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Accounting Roundup

Year in Review — 2008



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To our clients, colleagues, and other friends:

Welcome to the 2008 edition of *Accounting Roundup: Year in Review*. In 2008, standard setters and regulators primarily focused on volatility in the credit and financial markets, fair value measurement, and global convergence of accounting standards. We expect these will continue to be significant areas of focus throughout 2009.

This issue of *Accounting Roundup: Year in Review* summarizes topics, as well as final guidance issued in 2008, that affect reporting and disclosures for this reporting season. Proposed guidance, such as Exposure Drafts and Invitations to Comment, is not included. Please refer to our 2008 monthly and quarterly issues of *Accounting Roundup* for more information about these documents and about the deadlines for related comment letters.

During December, a number of standard setters, including the FASB and PCAOB, have issued additional guidance on areas of accounting and reporting affected by the current economic environment. In this issue of *Accounting Roundup: Year in Review*, articles related to the current economic environment are conveniently located under the topic heading "[Impact of Current Market Environment on Financial Reporting.](#)"

In addition, we expect the FASB to issue two proposed FSPs in December that would address accounting for other-than-temporary impairments and disclosures for certain financial instruments that must be analyzed for impairment. **These proposals are being fast-tracked and are expected to be finalized and effective for this year's reporting season.** The FASB is also expected to issue an FSP shortly that will clarify paragraph 14B of Statement 133, which discusses whether an embedded credit derivative must be separated from its host contract. This FSP is expected to be effective for quarters that begin after December 15, 2008 (first quarter for calendar-year-end companies). For more information, see Deloitte's [December 22, 2008, Heads Up](#) and the FASB's [news release](#), [project page](#), and [board handouts](#).

For more information about a topic, click one of the blue links, which are underlined. The links let you access useful resources such as the Web sites of the relevant standard setters, including the FASB, GASB, SEC, PCAOB, AICPA, and IASB.

So where are things headed in 2009? Convergence to one set of global accounting standards will certainly be an area of focus, but at the beginning of the year, the FASB and IASB will be busy with projects addressing accounting and reporting issues stemming from the current economic environment. In addition to the fast-track projects noted above, the two boards will be working on updates to the consolidation literature to address off-balance-sheet entities. Both standard setters are also working on projects related to simplification of hedge accounting, derecognition of assets and liabilities, and fair value measurement.

The SEC is exploring the possibility of U.S. registrants reporting under IFRSs. The Commission recently issued for public comment a proposed roadmap for use of IFRSs by U.S. public companies in their SEC filings. The Commission is also sure to focus on XBRL. The SEC recently voted to issue a final rule requiring large accelerated filers with a worldwide public float above \$5 billion to use XBRL for reporting financial information, beginning in 2009. The final rule is expected to be issued shortly. For more information, see Deloitte's [December 22, 2008, Heads Up](#) on XBRL.

This month, the AICPA held its annual National Conference on Current SEC and PCAOB Developments. During this conference, the SEC, PCAOB, FASB, IASB, and others provide financial professionals with updates on new developments, regulations, and current priorities. For more information about the conference, see Deloitte's [December 18, 2008, Heads Up](#).

We encourage you to keep up to date on the actions of the regulators and standard setters during 2009 through our *Accounting Roundup* series, *EITF Snapshot* series, *Heads Up* articles, and *Dbriefs* webcasts. Please join us for our upcoming *Dbriefs* webcast on January 9, 2009: [Year-End Reporting Issues: An Update on Current Issues and Items on the Horizon](#).

We hope that *Accounting Roundup: Year in Review* will be helpful to you this financial reporting season. As always, we welcome your feedback. Please send questions and comments to accountingstandards@deloitte.com.

Happy New Year,

Deloitte & Touche LLP



Contents

Events that occurred in December or that were not addressed in the January through November issues of *Accounting Roundup* are marked with an asterisk (*) in the article title. Events without asterisks have been covered in previous monthly issues. As usual, click any title in the table of contents to go directly to the article.

Fair Value	1
FASB Partially Defers Effective Date of Statement 157, <i>Fair Value Measurements</i>	1
FASB Excludes Leases From Scope of Statement 157, <i>Fair Value Measurements</i>	1
FASB and SEC Clarify Fair Value Measurement	2
EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement"	3
SEC Advises Registrants to Further Explain Fair Value in MD&A	4
IASB Issues Fair Value Guidance	5
Impact of Current Market Environment on Financial Reporting	5
FASB Issues FSP on Disclosures Related to Asset Transfers, VIEs, and QSPEs*	5
SEC Issues Clarification on Accounting Associated With the Streamlined Foreclosure and Loss Avoidance Framework	6
SEC Issues Letter Clarifying Impairment Guidance on Perpetual Preferred Securities	7
PCAOB Issues Practice Alert on Audit Considerations in the Current Economic Environment*	8
Consideration of Other-Than-Temporary Impairments in the Current Economic Environment*	9
Consideration of Impairment of Auction Rate Securities in the Current Economic Environment*	10

Consideration of Redemption Restrictions on Money Market Funds in the Current Economic Environment*	11
Consideration of Potential Counterparty Defaults in the Current Economic Environment*	11
Disclosure Considerations in the Current Economic Environment*	12
Pension and Other Postretirement Benefits Affected by Turmoil in the Credit Markets*	13
Considerations Regarding the Emergency Economic Stabilization Act of 2008	14
Business Combinations	14
FASB Proposes FSP to Amend Statement 141(R)'s Guidance on Contingencies*	14
EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations"	15
EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets"	16
EITF Issue No. 08-8, "Accounting for an Instrument (or an Embedded Feature) With a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary"*	16
Proposed EITF Issue No. 08-10, "Selected Statement 160 Implementation Questions"*	17
Statement 141(R) Implementation Issue: Acquisition-Related Costs Incurred for Current Transactions*	18
Employee and Director Compensation and Benefits	18
FASB Concludes That Certain Unvested Share-Based Payment Awards Are Participating Securities	18
SEC Comments on Executive Compensation Disclosures	19
Financial Instruments and Derivatives	20
FASB Expands Disclosures About Derivative Instruments and Hedging Activities	20
FASB Issues FSP Under Which Repurchase Financing Activities May Be Derivatives	20
FASB Approves Two Clarifications on Applying the Shortcut Method	21
FASB Tightens Convertible Debt Accounting for Issuers	22
FASB Updates Statement 133 Implementation Guidance	22
FASB Issues FSP on Credit Derivative and Guarantee Disclosures	23
EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"	24
Considerations of Credit Risk in Fair Value Hedge Effectiveness Assessments*	24

Income Taxes	25
Recent Tax Ruling Affects Tax Positions Related to Executive Compensation	25
FASB Proposes FSP to Delay Effective Date for Interpretation 48 (Uncertain Tax Positions) for Private Entities	26
Effect of Statement 141(R) on Income Tax Accounting*	26
Insurance	27
FASB Eliminates Inconsistencies in Financial Guarantee Insurance Contracts	27
Investment Companies	27
FASB Indefinitely Defers SOP 07-1 Affecting Investment Company Accounting	27
SEC Expands the Definition of Eligible Portfolio Companies Under the Investment Company Act of 1940	28
SEC Issues Final Rule on Mandatory Electronic Submission of Certain Investment Company Applications and Filings	28
Not-for-Profit Accounting Matters	29
FASB Issues FSP on Consolidation and Equity Method Guidance for Not-for-Profit Organizations	29
FASB Issues Guidance on Endowments	29
Other Accounting	30
FASB Issues Statement Establishing GAAP Hierarchy	30
FASB Issues FSP Affecting Companies Emerging From Bankruptcy	30
FASB Issues Guidance on Intangible Assets Subject to Renewal or Extension	31
FASB Launches Accounting Standards Codification for Verification	32
EITF Issue No. 07-4, "Application of the Two-Class Method Under FASB Statement No. 128, <i>Earnings per Share</i> , to Master Limited Partnerships"	32
EITF Issue No. 08-3, "Accounting by Lessees for Maintenance Deposits Under Lease Arrangements"	34
EITF Issue No. 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5"	34
EITF Administrative Matters — Revisions to Topic D-98 (Updated)	34

Other SEC Matters	35
SEC Releases New Financial Reporting Manual*	35
SEC Issues Interpretation on References to Third-Party Experts and Consents*	35
SEC Issues Guidance on Proxy Statement Filings Related to the TARP*	36
SEC Provides Views on Compliance Programs*	36
SEC Approves One-Year Deferral of Section 404 Requirement for Smaller Public Companies	36
SEC Issues Disclosure Rules for Smaller Companies	36
SEC Staff Explains the Filing Review and Comment Letter Process	37
SEC Approves Foreign Private Issuer Rule Amendments	37
SEC Clarifies Accounting for Bank Support of Money Market Funds	39
SEC Financial Reporting Advisory Committee Releases Final Report	39
Other Auditing	40
PCAOB Adopts and Proposes Amendments to Rule on Non-U.S. Inspections*	40
PCAOB Issues Practice Alert on Audit Considerations in the Current Economic Environment*	40
CAQ Issues Practice Aid on Journal Entry Testing*	40
AICPA Issues Revisions to Accounting and Review Services Guidance	41
AICPA Adopts New Ethics Standard	41
AICPA Issues SAS on Communicating Internal-Control-Related Matters	41
AICPA Issues SSAE on Integrated Audits of Nonpublic Companies	42
AICPA, ACFE, and IIA Join Forces to Issue New Fraud Guidelines	42
AICPA Issues Revised Interpretation on the Confirmation Process	43
AICPA Issues Revised Airlines Audit and Accounting Guide*	43
AICPA Issues Real Estate and Construction Audit Risk Alert*	43
PCAOB Adopts Auditing Standard 6 on Evaluating Consistency of Financial Statements	43

PCAOB Adopts Rules for Annual and Special Reporting	44
PCAOB Adopts New Independence and Ethics Rules	44
PCAOB Adopts New Auditor Registration Rule	45
GAO and PCIE Issue Revised Financial Audit Manual	45
GAO Issues Interim Guidance on Communicating Internal-Control-Related Matters	46
GASB/FASAB	46
GASB Issues Statement on Derivative Instruments	46
GASB Issues Guidance on Postemployment Benefits*	47
GASB Issues Concepts Statement 5*	47
FASAB Issues Two Technical Releases	48
FASAB Issues Standard on Reporting Gains and Losses Attributable to Changes in Pension Obligation Assumptions	48
Convergence of U.S. GAAP and IFRSs	49
SEC Issues Proposed IFRS Roadmap	49
FASB and IASB Issue Updated Memorandum of Understanding	50
International	50
IASB Issues Revised Standard on First-Time Adoptions*	50
IASB Amends Financial Instruments Standard for Puttable Instruments and Obligations Arising on Liquidation	50
IASB Revises Accounting for Business Combinations and Noncontrolling Ownership Interests	51
IASB Amends IFRS 2 on Share-Based Payments	52
IASB Issues Annual Improvements to International Standards	52
IASB Issues Additional Guidance on Hedge Accounting	53
IASB Issues Amendments Permitting Reclassification of Certain Financial Instruments	54
IASB Issues Fair Value Guidance*	54
IFRIC Issues Interpretation on Construction of Real Estate	54

IFRIC Issues Interpretation on Hedges of a Net Investment in a Foreign Operation	55
IFRIC Issues Interpretation on Noncash Distributions*	55
IAASB Issues Revised International Standards on Auditing*	56
IAASB Issues Practice Alert on Auditing Fair Value	57
Appendix A: SEC Disclosure Guidance — Recently Issued Standards	59
Appendix B: Abbreviations	60
Appendix C: Glossary of Standards	62
Appendix D: Significant Adoption Dates	70

Fair Value

During 2008, the SEC, IASB, FASB, and EITF all issued guidance clarifying fair value measurement in the current economic environment (e.g., measuring fair value in an inactive market). Additional clarification is warranted for fair value measurement related to (1) leases and (2) debt with third-party credit enhancements.

FASB Partially Defers Effective Date of Statement 157, *Fair Value Measurements*

AFFECTS: Entities required to apply Statement 157.

SUMMARY: On February 12, 2008, the FASB issued [FSP FAS 157-2](#), which delays the effective date of Statement 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP FAS 157-2 states that a measurement is recurring if it happens at least annually and defines nonfinancial assets and nonfinancial liabilities as all assets and liabilities other than those meeting the definition of a financial asset or financial liability in Statement 159. Paragraphs 9 and 10 of the FSP include examples of items to which the deferral would and would not apply.

Entities are encouraged to adopt Statement 157 in its entirety for measurements of nonfinancial assets and nonfinancial liabilities as long as they have not yet issued financial statements during that year. An entity that chooses to adopt Statement 157 in its entirety must do so for all nonfinancial assets and nonfinancial liabilities within its scope. For example, an entity that chooses to early adopt Statement 157 for nonfinancial liabilities included in exit or disposal activities measured at fair value under Statement 146 must do so for all nonfinancial assets and nonfinancial liabilities within Statement 157's scope.

NEXT STEPS: The FSP became effective on February 12, 2008. Entities that applied the measurement and disclosure guidance in Statement 157 in preparing either interim or annual financial statements issued before the effective date of the FSP are not eligible for the FSP's deferral provisions. An entity that has not applied Statement 157 in its entirety must disclose (1) that it has only partially adopted Statement 157 and (2) the categories of assets and liabilities recorded or disclosed at fair value to which Statement 157 was not applied until the entity applies the Statement in its entirety.

OTHER RESOURCES: Deloitte's [February 15, 2008, Heads Up](#). ●

FASB Excludes Leases From Scope of Statement 157, *Fair Value Measurements*

AFFECTS: Entities that engage in leasing activities.

SUMMARY: On February 14, 2008, the FASB issued [FSP FAS 157-1](#), which removes leasing transactions accounted for under Statement 13 and related guidance from the scope of Statement 157. The FSP addresses implementation issues affecting leasing transactions, including those associated with (1) the different definitions of fair value in Statements 13 and 157 and (2) the application of the fair value measurement objective under Statement 157 to estimated residual values of leased properties. The FASB noted in its Basis for Conclusions to Statement 157 that it did not intend to change lease

accounting; however, applying the provisions of Statement 157 to leasing transactions may result in unintended changes to lease classification or measurement.

The scope exception does not apply to fair value measurements of lease transactions required under Statements 144 and 146 and Interpretation 21 (and, by extension, Statements 141 and 141(R)).

NEXT STEPS: The FSP is effective upon the initial adoption of Statement 157. Entities that did not apply Statement 157 in a manner consistent with the FSP (i.e., entities that early adopted Statement 157) should retrospectively apply the FSP to the date of initial adoption.

OTHER RESOURCES: Deloitte's [February 15, 2008, Heads Up](#). ●

FASB and SEC Clarify Fair Value Measurement

AFFECTS: All entities.

SUMMARY: On September 30, 2008, the SEC and the FASB jointly issued a [press release](#) clarifying fair value measurement practices in the current market environment. Key issues discussed in the press release include:

- Use of internal assumptions to estimate fair value when there are no relevant market data.
- Use of market (broker) quotes to measure fair value.
- Consideration of how transactions that represent distressed sales or that are in inactive markets are indicative of fair value.
- Factors to consider in the assessment of other-than-temporary impairments.

On October 10, 2008, the FASB issued [FSP FAS 157-3](#), which amends Statement 157 by incorporating "an example to illustrate key considerations in determining the fair value of a financial asset" in an inactive market. The FSP's example emphasizes the following principles from Statement 157:

- *Objective of fair value* — The objective of fair value measurement is to determine the price that would be received to sell an asset "in an orderly transaction . . . that is not a forced liquidation or distressed sale" between market participants as of the measurement date. This objective does not change even when "there is little, if any, market activity for an asset" as of the measurement date.
- *Distressed transactions* — Paragraph 9(a) of the FSP states, "Even in times of market dislocation, it is not appropriate to conclude that all market activity represents forced liquidations or distressed sales. However, it is also not appropriate to automatically conclude that any transaction price is determinative of fair value." The evaluation of whether individual transactions are forced (i.e., whether one of the parties is forced or otherwise compelled to transact) "depends on the facts and circumstances and may require the use of significant judgment."
- *Relevance of observable data* — To be relevant to a fair value measurement, observable market data may need to be significantly adjusted. Paragraph 9(b) of the FSP gives an example of a situation in which the "volume and level of trading activity in the asset have declined significantly, the available prices vary significantly over time or among market participants, or the prices are not current . . ." If the adjustment is significant, the measurement would be considered Level 3.
- *Management's assumptions about nonperformance and liquidity risks* — The use of management's internal "assumptions about future cash flows and

appropriately risk-adjusted discount rates is acceptable” when there are no relevant observable market data. However, any assumptions or valuation techniques must take into account adjustments for nonperformance and liquidity risks that market participants would consider in valuing the asset.

- *Third-party pricing quotes* — Quotes and information obtained from brokers or pricing services “are not necessarily determinative if an active market does not exist for the financial asset” being measured. In addition, “an entity should place less reliance on quotes that do not reflect [actual] market transactions.”
- *Disclosures* — Although the FSP does not prescribe any new disclosure requirements, it emphasizes (1) Statement 157’s requirements for an entity to disclose significant unobservable inputs (Level 3 inputs) and (2) the MD&A fair value considerations addressed in the March 2008 and September 2008 letters sent by the SEC’s Division of Corporation Finance to certain financial institutions. (For a discussion of those letters, see [“SEC Advises Registrants to Further Explain Fair Value in MD&A”](#) article below.)

NEXT STEPS: The FSP became effective on October 10, 2008, and applies to prior periods for which financial statements have not yet been issued. Entities must account for revisions to fair value estimates resulting from the adoption of the FSP as a change in accounting estimate under Statement 154, but do need not to provide the disclosures required by that Statement.

OTHER RESOURCES: Deloitte’s [October 13, 2008, Heads Up](#) and [September 27, 2007, March 31, 2008, and September 18, 2008, Financial Reporting Alerts](#). ●

Editor’s Note: Additional resources for fair value measurements of financial assets in an inactive/illiquid market include the CAQ’s [white paper](#) and the IASB’s Expert Advisory Panel [final report](#).

EITF Issue No. 08-5, “Issuer’s Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement”

AFFECTS: Entities that incur liabilities (e.g., by issuing debt securities) that have inseparable third-party credit enhancements (e.g., a third-party guarantee) when such a liability is measured at fair value or a fair value measurement is disclosed.

SUMMARY: At issue is whether an issuer of a liability with a third-party credit enhancement that is inseparable from that liability should measure the fair value of the liability with or without the credit enhancement.

The Task Force reached a [consensus](#) that an issuer of a liability with a third-party credit enhancement that is inseparable from the liability must treat the liability and the credit enhancement as two units of accounting. Under the consensus, the fair value measurement of the liability does not include the effect of the third-party credit enhancement; therefore, changes in the issuer’s credit standing without the support of the credit enhancement affect the fair value measurement of the issuer’s liability. Entities will need to disclose the existence of any third-party credit enhancements related to their liabilities that are within the scope of this Issue (i.e., that are measured at fair value).

NEXT STEPS: The consensus is effective in the first reporting period beginning on or after December 15, 2008. Entities must apply this Issue prospectively, with the effect of initial application included in the change in fair value of the liability in the period of adoption. In the period of adoption, entities must disclose (1) the valuation method(s) used to measure the fair value of liabilities within the scope of this Issue and (2) any change in the fair value measurement method that occurs as a result of the initial application of this Issue. Early adoption is permitted.

OTHER RESOURCES: Deloitte’s [September 2008 EITF Snapshot](#). ●

SEC Advises Registrants to Further Explain Fair Value in MD&A

AFFECTS: Public entities.

SUMMARY: In March 2008, the SEC's Division of Corporation Finance sent a [letter](#) to certain financial institutions concerning additional MD&A disclosure considerations regarding fair value for their upcoming filings on Form 10-Q. While the letter was sent only to financial institutions, the SEC staff has indicated that the letter "can be applicable to any company."

The letter reminds registrants that have significant amounts of financial instruments to consider the SEC's requirements for disclosures in MD&A. Regulation S-K, Item 303, requires registrants to discuss in their periodic filings any known trends, demands, commitments, events, or uncertainties that the registrants reasonably expect to have a material impact, either favorable or unfavorable, on their results of operations, liquidity, or capital resources.

This letter is in response to the challenges, resulting from current market conditions, in determining the fair value of certain financial instruments, such as asset-backed securities, loans carried at fair value or lower of cost or market (fair value), credit default swaps, and other derivative assets and liabilities. Because of the decline in or disappearance of liquidity in some markets, judgment has become increasingly important in estimating fair values. In addition, there may be a broader range of reasonable fair value estimates for some financial instruments. Therefore, judgments may materially affect a registrant's reported results of operations, liquidity, or capital resources.

Most registrants have adopted Statement 157 as of January 1, 2008, for financial instruments. This Statement provides a framework for determining fair value and includes detailed disclosure requirements for fair value measurements, including requirements to annually describe the valuation techniques used to measure fair value and to categorize all fair value measurements into a hierarchy that contains the following three levels:

- *Level 1* — Measurements that are based on quoted prices (unadjusted) in active markets.
- *Level 2* — Measurements that are primarily based on observable market information.
- *Level 3* — Measurements that use significant unobservable inputs.

Statement 157 requires additional disclosures for Level 3 measurements, including a reconciliation for recurring measurements of beginning and ending balances for the period (i.e., a rollforward from the previous period to the end of the current period) and total unrealized gains and losses reported for the period, and a description of the inputs and the information used to develop the inputs for all nonrecurring measurements.

In September 2008, an [addendum](#) was sent to the same financial institutions in response to reviews and roundtables conducted by the SEC during the summer. The SEC would like companies to consider disclosing:

- When material, how credit risk affected fair value measurements, including the gains or losses recognized on derivative liabilities that are attributable to changes in credit risk.
- How market illiquidity factors into fair value determination.
- Significant judgments used in classifying fair value measurements in the Statement 157 hierarchy.
- How brokers or pricing services are used in developing fair value measurements.

While the two letters do not replace or amend existing GAAP requirements, the SEC believes that the considerations outlined in the letters will provide investors with “clearer and more transparent” disclosures about the registrants’ fair value measurements and the methods and assumptions underlying these measurements.

OTHER RESOURCES: Deloitte’s [September 18, 2008](#), and [March 31, 2008, Financial Reporting Alerts](#). ●

IASB Issues Fair Value Guidance

AFFECTS: Entities reporting under IFRSs.

SUMMARY: On October 31, 2008, the IASB’s Expert Advisory Panel issued a [final report](#) on fair value measurement and disclosures in an inactive market.

OTHER RESOURCES: For more information, see the [press release](#) and [IASB staff summary](#) on the IASB’s Web site. ●

Impact of Current Market Environment on Financial Reporting

During December, a number of standard setters, including the FASB and PCAOB, have issued guidance on areas of accounting and reporting affected by the current economic environment. We expect the FASB to issue two proposed FSPs in December that would address accounting for other-than-temporary impairments and disclosures for certain financial instruments that must be analyzed for impairment. **These proposals are being fast-tracked and are expected to be finalized and effective for this year’s reporting season.** The FASB is also expected to issue an FSP shortly that will clarify paragraph 14B of Statement 133, which discusses whether an embedded credit derivative must be separated from its host contract. This FSP is expected to be effective for quarters that begin after December 15, 2008 (first quarter for calendar-year-end companies). For more information, see Deloitte’s [December 22, 2008, Heads Up](#) and the FASB’s [news release](#), [project page](#), and [board handouts](#).

FASB Issues FSP on Disclosures Related to Asset Transfers, VIEs, and QSPEs*

AFFECTS: All entities.

SUMMARY: On December 11, 2008, the FASB issued [FSP FAS 140-4 and FIN 46\(R\)-8](#), which requires public companies to provide disclosures similar to those proposed in the pending amendments to Statement 140 and Interpretation 46(R). The FSP requires additional disclosures about transfers of financial assets and an enterprise’s involvement with VIEs, including QSPEs. These disclosures should help improve transparency in the current market environment.

Disclosures Related to Asset Transfers

These additional disclosure requirements primarily focus on the transferor’s continuing involvement with transferred financial assets and the related risks retained. A transferor must disclose (1) whether it provided financial or other support to the transferee (or its beneficial interest holders) that it was not previously contractually required to provide, including the primary reasons for providing the support, and (2) details of any arrangements that could require any future financial support. The FSP states that this includes any future financial support that could result from **“explicit written arrangements, communications between the transferor and the transferee or**

its beneficial interest holders, and unwritten arrangements customary in similar transfers” (emphasis added).

The disclosures must also include details about any SPEs involved in the transfer, including the nature, purpose, size, and activities of the SPE, and how it is financed.

Disclosures Related to VIEs

These additional disclosure requirements focus on an enterprise’s involvement with VIEs. For example, these disclosures must include the method for determining whether an enterprise is the primary beneficiary of a VIE, including the significant judgments and assumptions made, and whether the consolidation conclusion has changed in the most recent financial statements.

The FSP also requires disclosure of the details of any financial or other support provided to a VIE that the enterprise was not previously contractually required to provide, as well as the primary reasons for providing the support. **The primary beneficiary of a VIE is also required to disclose the terms of any arrangements, including both explicit arrangements and implicit variable interests, that could require the enterprise to provide future support to the VIE.**

Disclosures Related to QSPEs

Enterprises are exempt, with limited exceptions, from applying the consolidation and disclosure provisions in Interpretation 46(R) to entities that qualify as QSPEs. The FSP amends Interpretation 46(R) to require that a nontransferor public enterprise provide certain disclosures if it is either (1) the sponsor of a QSPE and holds a variable interest in the QSPE or (2) the servicer of a QSPE and holds a significant variable interest. The FSP does not amend the accounting for these entities.

These disclosures must include details about the QSPE, including the nature, purpose, size, and activities of the QSPE, and how it is financed. Further, the FSP states that any arrangements that could require the enterprise to provide financial support to the QSPE also must be disclosed, after all evidence is considered, **“including, but not limited to, explicit written arrangements, communications between the sponsor or servicer and the [QSPE] or its beneficial interest holders, and unwritten arrangements that are customary in similar relationships”** (emphasis added). Finally, an enterprise must also disclose (1) whether it has “provided financial or other support . . . to the [QSPE] that it was not previously contractually required to provide, including . . . the primary reasons for providing the support,” and (2) its maximum exposure to loss as a result of the involvement with the QSPE.

NEXT STEPS:

The FSP is effective for the first reporting period (interim or annual) that ends after December 15, 2008. **Calendar-year-end companies must provide the required disclosures in their December 31, 2008, annual filings, and companies with noncalendar year-ends must provide the disclosures in their quarterly filings for their first quarterly period ending after December 15, 2008.** The disclosures are required in all subsequent annual and quarterly financial statements.

OTHER RESOURCES:

A [news release](#) announcing the FSP is available on the FASB’s Web site. Also see Deloitte’s [December 16, 2008, Heads Up](#). ●

SEC Issues Clarification on Accounting Associated With the Streamlined Foreclosure and Loss Avoidance Framework

AFFECTS:

Servicers, issuers, and investors that deal with subprime mortgage loans.

SUMMARY:

On January 8, 2008, SEC Chief Accountant Conrad Hewitt issued a [letter](#) addressing the Statement 140 accounting implications of the American Securitization Forum’s

[Streamlined Foreclosure and Loss Avoidance Framework for Securitization Subprime Adjustable Rate Mortgage Loans](#) (ASF Framework). The ASF, coordinating with the Department of the Treasury, developed the Framework to encourage mortgage loan servicers to refinance or modify classes of adjustable-rate subprime mortgage loans with certain risk characteristics that make them susceptible to default.

One potential hurdle is whether the modifications of mortgage loans violate QSPE status under Statement 140. The letter indicates that the OCA “will not object to continued status as a QSPE if Segment 2 subprime ARM loans are modified pursuant to the specific screening criteria in the ASF Framework.” The letter also states that the “OCA believes that it would be reasonable to conclude that Segment 2 subprime ARM loans are ‘reasonably foreseeable’ of default in absence of a modification based upon a qualitative consideration of the expectation of defaults.” Appendix A of the letter contains disclosures that the SEC staff generally expects will be included in registrants’ MD&A and notes to the financial statements.

Note that the SEC has not approved the letter as staff guidance. Therefore, it may not apply to any mortgage modification that does not occur pursuant to the screening criteria of Segment 2 of the ASF Framework.

NEXT STEPS: In the letter, the OCA requested that the FASB “immediately address the issues that have arisen in the application of the QSPE guidance in Statement 140.” The OCA also requested that any amendments to Statement 140 be effective no later than years beginning after December 31, 2008. On December 11, 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, which amends Statement 140 and Interpretation 46(R). See [“FASB Issues FSP on Disclosures Related to Asset Transfers, VIEs, and QSPEs”](#) article above.

OTHER RESOURCES: Deloitte’s [August 29, 2007, Heads Up](#) and [January 9, 2008, Financial Reporting Alert](#).

SEC Issues Letter Clarifying Impairment Guidance on Perpetual Preferred Securities

AFFECTS: Entities with investments in perpetual preferred securities (PPSs).

SUMMARY: On October 14, 2008, Conrad Hewitt, chief accountant of the SEC’s Office of the Chief Accountant (OCA), sent a [letter](#) to FASB Chairman Robert Herz clarifying the OCA’s views on the application of the OTTI guidance in Statement 115 to certain PPSs. In his letter, Mr. Hewitt stated that the OCA (after discussion with and agreement by the FASB staff) will not object to registrants’ applying an OTTI model that is similar to the impairment model applied to debt securities to investments in PPSs that possess significant “debt-like” characteristics.

Thus, an investor in a PPS with a fair value below cost that **is not** attributable to the credit deterioration of the issuer **may avoid** recognizing an OTTI by asserting that it has the intent and ability to continue holding the PPS for a sufficient period to allow for an anticipated recovery in market value. This assessment may include the intent and ability to hold the PPSs indefinitely.

Mr. Hewitt stated that the views of the OCA are an intermediate step in addressing certain practice issues related to OTTI guidance and that the OCA has requested that the FASB “expeditiously address issues that have arisen in the application of the OTTI model in Statement 115.”

Editor's Note: Application of the views in Mr. Hewitt's letter does not constitute a change in accounting principle under Statement 154. However, the SEC staff is encouraging registrants to disclose, in the notes to the financial statements, the model used to determine whether a security is considered other-than-temporarily impaired (e.g., Statement 115, Issue 99-20). In addition, Mr. Hewitt's letter encourages disclosure of the information considered in concluding that an impairment of a PPS is not other-than-temporary.

NEXT STEPS: The OCA's views apply to interim and annual financial statements issued after the October 14, 2008, letter.

OTHER RESOURCES: Deloitte's updated [October 17, 2008, Financial Reporting Alert](#). ●

PCAOB Issues Practice Alert on Audit Considerations in the Current Economic Environment*

AFFECTS: Auditors.

SUMMARY: On December 5, 2008, the PCAOB issued [Staff Audit Practice Alert 3](#), which highlights considerations for auditors and preparers in the current economic environment.

The Practice Alert is divided into six sections:

- Overall Audit Considerations.
- Auditing Fair Value Measurements.
- Auditing Accounting Estimates.
- Auditing the Adequacy of Disclosures.
- Auditor's Consideration of a Company's Ability to Continue as a Going Concern.
- Additional Audit Considerations for Selected Reporting Areas.

The Alert indicates that financial statement preparers and management should do the following (this list is not all-inclusive):

- Ensure that their disclosures about risks and uncertainties are adequate, especially those regarding nature of operations, use of estimates in preparing the financial statements, and current vulnerability attributable to concentrations.
- Consider or reconsider whether an entity to which the company has provided financial support or guarantees as a result of the current economic environment is now a VIE and, therefore, whether the company is the VIE's primary beneficiary.
- Assess whether it is necessary to record valuation allowances for their deferred tax assets as a result of the current economic conditions.
- Consider whether the market conditions have resulted in an impairment of goodwill, other indefinite-lived intangible assets, or other long-lived assets.
- Reassess the useful life of indefinite-lived intangible assets and other long-lived assets as necessary.
- Evaluate whether declines in the fair value of debt and equity securities are other-than-temporary.

- Examine recent market shifts when developing the expected rate of return on plan assets, since the significant declines in the stock market may adversely affect the fair value of these assets.
- Consider the heightened risk of noncollection of receivables.

OTHER RESOURCES: A [press release](#) announcing the Alert is available on the PCAOB's Web site. ●

Consideration of Other-Than-Temporary Impairments in the Current Economic Environment*

AFFECTS: All entities.

SUMMARY: In the current economic environment, **an entity must determine whether each of its underwater securities is other-than-temporarily impaired.** In determining whether a security is other-than-temporarily impaired, management should employ a “systematic and rational methodology” that includes documentation of all factors considered.

To conclude that an impairment is temporary (and thus that recognition of an impairment loss is not required), an entity must carefully consider, among other factors, the nature and cause of the decline in fair value. In assessing whether an impairment is other-than-temporary, an entity should determine whether the investment is a debt security or an equity security because the impairment considerations differ for each type of investment.

Considerations for Debt Securities

An entity must first determine whether a debt security is within the scope of Issue 99-20. A debt security within the scope of Issue 99-20 is considered other-than-temporarily impaired if its fair value is below cost **and** an adverse change in estimated cash flows has occurred, regardless of whether the holder has the positive intent and ability to hold that security until recovery. For debt securities not within the scope of Issue 99-20, the impairment guidance in Statement 115 and FSP FAS 115-1/124-1 focuses on whether the investor (1) will collect all cash flows due on the debt security and (2) has the positive intent and ability to hold the debt security until recovery.

Considerations for Equity Securities

For equity securities, as for debt securities, an entity must consider the severity and duration of the impairment. FSP FAS 115-1/124-1 includes additional impairment considerations for cost method investments, such as equity securities that do not have readily determinable fair values. For such investments, an investor must evaluate whether “an event or change in circumstances has occurred . . . that may have a significant adverse effect on the fair value of the investment”

Other Key Considerations for All Investments

SEC staff guidance (e.g., SAB Topic 5.M) indicates the following regarding an OTTI of a security investment:

- An OTTI does not mean that an impairment is permanent.
- If an investment's fair value is less than its carrying amount, the investment must be evaluated for OTTI as of each reporting date.
- An entity should establish an adequate and rigorous process for identifying OTTIs of securities, including documentation of all factors considered.
- Impairment can result solely from changes in interest rates. Therefore, all underwater debt instruments should be evaluated for OTTI.
- It is not appropriate to use a safe harbor assumption (e.g., “any investment that

has been underwater for less than one year is not impaired”) to exclude certain underwater investments from evaluation.

- The severity or duration alone of a security’s decline in value can indicate an OTTI (i.e., both indicators do not have to exist).
- Sales of underwater available-for-sale securities can call into question management’s intent to hold similar securities until forecasted recovery.

OTHER RESOURCES: Deloitte’s [October 13, 2008, Financial Reporting Alert](#). ●

Consideration of Impairment of Auction Rate Securities in the Current Economic Environment*

AFFECTS: Broker-dealers of and investors in auction rate securities (ARSs).

SUMMARY: Many issuances of ARSs have been adversely affected by the turmoil in the credit markets; thus, their current fair value is at a discount, sometimes substantial, from par value. These securities, among the most popular investments for excess cash, are widely found in portfolios of commercial enterprises, insurance and finance companies, pension and other benefit plans, endowment funds, not-for-profit enterprises, etc.

The following are important considerations for management when evaluating ARSs for OTTI:

- Because ARSs are a common investment product used by many organizations in their cash management and treasury strategies, preparers must carefully evaluate all investment products to ensure that ARSs are appropriately identified and analyzed.
- Entities might not appreciate the potential for significant declines in value and may not have prepared a rigorous analysis supporting an explicit or implicit conclusion that the securities are not other-than-temporarily impaired.
- A failed auction is a strong indicator of a credit deterioration in the issuer or the underlying assets of ARSs. An investor must consider whether an actual credit loss will be sustained. If it is probable that the investor will not collect all amounts due, an OTTI has occurred. However, OTTIs may exist in the absence of a probable credit loss.
- Regardless of whether actual credit loss will be sustained, the severity of a decline in value, in and of itself, is an important factor in evaluating whether a security is other-than-temporarily impaired.
- To conclude that a security is not impaired, an entity often must determine that the instrument will not be sold during a holding or recovery period.
- Current fair value is the appropriate measure of impairment even if the investor is convinced that the market is undervaluing the instrument.
- Because the terms of ARSs are complex, investors must carefully evaluate them when determining fair value.
- Investors should be mindful of the guidance on, and disclosure requirements for, OTTIs in Statement 115, FSP FAS 115-1/124-1, SAS 92, and SAB Topic 5.M (not-for-profit organizations should consider footnote 3(a) of Statement 124).

During August and September of 2008, several large financial institutions (hereafter referred to as broker-dealers) entered into settlement agreements with state and federal regulators regarding the marketing and selling of investments in ARSs. While the terms

of each settlement agreement vary by broker-dealer, the most common feature is an agreement to repurchase the ARS for cash equal to the par value of the ARS on a specified future date (or range of dates). The purchase agreement is effectively a put option written by the broker-dealer to certain eligible investors. The broker-dealer's accounting depends on whether it has entered into a legally enforceable settlement agreement that meets the definition of a firm commitment. The investor's accounting depends on whether it can benefit from an enforceable settlement agreement that meets the definition of a firm commitment and relates to an ARS held by the investor.

OTHER RESOURCES: Deloitte's [January 10, 2008](#), and [October 2, 2008, Financial Reporting Alerts](#). ●

Consideration of Redemption Restrictions on Money Market Funds in the Current Economic Environment*

AFFECTS: Investors in money market funds with redemption restrictions.

SUMMARY: As a result of recent market events, a number of "money market funds" have incurred losses on their investments. This has caused some funds to "break the buck" (i.e., their per-share net asset value has fallen below a constant amount, typically \$1 per share). With money market funds experiencing declines in fair value as a result of deterioration in the creditworthiness of their assets, general illiquidity conditions, or both, redemptions by investors have increased. Accordingly, some funds have been forced to liquidate their assets, impose limits on redemptions, or obtain support from related entities.

Balance Sheet Classification

As of the reporting date, an investment in a money market fund should remain classified as a cash equivalent for financial reporting periods ending **before** the money market fund imposed restrictions on redemptions. For financial reporting periods ending as of or **after** the date on which amounts have been restricted for redemption or have been frozen, it is no longer appropriate to continue to classify any portion of an investment as a cash equivalent unless the investor has determined that it has the unconditional right to receive all of its investment within three months of the date of the restriction. However, prior-period amounts presented should not be reclassified from cash equivalents.

Measurement

For financial reporting periods ending **before** the date of a decline in the fair value of a money market fund investment, such a decline would represent a Type II subsequent event in accordance with AU Section 560 and would not be recorded (but may need to be disclosed) in the quarterly or year-end financial statements. For financial reporting periods ending as of or **after** the date of a decline in the fair value of a money market fund investment, an investor should generally reduce the carrying amount of its investment to its fair value.

Classification in the Statement of Cash Flows

The reclassification of amounts previously reflected as cash equivalents would be presented as an investing or operating activity, as appropriate, in the statement of cash flows. Prior-period cash flow statements should not be adjusted to reclassify amounts from cash equivalents if such amounts were appropriately classified in the prior period.

OTHER RESOURCES: Deloitte's [October 24, 2008, Financial Reporting Alert](#). ●

Consideration of Potential Counterparty Defaults in the Current Economic Environment*

AFFECTS: All entities.

SUMMARY: Recent market events, such as the bankruptcy of Lehman Brothers Holdings Inc. and the credit-standing deterioration of other financial institutions, may have an impact on an entity's financial statements. **An entity must analyze the potential effects of potential counterparty defaults on its financial statements.** The analysis should include assessment and inventory of the entity's exposures to counterparties at risk. Such exposures may be direct (e.g., an investment in a security issued by an entity in financial distress) or indirect (e.g., an investment in a mutual fund that is heavily invested in securities issued by an entity in financial distress).

Derivative contracts are one area of accounting that could be affected by a counterparty default. An entity should disclose the current and potential financial statement effects of the event(s) that caused or may cause hedging relationships to fail the effectiveness criterion, including any material gain or loss that is recognized because of the discontinuance of hedge accounting. The disclosures required by paragraphs 44 and 45 of Statement 133 for fair value and cash flow hedging relationships may also be relevant. An entity should also ensure that it provides appropriate MD&A disclosure in its financial statement filings.

OTHER RESOURCES: Deloitte's [October 6, 2008, Financial Reporting Alert](#). ●

Disclosure Considerations in the Current Economic Environment*

AFFECTS: All entities.

SUMMARY: In the current credit environment, **comprehensive and informative financial statement disclosures about an entity's exposure to credit risk and potential for losses are crucial.** To increase the transparency of their disclosures in this troubled credit market, entity management may need to provide disclosures beyond those required by GAAP. Thorough footnote disclosures may prove especially useful for increasing transparency. SEC registrants, in addition to providing basic GAAP disclosures, must disclose information about their financial condition, changes in financial condition, liquidity, and results of operations.

The following standards contain disclosure requirements preparers should consider when disclosing the effects of the current credit crisis in the notes to the financial statements and MD&A:

- Statement 161.
- Statement 157.
- Statement 156.
- Statement 140.
- Statement 133.
- Statement 115.
- Statement 107.
- Interpretation 46(R).
- Interpretation 45.
- FSP FAS 157-3.

- FSP FAS 157-1.
- FSP FAS 140-4 and FIN 46(R)-8.
- FSP FAS 133-1 and FIN 45-4.
- FSP FAS 115-1/124-1.
- FSP SOP 94-6-1.
- SOP 01-6.
- SOP 94-6.
- Regulation S-K, Item 303.

OTHER RESOURCES: Deloitte's [January 18, 2008, Financial Reporting Alert](#). ●

Pension and Other Postretirement Benefits Affected by Turmoil in the Credit Markets*

AFFECTS: Entities with defined benefit pension and other postretirement benefit plans.

SUMMARY: The credit crisis may affect an entity's pension and other postretirement plan assets, benefit calculations, and disclosures. Given the broad market decline, coupled with the requirements in Statement 158 that an entity record the funded status of its defined benefit postretirement plan(s) as an asset or liability on its balance sheet, an entity should focus on the value of its plan assets this year-end. In addition, an entity should:

- Understand and evaluate the potential effect of an increasing postretirement benefit liability (or decreasing postretirement benefit asset) on its debt covenant calculations or capital requirements. This includes consideration of whether additional disclosure is warranted in the MD&A of the liquidity section of the financial statements.
- Understand, evaluate, and reach conclusions about the reasonableness of the underlying assumptions that could be affected by the credit market turmoil and broadening market declines, particularly the discount rate and the expected long-term return on plan assets.
- Consider the effect that decreases in plan assets and changes in postretirement benefit obligations could have on the computation of the gain or loss amortization component of fiscal year 2009 pension cost.
- Ensure that plan assets and benefit obligations are measured as of the date of the entity's fiscal year-end in accordance with paragraph 5 of Statement 158. Actual market values should be used for assets with readily determinable fair market values. Entities should apply the principles of Statement 157 when valuing assets without readily determinable fair values (e.g., alternative investments) as of the measurement date and should apply the recently issued FSP FAS 157-3 to estimate the fair value of financial assets in inactive markets.
- Measure their benefit obligations as of the date of their fiscal year-end. The discount rate used in the calculation of the benefit obligation should be the rate on the measurement date. Entities should also maintain sufficient documentation to support conclusions about benefit obligation calculations and computational shortcuts, if any.

- Consider the need for additional disclosure (i.e., pursuant to paragraph 5(d)(4) of Statement 132(R)) about the allocation of a postretirement plan's assets. For instance, entities whose plan asset allocations are heavily weighted in investments affected by the credit market turmoil and broadening market declines should consider disclosing the potential effects on asset values in the notes to the financial statements, MD&A, or both. Such entities should also consider disclosing investments whose fair value has been reduced as an indirect result of the credit market turmoil (e.g., plans that hold investments in entities that are facing liquidity concerns because of their inability to access financing in tight credit markets).
- Consider disclosing how they calculate the market-related value of plan assets.

OTHER RESOURCES: Deloitte's [December 4, 2008, Financial Reporting Alert](#). ●

Considerations Regarding the Emergency Economic Stabilization Act of 2008

AFFECTS: All entities.

SUMMARY: On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008. The Act grants the secretary of the Treasury authority to purchase troubled assets from certain financial institutions. Such assets will be purchased through the TARP, which will be administered by the newly formed Office of Financial Stability. The "troubled assets" that financial institutions may sell are primarily "residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008," but may also include any other financial instrument whose purchase is "necessary to promote financial market stability." (Such a determination must be based on consultation with the chairman of the Federal Reserve and submitted in writing to the appropriate congressional committees.)

In addition to establishing the TARP, the Act requires the secretary to "establish a program to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities." The Act also includes provisions for the secretary to acquire, as part of the foreclosure mitigation efforts, mortgages, mortgage-backed securities, and other assets secured by residential real estate.

OTHER RESOURCES: For more information about the Act and the related accounting and reporting considerations, see [Deloitte's October 14, 2008, Heads Up](#) and [October 6, 2008, and October 13, 2008, Financial Reporting Alerts](#). ●

Business Combinations

The effective dates of Statements 141(R) and 160 are approaching for many companies. The EITF and FASB have already resolved a number of implementation issues associated with these standards. The EITF is expected to finalize two Issues on the recognition and measurement of acquired contingencies and certain Statement 160 implementation issues in the first quarter of 2009. Those Issues are expected to be effective as of the adoption date of Statement 141(R). See the [Income Taxes](#) section for information about Statement 141(R)'s changes to income tax accounting that affect the accounting for **all** acquired income tax uncertainties, acquired deferred tax assets with valuation allowances, and other items.

FASB Proposes FSP to Amend Statement 141(R)'s Guidance on Contingencies*

AFFECTS: All entities.

SUMMARY: On December 15, 2008, the FASB issued [proposed FSP FAS 141\(R\)-a](#), which would amend Statement 141(R)'s guidance on the recognition and measurement of assets acquired and liabilities assumed in a business combination that arise from contingencies.

Statement 141(R) currently requires that all contractual contingencies and noncontractual contingencies that more likely than not give rise to an asset or liability (as these terms are defined in Concepts Statement 6) be recognized and measured at fair value as of the acquisition date. The proposed FSP would modify this requirement by stating that such assets and liabilities must be recognized at fair value **if the fair value can be reasonably determined** during the measurement period. Paragraph 14 of the FSP states that if the acquisition-date fair value of such an asset or liability cannot be reasonably determined, the asset or liability would be measured "at the amount that would be recognized for liabilities in accordance with" Statement 5 and Interpretation 14, "and a similar amount for assets (referred to as the 'future settlement amount')."

Editor's Note: The proposal is similar to current practice under Statement 141, which requires that these assets be measured at fair value **if fair value can be determined**. In practice, entities have generally recognized contingent assets and liabilities arising in a business combination under Statement 5 rather than as of the acquisition date under Statement 141. The proposed FSP requires that if the fair value cannot be reasonably determined, the future settlement amount must be recognized as of the settlement date (this measurement is based on Statement 5). Therefore, the guidance in the proposed FSP would be expected to result in the recognition of more contingent assets and liabilities at fair value than under Statement 141, but fewer than under Statement 141(R)'s current guidance.

In conjunction with its new measurement and recognition requirements, the proposed FSP would also make a few significant changes to Statement 141(R)'s disclosure requirements, including the following:

- If an asset or liability was not recognized at fair value as of the acquisition, the entity must disclose the reasons why it could not reasonably determine the fair value.
- An entity is not required to disclose an unrecognized contingency unless (1) it is at least reasonably possible that a liability has been incurred or, (2) if the contingency involves an unasserted claim, unless it is probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable.
- If a liability is initially recognized at fair value, and there is a change in the measurement of that liability to the amount that would be recognized under Statement 5 or Interpretation 14, an entity must disclose the amount of the change and the reason for the change during the reporting period in which the change occurred.

NEXT STEPS: Comments on the proposed FSP are due by January 15, 2009. After that date, the FASB will redeliberate the proposed guidance. A final FSP is expected to be issued by the end of March 2009, and would have the same effective date as Statement 141(R) (i.e., would be effective for business combinations whose acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15,

2008). Although the final FSP will be issued after the effective date of Statement 141(R), the FASB believes that constituents will have enough time to reflect the new guidance in their first interim-period financial statements.

OTHER RESOURCES: A [news release](#) announcing the FSP is available on the FASB's Web site. Also see Deloitte's [December 17, 2008, Heads Up](#). ●

EITF Issue No. 08-6, “Equity Method Investment Accounting Considerations”

AFFECTS: Entities that acquire or hold investments accounted for under the equity method.

SUMMARY: In this Issue, the Task Force considered the effects of the issuances of Statements 141(R) and 160 on an entity's application of the equity method under Opinion 18. Certain provisions in Opinion 18 require entities to account for equity method investments as if the investee were consolidated. Statements 141(R) and 160, which are effective for fiscal years beginning on or after December 15, 2008, amend the accounting for consolidated subsidiaries. Questions have arisen regarding the application of equity method accounting guidance because of the significant changes to the guidance on business combinations and subsidiary equity transactions and the increased use of fair value measurements as a result of these Statements.

The Task Force reached a [consensus](#) that:

- An entity should determine the initial carrying value of an equity method investment by applying the cost accumulation model described in paragraphs D3–D7 of Statement 141(R).
- An entity should use the other-than-temporary impairment model of Opinion 18, not some other method that disaggregates the investment into the individual assets of the investee, when testing equity method investments for impairment. However, investors should adjust any impairments recorded by an investee for existing differences between the investor's basis and the underlying investee's basis in such impaired assets.
- Share issuances by the investee should be accounted for as if the equity method investor had sold a proportionate share of its investment (i.e., any gain or loss is recognized in earnings).
- When an investment is no longer within the scope of equity method accounting and instead is within the scope of cost method accounting or Statement 115, the investor should prospectively apply the provisions of Opinion 18 or Statement 115 and use the current carrying amount of the investment as its initial cost.

NEXT STEPS: To coincide with the effective dates of Statements 141(R) and 160, the consensus is effective for transactions occurring in fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is not permitted.

OTHER RESOURCES: Deloitte's [November 2008 EITF Snapshot](#). ●

EITF Issue No. 08-7, “Accounting for Defensive Intangible Assets”

AFFECTS: Entities that will acquire intangible assets after the effective date of Statement 141(R), when the acquirer has no intention of using, or intends to discontinue use of, the intangible asset but holds it (locks it up) to prevent competitors from obtaining any benefit from it (i.e., a defensive intangible asset).

SUMMARY: The Task Force reached a [consensus](#) that (1) an acquired defensive asset should be

accounted for as a separate unit of accounting (i.e., an asset separate from other assets of the acquirer); (2) an acquired research and development asset is outside this Issue's scope and should be accounted for pursuant to paragraph 16 of Statement 142; (3) the useful life assigned to an acquired defensive asset should be based on the period during which the asset would diminish in value; and (4) it would be rare for an entity to conclude that a defensive asset has an indefinite life. The Issue includes examples illustrating how to determine the asset's amortization period.

NEXT STEPS: To coincide with the effective date of Statement 141(R), the consensus is effective for defensive intangible assets acquired in fiscal years beginning on or after December 15, 2008.

OTHER RESOURCES: Deloitte's [November 2008 EITF Snapshot](#). ●

EITF Issue No. 08-8, “Accounting for an Instrument (or an Embedded Feature) With a Settlement Amount That Is Based on the Stock of an Entity’s Consolidated Subsidiary”

AFFECTS: Reporting entities that enter into freestanding financial instruments (or instruments that contain embedded features) for which the payoff to the counterparty is indexed to the stock of a consolidated subsidiary.

SUMMARY: The Task Force reached a [consensus](#) that freestanding financial instruments (or embedded features) that are indexed to, in whole or in part, the stock of a consolidated subsidiary are considered indexed to the entity's own stock in the consolidated financial statements if (1) the requirements of Issue 07-5 are met and (2) the subsidiary is a substantive entity. This Issue requires that any subsidiary referenced in the freestanding instrument (or embedded feature) be substantive to ensure that entities cannot receive equity classification for a financial instrument referenced to a subsidiary that has no business purpose (e.g., the subsidiary was formed to hold a derivative instrument or a commodity).

The Task Force also reached a consensus that an equity-classified instrument (including an embedded feature that is separately recorded in equity) within the scope of this Issue should be presented as a component of noncontrolling interest in the consolidated financial statements in a manner consistent with the conclusions in Statement 160. However, if an equity-classified instrument within the scope of this Issue is entered into by the parent and expires without being exercised, the carrying amount of the instrument at expiration would be reclassified from noncontrolling interest to controlling interest.

NEXT STEPS: To coincide with the effective date of Statement 160, the consensus is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. At transition, the carrying value of the instrument (or separated embedded feature) previously classified as a liability will be reclassified to noncontrolling interest. Early adoption is not permitted.

OTHER RESOURCES: Deloitte's [November 2008 EITF Snapshot](#). ●

Proposed EITF Issue No. 08-10, “Selected Statement 160 Implementation Questions”*

AFFECTS: An entity that transfers an ownership interest in a consolidated subsidiary to another entity, resulting in deconsolidation of the subsidiary.

SUMMARY: This Issue addresses several situations in which the application of Statement 160 conflicts with existing authoritative accounting guidance on (1) sales of interests in a subsidiary

that are “in-substance” real estate; (2) the transfer of an interest in a subsidiary to an equity method investee; and (3) the transfer of an interest in a subsidiary in exchange for a joint venture interest.

The Task Force reached a [consensus-for-exposure](#) that an entity should (1) continue to apply accounting guidance specific to the sales of real estate (e.g., Statement 66 or SOP 78-9) to sales of ownership interests in a subsidiary that is in-substance real estate and that results in deconsolidation of a previously consolidated subsidiary; (2) recognize gains or losses, if any, by applying Statement 160 to the transfer of an ownership interest to an equity method investee that results in deconsolidation of a previously consolidated subsidiary; and (3) apply Statement 160 to the transfer of an ownership interest in exchange for a joint venture interest that results in deconsolidation of a previously consolidated subsidiary. The Task Force also reached a consensus-for-exposure to amend ARB 51 to clarify that its partial sale and deconsolidation provisions do not apply if the subsidiary is not a “substantive entity.”

NEXT STEPS: To coincide with the effective date of Statement 160, a consensus would be effective for transactions occurring in fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption would not be permitted. Comments on the proposed EITF Issue are due by December 26, 2008. The Board is expected to finalize the Issue in January 2009.

OTHER RESOURCES: Deloitte’s [November 2008 EITF Snapshot](#). ●

Statement 141(R) Implementation Issue: Acquisition-Related Costs Incurred for Current Transactions*

AFFECTS: All entities except not-for-profit organizations, combinations between entities under common control, and formations of joint ventures.

SUMMARY: Questions have arisen about how an entity that is incurring acquisition-related costs (in periods in which Statement 141(R) is in effect) for a business combination should account for those costs when the acquisition date is not expected to occur until Statement 141(R) becomes effective (the first annual reporting period beginning on or after December 15, 2008). The following are two alternatives for how entities can account for these costs:

Alternative A — Acquisition-related costs should be expensed as they are incurred.

Proponents of this alternative believe that since the acquisition date is expected to occur after the effective date of Statement 141(R), the costs should be expensed as incurred in view of the effective date and transition guidance in paragraph 74 of Statement 141(R).

Alternative B — Acquisition-related costs should be deferred until the first annual reporting period beginning on or after December 15, 2008. Proponents of this alternative believe that because early application of Statement 141(R) is prohibited, any acquisition-related costs incurred before the effective date of Statement 141(R) should be deferred until the entity adopts that standard. Views differ, however, on the subsequent treatment of those costs. Some hold that deferred acquisition-related costs should be expensed in the first annual reporting period beginning on or after December 15, 2008, while others subscribe to retrospective application and maintain that an entity should apply the guidance in Statement 154 on reporting a change in accounting principle.

We understand that on the basis of the transition guidance in paragraph 74 of Statement 141(R), the SEC staff will not object to the recording of acquisition costs in a manner consistent with any of the above alternatives, provided that an entity appropriately disclose its accounting policy in accordance with Opinion 22 and apply it consistently to all such costs. ●

Employee and Director Compensation and Benefits

FASB Concludes That Certain Unvested Share-Based Payment Awards Are Participating Securities

AFFECTS: Entities calculating earnings per share (EPS) under Statement 128.

SUMMARY: On June 16, 2008, the FASB issued [FSP EITF 03-6-1](#). The FSP addresses “whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing [EPS] under the two-class method” The FSP affects entities that accrue cash dividends on share-based payment awards during the awards’ service period when the dividends do not need to be returned if the employees forfeit the awards.

The FASB concluded that all outstanding unvested share-based payment awards that contain rights to **nonforfeitable** dividends participate in undistributed earnings with common shareholders. That is, awards that accrue cash dividends (whether paid or unpaid) any time the common shareholders receive dividends — when those dividends do not need to be returned to the entity if the employee forfeits the award — are considered participating securities. Because the awards are considered participating securities, the issuing entity is required to apply the two-class method of computing basic and diluted EPS. The FASB did not address forfeitable dividends in the FSP. Therefore, entities should continue to apply their existing accounting policy for unvested share-based payment awards that contain rights to forfeitable dividends.

NEXT STEPS: The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited.

OTHER RESOURCES: Deloitte’s [June 17, 2008, Heads Up](#). ●

SEC Comments on Executive Compensation Disclosures

AFFECTS: Public entities.

SUMMARY: On October 21, 2008, John White, director of the SEC’s Division of Corporation Finance (DCF), presented a [speech](#) highlighting the DCF’s observations on the completeness of registrants’ executive compensation disclosures reviewed over the past year. In his speech, Mr. White noted that the pervasive theme in the SEC’s comments provided to registrants was that their disclosures need to contain more analysis. This message is consistent with the views that Mr. White and SEC Chairman Christopher Cox expressed in speeches last fall.

Mr. White explained that a registrant’s CD&A should focus more on an analysis of material principles and important factors influencing the registrant’s executive compensation policies and decisions. In other words, **how** and **why** did the company arrive at its policies and decisions? Registrants should consider discussing the following in the CD&A:

- The “material elements of compensation,” including performance targets and peer group benchmarks.
- Specific factors they considered when approving each element of compensation for each named executive officer.
- Why or how decisions for one element affected another element.

- How the levels of compensation were determined, including why the amounts are appropriate.
- Why “compensation practices and decisions fit within [the registrant’s] overall objectives and philosophy.”

Mr. White also pointed out that the requirements for executive compensation packages under the Emergency Economic Stabilization Act of 2008 could result in new, modified, or terminated arrangements that should be disclosed in the CD&A.

OTHER RESOURCES: For more information, see Deloitte’s [October 16, 2007, Heads Up](#) as well as its [Special Report](#) on the SEC’s comment letters to domestic registrants. ●

Financial Instruments and Derivatives

FASB Expands Disclosures About Derivative Instruments and Hedging Activities

AFFECTS: Entities with derivative instruments and that engage in hedging activities.

SUMMARY: On March 19, 2008, the FASB issued [Statement 161](#), which amends Statement 133 by requiring expanded disclosures about an entity’s derivative instruments and hedging activities, but does not change Statement 133’s scope or accounting.

Statement 161 requires increased qualitative, quantitative, and credit-risk disclosures. Required qualitative disclosures include:

- How and why an entity is using a derivative instrument or hedging activity (e.g., for risk management or other purposes).
- How the entity is accounting for its derivative instrument and hedged items under Statement 133 (and related guidance).
- How the instruments and hedged items affect the entity’s financial position, financial performance, and cash flows.

Quantitative disclosures should include information (in a tabular format) about the fair value of the derivative instruments, including gains and losses, and should contain more detailed information about the location of the derivative instrument in the entity’s financial statements. Credit-risk disclosures should include information about the existence and nature of credit-risk-related contingent features included in derivative instruments. Credit-risk-related contingent features can be defined as those that require entities, upon the occurrence of a credit event (e.g., credit rating downgrade), to settle derivative instruments or to post collateral.

Statement 161 also amends Statement 107 to clarify that derivative instruments are subject to Statement 107’s concentration-of-credit-risk disclosures. Although the FASB intended Statement 107 to apply to all financial instruments, including derivatives, it believes the clarification was necessary to address differing views on whether entities’ disclosures about concentration of credit risk should include derivative instruments.

NEXT STEPS: This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.¹ Early adoption is permitted. Entities are encouraged, but not required, to provide comparative disclosures for earlier periods.

OTHER RESOURCES: Deloitte’s [March 27, 2008, Heads Up](#). ●

¹ Accordingly, an entity must provide the disclosures required by Statement 161 in its first set of financial statements issued for a reporting period that begins after November 15, 2008, regardless of whether that reporting period is an interim period.

FASB Issues FSP Under Which Repurchase Financing Activities May Be Derivatives

AFFECTS: Transferors and transferees of financial assets, including broker-dealers, hedge funds, banks, and real estate investment trusts.

SUMMARY: On February 20, 2008, the FASB issued [FSP FAS 140-3](#) to resolve questions about the accounting for repurchase financings. Repurchase financings are repurchase agreements that:

- Relate to a previously transferred asset.
- Are between the same counterparties.
- Are entered into contemporaneously with, or in contemplation of, the initial transfer.

The FSP discusses a series of transactions involving the acquisition of a security from a counterparty, usually a broker-dealer (step 1), along with a repurchase arrangement that involves the sale of the same security back to the broker-dealer (step 2) and an agreement to buy the security back by a specified future date at a fixed price (step 3). The FSP establishes criteria that could require parties to link the initial transfer (step 1) and the first transfer under the repurchase agreement (step 2) and treat them as one. This linkage, when required, substantially alters the financial reporting outcome of both parties. Two outcomes are possible:

- *Outcome 1* — The initial purchase and the repurchase agreement are treated separately. In other words, the initial transferee acquires a security and, as is typical for such arrangements, treats the repurchase agreement as if it had borrowed money from the transferor.
- *Outcome 2* — The initial purchase and the repurchase agreement are linked. As a result, the initial transferee of the security reports the transaction initially “off the books” as a forward that will result, upon future settlement, in the acquisition of a security. If the forward meets the Statement 133 definition of a derivative, it gets marked to fair value, which introduces accounting volatility to the initial transferee.

NEXT STEPS: The FSP is effective for repurchase financings in which the initial transfer is entered into in fiscal years beginning after November 15, 2008.

OTHER RESOURCES: Deloitte's [February 26, 2008, Heads Up](#). ●

FASB Approves Two Clarifications on Applying the Shortcut Method

AFFECTS: Entities applying the shortcut method under Statement 133.

SUMMARY: In January 2008, the FASB issued [Implementation Issue E23](#), which amends Statement 133 to explicitly permit use of the shortcut method for hedging relationships in which:

- The interest rate swaps have a nonzero fair value at the inception of the hedging relationship, provided that this value is attributable solely to a bid-ask spread.
- The settlement date of the hedged item is after its swap trade date, provided that these dates differ because of generally established conventions in the marketplace in which the transaction is executed.

Editor's Note: Before the amendment, for a hedging relationship to qualify for the shortcut method, the fair value of the swap at inception had to be zero. The transaction price was assumed to be fair value. Under Statement 157, the exit price is used in determining fair value. There was concern that the shortcut method would no longer be available because, for many hedges, the existence of a bid-ask spread would have meant that the swap would not have a fair value of zero at inception. Implementation Issue E23 clarifies that the shortcut method is available for hedging relationships in which the interest rate swap has a nonzero fair value at inception, as long as the difference between the transaction price and the instrument's fair value is attributable **solely** to the bid-ask spread.

NEXT STEPS: Implementation Issue E23 is effective for hedging relationships designated on or after January 1, 2008. Preexisting shortcut hedging relationships must also be analyzed as of the Implementation Issue's adoption date to determine whether they complied with the revised shortcut criteria at their inception. Hedging relationships that no longer meet the shortcut criteria must be dedesignated prospectively from January 1, 2008.

OTHER RESOURCES: Deloitte's [January 14, 2008, Heads Up](#). ●

FASB Tightens Convertible Debt Accounting for Issuers

AFFECTS: Issuers of convertible debt securities.

SUMMARY: On May 9, 2008, the FASB issued [FSP APB 14-1](#), which addresses the accounting for convertible debt securities that, **upon conversion**, may be **settled by the issuer fully or partially in cash** (i.e., if the investor elects to convert, the issuer has the right to pay some or all of the conversion value in cash rather than to settle the conversion value fully in shares). Such securities have been popular in recent years because issuers have enjoyed lower interest expense and more favorable earnings per share than they have with other types of securities. Issue 90-19 includes examples of these instruments, describing them as Instruments B and C.

The FSP does not change the accounting for more traditional types of convertible debt securities that do not have a cash settlement feature. Also, the FSP does not apply if, under existing GAAP for derivatives, the embedded conversion feature must be accounted for separately from the rest of the instrument.

Under the FSP, issuers of convertible debt securities within its scope separate these securities into two accounting components:

- A debt component, representing the issuer's contractual obligation to pay principal and interest.
- An equity component, representing the holder's option to convert the debt security into equity of the issuer or, if the issuer so elects, an equivalent amount of cash.

The FSP establishes that the proceeds are allocated between the liability and equity components under the so-called liability-first approach as follows:

- First, the issuer allocates the proceeds to the liability component on the basis of its estimate of the fair value of an identical debt instrument that it would issue (except that the instrument does not have the conversion option).
- Then, the remaining proceeds are allocated to the equity component.

The FSP also requires entities to allocate issue costs between the liability and equity components.

NEXT STEPS: The FSP is effective for fiscal years (and interim periods within these fiscal years) beginning after December 15, 2008 (i.e., January 1, 2009, for calendar-year-end entities). The FSP should be **applied retrospectively to all past periods presented** — even if the instrument has matured, has been converted, or has otherwise been extinguished as of the FSP's effective date. Early adoption is not permitted.

OTHER RESOURCES: Deloitte's [May 15, 2008, Heads Up](#). ●

FASB Updates Statement 133 Implementation Guidance

AFFECTS: Entities implementing Statement 133.

SUMMARY: On April 21, 2008, the FASB issued updated guidance regarding the implementation of Statement 133. Two Implementation Issues were amended:

- [Statement 133 Implementation Issue No. I1](#), "Disclosures: Interaction of the Disclosure Requirements of Statement 133 and Statement 47."
- [Statement 133 Implementation Issue No. K4](#), "Miscellaneous: Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded From the Assessment of Hedge Effectiveness."

These Implementation Issues were revised to reflect disclosures amended by Statement 161.

OTHER RESOURCES: For more information about Statement 161, see Deloitte's [March 27, 2008, Heads Up](#).

FASB Issues FSP on Credit Derivative and Guarantee Disclosures

AFFECTS: Entities that sell credit derivatives and provide guarantees.

SUMMARY: On September 12, 2008, the FASB issued [FSP FAS 133-1 and FIN 45-4](#). The FSP amends Statement 133 to require a **seller** of credit derivatives, including credit derivatives embedded in hybrid instruments, to provide certain disclosures for each credit derivative (or group of similar credit derivatives) for each statement of financial position presented. These disclosures must be provided even if the likelihood of having to make payments is remote. Required disclosures include:

- The nature of the credit derivative, including:
 - o The approximate term of the derivative.
 - o The reason(s) for entering into the derivative.
 - o The events or circumstances that would require the seller to perform under the derivative.
 - o The status of the payment/performance risk of the derivative as of the reporting date. This can be based on a recently issued external credit rating or an internal grouping used by the entity to manage risk. (If an internal grouping is used, the entity also must disclose the basis for the grouping and how it is used to manage risk.)
- The maximum potential amount of future payments (undiscounted) the seller could be required to make under the credit derivative contract (or the fact that there is no limit to the maximum potential future payments). If a seller is unable to estimate the maximum potential amount of future payments, it also must disclose the reasons why.
- The fair value of the derivative.

- The nature of any recourse provisions and assets held as collateral or by third parties that the seller can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative contract.

For hybrid instruments that have embedded credit derivatives, the required disclosures should be provided for the entire hybrid instrument, not just the embedded credit derivative.

The FASB did not perceive substantive differences between the risks and rewards of sellers of credit derivatives and those of financial guarantors. With one exception, the disclosures in Interpretation 45 were consistent with the disclosures that will now be required for credit derivatives. To make the disclosures consistent, the FSP amends Interpretation 45 to require guarantors to disclose “the current status of the payment/performance risk of the guarantee.”

The FSP also clarifies that Statement 161 is effective for financial statements issued for fiscal years **and** interim periods beginning after November 15, 2008. Accordingly, an entity must provide the disclosures required by Statement 161 in its first set of financial statements issued for a reporting period that begins after November 15, 2008, regardless of whether that reporting period is an interim period.

NEXT STEPS: The provisions of the FSP that amend Statement 133 and Interpretation 45 are effective for reporting periods (annual or interim) ending after November 15, 2008.

OTHER RESOURCES: A [news release](#) announcing the FSP is available on the FASB’s Web site. Also see Deloitte’s [September 18, 2008, Heads Up](#). ●

EITF Issue No. 07-5, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock”

AFFECTS: Entities with (1) options or warrants on their own shares (not within the scope of Statement 150), including market-based employee stock option valuation instruments; (2) forward contracts on their own shares, including forward contracts entered into as part of an accelerated share repurchase program; and (3) convertible debt instruments and convertible preferred stock. Also affected are entities that issue equity-linked financial instruments (or financial instruments that contain embedded equity-linked features) with a strike price that is denominated in a foreign currency.

SUMMARY: The instruments affected by this [Issue](#) (see above) may contain contract terms that call into question whether the instrument or embedded feature is indexed to the entity’s own stock. A derivative instrument or embedded derivative feature that is deemed indexed to an entity’s own stock may be exempt from the requirements of Statement 133 for derivatives. In addition, a freestanding instrument that is indexed to a company’s own stock remains eligible for equity classification under Issue 00-19.

In June 2008, the Task Force reached a consensus on the following three issues:

- How an entity should evaluate whether an instrument (or embedded feature) is indexed to its own stock.
- How the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to an entity’s own stock.
- How an issuer should account for market-based employee stock option valuation instruments.

NEXT STEPS: The consensus was ratified by the FASB and is effective for fiscal years (and interim periods) beginning after December 15, 2008. The consensus must be applied to outstanding instruments as of the beginning of the fiscal year in which the Issue is

adopted as a cumulative-effect adjustment to the opening balance of retained earnings for that fiscal year. Early application is not permitted.

OTHER RESOURCES: Deloitte's [June 2008 EITF Snapshot](#) and [December 5, 2008, Heads Up](#). ●

Considerations of Credit Risk in Fair Value Hedge Effectiveness Assessments*

AFFECTS: Entities with derivatives accounted for as fair value hedges.

SUMMARY: Certain issues have been raised regarding the determination of the fair value of derivatives under Statement 157 and the effect on assessing hedge effectiveness of fair value hedges under Statement 133. Statement 157 indicates that credit risk (both the counterparty's and the entity's own) affects the determination of the fair value of derivatives and establishes, as a valuation premise, that derivatives (or aspects of derivatives) may be valued as a group. Statement 157 became effective for derivatives for calendar-year reporting entities on January 1, 2008.

Some reporting entities pool derivatives by counterparty to estimate the appropriate credit valuation adjustment in determining the fair value of that pool. At issue is whether and how that pooled credit adjustment affects the assessment of effectiveness of an individual designated derivative in a fair value hedge relationship. Specifically, constituents have questioned (1) whether credit risk must be considered in hedge effectiveness assessments and, if so, (2) whether credit risk can be considered separately through qualitative analysis. In recent conversations, the SEC staff clarified how reporting entities should treat credit risk in fair value hedge effectiveness assessments.

The SEC staff confirmed that reporting entities must consider the impact of credit risk on the fair value of the designated derivative, as discussed in Statement 133 Implementation Issue G10. However, reporting entities may separately demonstrate the credit-risk effect of the designated derivative on the effectiveness of the hedge relationship by performing a qualitative analysis in which the entities determine that the changes in fair value that are attributable to credit risk would not affect the highly effective nature of the fair value hedge. Note that in this circumstance, the assessment of the effectiveness of the designated hedging relationship, excluding the effect of the credit risk of the derivative, should be quantitative. Stated differently, reporting entities can exclude credit risk from their periodic quantitative fair value hedge effectiveness assessments when they determine qualitatively that credit risk would not cause the hedging relationship to fail its periodic effectiveness assessment. The qualitative determination should take into account (1) the magnitude of the credit valuation adjustment in relation to the portfolio size and (2) the level of effectiveness of each individual hedging relationship before credit risk is considered.

When a reporting entity cannot or does not determine qualitatively that credit risk would not cause the hedging relationship to fail its periodic effectiveness assessment, it must include credit risk in its periodic quantitative assessments of fair value hedging relationships. Statement 133 requires reporting entities to perform this assessment at the individual hedge relationship level (i.e., individual derivative level).

NEXT STEPS: The SEC staff provided relief to reporting entities that did not include credit risk in their prospective assessments of effectiveness. The staff indicated that it would not object to continued application of fair value hedge accounting if reporting entities consider the impact of credit risk (either qualitatively or quantitatively) before issuing their financial statements, provided that the other requirements for hedge accounting were met. Going forward, reporting entities would need to have contemporaneous documentation of the impact of credit risk on fair value hedge effectiveness assessments (as part of their prospective assessments) to qualify for hedge accounting.

Because of the complexity in applying hedge accounting, reporting entities and auditors are urged to consult with derivative accounting specialists.

OTHER RESOURCES: Deloitte's [April 15, 2008, Financial Reporting Alert](#). ●

Income Taxes

Recent Tax Ruling Affects Tax Positions Related to Executive Compensation

AFFECTS: All entities.

SUMMARY: On January 25, 2008, the IRS issued a Private Letter Ruling (PLR) indicating a change in its position on the deductibility of certain forms of executive compensation, such as cash, restricted stock, and restricted stock units. The PLR may have financial reporting implications for both year-end and first-quarter financial statements (for calendar-year-end entities). In addition, the PLR may affect an entity's previous conclusions about the recognition or measurement of past and current tax positions related to compensation arrangements. That is, an entity may determine that a tax position no longer meets the more-likely-than-not threshold in Interpretation 48. Tax professionals should be consulted to determine whether the PLR affects the deductibility of payments (or vesting) under an entity's compensation arrangements.

Editor's Note: The IRS issued a [Revenue Ruling](#) on February 21, 2008, that provides guidance on the applicability of the qualified performance-based compensation exception under IRC Section 162(m) and related regulations. The Revenue Ruling reaffirms the IRS's position in the PLR, but provides transition relief in the form of prospective application for certain plans, agreements, or contracts. As a result, entities may need to reconsider their uncertain tax positions under Interpretation 48 in light of both the PLR and the Revenue Ruling.

OTHER RESOURCES: Deloitte's [February 27, 2008, Financial Reporting Alert](#). ●

FASB Proposes FSP to Delay Effective Date for Interpretation 48 (Uncertain Tax Positions) for Private Entities

AFFECTS: Private entities.

SUMMARY: On November 3, 2008, the FASB issued proposed [FSP FIN 48-c](#), which would defer the effective date of Interpretation 48 for all private entities to periods beginning after December 15, 2008 (i.e., it would affect financial statements for this reporting season). The Interpretation was originally effective for both public and nonpublic entities for fiscal years beginning after December 15, 2006. The deferral would give the FASB time to issue two additional proposed FSPs for public comment on applying the Interpretation to nonpublic entities and pass-through entities such as S corporations and partnerships.

Comments on the proposed FSP were due by December 3, 2008.

NEXT STEPS: The Board plans to redeliberate the FSP and may finalize it in early January 2009.

OTHER RESOURCES: For [more information](#), see the FASB's Web site. ●

Effect of Statement 141(R) on Income Tax Accounting*

AFFECTS: All entities.

SUMMARY: Upon an entity's adoption of Statement 141(R), any subsequent changes to the entity's **acquired** uncertain tax positions and valuation allowances associated with **acquired** deferred tax assets will no longer be applied to goodwill, regardless of the acquisition date of the associated business combination. Rather, such changes will typically be recognized as an adjustment to income tax expense.

Acquired Uncertain Tax Positions

Under Issue 93-7, any changes in an acquired entity's uncertain tax position balances were generally recognized as adjustments to goodwill. Statement 141(R), which nullified Issue 93-7, states that income tax uncertainties acquired in a business combination should be accounted for in accordance with Interpretation 48. Statement 141(R) also added Paragraph 12B to Interpretation 48. Paragraph 12B states that if an acquired entity's unrecognized tax benefit for a tax position is adjusted during the measurement period because new information² is obtained about facts and circumstances that existed as of the acquisition date, goodwill should be adjusted. However, even during the measurement period, if the adjustment to the acquired entity's unrecognized tax benefit is the result of an identifiable event that occurred after the business combination's acquisition date, the adjustment is generally recorded to income tax expense. After the measurement period, all changes in the acquired entity's unrecognized tax benefit will be recorded in accordance with Interpretation 48.

Acquired Deferred Tax Asset Valuation Allowances

Under paragraph 30 of Statement 109, an acquired entity's deferred tax assets that were not initially realizable as of the acquisition date (partial or full valuation allowance against the acquired entity's deferred tax assets), but that are considered realizable after the acquisition date, were generally applied to goodwill. Statement 141(R) added paragraph 30A to Statement 109. Paragraph 30A states that subsequent changes in an acquired entity's deferred tax asset valuation allowance that were established as of the business combination's acquisition date would generally be recorded to income tax expense unless such adjustments occurred in the measurement period and related to information about facts and circumstances that existed as of the acquisition date. If the adjustment occurred during the measurement period and relates to new information about facts and circumstances that existed as of the acquisition date, the adjustment would be recorded to goodwill.

Other Income Tax Accounting Changes

Statement 141(R) amends Statement 109's guidance to:

- Permit recognition of a deferred tax asset for the excess of tax-deductible goodwill over goodwill for financial reporting purposes (i.e., all deferred tax assets for tax-deductible goodwill from business combinations after the adoption of Statement 141(R) will be recorded as of the acquisition date).
- Exclude all reversals of an acquirer's valuation allowance on its deferred tax assets, including reversals permitted under paragraph 266 of Statement 109, from the scope of business combination accounting.

OTHER RESOURCES: Deloitte's [December 1, 2008, Financial Reporting Alert](#). ●

² Interpretation 48 states that judgments may be changed only after the evaluation of new information — not on the basis of a new evaluation or new interpretation of information that was available in previous financial reporting periods.

Insurance

FASB Eliminates Inconsistencies in Financial Guarantee Insurance Contracts

AFFECTS: Insurance enterprises.

SUMMARY: On May 23, 2008, the FASB issued [Statement 163](#) to decrease the inconsistencies in Statement 60 in the accounting for financial guarantee insurance contracts by insurance companies. Statement 163 addresses the differing views regarding Statement 60's guidance on the recognition and measurement of premium revenues and claim liabilities and enhances the disclosure requirements for insurance contracts. Statement 163 requires insurance enterprises that issue financial guarantee insurance contracts to initially recognize the premium received (or premiums expected to be received) for issuing the contract as unearned premium revenue and to recognize that premium revenue over the period in which the protection is provided and in proportion to it. Statement 163 also requires recognition of a claim liability before an event of default if there is evidence that credit deterioration of the guaranteed obligation has occurred.

NEXT STEPS: Statement 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008 (and all interim periods within those fiscal years), except for some disclosures about the insurance enterprise's risk-management activities and claim liabilities. The Statement requires that disclosures about the risk-management activities of the insurance enterprise and its claim liabilities be effective for the first period (including interim periods) beginning after the Statement's issuance. Except for those disclosures, earlier application is not permitted. ●

Investment Companies

FASB Indefinitely Defers SOP 07-1 Affecting Investment Company Accounting

AFFECTS: Investment companies as well as entities with investments in investment companies, equity securities, commodities, securities based on indices, derivatives, and real estate.

SUMMARY: In 2007, the AICPA issued SOP 07-1 to clarify which entities were within the scope of the AICPA Audit and Accounting Guide *Investment Companies*. On February 14, 2008, in response to a number of SOP-related implementation issues identified by constituents and the Board, the FASB issued [FSP SOP 07-1-1](#), which indefinitely defers the effective date of SOP 07-1.

The FSP permits, but does not require, entities that adopted the SOP before December 15, 2007, to continue to apply its provisions. However, entities that did not early adopt before this date are prohibited from adopting the SOP except in the following situation (quoted from paragraph 6 of the FSP):

If a parent entity that early adopted the SOP chooses not to rescind its early adoption, an entity consolidated by that parent entity that is formed or acquired after that parent entity's adoption of the SOP must apply the provisions of the SOP in its standalone financial statements.

The FSP became effective on December 15, 2007.

NEXT STEPS: The deferral's objective is to give the FASB more time to address implementation issues associated with SOP 07-1. ●

SEC Expands the Definition of Eligible Portfolio Companies Under the Investment Company Act of 1940

AFFECTS: Investment companies.

SUMMARY: On May 15, 2008, the SEC issued a [final rule](#) to “more closely align the definition of eligible portfolio company, and the investment activities of business development companies (‘BDCs’), with the purpose that Congress intended.” Under the new definition, eligible portfolio companies include companies listed on the national securities exchange that have less than \$250 million in market capitalization. Previously, companies whose securities were listed on the exchange were not included in the definition.

The final rule became effective on July 21, 2008. ●

SEC Issues Final Rule on Mandatory Electronic Submission of Certain Investment Company Applications and Filings

AFFECTS: Investment companies as well as entities with investments in investment companies, equity securities, commodities, securities based on indices, derivatives, and real estate.

SUMMARY: On October 29, 2008, the SEC issued a [final rule](#) to amend the rules for submitting data via the EDGAR system. The final rule:

- Requires electronic filings via EDGAR for applications for orders under the Investment Company Act of 1940 as well as for Regulation E filings by business investment and business development companies.
- Eliminates the temporary hardship exemption as well as certain requirements to notarize submitted applications — since such submissions would be electronic.

NEXT STEPS: The final rule will become effective on January 1, 2009. ●

Not-for-Profit Accounting Matters

FASB Issues FSP on Consolidation and Equity Method Guidance for Not-for-Profit Organizations

AFFECTS: Not-for-profit organizations (NPOs).

SUMMARY: On May 19, 2008, the FASB issued [FSP SOP 94-3-1](#) and [AAG HCO-1](#) to amend the guidance on consolidation and the equity method accounting in SOP 94-3 and the AICPA Audit and Accounting Guide *Health Care Organizations* (the “Health Care Guide”). The FSP’s provisions include:

- Eliminating the exception to consolidation when control is expected to be temporary.
- Amending the definition of control through a “majority voting interest in the board of another entity.”
- Conforming the concept of sole corporate membership in SOP 94-3 to that in the Health Care Guide.

- Confirming the applicability of the consensus guidance in Issues 90-15, 96-21, and 97-1 to NPOs that are lessees in transactions involving special-purpose entity lessors.
- Requiring NPOs to apply the equity method to certain investments in for-profit partnerships, limited liability companies, or similar entities.

NEXT STEPS: The FSP is effective for fiscal years, and interim periods within these fiscal years, beginning after June 15, 2008. It should be applied prospectively to all relationships, arrangements, and interests that exist on the effective date. If an NPO changes its accounting as a result of applying the FSP (e.g., a change from cost method accounting to equity method accounting for an investment in a for-profit partnership), the cumulative effect of the change must be reported at adoption.

OTHER RESOURCES: Deloitte's [June 5, 2008, Heads Up](#). ●

FASB Issues Guidance on Endowments

AFFECTS: NPOs.

SUMMARY: On August 6, 2008, the FASB issued [FSP FAS 117-1](#) to resolve questions about the reporting of donor-restricted endowments and to "improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations." The FSP requires that:

- NPOs subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) classify amounts held in donor-restricted funds "of perpetual duration" as permanently restricted if (1) the donor has specified that the funds must be retained permanently or (2) the governing board designates funds as permanently restricted in accordance with a relevant law.
- The portions of donor-restricted funds subject to UPMIFA that are not considered permanently restricted be classified as temporarily restricted, until they have been appropriated by the NPO.
- Transparent disclosures be made regarding "net asset classification, net asset composition, changes in net asset composition, spending policy(ies), and related investment policy(ies) about its endowment funds (both donor-restricted and board-designated)."

Editor's Note: Because the FSP is effective for fiscal years ending after December 15, 2008, an organization should focus on the potential impact of the new guidance on the net asset classification of endowment funds subject to an enacted version of UPMIFA. In addition, because the guidance requires the governing board of an organization to determine the appropriate classification in accordance with a relevant law, the organization may need to consult with legal counsel or others when making such determinations. Further, because the disclosure requirements apply to all NPOs, management should evaluate the organization's financial statement disclosures about endowment funds, if any, to ensure compliance with the expanded disclosure requirements of the FSP.

NEXT STEPS: The FSP is effective for fiscal years ending after December 15, 2008. Early application is permitted, as long as the organization has not previously issued annual financial statements for that fiscal year. ●

Other Accounting

FASB Issues Statement Establishing GAAP Hierarchy

AFFECTS: Nongovernmental entities presenting U.S. GAAP financial statements.

SUMMARY: On May 9, 2008, the FASB issued [Statement 162](#) to move the GAAP hierarchy from the auditing literature to the accounting literature. The purpose of the new standard is to improve financial reporting by providing a consistent framework for determining what accounting principles an entity should use when preparing U.S. GAAP financial statements. The Board adopted the GAAP hierarchy contained in SAS 69, with minor modifications, because it was directed to auditors, not entities, which are ultimately responsible for preparing U.S. GAAP financial statements. Statement 162 is not expected to result in a change to current practice.

Statement 162 became effective on November 15, 2008. ●

FASB Issues FSP Affecting Companies Emerging From Bankruptcy

AFFECTS: Entities emerging from bankruptcy.

SUMMARY: On April 24, 2008, the FASB issued [FSP SOP 90-7-1](#). The FSP amends paragraph 38 of SOP 90-7 to remove the requirement that an entity emerging from bankruptcy apply, in its “fresh-start” reporting, accounting principles that will be in effect within 12 months of the emergence date. Going forward, entities emerging from bankruptcy should only apply accounting principles that are in effect as of the date of emergence, including those that may be early adopted if the entity chooses to early adopt.

The FSP was effective immediately upon issuance

OTHER RESOURCES: Deloitte's [April 25, 2008, Heads Up](#). ●

FASB Issues Guidance on Intangible Assets Subject to Renewal or Extension

AFFECTS: Entities with recognized intangible assets.

SUMMARY: On April 25, 2008, the FASB issued [FSP FAS 142-3](#), which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under Statement 142. The new guidance applies to intangible assets acquired in both business combinations and asset acquisitions.

Under paragraph 11 of Statement 142, an entity must analyze all pertinent factors when determining the useful life of a recognized intangible asset. One such factor is whether an intangible asset's legal or contractual life can be renewed or extended. Statement 142 currently requires entities to consider whether the renewal or extension can be accomplished without substantial cost or material modifications of the existing terms and conditions associated with the asset. However, because there is no clear guidance on determining what constitutes substantial cost or material modifications, the Statement 142 assessment often results in a useful life that is shorter than the period of cash flows used to value the asset under Statement 141. The result is often an acceleration of amortization expense that does not reflect the “period over which the asset is expected to contribute directly or indirectly to the future cash flows” of the entity.

FSP FAS 142-3 removes the requirement of paragraph 11 of Statement 142 for an entity to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions. The FSP replaces the previous useful-life assessment criteria with a requirement that an entity consider its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal, including (1) the highest and best use of the asset by market participants and (2) adjustments for other entity-specific factors included in paragraph 11 of Statement 142.

The FASB believes that removing the substantial cost and material modification assessments will lead to greater consistency between the useful life of recognized intangible assets under Statement 142 and the period of expected cash flows used to measure the fair value of such assets under Statement 141 and other U.S. GAAP. Therefore, amortization expense for finite-lived intangible assets will generally be recognized over the period in which the asset contributes directly or indirectly to the future cash flows of the entity. Removing the assessments may also result in more intangible assets being assigned an indefinite useful life.

The FSP requires entities to disclose information for recognized intangible assets that enables financial statement users to understand the extent to which expected future cash flows associated with intangible assets are affected by the entity's intent or ability to renew or extend the arrangement associated with the intangible asset.

The FSP also requires the following disclosures in addition to those required by Statement 142:

- a. "The entity's accounting policy on the treatment of costs incurred to renew or extend the term of a recognized intangible asset
- b. In the period of acquisition or renewal, the weighted-average period prior to the next renewal or extension (both explicit and implicit), by major intangible asset class
- c. For an entity that capitalizes renewal or extension costs, the total amount of costs incurred in the period to renew or extend the term of a recognized intangible asset for each period for which a statement of financial position is presented, by major intangible asset class."

In addition, in determining whether additional disclosures about the intangible asset's estimated useful life are required, entities should refer to paragraph 13(b) of SOP 94-6. Generally, these additional disclosures would be required if a change in the useful life or expected renewal or extension of an intangible asset would be material to the financial statements.

NEXT STEPS:

This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. While the guidance on determining the useful life of a recognized intangible asset must be applied prospectively only to intangible assets recognized after the FSP's effective date, the disclosure requirements of the FSP must be applied prospectively to all intangible assets recognized as of, and after, the FSP's effective date. Early adoption is prohibited.

OTHER RESOURCES: Deloitte's [April 29, 2008, Heads Up](#). ●

FASB Launches Accounting Standards Codification for Verification

AFFECTS: All entities and their auditors.

SUMMARY: On January 15, 2008, the FASB unveiled its long-awaited [FASB Accounting Standards Codification](#) for a one-year verification by constituents. While the Codification does not change U.S. GAAP, it combines all authoritative accounting standards issued by

organizations that are in levels A through D of the GAAP hierarchy, such as the FASB, AICPA, and EITF, into a comprehensive, topically organized, online database.

In its [press release](#) on the Codification, the FASB indicated that it expects the Codification will (1) make it easier to research and resolve accounting issues, (2) reduce noncompliance risks, (3) allow more timely updates, (4) help the FASB with its convergence efforts, and (5) be used as the authoritative source for the XBRL taxonomy.

NEXT STEPS: In a December 4, 2008, [press release](#), the FASB announced that the Codification is expected to be officially launched on July 1, 2009. After the launch date, the Codification's guidance will represent the sole source of authoritative GAAP. All other literature will be considered nonauthoritative (other than guidance issued by the SEC for public companies).

OTHER RESOURCES: Deloitte's [January 18, 2008, Heads Up](#). ●

EITF Issue No. 07-4, "Application of the Two-Class Method Under FASB Statement No. 128, *Earnings per Share*, to Master Limited Partnerships"*

AFFECTS: Publicly traded master limited partnerships (MLPs) with incentive distribution rights (IDRs) whose incentive distributions are accounted for as equity distributions. The consensus (1) does not address whether incentive distributions are equity distributions or compensation expense and (2) applies regardless of whether the IDR is a freestanding limited partner (LP) interest or embedded in the general partner (GP) interest.

The MLP ownership structure is common in industries such as petroleum and natural gas extraction and transportation.

SUMMARY: In a typical publicly traded MLP, cash is distributed to common units held by LPs, a GP interest, and IDRs, in accordance with the terms specified in the partnership agreement.

Generally, the partnership agreement obligates the GP to distribute all of the partnership's available cash after the end of each quarter to the LPs and GP, and when certain thresholds are met, to the IDR holder. A complicating factor in computing earnings per unit is that available cash, as determined under the partnership agreement, often differs from earnings (loss). Consequently, distributions may be greater than (or less than) earnings (loss) for any given period.

At issue is how, in the application of the two-class method under Statement 128, current-period earnings of an MLP should be allocated to the GP; to the LPs; and when applicable, to the IDR holder.

An additional application issue is whether the MLP becomes obligated to make distributions (and whether such distributions should be included in earnings per unit) as of the end of the period or once available cash has been determined by the GP. This issue arises because the partnership agreement usually allows the GP 30 to 60 days after the end of the reporting period to determine the amount of available cash.

The Task Force reached the following [consensus](#):

- *Earnings in excess of cash distributions* — Current-period earnings should be reduced by the amount of distributions to the GP, LPs, and IDR holder determined in accordance with the contractual terms of the partnership agreement. The remaining undistributed earnings should be allocated to the GP, LPs, and IDR holder by using the distribution waterfall for available cash (i.e., a schedule that prescribes distributions to the various interest holders at each threshold) specified in the partnership agreement. If an analysis of the contractual terms of the partnership agreement reveals that available cash represents a "specified threshold" for the reporting period presented, as described in Example F in paragraph 16 of Issue 03-6, no undistributed earnings should be allocated to the

IDR holder. Conversely, if the partnership agreement does not address this issue or does not explicitly limit distributions to the IDR holder to the holder's share of available cash determined in the reporting period presented, a specified threshold would not exist and the MLP would effectively allocate all current-period earnings (including undistributed earnings) to the GP, LPs, and IDR holder by using the distribution waterfall for available cash specified in the partnership agreement. Thus, current-period earnings are effectively treated as though they are available cash distributions.

- *Cash distributions in excess of earnings* — Any excess of distributions over current-period earnings (loss) should be allocated to the GP and LPs on the basis of their respective sharing of losses specified in the partnership agreement (i.e., the provisions for allocation of losses to the partners' capital accounts for the reporting period presented). If the IDR holder is not contractually obligated to share in current-period losses, the excess of distributions over current-period earnings (loss) amount is not allocated to the IDR holder. However, if the IDR holders have a contractual obligation to share in the losses of the MLP on a basis that is objectively determinable (as described in paragraphs 17 and 18 of Issue 03-6), the excess of distributions over earnings (loss) should be allocated to the GP, LPs, and IDR holders on the basis of their respective sharing of losses specified in the partnership agreement for the reporting period presented.

The Task Force concluded that for the MLP to report current-period earnings per unit, the GP must use current-period information to determine the amount of available cash (i.e., the MLP becomes obligated to make distributions of available cash at the end of the current reporting period, which may be before available cash is determined).

NEXT STEPS: This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and should be applied retrospectively for all financial statements presented. Earlier application is not permitted.

OTHER RESOURCES: Deloitte's [March 2008 EITF Snapshot](#). ●

EITF Issue No. 08-3, "Accounting by Lessees for Maintenance Deposits Under Lease Arrangements"

AFFECTS: Lessees that make **nonrefundable** maintenance deposits.

SUMMARY: The Task Force reached a [consensus](#) that all nonrefundable maintenance deposits that are contractually and substantively related to maintenance of the leased asset are accounted for as deposit assets. The lessee's deposit asset is expensed or capitalized as part of a fixed asset (depending on the lessee's maintenance accounting policy) when the underlying maintenance is performed. When the lessee determines that it is less than probable that an amount on deposit will be returned to the lessee (and thus no longer meets the definition of an asset), the lessee must recognize an additional expense for that amount.

The Task Force decided not to include any revenue recognition guidance for lessors in Issue 08-3.

NEXT STEPS: This Issue is effective for fiscal years beginning after December 15, 2008 (and interim periods within those fiscal years), and must be applied by recognizing the cumulative effect of the change in accounting principle in the opening balance of retained earnings as of the beginning of the fiscal year in which this consensus is initially applied. Early adoption is not permitted.

OTHER RESOURCES: Deloitte's [June 2008 EITF Snapshot](#). ●

EITF Issue No. 08-4, “Transition Guidance for Conforming Changes to Issue No. 98-5”

- AFFECTS:** Entities that have issued convertible debt with beneficial conversion features and that continue to follow certain guidance in Issue 98-5 that was nullified by Issue 00-27 or Statement 150.
- SUMMARY:** The Task Force reached a [consensus](#) that transition guidance for the conforming changes to Issue 98-5 (to be included in Exhibit 08-4A of Issue 08-4) that are a result of Issue 00-27 and Statement 150 should be provided.
- NEXT STEPS:** This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. Early adoption is permitted. The impact of applying the conforming changes, if any, must be presented retrospectively for all periods presented, with a cumulative-effect adjustment to retained earnings as of the beginning of the first period presented.
- OTHER RESOURCES:** Deloitte’s [June 2008 EITF Snapshot](#). ●

EITF Administrative Matters — Revisions to Topic D-98 (Updated)

- AFFECTS:** Issuers of convertible debt securities.
- SUMMARY:** [Topic D-98](#) was updated at two separate EITF meetings in 2008.
- At the March EITF meeting, the revisions to Topic D-98 primarily addressed the SEC staff’s views regarding the interaction between Topic D-98 and Statement 160. The revisions also reflect other clarifications to Topic D-98 that are unrelated to Statement 160. These revisions indicate that the classification, measurement, and earnings-per-share guidance applies to noncontrolling interests (e.g., when the noncontrolling interest is redeemable at a fixed price by the holder or upon the occurrence of an event that is not solely within the control of the issuer), including noncontrolling interests redeemable at fair value.
- At the September EITF meeting, the revisions to Topic D-98 primarily addressed the SEC staff’s views regarding the application of Topic D-98 to the classification and measurement of convertible debt instruments within the scope of FSP APB 14-1. The FSP requires entities to separate those convertible debt instruments into a liability-classified component and an equity-classified component. Depending on the terms of, and the facts and circumstances associated with, the convertible debt instrument, when the entire instrument is converted or redeemed, some of the cash outflow may be allocated to the extinguishment of the equity component. The revisions to Topic D-98 require mezzanine classification (i.e., outside of permanent equity) for instruments that are currently redeemable or convertible when the amount of cash required to be exchanged in a hypothetical settlement (as of the balance sheet date) of the liability-classified component exceeds the current carrying amount of that liability-classified component. Specifically, entities would classify a portion of the equity-classified component in mezzanine that is equal to the excess, if any, of the hypothetical cash settlement of the liability-classified component over the current carrying amount of that component (calculated as of the balance sheet date).
- NEXT STEPS:** The revisions to Topic D-98 on accounting for noncontrolling interests should be applied no later than the effective date of Statement 160. Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.

The revisions on the classification and measurement of convertible debt instruments within the scope of FSP APB 14-1 will be effective concurrently with the effective date, and pursuant to the transition provisions, of the FSP. The FSP is effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2008. Early adoption is not permitted.

OTHER RESOURCES: Deloitte's [March 2008](#) and [September 2008 EITF Snapshots](#). ●

Other SEC Matters

The SEC is exploring the possibility of U.S. registrants reporting under IFRSs. The Commission recently issued for public comment a proposed roadmap for use of IFRSs by U.S. public companies in their SEC filings. The Commission is also sure to focus on XBRL. The SEC recently voted to issue a final rule requiring large accelerated filers with a worldwide public float above \$5 billion to use XBRL for reporting financial information, beginning in 2009. The final rule is expected to be issued shortly. For more information, see Deloitte's [December 22, 2008, Heads Up](#) on XBRL.

SEC Releases New Financial Reporting Manual*

AFFECTS: Public entities.

SUMMARY: On December 9, 2008, the SEC's Division of Corporation Finance released its updated [Financial Reporting Manual](#). The new manual supersedes the Division of Corporation Finance's Accounting Disclosure Rules and Practices: An Overview (also known as the "SEC Staff Training Manual"), which had not been updated since 2000. The Financial Reporting Manual provides helpful insight into how the SEC staff applies SEC rules and regulations to topics such as SEC registrants' and acquired businesses' financial statements, pro forma financial statements, MD&A, and non-GAAP measures. ●

SEC Issues Interpretation on References to Third-Party Experts and Consents*

AFFECTS: Public entities.

SUMMARY: On November 26, 2008, the SEC's Division of Corporation Finance issued several new and revised [Compliance and Disclosure Interpretations \(C&DIs\)](#) on Securities Act sections. The following are two notable new questions from the C&DIs:

- Question 141.01, which indicates that a registration statement that describes or includes an investment banker's fairness opinion must also include the banker's consent to being named in the registration statement.
- Question 141.02, which addresses whether a registrant that chooses to refer to a third-party expert must name the third party and obtain the third party's consent. It also distinguishes between statements of the registrant, which do not require a consent, and statements attributed to a third-party expert, which would require a consent. ●

SEC Issues Guidance on Proxy Statement Filings Related to the TARP*

AFFECTS: Public entities.

SUMMARY: On November 24, 2008, the SEC released [guidance](#) on proxy statement filings for securities issued in connection with the Troubled Asset Relief Program (TARP). The guidance (1) lists comments previously given on proxy statements reviewed by the SEC staff and (2) highlights issues entities should consider when preparing pro forma financial statements. ●

SEC Provides Views on Compliance Programs*

AFFECTS: Public entities.

SUMMARY: On December 2, 2008, the SEC issued an [open letter](#) reminding CEOs of the importance of an acceptable compliance program. As Lori Richards, director of the SEC's Office of Compliance Inspections and Examinations, stated, "While many firms are considering reductions and cost-cutting measures, entities have an obligation to maintain programs to ensure compliance with laws."

OTHER RESOURCES: A [press release](#) on the open letter is available on the SEC's Web site. ●

SEC Approves One-Year Deferral of Section 404 Requirement for Smaller Public Companies

AFFECTS: Nonaccelerated filers.

SUMMARY: On June 26, 2008, the SEC issued a [final rule](#) that will allow nonaccelerated filers (public companies with a public float of less than \$75 million) a one-year deferral (from December 15, 2008, to December 15, 2009) from complying with SEC rules issued in response to Section 404(b) of the Sarbanes-Oxley Act of 2002 that require these filers' annual reports to include an auditor's attestation report on management's assessment of internal controls. The SEC also announced that it will conduct a cost-benefit study of whether this new requirement would help small businesses implement Section 404(b) and PCAOB Auditing Standard 5. The results of the cost-benefit study are expected to become available within the next year.

NEXT STEPS: The final rule became effective on September 2, 2008, with certain exceptions (see the "Effective Dates" section in the final rule). ●

SEC Issues Disclosure Rules for Smaller Companies

AFFECTS: Small-business issuers and nonaccelerated filers.

SUMMARY: The SEC recently adopted new disclosure rules for smaller registrants (i.e., public companies with a public float of less than \$75 million). The new rules will eventually require smaller public companies to file the same forms as their larger counterparts (i.e., they will be required to file using standard forms, such as Form 10-K and Form S-1, rather than the current smaller-company forms, such as Form 10-KSB and Form SB-2). Smaller companies are also eligible to use Form S-3 or F-3 for primary securities offerings if they meet certain criteria (listed on the SEC's Web site).

NEXT STEPS: The [disclosure rules](#) are effective as of February 4, 2008. [Form S-3 and F-3](#) eligibility is effective as of January 28, 2008.

OTHER RESOURCES: For more information, see the [SEC's Small Entity Compliance Guide](#) and the [SEC's Compliance and Disclosure Interpretations](#). Also see Deloitte's [July 17, 2007, Heads Up](#).

SEC Staff Explains the Filing Review and Comment Letter Process

AFFECTS: Public entities.

SUMMARY: In June 2008, the staff of the SEC's Division of Corporation Finance (the "Division") posted to its Web site an [overview](#) designed to "increase the transparency" of the Division's filing review and comment letter process.

The overview is divided into two main sections:

- *"Filing Review Process"* — This section includes background on the different types (required and selective) and levels of review and covers the comment process, indicating that "[m]uch of the Division's review [process] involves reviewing the disclosure from a potential investor's perspective and asking questions that an investor might ask when reading the document." The section also addresses how to respond to SEC staff comments and how to close a filing review.
- *"Reconsideration Process"* — Although emphasizing that companies do not need to follow a "formal protocol" when requesting that the staff "reconsider a comment it has issued or reconsider a staff member's view of the company's response to a comment," this section outlines the typical steps in the reconsideration process.

Editor's Note: Throughout 2008, the SEC staff gave [presentations](#) at the PCAOB's "Forums on Auditing in the Small Business Environment" and addressed several issues found during their reviews of small-business filings.

OTHER RESOURCES: Deloitte's [June 12, 2008, Heads Up](#) as well as its [Special Report](#) on the SEC's comment letters to domestic registrants. ●

SEC Approves Foreign Private Issuer Rule Amendments

AFFECTS: Foreign private issuers.

SUMMARY: On August 27, 2008, the SEC voted to issue final rule amendments to its disclosure requirements for foreign private issuers. The amendments (1) enhance the reporting requirements for foreign private issuers, (2) modify the exemption under Rule 12g3-2(b) of the Securities Exchange Act of 1934, and (3) expand and enhance the use of current exemptions for cross-border business combinations to encourage offerors and issuers to enter into cross-border transactions.

Enhancements to Reporting by Foreign Issuers

These [amendments](#) do the following:

- Allow foreign private issuers to assess "their eligibility . . . once a year on the last business day of their second fiscal quarter" rather than continually, as currently required.
- Change the filing deadline for annual reports of foreign private issuers from six months to four months after fiscal year-end.

- Improve certain disclosures provided by foreign private issuers in their annual reports and registration statement forms by modifying Form 20-F to require:
 - o That foreign private issuers provide a reconciliation to U.S. GAAP for financial statements prepared on a basis other than U.S. GAAP or IFRSs.
 - o The disclosure of changes in or disagreements with the foreign private issuers' auditors.
 - o The disclosure of fees and other payments made by ADR holders.
 - o The disclosure of corporate governance practices.

Amendment to Exchange Act Rule 12g3-2(b) Exemption

This [amendment](#) modifies the Rule 12g3-2(b) exemption, which “permits a foreign private issuer to exceed the shareholder thresholds for registration under Exchange Act Section 12(g) and effectively have its equity securities traded on a limited basis in the over-the-counter market in the United States.” A foreign private issuer would no longer have to submit hard-copy “information concerning its U.S. shareholders, and paper copies of its non-U.S. disclosure documents published since the beginning of its most recently completed fiscal year.” Rather, a foreign private issuer would automatically be granted the exemption if it files this information electronically and meets the following requirements:

- The U.S. trading volume for the securities is no more than 20 percent of the issuer’s “average daily trading volume of that class of securities on a worldwide basis” for the most recently completed fiscal year or the issuer is claiming the exemption with its deregistration under Exchange Act Rule 12h-6.
- The securities are listed on “one or more exchanges in a foreign jurisdiction that, either singly or together with the trading of the same class of the issuer’s securities in another foreign jurisdiction, constitutes the primary trading market for those securities.”
- Certain non-U.S. disclosure documents are published in English either on the issuer’s Web site or via an “electronic information delivery system” that is readily available to those in its primary trading market, unless the issuer is claiming the exemption in connection with a deregistration.
- The entity has no reporting obligations under Section 13(a) or 15(d) of the Exchange Act.

Enhancements to Exemptions for Cross-Border Transactions

These [amendments](#) do the following:

- Modify the look-through analysis to resolve timing concerns for the performance of the look-through calculation.
- Offer an alternative test to determine who is eligible to rely on cross-border exemptions during a transaction.
- Expand relief for transactions not eligible under the cross-border exemptions.
- Amend Tier II to:
 - o Extend the relief to tender offers not subject to Section 13(e) or 14(d) of the Exchange Act.
 - o Eliminate recurring conflicts between U.S. and foreign law.
- Codify existing interpretive positions and three class-exemptive letters.
- Permit foreign institutions to report on Schedule 13G, if certain conditions are met, and amend the definition of beneficial owner in Exchange Act Rule 16a-1(a)(1).

Editor's Note: On December 4, 2008, the SEC released a [small entity compliance guide](#), which explains how Final Rule 33-8957 affects small entities.

Final Rule 34-58465 became effective on October 10, 2008; Final Rule 33-8959 became effective on December 6, 2008; and Final Rule 33-8957 became effective on December 8, 2008.

OTHER RESOURCES: A [press release](#) announcing the SEC's decision is available on the SEC's Web site. ●

SEC Clarifies Accounting for Bank Support of Money Market Funds

AFFECTS: Financial institutions that sponsor money market funds.

SUMMARY: On September 17, 2008, the SEC responded to questions raised regarding the balance sheet accounting for sponsored money market funds. The SEC clarified that a sponsoring financial institution will not be required to present money market funds on the balance sheet if it did not "absorb the majority of the expected future risk associated with the money market fund's assets, including interest rate, liquidity, credit and other relevant risks that are expected to impact the value of the money market fund assets." However, sponsoring institutions should disclose the nature of the support in the financial statements.

Institutions that do absorb the majority of the expected future risk should consult with the SEC regarding appropriate presentation and disclosure in the financial statements.

OTHER RESOURCES: For more information, see the [press release](#) on the SEC's Web site. ●

SEC Financial Reporting Advisory Committee Releases Final Report

AFFECTS: All entities.

SUMMARY: On August 1, 2008, CIFIr released a [final report](#) summarizing its 25 recommendations for reducing complexity in financial reporting and increasing the usefulness of financial information provided to investors.

CIFIr's recommendations cover various processes that affect U.S. public companies (e.g., standard setting, regulatory oversight, and delivery of financial information). Key themes underlying the recommendations include:

- "Increasing the usefulness of information in SEC reports.
- Enhancing the accounting standards-setting process.
- Improving the substantive design of new accounting standards.
- Delineating authoritative interpretive guidance.
- Clarifying guidance on financial restatements and accounting judgments."

The following recommendations, if implemented, are likely to result in significant and immediate change to the financial reporting system:

- Increase investor input in standard setting.
- Create a financial reporting forum.
- Conduct post-adoption effectiveness reviews of new FASB standards.

- Reduce the number of restatements by:
 - Modifying how the materiality of an error is assessed.
 - Changing how errors are corrected.
- Increase the exercise of professional judgment.
- Phase in the adoption of XBRL.
- Use executive summaries in annual and quarterly reports.

NEXT STEPS: The SEC has already implemented some of these recommendations and is expected to act on others in the near future. The FASB and PCAOB are also expected to study the Committee's report and act on its proposals soon.

OTHER RESOURCES: Deloitte's [February 19, 2008](#), and [August 1, 2008, Heads Ups](#). ●

Other Auditing

PCAOB Adopts and Proposes Amendments to Rule on Non-U.S. Inspections*

AFFECTS: Registered non-U.S. audit firms.

SUMMARY: On December 4, 2008, the PCAOB adopted [amendments](#) to Rule 4003 to postpone first inspections (previously required in 2008) of 21 registered non-U.S. firms until 2009. The PCAOB also proposed amendments to postpone the current 2009 deadline for first inspections of 50 registered non-U.S. firms until 2012.

NEXT STEPS: Comments on the proposed amendments are due by February 2, 2009. The PCAOB has also requested comments on possible plans to (1) discipline non-U.S. firms that do not cooperate during the inspection process and (2) issue a rule requiring principal auditors (including U.S. auditors) to disclose their use of the audit work of firms that do not cooperate with the inspection process.

OTHER RESOURCES: A [press release](#) announcing the amendments is available on the PCAOB's Web site. ●

PCAOB Issues Practice Alert on Audit Considerations in the Current Economic Environment*

See article in "[Impact of Current Market Environment on Financial Reporting](#)" section above. ●

CAQ Issues Practice Aid on Journal Entry Testing*

AFFECTS: Auditors.

SUMMARY: In December 2008, the CAQ issued a [practice aid](#) on journal entry testing and other adjustments to help auditors fulfill the testing requirements of AU Section 316. Topics covered in the practice aid include:

- The framework for examining journal entries.
- Types of journal entries.
- Determining the completeness of journal entries and other adjustments.

- Selection and testing of journal entries and other adjustments.
- Documenting the results of procedures performed. ●

AICPA Issues Revisions to Accounting and Review Services Guidance

AFFECTS: Accountants providing accounting and review services.

SUMMARY: On February 13, 2008, the AICPA's Accounting and Review Services Committee issued [SSARS 17](#), which clarifies the scope of, and makes the language consistent throughout, AR Sections 100, 200, 300, and 400, as well as various AICPA Interpretations. SSARS 17 makes amendments in the following areas:

- Compilations and reviews of financial statements.
- Communications to management and others.
- Change in engagement from audit to review or compilation (or from review to compilation).
- Reporting when one period is audited.
- Replacement of the terms "public entity" and "nonpublic entity" with the terms "issuer" and "nonissuer," respectively.
- Changes to certain definitions associated with compilations and reviews.
- Analytical procedures.

NEXT STEPS: SSARS 17 is effective for compilations and reviews for periods ending on or after December 31, 2008. Early application is permitted. ●

AICPA Adopts New Ethics Standard

AFFECTS: AICPA members.

SUMMARY: On June 3, 2008, the AICPA's Professional Ethics Executive Committee [announced](#) its adoption of a new [interpretation](#) that would limit the use of indemnification and limitation-of-liability clauses in agreements for audit or attest services. Under the new interpretation, an AICPA member reporting under more restrictive regulators such as the SEC, state insurance commissions, and federal banking agencies will have to comply with the indemnification and limitation-of-liability provisions of those regulators. An AICPA member that does not comply with these provisions will have committed an "act discreditable to the profession."

The new interpretation became effective on July 31, 2008. ●

AICPA Issues SAS on Communicating Internal-Control-Related Matters

AFFECTS: Auditors.

SUMMARY: In October 2008, the AICPA issued [SAS 115](#), which supersedes SAS 112's guidance on communicating internal-control-related matters identified during an audit. SAS 115 contains revised guidance on the following:

- The definitions of a material weakness and a significant deficiency.
- The list of control deficiencies that may indicate that a material weakness or significant deficiency exists.

- The example of a written communication to management and those charged with governance of material weaknesses or significant deficiencies identified.

NEXT STEPS: The SAS is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier application is permitted. ●

AICPA Issues SSAE on Integrated Audits of Nonpublic Companies

AFFECTS: Entities and their auditors.

SUMMARY: In October 2008, the AICPA issued [SSAE 15](#), which supersedes SSAE 10 to provide guidance on integrated audits of nonpublic companies. Topics addressed in SSAE 15 include:

- The scope of the standard, which only includes audits of ICFR that are performed in conjunction with audits of financial statements.
- The requirement for **management** to provide a written report containing conclusions about ICFR that accompanies the auditor's report.
- The list of control deficiencies that may indicate that a material weakness exists.
- Audit scope considerations regarding:
 - o SME audits.
 - o Multilocation audits.
 - o Use of the work of others.
 - o Use of service organizations.
 - o Entity-level controls.
 - o Interim testing.
- An example of an auditor's written communication to management and those charged with governance of material weaknesses or significant deficiencies identified.

NEXT STEPS: The SSAE is effective for integrated audits for periods ending on or after December 15, 2008. Early application is permitted. ●

AICPA, ACFE, and IIA Join Forces to Issue New Fraud Guidelines

AFFECTS: All entities.

SUMMARY: The AICPA, ACFE, and IIA have issued a [guide](#) recommending ways in which boards, senior management, and internal auditors can manage fraud risk at their organizations and how entities can establish a fraud risk management program. The guide lists five key fraud risk management principles:

- A governance structure that includes a fraud risk management program.
- Periodic fraud risk assessments.
- Prevention techniques (e.g., authority limits, transaction-level procedures).

- Detection techniques (e.g., whistleblower hotlines, reconciliation procedures).
- A fraud reporting system that establishes procedures for investigating potential frauds and implementing corrective actions.

OTHER RESOURCES: A [news release](#) announcing the new guide is available on the AICPA's Web site. ●

AICPA Issues Revised Interpretation on the Confirmation Process

AFFECTS: Auditors.

SUMMARY: In November 2008, the AICPA issued a revised interpretation of AU Section 330. The interpretation focuses on the use of electronic confirmations in an audit engagement, stating that a properly controlled electronic confirmation can be considered reliable audit evidence. However, the interpretation notes that electronic confirmations pose risks similar to those of paper confirmations, such as interception, alteration, and fraud. Therefore, when using electronic confirmations, the auditor should consider the risk that (1) the confirmation response might not be from a real source, (2) the respondent might not know the information, and (3) the response may not be reliable. The auditor should perform procedures to ensure that (1) the electronic confirmation process is controlled, (2) responses are received directly, and (3) the respondent was the appropriate source. ●

AICPA Issues Revised Airlines Audit and Accounting Guide*

AFFECTS: Auditors.

SUMMARY: The AICPA recently issued a revised [airlines audit and accounting guide](#). New topics include frequent flyer programs, electronic ticketing, revenue breakage, power-by-the-hour maintenance contracts, amendable labor contracts, and airline intangible assets. The revised guide also discusses issues related to several new accounting standards, including Statements 157 and 141(R). ●

AICPA Issues Real Estate and Construction Risk Alert*

AFFECTS: Auditors.

SUMMARY: The AICPA recently issued an [Audit Risk Alert](#) for the real estate and construction industries.

OTHER RESOURCES: The Alert is available on the AICPA's Web site. ●

PCAOB Adopts Auditing Standard 6 on Evaluating Consistency of Financial Statements

AFFECTS: Auditors of public entities.

SUMMARY: On January 29, 2008, the PCAOB voted to adopt [Auditing Standard 6](#) along with related amendments to the PCAOB's interim auditing standards. The goal is to bring the PCAOB's standards in line with Statement 154 as well as with the FASB's proposed issuance of a codification of the GAAP hierarchy.

The new standard and related amendments will:

- Require auditors to evaluate and report on the consistency of a company's financial statements.

- Require auditors to disclose the reason for an adjustment to previously issued financial statements (i.e., a change in accounting principle or a correction of a misstatement).
- Remove the GAAP hierarchy from the interim auditing standards (because the FASB will be issuing its standard on the GAAP hierarchy, it makes more sense to include the GAAP hierarchy in the accounting standards rather than the auditing standards).

NEXT STEPS: Auditing Standard 6 became effective on November 15, 2008.

OTHER RESOURCES: A [press release](#) announcing the standard is available on the PCAOB's Web site. ●

PCAOB Adopts Rules for Annual and Special Reporting

AFFECTS: Accounting firms registered with the PCAOB.

SUMMARY: On June 10, 2008, the PCAOB adopted a [rule](#) requiring public accounting firms registered with the PCAOB to submit information annually and when significant events occur. This information should include the following:

- *Annual reporting* — Basic information about the registered firm, including information about firm-issued audit reports, fees billed to issuer audit clients, and disciplinary actions associated with firm personnel.
- *Special-events reporting* — Within 30 days, firms must report certain events, including changes in the firm's name, certain legal proceedings, and disciplinary actions taken against the firm or its employees.

These reports will be available to the public and will enable the PCAOB to maintain current and accurate records for registered accounting firms.

NEXT STEPS: The rule will be effective 60 days after its approval by the SEC. On this date, the special reporting requirements will apply; the earliest possible deadline for special reporting will be 90 days after SEC approval. The first annual reports will be due by June 30, 2009, for the 12-month period ending on March 31, 2009. ●

PCAOB Adopts New Independence and Ethics Rules

AFFECTS: Public companies and their auditors.

SUMMARY: In an April 22, 2008, [press release](#), the PCAOB announced that it has [adopted](#) Rule 3526 and an amendment to Rule 3523.

Rule 3526 facilitates independence discussions between auditors and audit committees. The new rule requires an accounting firm to communicate all relationships between the firm, the potential client (including any affiliates), and the potential client's personnel (in a financial reporting oversight role) that may affect the accounting firm's independence. The communication should be made in writing to the audit committee and the effects of the reported items should be discussed with the audit committee of a potential new audit client **before** the firm can be appointed as the company's auditor. Discussions between the audit committee and the accounting firm should be documented. This documentation should illustrate that the audit committee was well informed about the accounting firm's independence before the firm was hired as the company's auditor.

Once an accounting firm has been appointed as the company's auditor, a similar communication is required annually to reconfirm that no independence-impairing relationships exist between the accounting firm and audit client.

Rule 3523 currently states that an accounting firm would not be independent of an audit client if it provided tax services to the client's personnel in a financial reporting oversight role, or any of their immediate family members, during the audit **and** professional engagement periods. In this context, the audit period is the period covered by the financial statements being audited (i.e., the entity's fiscal year) and the professional engagement period is the period that begins when the firm signs the engagement letter to perform an audit under PCAOB standards or begins audit procedures under that engagement letter (whichever comes first).

In evaluating this rule, the PCAOB concluded that providing tax services to a person in a financial reporting oversight role, or to any of his or her immediate family members, before the beginning of the professional engagement period for a new audit client or an audit client in an "initial public offering" would not necessarily impair the accounting firm's independence; therefore, the PCAOB decided to remove "audit period" from the tax rule.

NEXT STEPS: Rule 3526 will supersede the Board's interim requirement, [Independence Standards Board Standard 1](#), and became effective on September 30, 2008. The amendment to Rule 3523 became effective immediately on August 22, 2008; however, this rule will not apply to tax services provided on or before December 31, 2008, when the services are provided during the audit period and completed before the beginning of the professional engagement period.

OTHER RESOURCES: Deloitte's [April 30, 2008, Heads Up](#). ●

PCAOB Adopts New Auditor Registration Rule

AFFECTS: Accounting firms registered with the PCAOB.

SUMMARY: On July 29, 2008, the PCAOB [announced](#) its adoption of a new [rule](#) that would allow a public accounting firm to maintain its registered status with the PCAOB after a merger, acquisition, or other change in legal status. Firms will be required to file a new form with the PCAOB that contains certain information about and representations regarding the planned event. According to PCAOB Chairman Mark Olson, "Today's action will allow for registered firms — in appropriate and well defined circumstances — to provide audit services without a break in their PCAOB registration status when there has been some change in their legal form. The rules would provide flexibility that is important given the serious implications of a firm operating without registration."

NEXT STEPS: The rule will be submitted for SEC approval and will be effective 60 days after SEC approval. The firms will be subject to the special reporting obligations 90 days after SEC approval. ●

GAO and PCIE Issue Revised Financial Audit Manual

AFFECTS: Auditors of state and local governments.

SUMMARY: On July 28, 2008, the GAO and PCIE issued their [revised Financial Audit Manual](#), which had not been updated since July 2004. The revisions were in response to changes in the financial reporting system of the federal government, as well as changes in the accounting and auditing standards issued by the AICPA, the GAO, and FASAB. The manual contains three volumes:

- *Volume 1* — Audit method (i.e., planning, internal controls, testing, and reporting).

- *Volume 2* — Audit tools.
- *Volume 3* — Accounting, reporting, and disclosure checklists.

NEXT STEPS: The manual is effective for audits of financial statements for fiscal years ending on or after September 30, 2008. ●

GAO Issues Interim Guidance on Communicating Internal-Control-Related Matters

AFFECTS: Auditors of government agencies.

SUMMARY: In November 2008, the GAO issued [interim guidance](#) on communicating internal-control-related matters identified during engagements performed under governmental auditing standards (GAGAS). AICPA fieldwork and reporting standards (i.e., SASs and SSAEs) are incorporated into GAGAS unless they are intentionally omitted or modified. In October 2008, the AICPA issued revised guidance in SAS 115 and SSAE 15 that defined “material weaknesses” and “significant deficiencies” differently from the definitions in GAGAS. Accordingly, the interim guidance was issued to ensure compliance with GAGAS and consistent application of the new standards. The interim guidance indicates that:

- Auditors may use the definitions in SAS 115 and SSAE 15 to comply with the internal control reporting requirements of GAGAS paragraph 5.11. These definitions, and the scope of testing performed on ICFR, should be communicated to officials.
- Auditors may continue to apply all other GAGAS requirements for reporting deficiencies, including “developing findings and providing recommendations for corrective action if findings are sufficiently developed, obtaining views of responsible officials, and ensuring appropriate report distribution.”

NEXT STEPS: When an auditor adopts SAS 115 or SSAE 15, the interim guidance is effective concurrently with the adoption. The guidance may change after final deliberations by the Comptroller General’s Advisory Council on Government Auditing Standards. ●

GASB/FASAB

GASB Issues Statement on Derivative Instruments

AFFECTS: State and local government issuers.

SUMMARY: On June 30, 2008, the GASB issued Statement 53, which clarifies that state and local governments that use the accrual basis of accounting when preparing their financial statements should measure derivative instruments at fair value. Statement 53 also provides guidance on hedge accounting requirements, including when a derivative instrument results in an effective hedge, when changes in fair value for a hedged item should be reported, and how fair value changes should be presented in the financial statements. The Statement also improves derivative instrument disclosures, requiring a summary of the issuer’s derivative instrument activity, its objectives for entering into the derivative instruments, and their significant terms and risks.

According to GASB Chairman Robert Attmore, “By requiring the fair values of derivative instruments to be reported on the face of financial statements prepared using the accrual basis of accounting, Statement 53 brings additional transparency to those transactions.” In addition, “the application of the financial reporting standards required

by this Statement gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed.”

NEXT STEPS: Statement 53 is effective for financial statements for reporting periods beginning after June 15, 2009. Early adoption is encouraged.

OTHER RESOURCES: Deloitte’s [July 21, 2008, Heads Up](#). Also see the GASB’s [Question and Answer Fact Sheet](#) and [Plain English Article](#). ●

GASB Issues Guidance on Postemployment Benefits*

AFFECTS: Governmental entities.

SUMMARY: On December 15, 2008, the GASB issued Technical Bulletin 2008-1, which provides guidance on the requirements of GASB Statements 27 and 45 for calculating an annual required contribution adjustment. The guidance clarifies that when the annual required contribution “includes a known amount related to the amortization of past employer contribution deficiencies or excess contributions to a pension or other postemployment benefit . . . plan,” the adjustment should reflect the known amount. The technical bulletin explains that both statements permit governmental entities to use estimates unless the actual amount is known.

NEXT STEPS: The technical bulletin is effective for financial statements for periods ending after December 15, 2008, or concurrently with the initial adoption of Statement 45. Early application is permitted.

OTHER RESOURCES: For more information, see the [press release](#) on the GASB’s Web site. ●

GASB Issues Concepts Statement 5

AFFECTS: State and local government agencies.

SUMMARY: On December 15, 2008, the GASB issued Concepts Statement 5, which amends Concepts Statement 2 to reflect developments in service efforts and accomplishments (SEA) reporting that have occurred since the Concepts Statement’s issuance in 1994. The key amendments are as follows:

- **Purpose and Scope** — The purpose and scope included in paragraph 2 clarifies that “[i]t is beyond the scope of the GASB to establish the goals and objectives of state and local government services, to develop specific nonfinancial measures or indicators of service performance, or to set standards for service performance.”
- **The Elements of SEA Reporting** — Terminology is updated and certain provisions are changed to (1) “separate the elements of SEA performance measurement from related factors” and (2) “focus on the three different types of SEA performance measures — measures of service efforts (costs), measures of service accomplishments, and measures that relate service efforts to service accomplishments.”
- **Limitations of SEA Information** — The list of types of limitations associated with “using SEA performance information” is amended.

- **Enhancing the Usefulness of SEA Information** — The list of factors enhancing the “usefulness of reported SEA performance information” is amended.
- **Developing Reporting Standards of SEA Information** — This section is deleted.

OTHER RESOURCES: For more information, see the [press release](#) on the GASB’s Web site. ●

FASAB Issues Two Technical Releases

AFFECTS: Federal entities.

SUMMARY: On February 20, 2008, the FASAB issued [Technical Releases 8](#) and [9](#).

Technical Release 8 provides federal entities with guidance on three aspects of costing addressed in FASAB Statement 4:

- The costs that an entity should consider “broad and general.” The technical release includes a table listing examples of broad and general goods and services provided by various federal government agencies.
- How an entity should consider “directness of relationship to the entity’s operations” when assessing whether a transaction is material to an entity receiving goods and services. The technical release states that “directness of relationship to entity operations is generally determined by matching goods or services received to the output of the entity.”
- How the “identifiability factor” should be used to determine whether a transaction is material to an entity receiving goods and services.

Technical Release 9 provides federal entities with guidance on reporting on heritage assets and stewardship land, and covers the following four topics: (1) materiality considerations; (2) identification, categorization, and quantification; (3) assessing and reporting condition; (4) government-wide reporting.

NEXT STEPS: The two technical releases are effective for reporting periods beginning after September 30, 2008. Early adoption is permitted. ●

FASAB Issues Standard on Reporting Gains and Losses Attributable to Changes in Pension Obligation Assumptions

AFFECTS: Federal entities.

SUMMARY: On October 14, 2008, the FASAB issued [Statement 33](#), which provides guidance on disclosing the effects of “changes in long-term assumptions used to estimate federal employee pension, other retirement benefit and other postemployment benefit liabilities” in federal financial statements. Statement 33 requires the following:

- *Gains and losses from changes in assumptions* — These should be shown, separately from other costs, as a discrete line item in the statement of net cost. In addition, a reconciliation of beginning and ending liabilities should be disclosed in the notes to the financial statements. The line item for actuarial gains and losses in this reconciliation should be divided into subcategories for changes in assumptions and changes from experience.

- *Selection of discount rates for present valuations* — For present value measurements of long-term liabilities, an entity should use interest rates on marketable treasury securities whose maturities are similar to those of the cash flows being discounted. Discount rates should reflect the average historical rates on marketable treasury securities; companies should not give undue weight to recent experience with such rates.
- *Valuation dates* — The valuation date should be consistent from year to year. Generally, liabilities should be measured at the end of the fiscal year; however, measurements may be based on an actuarial valuation performed earlier in the fiscal year, as long as adjustments (or a rollforward) for effects of factor changes during the year are taken into account.

NEXT STEPS: Statement 33 is effective for periods beginning after September 30, 2009.

OTHER RESOURCES: For more information, see the [news release](#) on the FASAB's Web site. ●

Convergence of U.S. GAAP and IFRSs

SEC Issues Proposed IFRS Roadmap

AFFECTS: Public entities.

SUMMARY: On November 14, 2008, the SEC issued its [proposed IFRS "roadmap,"](#) which outlines the following seven milestones that, if achieved, could lead to mandatory transition to IFRSs starting in fiscal years ending on or after December 15, 2014:

1. Improvements in accounting standards (i.e., IFRSs).
2. Funding and accountability of the International Accounting Standards Committee Foundation.
3. Improvement in the ability to use interactive data (e.g., XBRL) for IFRS reporting.
4. Education and training on IFRSs in the United States.
5. Limited early use by eligible entities for fiscal years ending on or after December 15, 2009.
6. Anticipated timing of future rulemaking by the SEC.
7. Potential implementation of mandatory use.

The proposed roadmap would give U.S. issuers that meet both of the following criteria the option to use IFRSs, as issued by the IASB, earlier in financial statements for fiscal years ending on or after December 15, 2009:

- The U.S. issuer is globally among the 20 largest listed companies worldwide in its industry, as measured by market capitalization.
- IFRSs, as issued by the IASB, are used as the basis for financial reporting more often than any other basis of accounting by the 20 largest listed companies worldwide in the U.S. issuer's industry, as measured by market capitalization.

U.S. issuers filing IFRS financial statements with the SEC for the first time would be required to do so in an annual report rather than in a quarterly report, registration statement, or proxy or information statement. These financial statements would have

to include three years of audited annual periods in the first year of IFRS reporting, as opposed to the two years of annual periods allowed under IFRSs. In addition, such issuers must disclose certain information regarding the decision to change to IFRSs in their first Form 10-K that contains IFRS financial statements.

NEXT STEPS: Comments on the proposed rule are due by February 19, 2009. The SEC particularly seeks comments on the following topics: (1) the use of IFRSs by U.S. issuers, (2) the SEC's overall approach and considerations, (3) proposed technical amendments to the SEC's rules and regulations, (4) standard setting under IFRSs.

OTHER RESOURCES: Deloitte's [November 17, 2008, Heads Up](#). See also [SEC Chairman Christopher Cox's November 18, 2008, speech](#). ●

FASB and IASB Issue Updated Memorandum of Understanding

AFFECTS: All entities.

SUMMARY: On September 11, 2008, the FASB and IASB issued an updated [memorandum of understanding \(MOU\)](#) describing the priorities and milestones related to their completion of major joint projects by 2011. The two boards have made considerable progress in converging their two sets of standards since the original MOU was issued in 2006. Nevertheless, the boards' progress on many of the major projects has been limited. Reasons for this lack of progress include differences in views about (1) agenda size and project scope, (2) the most appropriate approach, and (3) whether and how similar issues in active projects should be resolved consistently.

In response, the boards put together a small team to develop recommendations on how to move forward with the remaining projects to achieve a 2011 completion date. The original MOU included 11 projects. The scopes and objectives of many of the projects have been, or are expected to be, revised.

OTHER RESOURCES: A [news release](#) announcing the MOU is available on the FASB's Web site. See Deloitte's [September 16, 2008, Heads Up](#) for information about the current status of the projects and expected next steps. ●

International

IASB Issues Revised Standard on First-Time Adoptions*

AFFECTS: Entities adopting IFRSs.

SUMMARY: On November 27, 2008, the IASB issued a revised version of IFRS 1 to improve the standard's structure. The revisions:

- Reorganize most of the standard's exceptions and exemptions and move them to the appendixes.
- Are intended to better accommodate future changes to the standard.

NEXT STEPS: The standard is effective for annual periods beginning on or after July 1, 2009. Early application is permitted.

OTHER RESOURCES: For more information, see the [press release](#) on the IASB's Web site. Also see the December 2008 — Special Edition of Deloitte Touche Tohmatsu's [IAS Plus newsletter](#), which discusses the revisions. ●

IASB Amends Financial Instruments Standard for Puttable Instruments and Obligations Arising on Liquidation

AFFECTS: Entities reporting under IFRSs.

SUMMARY: On February 14, 2008, the IASB released amendments to IAS 32 regarding the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. IAS 32 currently requires that if an issuer is required to pay or transfer cash or another financial asset in return for redeeming or repurchasing a financial instrument, the instrument is classified as a financial liability. The amendments will require that some financial instruments currently meeting the definition of a financial liability be classified as equity because they represent the residual interest in the net assets of the entity. Under the amendments, such instruments generally will include:

- Puttable instruments that are subordinate to all other classes of instruments and that entitle the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. A puttable instrument is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or that is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.
- Instruments, or components of instruments, that are subordinate to all other classes of instruments and that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

The IASB also amended [IAS 1](#) to add new disclosure requirements relating to puttable instruments and obligations arising on liquidation.

NEXT STEPS: The amendments will be effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted.

OTHER RESOURCES: A [press release](#) announcing the amendments is available on the IASB's Web site. Also see the February 2008 — Special Edition of Deloitte Touche Tohmatsu's [IAS Plus newsletter](#). ●

IASB Revises Accounting for Business Combinations and Noncontrolling Ownership Interests

AFFECTS: Entities reporting under IFRSs.

SUMMARY: On the heels of the FASB's issuance of new standards on business combinations and noncontrolling interests, the IASB released its [counterpart standards](#):

- IFRS 3 (revised), *Business Combinations*.
- IAS 27 (revised), *Consolidated and Separate Financial Statements*.

The release of the new IASB standards brings to a close the second phase of the FASB/IASB joint business combinations project.

Below are highlights of revisions made in IFRS 3 (revised) and IAS 27 (revised):

- *Acquisition-related costs* — Expensed as incurred. Examples include, but are not limited to, fees paid to investment bankers, attorneys, accountants, and valuation professionals.
- *Contingent consideration (e.g., earnouts)* — Recognized at fair value as of the acquisition date. Subsequent changes to amounts classified as liabilities are recorded in the postcombination profit and loss statement. The cost of the business combination cannot be adjusted for information received after the acquisition date.

- *Noncontrolling interests (formerly minority interests)* — Recognized as of the acquisition date and measured at either (1) fair value, including the noncontrolling interests' share of goodwill, or (2) the noncontrolling interest's proportionate share of the acquiree's identifiable net assets.
- *Goodwill* — Measured as of the acquisition date, including a remeasurement of any previously recorded goodwill associated with the business acquired.
- *Step acquisitions* — All previously held interests, acquired before obtaining control, are remeasured at fair value once control is obtained, with recognition of a gain or loss.
- *Changes in ownership once control is obtained* — Recorded as equity transactions. No additional acquisition method accounting is required, and no gain or loss recognition is allowed as long as control is maintained.

The goal of the business combinations project was full convergence. Unfortunately, the IASB and FASB did not achieve convergence in the following significant areas:

- *Noncontrolling interests (formerly minority interests)* — The IASB is giving acquirers the option to record goodwill attributable to the noncontrolling interests. The FASB is not granting this option, and requires acquirers to record the noncontrolling interest at fair value.
- *Acquired contingencies* — The IASB is requiring that **all** acquired contingencies be recorded at fair value on the acquisition date if they arise from a past event and can be measured reliably. On the other hand, the FASB is requiring that all contractual contingencies and noncontractual contingencies that meet the more-likely-than-not recognition threshold be recognized at fair value.

NEXT STEPS: The revised standards are effective for annual reporting periods beginning on or after July 1, 2009, with early adoption permitted.

OTHER RESOURCES: For more information, see Deloitte Touche Tohmatsu's [IAS Plus Newsletter — Global Edition, January 2008 \(Special Edition\)](#). Also see Deloitte's [December 12, 2007, Heads Up](#). ●

IASB Amends IFRS 2 on Share-Based Payments

AFFECTS: Entities reporting under IFRSs.

SUMMARY: On January 17, 2008, the IASB issued an amendment to IFRS 2 to do the following:

1. Clarify that "vesting conditions are service conditions and performance conditions" only and that "[o]ther features of a share-based payment are not vesting conditions."
2. State that "all cancellations, whether by the entity or by other parties, should receive the same accounting treatment" under IFRSs.

NEXT STEPS: The amendment applies to accounting periods beginning on or after January 1, 2009. early application is permitted.

OTHER RESOURCES: A [press release](#) announcing the amendment is available on the IASB's Web site. Also see the January 2008 — Special Edition of Deloitte Touche Tohmatsu's [IAS Plus newsletter](#). ●

IASB Issues Annual Improvements to International Standards

AFFECTS: Entities reporting under IFRSs.

SUMMARY: On May 22, 2008, the IASB issued [Improvements to IFRSs](#) — a collection of amendments to IFRSs. The new standard reflects the results of the IASB's project, beginning in 2007, to perform annual reviews of IFRSs and address standards that require nonurgent, minor amendments. The IASB selected standards that were not included in current projects and that would not otherwise be reviewed. The document is divided into two parts:

- *Part I* — Amendments that result in accounting changes for presentation, recognition, or measurement purposes.
- *Part II* — Amendments that are terminology or editorial changes only, which the IASB expects will have no or minimal effect on accounting.

Some of the amendments that are likely to significantly change current practice include the following:

- Held-for-sale classification of the assets and liabilities of a subsidiary in which the parent is committed to a plan to sell its controlling interest but intends to retain a noncontrolling interest (IFRS 5).
- The reclassification to inventories of property, plant, and equipment previously held for rental when the assets cease to be rented and are held for sale, and the recognition of the proceeds of disposal of such assets as revenue (IAS 16).
- The recognition of advertising and promotional expenditure as an asset is not permitted beyond the point at which the entity has the right to access the goods purchased or, in the case of services, the point at which the services are received (IAS 38).

The IASB also published [amendments to IFRS 1 and IAS 27](#) that address the measurement of the cost of investments in subsidiaries, jointly controlled entities, and associates when an entity adopts IFRSs for the first time. The IASB made these amendments because of concerns that retrospectively determining cost and applying the cost method in accordance with IAS 27 could not, in some circumstances, be achieved without undue cost or effort for first-time adopters.

NEXT STEPS: Most of the improvements are effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted. They should be applied retrospectively.

OTHER RESOURCES: For more information, see the May 2008 — Special Edition of Deloitte Touche Tohmatsu's [IAS Plus newsletter](#), which discusses the amendments and categorizes them in two tables. (Table I lists amendments that affect the standards; Table II lists amendments with more minor wording changes that are not necessarily expected to affect accounting practice.) See also the May 2008 — Special Edition of Deloitte Touche Tohmatsu's [IAS Plus newsletter](#), which discusses the amendments to IFRS 1 and IAS 27. ●

IASB Issues Additional Guidance on Hedge Accounting

AFFECTS: Entities reporting under IFRSs that engage in derivative and hedging activities.

SUMMARY: On July 31, 2008, the IASB issued [amendments to IAS 39](#). The amendments focus on two areas in which hedge accounting has been inconsistent: (1) identifying inflation as a hedged risk or portion and (2) hedging with options.

Identifying Inflation as a Hedged Risk or Portion

The amendments clarify that inflation may be hedged only when changes in inflation constitute a contractually specified portion of cash flows of a recognized financial

instrument and other cash flows of the financial instrument “are not affected by the inflation portion” (e.g., when an entity acquires or issues inflation-linked debt). In such circumstances, the entity’s cash flows are exposed to changes in future inflation that may be cash-flow-hedged. Therefore, the amendments do not permit an entity to designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge because the IASB considers such a component not separately identifiable and reliably measurable.

The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and therefore may be hedged.

Hedging With Options

IAS 39 permits an entity to designate a purchased (or net purchased) option as a hedging instrument in a hedge of a financial or nonfinancial item. An entity may designate an option as a hedge of “changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk).”

The amendments clarify that the intrinsic value, not the time value, of an option reflects a one-sided risk and, therefore, that an option designated in its entirety cannot be perfectly effective. The time value of a purchased option is not a component of the forecasted transaction that affects profit or loss. Therefore, if an entity designates an option in its entirety as a hedge of a one-sided risk arising from a forecasted transaction, hedge ineffectiveness will arise. Alternatively, an entity is permitted by IAS 39 to exclude time value to improve hedge effectiveness. As a result of this designation, changes in the time value of the option will be recognized in profit and loss.

NEXT STEPS: The amendments are effective retrospectively for annual periods beginning on or after July 1, 2009. Early adoption is permitted.

OTHER RESOURCES: A [press release](#) announcing the amendments is available on the IASB’s Web site. Also see the July 2008 — Special Edition of Deloitte Touche Tohmatsu’s [IAS Plus newsletter](#). ●

IASB Issues Amendments Permitting Reclassification of Certain Financial Instruments

AFFECTS: Entities reporting under IFRSs.

SUMMARY: On October 13, 2008, the IASB issued [amendments](#) to IAS 39 and IFRS 7 regarding the reclassification of financial instruments. The amendments are in response to calls from constituents, particularly within the European Union, to align the guidance on such reclassification in IFRSs with that in U.S. GAAP as a result of the recent credit deterioration in the global financial markets. The changes to IAS 39 permit an entity to reclassify, in limited circumstances, certain nonderivative financial assets out of the “fair value through profit and loss” and “available-for-sale” categories. In addition, the amendments to IFRS 7 require expanded disclosures about these assets.

NEXT STEPS: The amendments became effective on July 1, 2008.

Editor’s Note: On November 27, 2008, the IASB clarified the effective date of the [reclassification amendments](#). Any reclassification an entity makes on or after November 1, 2008, becomes effective on the date of reclassification. However, a reclassification made before November 1, 2008, becomes effective on July 1, 2008, or a subsequent date. An entity cannot apply a reclassification retrospectively before July 1, 2008.

OTHER RESOURCES: For more information, see the [press release](#) on the IASB’s Web site as well as the October 2008 — Special Edition of Deloitte Touche Tohmatsu’s [IAS Plus Newsletter](#). ●

IASB Issues Fair Value Guidance

See article in [“Fair Value”](#) section above. ●

IFRIC Issues Interpretation on Construction of Real Estate

AFFECTS: Entities reporting under IFRSs that construct rental units.

SUMMARY: On July 3, 2008, the IFRIC issued [Interpretation 15](#), which helps entities that construct rental units, such as apartments or houses, determine whether a particular construction agreement is within the scope of IAS 11 or IAS 18. At issue is whether such an agreement constitutes a construction contract under IAS 11. If so, an entity should use the percentage-of-completion method to recognize revenue. If not, the entity should account for the agreement under IAS 18, which requires that revenue be recognized upon delivery of a good or service.

NEXT STEPS: The Interpretation is effective retrospectively for annual periods beginning on or after January 1, 2009.

OTHER RESOURCES: A [press release](#) announcing the Interpretation is available on the IASB’s Web site. For a summary of the Interpretation, see Deloitte Touche Tohmatsu’s [IAS Plus](#) Web site. Also see Deloitte Touche Tohmatsu’s [Special Edition IAS Plus Newsletter — IFRIC 15](#). ●

IFRIC Issues Interpretation on Hedges of a Net Investment in a Foreign Operation

AFFECTS: Entities reporting under IFRSs that hedge the foreign currency risk arising from a net investment in a foreign operation.

SUMMARY: On July 3, 2008, the IFRIC issued [Interpretation 16](#), which provides guidance on which risks are eligible for hedge accounting for a net investment in a foreign operation. Existing hedge accounting guidance in IAS 21 and IAS 39 does not explicitly address this topic.

IFRIC 16 clarifies the following:

- The foreign exchange difference between the functional currency of the foreign operation and the presentation currency used in the consolidated financial statements of any parent entity (the immediate, intermediate, or ultimate parent) does not qualify for hedge accounting. The eligible risk is restricted to the foreign exchange differences between the functional currency of the parent and the functional currency of the foreign operation.
- Any entity within the group may hold the hedging instrument (except the foreign operation that itself is being hedged).
- On the disposal of a foreign operation, the amount reclassified to profit or loss from the foreign currency translation reserve in the consolidated financial statements of a parent with respect to the hedging instrument is determined in accordance with IAS 39. However, IAS 21 must be applied to determine the amount reclassified with respect to the hedged item.

NEXT STEPS: The Interpretation is effective prospectively for annual periods beginning on or after October 1, 2008.

OTHER RESOURCES: A [press release](#) announcing the Interpretation is available on the IASB's Web site. For a summary of the Interpretation, see Deloitte Touche Tohmatsu's [IAS Plus](#) Web site. Also see Deloitte Touche Tohmatsu's [Special Edition IAS Plus Newsletter — IFRIC 16](#). ●

IFRIC Issues Interpretation on Noncash Distributions*

AFFECTS: Entities reporting under IFRSs.

SUMMARY: On November 27, 2008, IFRIC issued [Interpretation 17](#), which provides guidance on accounting for an entity's distribution of assets other than cash as dividends to its shareholders. The Interpretation "clarifies that:

- [A] dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.
- [A]n entity should measure the dividend payable at the fair value of the net assets to be distributed.
- [A]n entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss."

NEXT STEPS: IFRIC Interpretation 17 should be applied prospectively to annual periods beginning on or after July 1, 2009.

OTHER RESOURCES: For more information on the Interpretation, see the [press release](#) on the IASB's Web site. Also see the December 2008 — Special Edition of Deloitte Touche Tohmatsu's [IAS Plus newsletter](#). ●

IAASB Issues Revised International Standards on Auditing*

AFFECTS: Auditors performing audits in accordance with ISAs.

SUMMARY: In 2008, the IAASB issued 21 ISAs that are revised, redrafted, or both, and one international standard on quality control (ISQC):

- [ISA 200 \(Revised and Redrafted\), Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing](#).
- [ISA 220 \(Redrafted\), Quality Control for an Audit of Financial Statements](#).
- [ISA 250 \(Redrafted\), Consideration of Laws and Regulations in an Audit of Financial Statements](#).
- [ISA 320 \(Revised and Redrafted\), Materiality in Planning and Performing an Audit, and ISA 450 \(Revised and Redrafted\), Evaluation of Misstatements Identified During the Audit](#).
- [ISA 500 \(Redrafted\), Audit Evidence](#).
- [ISA 501 \(Redrafted\), Audit Evidence — Specific Considerations for Selected Items](#).
- [ISA 505 \(Revised and Redrafted\), External Confirmations](#).
- [ISA 510 \(Redrafted\), Initial Audit Engagements — Opening Balances](#).

- [ISA 520 \(Redrafted\), Analytical Procedures.](#)
- [ISA 530 \(Redrafted\), Audit Sampling.](#)
- [ISA 540 \(Revised and Redrafted\), Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.](#)
- [ISA 550 \(Revised and Redrafted\), Related Parties.](#)
- [ISA 560 \(Redrafted\), Subsequent Events.](#)
- [ISA 570 \(Redrafted\), Going Concern.](#)
- [ISA 580 \(Revised and Redrafted\), Written Representations.](#)
- [ISA 610 \(Redrafted\), Using the Work of Internal Auditors.](#)
- [ISA 620 \(Revised and Redrafted\), Using the Work of an Auditor's Expert.](#)
- [ISA 705 \(Revised and Redrafted\), Modifications to the Opinion in the Independent Auditor's Report.](#)
- [ISA 706 \(Revised and Redrafted\), Emphasis of Matter Paragraphs in the Independent Auditor's Report.](#)
- [ISA 710 \(Redrafted\), Comparative Information — Corresponding Figures and Comparative Financial Statements.](#)
- [ISQC 1 \(Redrafted\), Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.](#)

NEXT STEPS: The revised ISAs are effective for audits of financial statements for periods beginning on or after December 15, 2009. Systems of quality control in compliance with the revised ISQC must be established by December 15, 2009.

OTHER RESOURCES: For more information, see the [press release](#) on IFAC's Web site. ●

IAASB Issues Practice Alert on Auditing Fair Value

AFFECTS: Auditors performing audits in accordance with ISAs.

SUMMARY: On October 6, 2008, the IAASB issued a [Practice Alert](#) summarizing the ISA guidance on auditing fair value accounting estimates. Topics covered in the Alert include:

- Understanding the entity and its environment.
- Considering fraud.
- Designing and performing procedures to respond to the assessed risk of material misstatement.
- Using the work of an expert.
- Obtaining management representations.
- Communicating with those charged with governance.
- Evaluating disclosures about fair value.
- Considering the need for an emphasis-of-matter paragraph in the auditor's report.

OTHER RESOURCES: For guidance on auditing fair value accounting estimates, see [ISA 540 \(Revised and Redrafted\)](#) on IFAC's Web site. ●

Appendix A: SEC Disclosure Guidance — Recently Issued Standards

SAB Topic 11.M indicates that filings that include financial statements should include disclosure of the impact that a recently issued accounting standard will have on the financial position and results of operations of the registrant when such a standard is adopted in a future period. This disclosure guidance applies to all accounting standards that have been issued but not yet adopted by the registrant unless the impact on its financial position and results of operations is not expected to be material. MD&A requires disclosure of presently known material changes, trends, and uncertainties that have had, or that the registrant reasonably expects will have, a material impact on future sales, revenues, or income from continuing operations. With respect to financial statement disclosures, GAAS specifically address the need for the auditor to consider the adequacy of the disclosure of impending changes in accounting principles if (1) the financial statements have been prepared on the basis of accounting principles that were acceptable at the financial statement date but that will not be acceptable in the future and (2) the financial statements will be restated in the future as a result of the change. The SEC staff believes that recently issued accounting standards may constitute material matters and, therefore, that disclosure in the financial statements should also be considered when the change to the new accounting standard will be accounted for in financial statements of future periods, prospectively or with a cumulative catch-up adjustment.

Disclosures should include the following:

- A brief description of the new standard, the date that adoption is required, and the date that the registrant plans to adopt, if earlier.
- A discussion of the methods of adoption allowed by the standard and the method expected to be used by the registrant, if determined.
- A discussion of the impact that adoption of the standard is expected to have on the financial statements of the registrant, unless not known or not reasonably estimable, in which case a statement to that effect may be made.
- Disclosure of the potential impact of other significant matters that the registrant believes might result from the adoption of the standard (e.g., technical violations of debt covenant agreements, planned or intended changes in business practices) is encouraged.

Appendix B: Abbreviations

AAG	AICPA Audit and Accounting Guide	FASB	Financial Accounting Standards Board
ACFE	Association of Certified Fraud Examiners	FIN	FASB Interpretation
ADR	American Depositary Receipt	FSP	FASB Staff Position
AICPA	American Institute of Certified Public Accountants	GAAP	generally accepted accounting principles
APB	Accounting Principles Board	GAAS	generally accepted auditing standards
AR	Accounting and Review Services	GAGAS	Governmental Auditing Standards
ARB	Accounting Research Bulletin	GAO	Government Accountability Office
ARM	adjustable-rate mortgage	GASB	Governmental Accounting Standards Board
ARS	auction rate security	GP	general partner
ASF	American Securitization Forum	HCO	health care organization
AU	U.S. Auditing Standards	IAASB	International Auditing and Assurance Standards Board
BDC	business development company	IAS	International Accounting Standard
CAQ	Center for Audit Quality	IASB	International Accounting Standards Board
C&DI	Compliance and Disclosure Interpretation	ICFR	internal control over financial reporting
CD&A	compensation discussion and analysis	IDR	incentive distribution right
CEO	chief executive officer	IFAC	International Federation of Accountants
CIFIR	SEC Advisory Committee on Improvements to Financial Reporting	IFRIC	International Financial Reporting Interpretations Committee
DCF	Division of Corporation Finance	IFRS	International Financial Reporting Standard
EDGAR	Electronic Data Gathering, Analysis, and Retrieval System	IIA	Institute of Internal Auditors
EITF	Emerging Issues Task Force	IRS	Internal Revenue Service
EPS	earnings per share	ISA	International Standard on Auditing
FAS	Financial Accounting Standard	ISQC	International Standard on Quality Control
FASAB	Federal Accounting Standards Advisory Board	LP	limited partner

MD&A	Management's Discussion and Analysis	SEC	Securities and Exchange Commission
MLP	master limited partnership	SMEs	small and medium-sized entities
MOU	Memorandum of Understanding	SOP	Statement of Position
NPO	not-for-profit organization	SPE	special-purpose entity
OCA	Office of the Chief Accountant	SSAE	Statement on Standards for Attestation Engagements
OTTI	other-than-temporary impairment	SSARS	Statement on Standards for Accounting and Review Services
PCAOB	Public Company Accounting Oversight Board	SSVS	Statement on Standards for Valuation Services
PCIE	President's Council on Integrity and Efficiency	TARP	Troubled Asset Relief Program
PLR	Private Letter Ruling	UPMIFA	Uniform Prudent Management of Institutional Funds Act of 2006
PPS	perpetual preferred security	VIE	variable interest entity
QSPE	qualifying special-purpose entity	XBRL	extensible business reporting language
SAB	Staff Accounting Bulletin		
SAS	Statement on Auditing Standards		
SEA	service efforts and accomplishments		

Appendix C: Glossary of Standards

FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts* — an interpretation of FASB Statement No. 60

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*

FASB Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities* — an amendment of FASB Statement No. 133

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment of ARB No. 51

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* — including an amendment of FASB Statement No. 115

FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* — an amendment of FASB Statements No. 87, 88, 106, and 132(R)

FASB Statement No. 157, *Fair Value Measurements*

FASB Statement No. 156, *Accounting for Servicing of Financial Assets* — an amendment of FASB Statement No. 140

FASB Statement No. 154, *Accounting Changes and Error Corrections* — a replacement of APB Opinion No. 20 and FASB Statement No. 3

FASB Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*

FASB Statement No. 146, *Accounting for Costs Associated With Exit or Disposal Activities*

FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*

FASB Statement No. 142, *Goodwill and Other Intangible Assets*

FASB Statement No. 141(R), *Business Combinations*

FASB Statement No. 141, *Business Combinations*

FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* — a replacement of FASB Statement No. 125

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*

FASB Statement No. 132(R) *Employers' Disclosures About Pensions and Other Postretirement Benefits* — an amendment of FASB Statements No. 87, 88, and 106

FASB Statement No. 128, *Earnings per Share*

FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*

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

FASB Statement No. 109, *Accounting for Income Taxes*

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

FASB Statement No. 66, *Accounting for Sales of Real Estate*

FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*

FASB Statement No. 47, *Disclosure of Long-Term Obligations*

FASB Statement No. 13, *Accounting for Leases*

FASB Statement No. 5, *Accounting for Contingencies*

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* — an amendment of FASB Statement No. 109

FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* — an interpretation of ARB No. 51

FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* — an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34

FASB Interpretation No. 21, *Accounting for Leases in a Business Combination* — an interpretation of FASB Statement No. 13

FASB Concepts Statement No. 6, *Elements of Financial Statements* — a replacement of FASB Concepts Statement No. 3

FASB Staff Implementation Guide (Statement 115), "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities: Questions and Answers"

FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active"

FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157"

FASB Staff Position No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13"

FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets"

FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Entities"

FASB Staff Position No. FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions"

FASB Staff Position No. FAS 133-1 and FIN 45-4, "Disclosures About Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161"

FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"

FASB Staff Position No. FAS 115-1/124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"

FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)"

FASB Staff Position No. SOP 07-1-1, "Effective Date of AICPA Statement of Position 07-1"

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

FASB Staff Position No. SOP 94-3-1 and AAG HCO-1, "Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations"

FASB Staff Position No. SOP 90-7-1, "An Amendment of AICPA Statement of Position 90-7"

Proposed FASB Staff Position No. FAS 141(R)-a, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise From Contingencies"

Proposed FASB Staff Position No. FIN 48-c, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises"

Statement 133 Implementation Issue No. K4, "Miscellaneous: Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded From the Assessment of Hedge Effectiveness"

Statement 133 Implementation Issue No. I1, "Interaction of the Disclosure Requirements of Statement 133 and Statement 47"

Statement 133 Implementation Issue No. E23, "Issues Involving the Application of the Shortcut Method Under Paragraph 68"

Statement 133 Implementation Issue No. G10, "Need to Consider Possibility of Default by the Counterparty to the Hedging Derivative"

EITF Issue No. 08-8, "Accounting for an Instrument (or an Embedded Feature) With a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary"

EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets"

EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations"

EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement"

EITF Issue No. 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5"

EITF Issue No. 08-3, "Accounting by Lessees for Maintenance Deposits"

EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"

EITF Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships"

EITF Issue No. 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128"

EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments"

EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock"

EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets"

EITF Issue No. 98-5, "Accounting for Convertible Securities With Beneficial Conversion Features or Contingently Adjustable Conversion Ratios"

EITF Issue No. 97-1, "Implementation Issues in Accounting for Leasing Transactions, Including Those Involving Special-Purpose Entities"

EITF Issue No. 96-21, "Implementation Issues in Accounting for Leasing Transactions Involving Special-Purpose Entities"

EITF Issue No. 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination"

EITF Issue No. 90-19, "Convertible Bonds With Issuer Option to Settle for Cash Upon Conversion"

EITF Issue No. 90-15, "Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions"

EITF Topic No. D-98, "Classification and Measurement of Redeemable Securities"

Proposed EITF Issue No. 08-10, "Selected Statement 160 Implementation Questions"

APB Opinion No. 22, *Disclosure of Accounting Policies*

APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*

Accounting Research Bulletin No. 51, *Consolidated Financial Statements*

AICPA Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*

AICPA Statement of Position 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*

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

AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*

AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*

AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*

AICPA Audit and Accounting Guide, *Airlines*

AICPA Ethics Interpretation No. 501-8, *Failure to Follow Requirements of Governmental Bodies, Commissions, or Other Regulatory Agencies on Indemnification and Limitation of Liability Agreements With a Client*

AICPA Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*

AICPA Statement on Auditing Standards No. 112 (AU Section 325), *Communicating Internal Control Related Matters Identified in an Audit*

AICPA Statement on Auditing Standards No. 99 (AU Section 316), *Consideration of Fraud in a Financial Statement Audit*

AICPA Statement on Auditing Standards No. 92 (AU Section 332), *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*

AICPA Statement on Auditing Standards No. 69 (AU Section 411), *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*

AICPA Statement on Auditing Standards No. 67 (AU Section 330), *The Confirmation Process*

AICPA Statement on Auditing Standards No. 1 (AU Section 560), *Subsequent Events*

AICPA *Professional Standards*, AU Section 9330, "The Confirmation Process: Auditing Interpretations of AU Section 330"

AICPA *Professional Standards*, AR Section 400, "Communications Between Predecessor and Successor Accountants"

AICPA *Professional Standards*, AR Section 300, "Compilation Reports on Financial Statements Included in Certain Prescribed Forms"

AICPA *Professional Standards*, AR Section 200, "Reporting on Comparative Financial Statements"

AICPA *Professional Standards*, AR Section 100, "Compilation and Review of Financial Statements"

AICPA Statement of Standards for Attestation Engagements No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*

AICPA Statement of Standards for Attestation Engagements No. 10, *Attestation Standards: Revision and Recodification*

AICPA Statement on Standards for Accounting and Review Services No. 17, *Omnibus Statement on Standards for Accounting and Review Services — 2008*

SEC Staff Accounting Bulletin Topic 11.M, "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of a Registrant When Adopted in a Future Period"

SEC Staff Accounting Bulletin Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities"

SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations"

SEC Final Rule Release No. 34-58465, *Exemption From Registration Under Section 12(g) of the Securities Exchange Act of 1934 for Foreign Private Issuers*

SEC Final Rule Release No. 33-8981, *Mandatory Electronic Submission of Applications for Orders Under the Investment Company Act and Filings Made Pursuant to Regulation E*

SEC Final Rule Release No. 33-8959, *Foreign Issuer Reporting Enhancements*

SEC Final Rule Release, No. 33-8957, *Commission Guidance and Revisions to the Cross-Border Tender Offer, Exchange Offer, Rights Offerings, and Business Combination Rules and Beneficial Ownership Reporting Rules for Certain Foreign Institutions*

SEC Final Rule Release No. 33-8878, *Revisions to the Eligibility Requirements for Primary Securities Offerings on Forms S-3 and F-3*

SEC Final Rule Release No. 33-8876, *Smaller Reporting Company Regulatory Relief and Simplification*

SEC Final Rule Release No. 33-8934, *Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers*

SEC Final Rule Release No. IC-28266, *Definition of Eligible Portfolio Company Under the Investment Company Act of 1940*

SEC Other Release, *Securities Act Sections*

SEC Other Release, *Division of Corporation Finance Financial Reporting Manual*

SEC Other Release, *Final Report of the SEC Advisory Committee on Improvements to Financial Reporting*

SEC Other Release, *Staff Guidance for Financial Institutions Filing Proxy Statements in Connection With the TARP Capital Purchase Program*

SEC Press Release No. 2008-205, *SEC Issues Clarification on Accounting Issues Relating to Bank Support for Money Market Mutual Funds*

SEC Small Entity Compliance Guide, *Shareholder Choice Regarding Internet Availability of Proxy Materials*

SEC Small Entity Compliance Guide, *Changeover to the SEC's New Smaller Reporting Company System by Small Business Issuers and Non-Accelerated Filer Companies*

SEC Small Entity Compliance Guide, *Revisions to the Cross-Border Tender Offer, Exchange Offer, Rights Offerings, and Business Combination Rules and Beneficial Ownership Reporting Rules for Certain Foreign Institutions*

SEC Proposed Rule Release No. 33-8982, *Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers*

Section 404(b) of the Sarbanes-Oxley Act of 2002

PCAOB Auditing Standard No. 6, *Evaluating Consistency of Financial Statements*

PCAOB Rule No. 3526, *Communication With Audit Committees Concerning Independence*

PCAOB Rule No. 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*

PCAOB Rule Release No. 2008-007, *Rule Amendments Concerning the Timing of Certain Inspections of Non-U.S. Firms, and Other Issues Relating to Inspections of Non-U.S. Firms*

PCAOB Rule Release No. 2008-005, *Rules on Succeeding to the Registration Status of a Predecessor Firm*

PCAOB Rule Release No. 2008-004, *Rules on Periodic Reporting by Registered Public Accounting Firms*

PCAOB Independence Standards Board Standard No. 1, *Independence Discussions With Audit Committees*

PCAOB Staff Audit Practice Alert No. 3, *Audit Considerations in the Current Economic Environment*

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

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

GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*

GASB Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*

GASB Statement No. 2, *Financial Reporting of Deferred Compensation Plans Adopted Under the Provisions of Internal Revenue Code Section 457*

GASB Technical Bulletin No. 2008-01, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*

FASAB Statement No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates*

FASAB Statement No. 4, *Managerial Cost Accounting Standards and Concepts*

FASAB Technical Release No. 9, *Implementation Guide for Statement for FASAB 29: Heritage Assets and Stewardship Land*

FASAB Technical Release No. 8, *Clarification of Standard Relating to Inter-Entity Cost*

IFRS 7, *Financial Instruments: Disclosures*

IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

IFRS 3 (revised), *Business Combinations*

IFRS 2, *Share-based Payment*

IFRS 1, *First-time Adoption of International Financial Reporting Standards*

IAS 39 (revised), *Financial Instruments: Recognition and Measurement*

IAS 38, *Intangible Assets*

IAS 32, *Financial Instruments: Presentation*

IAS 27 (revised), *Consolidated and Separate Financial Statements*

IAS 21 (revised), *The Effects of Changes in Foreign Exchange Rates*

IAS 18, *Revenue*

IAS 16, *Property, Plant and Equipment*

IAS 11, *Construction Contracts*

IAS 1 (revised), *Presentation of Financial Statements*

Interpretation 17, *Distributions of Non-cash Assets to Owners*

IFRIC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*

IFRIC Interpretation 15, *Agreements for the Construction of Real Estate*

IAASB International Standard on Auditing No. 710 (Redrafted), *Comparative Information — Corresponding Figures and Comparative Financial Statements*

IAASB International Standard on Auditing No. 706 (Revised and Redrafted), *Emphasis of Matter Paragraphs in the Independent Auditor's Report*

IAASB International Standard on Auditing No. 705 (Revised and Redrafted), *Modifications to the Opinion in the Independent Auditor's Report*

IAASB International Standard on Auditing No. 620 (Revised and Redrafted), *Using the Work of an Auditor's Expert*

IAASB International Standard on Auditing No. 610 (Redrafted), *Using the Work of Internal Auditors*

IAASB International Standard on Auditing No. 580 (Revised and Redrafted), *Written Representations*

IAASB International Standard on Auditing No. 570 (Redrafted), *Going Concern*

IAASB International Standard on Auditing No. 560 (Redrafted), *Subsequent Events*

IAASB International Standard on Auditing No. 550 (Revised and Redrafted), *Related Parties*

IAASB International Standard on Auditing No. 540 (Revised), *Auditing Accounting Estimates and Related Disclosures (Other Than Those Involving Fair Value Measurements)*

IAASB International Standard on Auditing No. 530 (Redrafted), *Audit Sampling*

IAASB International Standard on Auditing No. 520 (Redrafted), *Analytical Procedures*

IAASB International Standard on Auditing No. 510 (Redrafted), *Initial Audit Engagements — Opening Balances*

IAASB International Standard on Auditing No. 505 (Revised and Redrafted), *External Confirmations*

IAASB International Standard on Auditing No. 501 (Redrafted), *Audit Evidence — Specific Considerations for Selected Items*

IAASB International Standard on Auditing No. 500 (Redrafted), *Audit Evidence*

IAASB International Standard on Auditing No. 450 (Revised and Redrafted), *Evaluation of Misstatements Identified During the Audit*

IAASB International Standard on Auditing No. 320 (Revised and Redrafted), *Materiality in Planning and Performing an Audit*

IAASB International Standard on Auditing No. 250 (Redrafted), *Consideration of Laws and Regulations in an Audit of Financial Statements*

IAASB International Standard on Auditing No. 220 (Redrafted), *Quality Control for an Audit of Financial Statements*

IAASB International Standards on Auditing No. 200 (Revised and Redrafted), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing*

IAASB International Standard on Quality Control No. 1 (Redrafted), *Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

IAASB Staff Audit Practice Alert, *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*

IASB Expert Advisory Panel Final Report, *Measuring and Disclosing the Fair value of Financial Instruments in Markets That Are No Longer Active*

CAQ Practice Aid for Testing Journal Entries and Other Adjustments Pursuant to AU Section 316

GAO Interim Guidance, *Reporting Deficiencies in Internal Control for GAGAS Financial Audits and Attestation Engagements*

GAO and PCIE Financial Audit Manual

Appendix D: Significant Adoption Dates

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

FASB	Affects	Status
Statement 163, <i>Accounting for Financial Guarantee Insurance Contracts</i> — an interpretation of FASB Statement No. 60	Entities within the scope of Statement 60 that issue financial guarantee insurance (and reinsurance) contracts.	Effective for financial statements issued for fiscal years beginning after December 15, 2008 (and all interim periods within those fiscal years), except for some disclosures about the insurance enterprise's risk-management activities. Requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period (including interim periods) beginning after the Statement's issuance. Except for those disclosures, early application is not permitted.
Statement 162, <i>The Hierarchy of Generally Accepted Accounting Principles</i>	All nongovernmental entities that apply U.S. GAAP.	Effective November 15, 2008.
Statement 161, <i>Disclosures About Derivative Instruments and Hedging Activities</i> — an amendment of FASB Statement No. 133	All entities.	Effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged.
Statement 160, <i>Noncontrolling Interests in Consolidated Financial Statements</i> — an amendment of ARB No. 51	All entities that prepare consolidated financial statements, except not-for-profit organizations.	Effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The standard should be applied prospectively. Presentation and disclosure requirements should be applied retrospectively for all periods presented. Early adoption is prohibited.
Statement 158, <i>Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans</i> — an amendment of FASB Statements No. 87, 88, 106, and 132(R)	All employers with defined benefit pension or other postretirement plans.	Recognition of the asset and liability related to funded status of a plan and disclosures: <ul style="list-style-type: none"> • For entities with publicly traded equity securities, effective for fiscal years ending after December 15, 2006. • For all other entities, effective for fiscal years ending after June 15, 2007. For all entities, change in measurement date is effective for fiscal years ending after December 15, 2008. Early adoption is permitted.
Statement 157, <i>Fair Value Measurements</i>	All entities.	Effective for fiscal years beginning after November 15, 2007, and interim periods within those years. Earlier adoption is permitted, provided that no financial statements have yet been issued within that fiscal year. FSP FAS 157-2 defers the Statement's effective date for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, and interim periods within those years. This Statement requires prospective application, with the exception of certain financial instruments listed in paragraph 37 for which the Statement requires retrospective application.
Statement 141(R), <i>Business Combinations</i>	All entities except not-for-profit organizations, combinations between entities under common control, and formations of joint ventures.	Effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited.
Interpretation 48, <i>Accounting for Uncertainty in Income Taxes</i> — an interpretation of FASB Statement No. 109	All entities with tax positions accounted for under FASB Statement 109, <i>Accounting for Income Taxes</i> .	For public entities, effective for fiscal years beginning after December 15, 2006. For all other entities, FSP FIN 48-2 defers the effective date until fiscal years beginning after December 15, 2007. The FASB issued a proposed FSP to defer the effective date of the Interpretation for all private entities to periods beginning on or after December 15, 2008.

FSP FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides"	All employers with defined benefit pension plans or other postretirement plans.	Effective concurrently with the requirements of Statement 158.
FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active"	All entities.	Effective as of October 10, 2008, and applicable to prior periods for which financial statements have not yet been issued. Entities must account for revisions to fair value estimates resulting from the adoption of the FSP as a change in accounting estimate under Statement 154, but do not need to provide the disclosures required by that Statement.
FSP FAS 157-2, "Effective Date of FASB Statement No. 157"	All entities.	Effective February 12, 2008.
FSP FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13"	All entities.	Effective upon the initial adoption of Statement 157.
FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets"	All entities with recognized intangible assets.	Effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance on determining the useful life of a recognized intangible asset must be applied prospectively only to intangible assets acquired after the FSP's effective date. Disclosure requirements are applied prospectively.
FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities"	All entities except not-for-profit organizations, combinations between entities under common control, and formations of joint ventures.	Effective for the first reporting period (interim or annual) ending after December 15, 2008.
FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions"	Entities that enter into repurchase financing transactions.	Effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Early application is not permitted. This FSP must be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after the beginning of the fiscal year in which this FSP is applied.
FSP FAS 133-1 and FIN 45-4, "Disclosures About Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161"	Sellers of credit derivatives and guarantors.	The provisions of the FSP that amend Statement 133 and Interpretation 45 are effective for reporting periods (annual or interim) ending after November 15, 2008. Early application is encouraged to provide comparatives at initial adoption. The clarification of the effective date of Statement 161 is effective on September 12, 2008.
FSP FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"	Not-for-profit organizations.	Effective for fiscal years ending after December 15, 2008. Earlier application is permitted provided that annual financial statements for that fiscal year have not been previously issued.
FSP FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises"	Nonpublic entities.	Effective February 1, 2008.
FSP FIN 48-1, "Definition of <i>Settlement</i> in FASB Interpretation No. 48"	All entities with tax positions accounted for under FASB Statement No. 109, <i>Accounting for Income Taxes</i> .	Effective upon the initial adoption of Interpretation 48.

FSP FIN 46(R)-7, "Application of FASB Interpretation No. 46(R) to Investment Companies"	Investment companies.	The effective date for applying the provisions of Interpretation 46 or Interpretation 46(R) is deferred for investment companies that are not subject to SEC Regulation S-X, Rule 6-03(c)(1), but that are currently accounting for their investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide <i>Investment Companies</i> until the date that the investment company initially adopts AICPA Statement of Position 07-1, <i>Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies</i> . An entity that is required to discontinue application of the specialized accounting in the Guide as a result of adoption of SOP 07-1 is subject to the provisions of Interpretation 46(R) at that time. Paragraph 4(e) of FASB Interpretation No. 46(R), <i>Consolidation of Variable Interest Entities</i> , states that "[i]nvestments accounted for at fair value in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide <i>Investment Companies</i> are not subject to consolidation according to the requirements of this Interpretation" (footnote omitted). Accordingly, an entity that meets the definition of an investment company after adoption of SOP 07-1 should continue to apply the specialized accounting in the Guide to its investments.
FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"	Entities with share-based payments.	Effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Prior-period EPS data must be adjusted retrospectively. Early adoption is not permitted.
FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)"	All entities with convertible debt instruments.	Effective for financial statements issued for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2008. Early adoption is not permitted. Except as discussed in paragraph 36, the FSP should be applied retrospectively to all past periods presented.
FSP SOP 07-1-1, "Effective Date of AICPA Statement of Position 07-1"	Companies that hold investments, including investments in equity securities, commodities, securities based on indices, derivatives, and real estate, as well as parent companies and equity method investors in investment companies.	Effective as of December 15, 2007. Indefinitely delays the effective date of SOP 07-1.
FSP SOP 94-3-1 and AAG HCO-1, "Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations"	Not-for-profit organizations.	Effective for fiscal years beginning after June 15, 2008, and for interim periods therein. The FSP should be applied to all relationships, arrangements, and interests that exist on the effective date. If the application of the FSP results in an NPO's changing its accounting (e.g., a change from cost method to equity method accounting for an investment in a for-profit partnership), a cumulative-effect adjustment is required at adoption.
FSP SOP 90-7-1, "An Amendment of AICPA Statement of Position 90-7"	Entities emerging from bankruptcy.	Effective for financial statements issued after the FSP's issuance date (April 24, 2008).
Implementation Issue E23, "Issues Involving the Application of the Shortcut Method Under Paragraph 68"	Entities with derivative instruments.	Effective for hedging relationships designated on or after January 1, 2008.
EITF	Affects	Status
Issue 08-8, "Accounting for an Instrument (or an Embedded Feature) With a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary"	Reporting entities that enter into freestanding financial instruments (or instruments that contain embedded features) for which the payoff to the counterparty is indexed, in whole or in part, to the stock of a consolidated subsidiary.	To coincide with the effective date of Statement 160, effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. At transition, the carrying value of the instrument (or separated embedded feature) previously classified as a liability will be reclassified to noncontrolling interest. Early adoption is not permitted.

Issue 08-7, "Accounting for Defensive Intangible Assets"	Entities that will acquire intangible assets after the effective date of Statement 141(R), when the entity has no intention of actively using, or intends to discontinue use of, the intangible asset but holds it (locks it up) to prevent others from obtaining access to it (i.e., a defensive intangible asset).	To coincide with the effective date of Statement 141(R), effective for defensive intangible assets acquired in fiscal years beginning on or after December 15, 2008.
Issue 08-6, "Equity Method Investment Accounting Considerations"	Entities that acquire or hold investments accounted for under the equity method.	To coincide with the effective dates of Statements 141(R) and 160, effective for transactions occurring in fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is not permitted.
Issue 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement"	Entities that incur liabilities that have inseparable third-party credit enhancements, when the liability is measured or disclosed at fair value.	Effective beginning in the first reporting period after December 15, 2008. This Issue is to be applied prospectively, with the effect of initial application included in the change in fair value of the liability in the period of adoption. Early application is permitted.
Issue 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5"	Entities that issue convertible debt securities and convertible preferred stock.	Effective for financial statements issued for fiscal years ending after December 15, 2008, with early adoption permitted. The impact of applying the conforming changes, if any, must be presented retrospectively, with a cumulative-effect adjustment to retained earnings as of the beginning of the first period presented.
Issue 08-3, "Accounting by Lessees for Maintenance Deposits"	Entities that are lessees.	Effective for fiscal years beginning after December 15, 2008 (and interim periods within these fiscal years). The Issue must be applied by recognizing the cumulative effect of the change in accounting principle in the opening balance of retained earnings as of the beginning of the fiscal year in which the Issue is initially applied. Earlier application is not permitted.
Issue 07-6, "Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66 When the Agreement Includes a Buy-Sell Clause"	Entities subject to the provisions of Statement 66.	This Issue should be applied to new arrangements entered into, and assessments performed, in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years.
Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"	Entities with derivative instruments.	Effective for fiscal years beginning after December 15, 2008 (and interim periods within these fiscal years). The Issue must be applied to outstanding instruments as of the beginning of the fiscal year in which the Issue is adopted as a cumulative-effect adjustment to the opening balance of retained earnings for that fiscal year. Earlier application is not permitted.
Issue 07-4, "Application of the Two-Class Method Under FASB Statement No. 128 to Master Limited Partnerships"	Master limited partnerships.	Effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. This Issue should be applied retrospectively for all financial statements presented.
Issue 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities"	Entities engaged in research and development activities.	Effective for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Apply prospectively to new contracts entered into on, or after, the effective date.
Issue 07-1, "Accounting for Collaborative Arrangements"	Entities participating in collaborative arrangements.	Effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This Issue should be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date.
Issue 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards"	Entities with share-based payment arrangements with dividend protection features.	Apply prospectively to the income tax benefits from dividends declared on affected securities in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years.
Issue 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements"	Entities that purchase life insurance.	Effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years.
Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"	Entities that purchase life insurance.	Effective for fiscal years beginning after December 15, 2007.

AICPA/AcSEC	Affects	Status
SAS 115, <i>Communicating Internal Control Related Matters Identified in an Audit</i>	AICPA members that provide audit services.	Effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier application is permitted.
Ethics Interpretation No. 501-8, <i>Failure to Follow Requirements of Governmental Bodies, Commissions, or Other Regulatory Agencies on Indemnification and Limitation of Liability Provisions in Connection With Audit and Other Attest Services</i>	AICPA members that provide audit or other attest services.	Effective July 31, 2008.
SOP 07-1, <i>Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies</i>	Investment companies.	FSP SOP 07-1-1 indefinitely delays the effective date of SOP 07-1. Entities that early adopted before December 15, 2007, are permitted, but not required, to continue to apply the provisions of this SOP.
SSAE 15, <i>An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i>	Entities and their auditors.	Effective when the subject matter or assertion is as of or for a period ending on or after December 15, 2008. Earlier application is permitted.
SSARS 17, <i>Omnibus Statement for Standards of Accounting and Review Services — 2008</i>	AICPA members that provide compilation or review services to nonissuers.	Effective for compilations and reviews for periods ending on or after December 15, 2008, with early adoption permitted.
SSARS 16, <i>Defining Professional Requirements in Statements on Standards for Accounting and Review Services</i>	AICPA members that provide compilation or review services.	Effective December 18, 2007.
SSARS 15, <i>Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services</i>	AICPA members that provide compilation or review services.	Effective for periods ending on or after December 15, 2007.
SSVS 1, <i>Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset</i>	AICPA members who are engaged to estimate the value of a business or intangible asset.	Effective for engagements accepted on or after January 1, 2008.
SEC	Affects	Status
SAB 110, codified as part of SAB Topic 14.D.2, "Share-Based Payment: Certain Assumptions Used in Valuation Methods — Expected Term"	Public entities with share-based payments.	Effective January 1, 2008.
SAB 109, <i>Written Loan Commitments Recorded at Fair Value Through Earnings</i>	Public entities with loan commitments.	Apply prospectively to commitments issued or modified in fiscal quarters beginning after December 15, 2007.
Final Rule, <i>Mandatory Electronic Submission of Applications for Orders Under the Investment Company Act and Filings Made Pursuant to Regulation E</i>	Investment companies.	Effective January 1, 2009.
Final Rule, <i>Amendments to Rules Regarding Management's Report on Internal Control Over Financial Reporting</i>	All public entities.	Effective August 27, 2007, except the amendment to Section 210.2-02T, which is effective from August 27, 2007, until June 30, 2009.
Final Rule, <i>Shareholder Choice Regarding Proxy Materials</i>	All public entities.	Effective January 1, 2008, except Sections 240.14a-16(d)(3) and 240.14a-16(j)(3), which were effective October 1, 2007.
Final Rule, <i>Revisions to the Eligibility Requirements for Primary Securities Offerings on Forms S-3 and F-3</i>	Public entities and foreign private issuers that file Forms S-3 and F-3, respectively.	The amendments to Forms S-3 and F-3 became effective on January 28, 2008.
Final Rule, <i>Technical Amendments to Forms MSD, MSDW, BD-N, BD, BDW, ADV, and ADVW and to Exchange Act Rules 15b1-1, 15b3-1, 15b6-1, 15Ba2-2, 15Bc3-1, 15Ca1-1, 15Ca2-1, 15Cc1-1, and 17a-3, and Advisers Act Rules 203-1, 203-3, and 204-1.</i>	Municipal securities dealers, broker-dealers, and investment advisors.	Effective January 28, 2008.
Final Rule, <i>Amendment of Procedures for Payment of Fees</i>	All public entities.	Effective February 1, 2008.
Final Rule, <i>Delegation of Authority to the Director of the Division of Corporation Finance</i>	All public entities.	Effective February 7, 2008.

Final Rule, <i>Electronic Shareholder Forums</i>	All public entities.	Effective February 25, 2008.
Final Rule, <i>Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP</i>	Foreign private issuers that prepare financial statements in accordance with IFRSs.	Effective March 4, 2008. Foreign private issuers filing under IFRSs that have a fiscal year ending after November 15, 2007, and that want to exclude U.S. GAAP information from their filing, should contact the SEC staff in the Division of Corporation Finance if they want to file before the March 4, 2008, effective date.
Final Rule, <i>Internet Availability of Proxy Materials; Regulation of Takeovers and Security Holder Communications; Cross-Border Tender and Exchange Offers, Business Combinations, and Rights Offerings; Certain Other Related Rule Corrections</i>	All public entities.	Effective April 1, 2008.
Final Rule, <i>Revisions to Form S-11 to Permit Historical Incorporation by Reference</i>	Real estate entities.	Effective April 15, 2008.
Final Rule, <i>Definitions of Terms and Exemptions Relating to the "Broker" Exception for Banks</i>	Banks subject to the Exchange Act.	Effective April 17, 2008.
Final Rule, <i>Proposed Rule Changes of Self-Regulatory Organizations</i>	Self-regulatory organizations.	Effective April 28, 2008.
Final Rule, <i>Disclosure of Divestment by Registered Investment Companies in Accordance With Sudan Accountability and Divestment Act of 2007</i>	Registered investment companies.	Effective April 30, 2008
Final Rule, <i>Adoption of Updated EDGAR Filer Manual (33-8922)</i>	All public entities.	Effective June 11, 2008.
Final Rule, <i>Adoption of Updated EDGAR Filer Manual (33-8926)</i>	All public entities.	Effective June 12, 2008.
Final Rule, <i>Commission Guidance and Amendment to the Rules Relating to Organization and Program Management Concerning Proposed Rule Changes Filed by Self-Regulatory Organizations</i>	Self-regulatory organizations.	Effective July 11, 2008.
Final Rule, <i>Definition of Eligible Portfolio Company Under the Investment Company Act of 1940</i>	Eligible portfolio companies and business development companies.	Effective July 21, 2008.
Final Rule, <i>Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers</i>	Nonaccelerated filers.	Effective September 2, 2008; however, see "Effective Dates" section of rule for exceptions.
Final Rule, <i>Electronic Filing and Revision of Form D</i>	Public entities that file Form D.	Effective September 15, 2008; however, see "Effective Dates" section of rule for exceptions.
Final Rule, <i>Adoption of Updated EDGAR Filer Manual (33-8956)</i>	All public entities.	Effective September 24, 2008.
Final Rule, <i>Technical Amendment to Item 407 of Regulation S-K</i>	All public entities.	Effective September 30, 2008.
Final Rule, <i>Exemption From Registration Under Section 12(g) of the Securities Exchange Act of 1934 for Foreign Private Issuers</i>	Foreign private issuers.	Effective October 10, 2008.
Final Rule, <i>Foreign Issuer Reporting Enhancements</i>	Foreign private issuers.	Effective December 6, 2008.
Final Rule, <i>Commission Guidance and Revisions to the Cross-Border Tender Offer, Exchange Offer, Rights Offerings, and Business Combination Rules and Beneficial Ownership Reporting Rules for Certain Foreign Institutions</i>	Foreign private issuers.	Effective December 8, 2008.

Final Rule, <i>Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers and Newly Public Companies</i>	Nonaccelerated filers and newly public companies.	Effective February 20, 2007, for nonaccelerated filers. Auditor's attestation report on internal control over financial reporting must be included with annual reports for fiscal years ending on or after December 15, 2009. (SEC Rule 33-8934 extended the effective date to December 15, 2009, from December 15, 2008.) Management's report is required for fiscal years ending on or after December 15, 2007. For a newly public company, the requirement to provide either management's assessment of internal control over financial reporting or an auditor's attestation report will be effective when the company files its second annual report with the SEC.
SEC Letter, Office of the Chief Accountant	Entities with investments in perpetual preferred securities.	The OCA's views apply to interim and annual financial statements issued after October 14, 2008 (the date of the letter).
PCAOB	Affects	Status
PCAOB Rule Release, <i>Rules on Periodic Reporting by Registered Public Accounting Firms</i>	Registered public accounting firms.	The rule will be submitted for SEC approval and will be effective 60 days after SEC approval. The firms will be subject to the special reporting obligations 90 days after SEC approval, and the first annual reporting requirements will be due by June 30, 2009, for the 12-month period ending March 31, 2009.
PCAOB Rule Release, <i>Rules on Succeeding to Registration Status of Predecessor Firm</i>	Registered public accounting firms involved in mergers or changes to the registered firm's legal form.	The rule will be submitted for SEC approval and will be effective 60 days after SEC approval. The firms will be subject to the special reporting obligations 90 days after SEC approval.
Auditing Standard 6, <i>Evaluating Consistency of Financial Statements</i>	All public entities and registered public accounting firms.	Effective November 15, 2008.
Rule 3526, <i>Communication With Audit Committees Concerning Independence</i>	Registered public accounting firms.	Effective September 30, 2008.
An amendment to Rule 3523, <i>Tax Services for Persons in Financial Reporting Oversight Roles</i>	Registered public accounting firms.	Effective August 22, 2008; however, this Rule will not apply to tax services provided on or before December 31, 2008, when the services are provided during the audit period and completed before the beginning of the professional engagement period.
GASB/GAO	Affects	Status
Statement 53, <i>Accounting and Financial Reporting for Derivative Instruments</i>	Government entities with derivative instruments.	Effective for periods beginning after June 15, 2009. Early adoption is encouraged.
Statement 52, <i>Land and Other Real Estate Held as Investments by Endowments</i>	Endowments with land or other real estate.	Effective for periods beginning after June 15, 2008. Early adoption is encouraged.
Statement 51, <i>Accounting and Financial Reporting for Intangible Assets</i>	Government entities with intangible assets.	Effective for periods beginning after June 15, 2009. Early adoption is encouraged.
Statement 49, <i>Accounting and Financial Reporting for Pollution Remediation Obligations</i>	Government entities with pollution remediation obligations.	Effective for financial statements for periods beginning after December 15, 2007.
Statement 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i>	Government entities with postretirement benefits other than pensions.	Effective for: <ul style="list-style-type: none"> Phase 1 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.
Statement 43, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	Government entities with postretirement benefits other than pensions.	Effective one year before the effective date of GASB Statement 45 for the employer in a single-employer plan or the largest participating employer in a multiple-employer plan.
GASB Technical Bulletin 2008-1, <i>Determining the Annual Required Contribution Adjustment for Postemployment Benefits</i>	Government entities with postretirement benefits.	Effective for financial statements for periods ending after December 15, 2008, or concurrently with the initial adoption of Statement 45, whichever is later. Earlier application is permitted.
GAO Interim Guidance, <i>Reporting Deficiencies in Internal Control for GAGAS Financial Audits and Attestation Engagements</i>	Auditors of government agencies.	Effective concurrently with an auditor's adoption of SAS 115, SSAE 15, or both. This guidance may change upon final deliberations by the Comptroller General's Advisory Council on Government Auditing Standards.

FASAB	Affects	Status
Technical Bulletin 2006-1, <i>Recognition and Measurement of Asbestos-Related Cleanup Costs</i>	U.S. federal government entities.	Effective for periods beginning after September 30, 2009. Early adoption is encouraged.
Statement 33, <i>Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates</i>	U.S. federal government entities.	Effective for fiscal years beginning after September 30, 2009.
Statement 31, <i>Accounting for Fiduciary Activities</i>	U.S. federal government entities.	Effective for periods beginning after September 30, 2008. Early adoption is not permitted.
Technical Release 9, <i>Implementation Guide for Statement of Federal Financial Accounting Standard 29: Heritage Assets and Stewardship Land</i>	U.S. federal government entities.	Effective for reporting periods beginning after September 30, 2008, with early adoption encouraged.
Technical Release 8, <i>Clarification of Standard Relating to Inter-Entity Costs</i>	U.S. federal government entities.	Effective for reporting periods beginning after September 30, 2008, with early adoption encouraged.
Concepts Statement 5, <i>Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements</i>	U.S. federal government entities.	Effective December 26, 2007.
International Standards	Affects	Status
<i>Improvements to IFRSs</i> — a collection of amendments to International Financial Reporting Standards	Entities that apply IFRSs.	Most improvements are effective for annual periods beginning on or after January 1, 2009, with early adoption permitted. They should be applied retrospectively.
IFRS 8, <i>Operating Segments</i>	Entities that apply IFRSs.	Effective for annual periods beginning on or after January 1, 2009. Earlier application is permitted.
IFRS 3 (revised), <i>Business Combinations</i>	Entities that apply IFRSs.	Effective for business combinations in annual financial statements beginning on or after July 1, 2009. Early adoption is permitted provided that the standard is applied with IAS 27 (revised); the revised IFRS 3 is not applied in an accounting period beginning before June 30, 2007; and early adoption is disclosed.
Amendments to IFRS 2, <i>Share-based Payment: Vesting Conditions and Cancellations</i>	Entities that apply IFRSs.	Effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted.
IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i>	Entities that apply IFRSs.	Effective for annual periods beginning on or after July 1, 2009. Earlier application is permitted.
Amendments to IAS 39 and IFRS 7, <i>Reclassification of Financial Assets</i>	Entities that apply IFRSs.	Effective as of July 1, 2008.
Amendments to IAS 39, <i>Financial Instruments: Measurement and Recognition — Eligible Hedged Items</i>	Entities that apply IFRSs.	Effective retrospectively for annual periods beginning on or after July 1, 2009. Early adoption is permitted.
Amendments to IAS 32, <i>Financial Instruments: Presentation</i> , and IAS 1, <i>Presentation of Financial Statements — Puttable Financial Instruments Arising on Liquidation and Obligations</i>	Entities with financial instruments that meet the definition of a financial liability but represent the residual interest in the net assets of the entity and that apply IFRSs.	Effective for annual periods beginning on or after January 1, 2009.
IAS 27 (revised), <i>Consolidated and Separate Financial Statements</i>	Entities that apply IFRSs.	Effective for annual periods beginning on or after July 1, 2009. Early adoption is permitted provided that the standard is applied with IFRS 3 (revised); the revised IFRS 3 is not applied in an accounting period beginning before June 30, 2007; and early adoption is disclosed.
Amendment to IAS 23, <i>Borrowing Costs</i>	Entities that apply IFRSs.	Effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted.
IFRIC Interpretation 17, <i>Distributions of Non-cash Assets to Owners</i>	Entities that apply IFRSs.	Effective prospectively for annual periods beginning on or after July 1, 2009.
IFRIC Interpretation 16, <i>Hedges of a Net Investment in a Foreign Operation</i>	Entities that apply IFRSs.	Effective prospectively for annual periods beginning on or after October 1, 2008.
IFRIC Interpretation 15, <i>Agreements for the Construction of Real Estate</i>	Entities that apply IFRSs.	Effective retrospectively for annual periods beginning on or after January 1, 2009.

IFRIC Interpretation 14, <i>IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction</i>	Entities that apply IFRSs.	Effective for annual periods beginning on or after January 1, 2008. Early adoption is permitted.
IFRIC Interpretation 13, <i>Customer Loyalty Programmes</i>	Entities that apply IFRSs.	Effective for annual periods beginning on or after July 1, 2008. Early adoption is permitted.
IFRIC Interpretation 12, <i>Service Concession Arrangements</i>	Entities that apply IFRSs.	Effective for annual periods beginning on or after January 1, 2008. Early adoption is permitted.
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ISA 706 (Revised/Redrafted), <i>Emphasis of Matter Paragraphs and Other Paragraphs in the Independent Auditor's Report</i>	Auditors subject to International Standards on Auditing.	Effective for audits of financial statements for periods beginning on or after December 15, 2009.
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ISA 200 (Revised/Redrafted), <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing</i>	Auditors subject to International Standards on Auditing.	Effective for audits of financial statements for periods beginning on or after December 15, 2009.
ISQC 1 (Redrafted), <i>Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>	Auditors subject to International Standards on Auditing.	Systems of quality control in compliance with this ISQC are required to be established by December 15, 2009.

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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.aicpa.org (AICPA); www.sec.gov (SEC); www.fasab.gov (FASAB); www.gasb.org (GASB); and www.iasb.org — or on www.iasplus.com/index.htm (IASB and IFRIC).

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