissued and treasury shares) are not assets.

Registration Rights Arrangements (June 20)

The Board added to its agenda a project to determine the accounting for registration rights arrangements (RRAs). RRAs are frequently entered into in contemplation of the issuance of equity instruments, stock purchase warrants, and financial instruments that are convertible into equity securities. Typically, the arrangement requires the issuer to use its “best efforts” to file a registration statement for the resale of the equity securities and to have the registration statement declared effective by the end of a specified grace period. If the issuer fails to have the

registration statement declared effective within the grace period, the RRA requires payment of liquidated damages each month until the registration statement is declared effective. The Board decided:

- The scope of the proposed FSP will be limited to RRAs.
- For issuers and holders, RRAs should be recognized and measured using a model consistent with the Statement 5 model for measuring and recognizing loss contingencies.
- Disclosures will be similar to those required by paragraphs 13(a)–(c) of Interpretation 45.¹⁹
- The proposed FSP will be applied using a limited retrospective approach for all existing arrangements, and will include examples of its application upon transition.

The Board instructed the staff to draft the proposed FSP with a 45-day comment period. It would be effective for the first fiscal year after issuance of the final FSP.

Transfers of Financial Assets (June 7)

The Board decided to:

- Continue deliberations on issues related to isolation and whether equity instruments may be held by a qualifying special-purpose entity (QSPE).
- Retain the guidance in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, on initial measurement and passive derivative financial instruments held by a QSPE.
- Consider at a future meeting whether it should proceed with redeliberations on rollovers of beneficial interests, participating interests, and control criteria.

Useful Life and Amortization of Intangible Assets (May 31)

The Board discontinued consideration of the issue and removed the project from its agenda.

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 June 20 and 21, 2006, meeting, the Accounting Standards Executive Committee discussed the following:

- Practice issues related to employee benefit plans.
- Revisions to AICPA Industry Audit Guide, *Audits of Airlines*.
- Revisions to AICPA Audit and Accounting Guide, *Health Care Organizations*.

The AcSEC [agenda and meeting materials](#) are available on the AICPA's Web site.

¹⁹ FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

Recent ASB Meeting

At its June 20–22, 2006, meeting, the Auditing Standards Board discussed and decided the following:

- The issuance of revised proposed SSAE, *Reporting on an Entity's Internal Control Over Financial Reporting*, will be deferred, pending the PCAOB's amendments to Auditing Standard 2.²⁰ See the related [article](#) in this issue of *Accounting Roundup*.
- The ASB voted to expose the following:
 - Proposed Statement of Quality Control Standard No. 7, *A Firm's System of Quality Control*.
 - Proposed SAS, *Omnibus 2006*. This contains various conforming changes related to the issuance of SAS 102,²¹ SAS 103,²² and SAS 104–111.²³
 - A proposed SSAE that will establish an attest hierarchy within the attest standards.

The ASB [meeting agenda and materials](#) are available on the AICPA's Web site.

Recent IASB Meeting

The International Accounting Standards Board met June 20–23, 2006, in London and discussed:

- Conceptual framework
- Fair value measurements
- Financial instruments
- Amendments to IAS 37²⁴
- Update on IFRIC activities
- Insurance
- IAS 33, *Earnings per Share* — treasury stock method
- ASB project on pensions accounting
- Accounting standards for small and medium-sized entities
- Technical Plan

[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

There was no IFRIC meeting in June 2006. The next IFRIC meeting is scheduled for July 6, 2006.

²⁰ PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

²¹ AICPA Statement on Auditing Standards No. 102, *Defining Professional Requirements in Statements on Auditing Standards*.

²² AICPA Statement on Auditing Standards No. 103, *Audit Documentation*.

²³ AICPA Statements on Auditing Standards No. 104–111, *Risk Assessment Standards*.

²⁴ IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

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 156, <i>Accounting for Servicing of Financial Assets</i> — an amendment of FASB Statement No. 140	Effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006.
Statement 155, <i>Accounting for Certain Hybrid Financial Instruments</i> — an amendment of FASB Statements No. 133 and 140	Effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006.
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 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 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)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement Upon the Occurrence of a Contingent Event"	Effective upon initial adoption of Statement 123(R). For an entity that adopted Statement 123(R) prior to February 3, 2006, this FSP is effective for the first reporting period beginning after February 3, 2006.
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 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 FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)"	Effective the first day of the first reporting period beginning after June 15, 2006.
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 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.
FSP FTB 85-4-1, "Accounting for Life Settlement Contracts by Third Party Investors"	Effective for fiscal years beginning after June 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 or Request-for-Comment Stage	
Proposed FSP AUG AIR-a, "Accounting for Planned Major Maintenance Activities"	Comments due July 31, 2006.
Proposed FSP FAS 126-a, "Revision to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities"	Comments due July 31, 2006.
Invitation to Comment, <i>Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies</i> — a Joint Proposal by the Financial Accounting Standards Board and American Institute of Certified Public Accountants	Comments due August 15, 2006.
FASB Invitation to Comment, <i>Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting</i>	Comments due August 24, 2006.

EITF	Status
Significant Adoption Dates	
Issue 06-3, "How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)"	Effective for financial statements for interim and annual periods beginning after December 15, 2006.
Issue 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43"	Effective for fiscal years beginning after December 15, 2006.
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 05-5, "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 05-1, "Accounting for the Conversion of an Instrument That Became Convertible Upon the Issuer's Exercise of a Call Option"	Effective for all conversions within the scope of the issue that result from the exercise of call options in interim or annual reporting periods beginning after June 28, 2006.
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.
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.
Tentative Conclusion in Comment-Period Stage	
Issue 06-5, Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance With FASB Technical Bulletin No. 85-4"	Comments due August 4, 2006.
Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"	Comments due August 4, 2006.
Issue 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service From the Service Provider"	Comments due August 4, 2006.

GASB	Status
Significant Adoption Dates	
GASB Statement No. 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i>	Effective for: <ul style="list-style-type: none"> Phase I governments in periods beginning after December 15, 2006. Phase 2 governments in periods beginning after December 15, 2007. Phase 3 governments in periods beginning after December 15, 2008.
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. 2006-1, <i>Accounting and Financial Reporting by Employers and OPEB Plans for Payments From the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D</i>	Effective for financial statements issued after June 30, 2006, except for portions of answers pertaining specifically to measurement, recognition, or required supplementary information requirements of Statements 43 and 45. Those provisions would be applied upon the adoption of Statements 43 and 45.
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	
<i>Preliminary Views of the Governmental Accounting Standards Board on Major Issues Related to Accounting and Financial Reporting for Derivatives</i>	Comments due July 28, 2006.
AICPA/AcSEC	Status
Significant Adoption Dates	
SOP 06-1, <i>Reporting Pursuant to the Global Investment Performance Standards</i>	Effective April 6, 2006.
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.
SAS 112, <i>Communicating Internal Control Matters Identified in an Audit</i>	Effective for audits of financial statements for periods ending on or after December 15, 2006.
SAS 111, <i>Amendment to Statement on Auditing Standards No. 39, Audit Sampling</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 110, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 109, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 108, <i>Planning and Supervision</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 107, <i>Audit Risk and Materiality in Conducting an Audit</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 106, <i>Audit Evidence</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 105, <i>Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.

SAS 104, <i>Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")</i>	Effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS 103, <i>Audit Documentation</i>	Effective for periods ending on or after December 15, 2006.
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.
AICPA <i>Professional Standards</i> , ET Section 100.01 — <i>Conceptual Framework for AICPA Independence Standards</i>	Effective for all independence decisions made as of April 30, 2007.
Revision to AICPA, <i>Professional Standards</i> , ET Section 501.02	Effective April 30, 2006.
AICPA Center for Public Company Audit Firms Alert #90, <i>SEC Staff Position Regarding Changes to the Statement of Cash Flows Relating to Discontinued Operations</i>	Effective February 15, 2006. Retrospective modifications to presentations of the cash flows pertaining to discontinued operations in the first periodic report filed subsequent to February 15, 2006, may be treated in a manner similar to a change in accounting method with no reference to the correction of an error. Modifications in subsequent filings should be treated as a correction of an error.
AICPA Center for Public Company Audit Firms Alert #98, <i>Update to SEC Staff Position Regarding Changes to the Statement of Cash Flows Relating to Discontinued Operations (Addendum to CPCAFA Alert #90)</i>	Effective April 19, 2006.
AICPA Center for Public Company Audit Firms Paper, <i>Guidance for Firms Issuing Audit Reports for Non-Issuers That Are Filed With the SEC</i>	Effective March 10, 2006.
SEC	Status
Significant Adoption Dates	
Final Rule, <i>Fund of Funds Investments</i>	Effective July 31, 2006.
SEC Amendments to Forms N-1A, N-2, N-3, N-4, and N-6	All new registration statements filed on the investment company forms and all post-effective amendments that are annual updates to effective registration statements on the investment company forms filed on or after January 2, 2007, must include the disclosure required by the form amendments.
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>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>Investment Company Governance</i>	Comments due August 21, 2006.
Request for Feedback on Experiences With Interactive Data and XBRL	Comments may be submitted throughout 2006 as roundtable topics and dates are announced.
PCAOB	Status
Significant Adoption Dates	
Auditing Standard No. 4, <i>Reporting on Whether a Previously Reported Material Weakness Continues to Exist</i>	Effective February 6, 2006.
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 3524, <i>Audit Committee Pre-approval of Certain Tax Services</i>	Rule will not apply to any tax service pre-approved on an engagement-by-engagement basis before June 18, 2006. With respect to tax services provided to audit clients whose audit committees pre-approve tax services pursuant to policies and procedures, the rule will not apply to any such tax service that is begun by April 20, 2007.
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 April 19, 2006, provided that such services are completed on or before October 31, 2006.
Rule 3522, <i>Tax Transactions</i>	Rule will not apply to tax services that are completed by a registered public accounting firm prior to June 18, 2006.
Rule 3521, <i>Contingent Fees</i>	Rule will not apply to contingent fee arrangements that prior to June 18, 2006, were (1) paid in their entirety, (2) converted to fixed fee arrangements, or (3) otherwise unwound.
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 April 29, 2006.
Projects in Request-for-Comment Stage	
PCAOB Release No. 2006-004, <i>Proposed Rules on Periodic Reporting by Registered Public Accounting Firms</i>	Comments due July 24, 2006.
PCAOB Release No. 2006-005, <i>Proposed Rules on Succeeding to the Registration Status of a Predecessor Firm</i>	Comments due July 24, 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 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</i> — <i>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</i> — <i>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</i> — <i>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</i> — <i>Capital Disclosures</i>	Effective for annual periods beginning on or after January 1, 2007.
IFRIC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	Effective for annual periods beginning on or after June 1, 2006.
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</i> — <i>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	
Proposed Amendments to IAS 1, <i>Presentations of Financial Statements</i> – <i>A Revised Presentation</i>	Comments due July 17, 2006.
Proposed Amendments to IAS 23, <i>Borrowing Costs</i>	Comments due September 29, 2006.
International Accounting Standards Committee Foundation, <i>Draft Due Process Handbook for the IFRIC</i> (May 2006)	Comments due September 30, 2006.
Proposed Amendments to IAS 32, <i>Financial Instruments: Presentation</i> and IAS 1, <i>Presentation of Financial Statements</i> – <i>Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation</i>	Comments due October 23, 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 FSP on Modifications or Exchanges of Share-Based Payment Awards in Connection With an Equity Restructuring or a Business Combination](#)

- AFFECTS:** Companies that issue share-based payment awards.
- SUMMARY:** The proposed FSP²⁵ provides guidance on the recognition and measurement of share-based payment awards that are modified in connection with an equity restructuring or a business combination.

[Proposed FSP on the Definition of a Public Entity](#)

- AFFECTS:** Companies that are obligors for conduit municipal bonds.
- SUMMARY:** The proposed FSP²⁶ clarifies that the definition of a public entity also includes an entity that is an obligor for a conduit municipal bond when the associated debt securities are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, which includes local or regional markets).
- NEXT STEPS:** Comments are due July 31, 2006.

[Proposal to Enhance Standard Setting for Private Companies](#)

- AFFECTS:** Nonpublic companies.
- SUMMARY:** The FASB and AICPA have issued and are soliciting comments on a joint proposal to improve the standard-setting process for private company financial reporting.
- NEXT STEPS:** Comments are due August 15, 2006.

EITF Developments

[EITF Meeting](#)

- AFFECTS:** All companies.
- SUMMARY:** The article summarizes the topics discussed and tentative conclusions reached at the EITF meeting held on June 15, 2006.
- NEXT STEPS:** Comments on issues with tentative conclusions are due August 4, 2006.

²⁵ Proposed FASB Staff Position No. FAS 123(R)-e, "Amendment of FASB Staff Position FAS 123(R)-1."

²⁶ Proposed FASB Staff Position No. FAS 126-a, "Revisions to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities."

GASB Developments

Final Technical Bulletin Clarifies Reporting of Medicare Part D Payments

- AFFECTS:** State and local governments.
- SUMMARY:** The Technical Bulletin²⁷ provides guidance to government employers and plans on how existing standards should be applied to account for retiree drug subsidy payments associated with Medicare Part D.
- NEXT STEPS:** Effective for financial statements issued after June 30, 2006, except for portions of answers pertaining specifically to measurement, recognition, or required supplementary information requirements of Statements 43²⁸ and 45.²⁹ Those provisions would be applied upon the adoption of Statements 43 and 45.

AICPA Developments

TPA on Consolidated Financial Statements

- AFFECTS:** Companies that consolidate one or more subsidiaries.
- SUMMARY:** The TPA³⁰ states that if consolidated financial statements are required under generally accepted accounting principles, then there are no circumstances in which an entity may prepare parent-company only financial statements in place of consolidated financial statements and still be in compliance with GAAP.
- NEXT STEPS:** Effective immediately.

Deferral of Guidance on Reporting on a Nonissuer's Internal Control Over Financial Reporting

- AFFECTS:** Auditors of nonpublic companies that are engaged to report on an entity's internal control over financial reporting.
- SUMMARY:** At its June 20–22, 2006, meeting, the ASB decided to defer the issuance of the revised proposed SSAE,³¹ pending the PCAOB's amendments to Auditing Standard 2.³² However, in the meantime, the ASB will incorporate the definitions of "material weakness," "significant deficiency," and "control deficiency" into the current standard over reporting on a nonissuer's internal control over financial reporting (SSAE 10³³).
- NEXT STEPS:** The next ASB meeting will be held August 22–24, 2006.

²⁷ GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments From the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*.

²⁸ GASB Statement No. 43, *Financial Reporting for Postretirement Benefit Plans Other Than Pension Plans*.

²⁹ GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

³⁰ AICPA Technical Practice Aids, TIS Section 1400.32, "Parent-Only Financial Statements and Relationship to GAAP."

³¹ AICPA Revised Proposed Statement on Standards for Attestation Engagements, *Reporting on an Entity's Internal Control Over Financial Reporting*.

³² PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

³³ AICPA Statement on Standards for Attestation Engagements No. 10, *Attestation Engagements: Revision and Recodification, as amended*.

SEC Developments

SEC Adopts Final Rules on Funds That Invest in Funds

- AFFECTS:** Investment companies.
- SUMMARY:** The SEC has adopted three new rules under the Investment Company Act of 1940 that allow an investment company ("fund") to purchase shares of another fund in certain situations. In addition, the SEC is amending certain investment company forms to require disclosure of expenses of purchased funds.
- NEXT STEPS:** Final rules are effective July 31, 2006. All new registration statements filed on certain investment company forms and all post-effective amendments that are annual updates to effective registration statements on certain investment company forms filed on or after January 2, 2007, must include the disclosure required by the form amendments.

SEC Seeks Comments on Investment Company Governance

- AFFECTS:** Investment companies.
- SUMMARY:** The [proposed rules](#)³⁴ would require fund boards to be (1) composed of at least 75 percent independent directors and (2) chaired by an independent director.
- NEXT STEPS:** Comments are due August 21, 2006.

PCAOB Developments

PCAOB Issues Q&As on Adjustments to Prior-Period Financials Audited by a Predecessor Auditor

- AFFECTS:** Successor and predecessor auditors of public companies when there are adjustments to prior-period financial statements.
- SUMMARY:** The PCAOB has published staff questions and answers³⁵ relating to the auditing and reporting considerations of adjustments to prior-period financial statements when the prior periods have been audited by a predecessor auditor.
- NEXT STEPS:** Effective immediately.

Highlights of the PCAOB's June 2006 Standing Advisory Group Meeting

- AFFECTS:** Public companies and auditors of public companies.
- SUMMARY:** The PCAOB's Standing Advisory Group discussed the PCAOB's activities regarding Section 404 of the Sarbanes-Oxley Act of 2002 and PCAOB Auditing Standard 2.³⁶

SEC Announces Appointment of New PCAOB Chairman

- AFFECTS:** All public companies and their auditors.
- SUMMARY:** Federal Reserve Board Governor Mark W. Olson has been appointed as the Chairman of the PCAOB. He succeeds William McDonough, who resigned as PCAOB Chairman in November 2005, and current acting PCAOB Chairman Bill Gradison. Mr. Olson's term will run through 2010.

³⁴ SEC Proposed Rule, *Investment Company Governance*.

³⁵ PCAOB Staff Questions and Answers, *Adjustments to Prior-Period Financial Statements Audited by a Predecessor Auditor*.

³⁶ PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

Other Developments

New Texas Margin Tax Affects Tax Accounting as of May Enactment Date

- AFFECTS:** Taxable entities that do business in Texas or are chartered or organized in the state.
- SUMMARY:** On May 18, 2006, the State of Texas enacted House Bill 3 ("the Bill"), which replaces the State's current franchise tax with a "margin tax." The margin tax is assessed at 1 percent of Texas-sourced taxable margin (except for retailers and wholesalers, which will be assessed at .5 percent). Although the Bill states that the new tax is not an income tax, it has characteristics of an income tax and accordingly should be accounted for as an income tax under FASB Statement No. 109, *Accounting for Income Taxes*.
- NEXT STEPS:** The margin tax is effective for returns originally due on or after January 1, 2008. However, as required by Statement 109, all effects of a tax law change should be accounted for in the period of the law's enactment (i.e., the reporting period that includes May 18, 2006).

International Developments

Proposed Amendments to Financial Instruments Presentation

- AFFECTS:** Companies that apply IFRS.
- SUMMARY:** The IASB's Exposure Draft³⁷ proposes amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements*, to require certain instruments to be classified as equity rather than as liabilities.
- NEXT STEPS:** Comments are due October 23, 2006.

³⁷ Proposed Amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements* — *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*.

Appendix D: Abbreviations

AcSEC	Accounting Standards Executive Committee	IAS	International Accounting Standard
AICPA	American Institute of Certified Public Accountants	IASB	International Accounting Standards Board
APB	Accounting Principles Board	IFAC	International Federation of Accountants
ARB	Accounting Research Bulletin	IFRIC	International Financial Reporting Interpretations Committee
ASB	Auditing Standards Board	IFRS	International Financial Reporting Standard
COSO	Committee of Sponsoring Organizations of the Treadway Commission	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		

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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