

**The 10 prominent financial reporting issues that require special attention in 2007 are:**

1. Internal Controls
2. Uncertain Tax Positions
3. XBRL
4. Fair Value
5. Servicing Assets and Liabilities
6. Complexity in Financial Reporting
7. Derivatives
8. Pensions
9. Earnings per Share
10. Business Combinations



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The purpose of this publication is to summarize key regulatory, technical, and professional developments in the corporate governance and accounting fields and to provide links to additional information. Readers seeking a more in-depth analysis of a topic should review the information referenced in the hyperlinks and not rely on the descriptions included in this communication.

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## FEI's Top 10 Financial Reporting Issues for 2007

Financial Executives International (FEI) recently released a list of 10 prominent financial reporting issues that require special attention in 2007. To help financial executives and audit committees address these issues, Deloitte & Touche LLP (Deloitte & Touche) has prepared this summary, which also sets forth additional resources relevant to each topic.

The full text of the FEI release and links to the resources referenced throughout are available in the Audit Committee and Deloitte Periodicals sections of the new Center for Corporate Governance Web site at [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com).

### 1. Internal Controls

The Securities and Exchange Commission (SEC) has issued proposed management guidance, and the Public Company Accounting Oversight Board (PCAOB) has proposed guidance for a new auditing standard related to Section 404 of the Sarbanes-Oxley Act. The SEC's proposed management guidance is described as principles-based and is intended to assist companies in completing their annual evaluations. It is intended to be efficient, effective, scalable, flexible, and based on a top-down, risk-based approach. The PCAOB's proposed auditing standard is intended to focus the audit on matters most important to internal control over financial reporting, eliminate unnecessary procedures, scale the audit for smaller companies, and simplify the requirements.

#### Considerations

We support the efforts of the SEC and the PCAOB to improve the effectiveness and efficiency of the Section 404 assessment and audit processes while maintaining quality and providing valuable information to investors. It is too early to predict what the effects of the proposals will be, both collectively and for individual companies. However, as a general point, the new guidance should reduce the effort and time required of management and auditors.

#### Resources

- **Deloitte & Touche:** Financial Executives Deloitte Dbriefs Webcast from February 9, 2007: "Section 404: What Do the Proposed Changes Mean to You?" <https://event.on24.com/eventRegistration/prereg/register.jsp?clientid=404&eventid=36302&sessionid=1&key=3CE36B4F77329A30CD6F0B5ADD907CA2>

- **Deloitte & Touche:** *Heads Up: SEC and PCAOB Update* from January 8, 2007 [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **SEC:** *Management's Report on Internal Control over Financial Reporting* – proposed rule text [www.sec.gov/rules/proposed/2006/33-8762.pdf](http://www.sec.gov/rules/proposed/2006/33-8762.pdf)
- **SEC:** Press release from December 13, 2006: *SEC Votes to Propose Interpretive Guidance for Management to Improve Sarbanes-Oxley 404 Implementation* [www.sec.gov/news/press/2006/2006-206.htm](http://www.sec.gov/news/press/2006/2006-206.htm)
- **SEC:** Press release from April 4, 2007: *SEC Commissioners Endorse Improved Sarbanes-Oxley Implementation to Ease Smaller Company Burdens, Focusing Effort on 'What Truly Matters'* [www.sec.gov/news/press/2007/2007-62.htm](http://www.sec.gov/news/press/2007/2007-62.htm)
- **PCAOB:** Proposed auditing standard: *An Audit of Internal Control over Financial Reporting That Is Integrated with An Audit of Financial Statements* [www.pcaob.org/Rules/Docket\\_021/2006-12-19\\_Release\\_No.\\_2006-007.pdf](http://www.pcaob.org/Rules/Docket_021/2006-12-19_Release_No._2006-007.pdf)
- **PCAOB:** Press release from December 19, 2006: *Board Proposes Revised Auditing Standard on Internal Control over Financial Reporting* [www.pcaobus.org/News\\_and\\_Events/News/2006/12-19.aspx](http://www.pcaobus.org/News_and_Events/News/2006/12-19.aspx)

#### Questions an audit committee might ask concerning the proposals include:

- Has management evaluated the impact of the SEC proposal?
- How is management evaluating risk and are changes needed for lower-risk areas?
- Has management undertaken a controls rationalization process? Is additional rationalization necessary to focus on the highest-risk areas?
- What changes is management planning to implement related to testing and documenting controls?
- What opportunities are there for the auditor to adjust the scope of work?
- How has the auditor coordinated its efforts with management's plans to implement the SEC guidance?

## Considerations

FIN 48 changes the accounting for and reporting of income tax uncertainties. The FASB's SFAS No. 109, *Accounting for Income Taxes*, does not provide specific guidance on how to present income tax uncertainties in financial statements, leading to diverse accounting practices. The objective of FIN 48 is to increase comparability in financial reporting of income taxes.

The interpretation, which was effective for the first quarter of 2007 for calendar-year public companies, can have significant consequences for many companies, including changes in recognition and measurement of tax benefits associated with tax positions and increased financial statement disclosure of uncertain tax positions. Successful implementation and compliance can be time-consuming, requiring the efforts of a company's tax and accounting professionals and possibly external advisors. Audit committees should ask management what monitoring techniques the company has in place.

## Resources

- **Deloitte & Touche:** *Heads Up: It's Settled! The FASB Clarifies Interpretation 48* from May 2, 2007 [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Audit Committee Brief*, Fall 2006 edition, pages 2–3 – a high-level summary [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Heads Up: FASB Issues Interpretation No. 48* from July 14, 2006 – a detailed summary [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Uncertainty in Income Taxes: A Roadmap to Applying Interpretation 48* [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Audit Committee/Financial Reporting section
- **Deloitte & Touche:** Financial/Tax Executives Deloitte Dbriefs Webcast from December 4, 2006: "FAS 109 and FIN 48: Dealing with Uncertainty beyond Implementation" – an overview of FIN 48, as well as accounting issues and common implementation challenges [http://deloitte.12hna.com/files/calendar/tax\\_fe12042006.htm](http://deloitte.12hna.com/files/calendar/tax_fe12042006.htm)
- **American Institute of Certified Public Accountants (AICPA):** *Practice Guide on Accounting for Uncertain Tax Positions under FIN 48* – an overview of the requirements of FIN 48 <http://tax.aicpa.org/NR/rdonlyres/8D2A444D-D158-4D5A-9F87-D8ED12A8A221/0/FIN48final.pdf>
- **FASB:** FIN 48 – full text released in June 2006 [www.fasb.org/pdf/fin%2048.pdf](http://www.fasb.org/pdf/fin%2048.pdf)

## 2. Uncertain Tax Positions

The Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB's Statement of Financial Accounting Standards (SFAS) No. 109 will be effective for 2007 reporting.

### 3. XBRL

The SEC has made eXtensible Business Reporting Language (XBRL) a priority. XBRL is a standard for electronic communication of business and financial data, and provides a format for tagging data so users can extract, exchange, analyze, and present information in real time. XBRL is expected to gain momentum in 2007 as more companies voluntarily adopt it.

#### Considerations

The collaborative, standards-based approach of XBRL can help meet the challenges companies face in managing their businesses and complying with reporting and regulatory requirements. Properly implemented, XBRL has the potential to increase transparency and the reliability of reporting.

Audit committees and management should discuss whether the company plans to participate in the voluntary XBRL pilot program the SEC implemented in 2005. Topics may include the benefits of voluntary compliance and how it may ease the transition if XBRL reporting is required in the future.

#### Resources

- **Deloitte & Touche:** *Heads Up: Holiday Traditions 2006: Highlights of the AICPA National Conference on Current SEC and PCAOB Developments* from December 21, 2006, pages 9, 49–50 – an overview of XBRL [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** Interactive Data: The Revolution in Business Reporting – transcript of a speech delivered by Robert Kueppers, deputy chief executive officer of Deloitte & Touche USA LLP, at the 14th International XBRL Conference on December 4, 2006 [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Audit Committee/Financial Reporting section
- **SEC:** XBRL Web site – news and information on the SEC's XBRL initiatives [www.sec.gov/spotlight/xbrl.htm](http://www.sec.gov/spotlight/xbrl.htm)
- **SEC:** The Interactive Financial Report Viewer – provides an opportunity to interact with XBRL filings and to become a member of the Interactive Data Test Group <http://69.56.156.236/viewer>
- **XBRL International Web Site:** A not-for-profit consortium working to support and promote XBRL; also features a link to the XBRL U.S. site [www.xbrl.org](http://www.xbrl.org)
- **PCAOB:** Staff XBRL questions and answers from May 25, 2005 [www.pcaob.com/standards/staff\\_questions\\_and\\_answers/2005/05-25%20.pdf](http://www.pcaob.com/standards/staff_questions_and_answers/2005/05-25%20.pdf)

### 4. Fair Value

The FASB's SFAS No. 157, *Fair Value Measurements*, effective for fiscal years beginning after November 15, 2007, establishes a fair-value framework and expands disclosures that require careful implementation.

#### Considerations

Current Generally Accepted Accounting Principles (GAAP) provide inconsistent definitions of fair value and limited guidance on its application. SFAS 157 remedies this by unifying the meaning of fair value and adding important disclosures.

In February 2007, the FASB also issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of SFAS 115. This statement provides entities with an option of carrying most financial assets and liabilities at fair value, with changes to fair value recorded in earnings. SFAS 159 is effective concurrent with SFAS 157, with earlier adoption permitted in certain situations.

SFAS 159 provides the opportunity to eliminate the artificial volatility in earnings that occurs when financial assets and liabilities are measured and reported differently in the financial statements. SFAS 159 also expands the use of fair-value measurements for financial assets and liabilities, which is in line with the FASB's long-term goal of having all financial assets and liabilities measured at fair value.

**Audit committees should evaluate management's assessment of trade-offs and the impact a company will encounter when adopting fair-value measurements, including the effect of more extensive disclosure requirements. This fair-value model is different than the traditional GAAP framework and will generate several questions, such as:**

- How do we transition to a fair-value option model?
- How do we recognize interest income, interest expense, and dividends?
- How will the new definition of fair value affect assets and liabilities that are measured at fair value in my company's financial statements?

Additionally, a company should consider the lack of clarity regarding the impact on equity-method investments and the fact that once adopted, the fair-value option is irrevocable.

#### Resources

- **Deloitte & Touche:** *Accounting Roundup: April 2007 – "Concerns about Strategies Associated with the Adoption of Statement 159"* [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Accounting Alert 07-6: Center for Audit Quality Issues Letter Concerning Adoption of Statement 159* from April 18, 2007 [www.deloitte.com/us/AccountingAlert07-6](http://www.deloitte.com/us/AccountingAlert07-6)
- **Deloitte & Touche:** *Accounting Alert 07-5: SEC Expresses Concern about Financial Reporting of Certain Strategies Related to the Adoption of Statement 159* from April 13, 2007 [www.deloitte.com/us/AccountingAlert07-5](http://www.deloitte.com/us/AccountingAlert07-5)

- **Deloitte & Touche:** *Accounting Alert 07-4: Accounting Consequences of Certain Investment Strategies in Connection With the Adoption of FASB Statement No. 159* from April 4, 2007 [www.deloitte.com/us/AccountingAlert07-4](http://www.deloitte.com/us/AccountingAlert07-4)
- **Deloitte & Touche:** *Heads Up: What Are My Options?* from February 22, 2007 – discusses the details of SFAS 159, including the objective, election guidance, disclosure requirements, effective dates, and transition guidance [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Heads Up: FASB Issues Standard on Measuring Fair Value* from September 27, 2006 – discusses the details of SFAS 157, including scope, the new definition of fair value, fair-value hierarchy, and disclosures [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** Financial Executives Deloitte Dbriefs Webcast: “The FASB Statement on Fair Value Measurements – Overview of the Standard” from October 23, 2006 – discusses the definition of fair value, the fair value hierarchy, and the disclosure requirements of SFAS 157 <http://deloitte.12hna.com/files/calendar/fe10232006.htm>
- **Deloitte & Touche:** Financial Executives Deloitte Dbriefs Webcast: “The FASB Statement on the Fair Value Option – Overview of the Standard” from March 12, 2007 – an overview of SFAS 159, the effective date, transition guidance, required disclosures, and implementation <https://event.on24.com/eventRegistration/prereg/register.jsp?clientid=404&eventid=39732&sessionid=1&key=490B201C37E7C0B058A4960791213390>
- **FASB:** SFAS 157: *Fair Value Measurements* [www.fasb.org/st/#fas159](http://www.fasb.org/st/#fas159)
- **FASB:** SFAS 159: *The Fair Value Option for Financial Assets and Financial Liabilities* – including an amendment of SFAS 115 [www.fasb.org/st/#fas159](http://www.fasb.org/st/#fas159)
- **FASB:** An “Invitation to Comment on Valuation Guidance for Financial Reporting” has been issued – Deloitte & Touche has issued a comment letter [www.fasb.org/ocl/fasb-getletters.php?project=1520-100](http://www.fasb.org/ocl/fasb-getletters.php?project=1520-100)

## 5. Servicing Assets and Liabilities

SFAS 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*, which was effective for fiscal years beginning after September 15, 2006, requires recognition of a servicing asset or liability when an entity enters into certain servicing contracts.

### Considerations

SFAS 156 is notable, especially for financial services companies, because it provides relief for companies that use derivatives to hedge fluctuations in the fair value of

servicing rights. SFAS 156 allows companies to measure servicing rights at fair value, avoiding the difficulties created by the lower-of-cost-or-market accounting required by SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Audit committees should evaluate management’s assessment of whether it is beneficial to adopt a fair-market-value measurement of servicing rights. Companies should keep in mind that the decision to measure a class of servicing rights at fair value is irrevocable and requires additional disclosures.

### Resources

- **Deloitte & Touche:** *Accounting Roundup: Year in Review 2006*, page 7 – summarizes key highlights of SFAS 156 [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Heads Up: Servicing Gets a Tune Up: FASB Amends Guidance on Servicing of Financial Assets* from March 20, 2006 – provides details of SFAS 156, including a summary of the statement’s provisions and questions and answers [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **FASB:** SFAS 156: *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140* – includes a document on revisions to related authoritative literature [www.fasb.org/st/](http://www.fasb.org/st/)

## 6. Complexity in Financial Reporting

More companies are restating financial statements due to errors in applying current standards. Large companies and the largest accounting firms have had previous decisions restated due to differing interpretations of complex GAAP. FASB Chairman Robert Herz is interested in reviewing the issues and presenting recommendations to reduce complexity and improve the financial reporting model.

### Considerations

SEC Chief Accountant Conrad Hewitt has said that addressing the complexity of the financial reporting system is high on his agenda, and on that of Chairman Cox. In a speech in February, Mr. Hewitt quoted a paper issued in November 2006 by the global chief executive officers of the six largest audit firms (including the chief executive officer of Deloitte Touche Tohmatsu, William Parrett) to outline the problem. “Today’s rules can produce financial statements that virtually no one understands,” and “complex rules must be resisted and withdrawn.” In the same speech, Mr. Hewitt said he intends to develop an action plan to address financial reporting complexity, and indicated that this plan might include convening an independent group to examine the issue.

In this time of increasing financial reporting complexity, audit committees should work with management and the auditor to critically examine the company’s financial reporting to assess whether the financial statements are informative and transparent.



## Resources

- **Deloitte & Touche:** *Global Capital Markets and the Global Economy: A Vision from the CEOs of the International Audit Networks* [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Heads Up: Holiday Traditions 2006: Highlights of the AICPA National Conference on Current SEC and PCAOB Developments* from December 21, 2006, pages 8 and 10 – summary of speeches and other comments on accounting complexity and the need for greater transparency [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **SEC:** Speech by Chief Accountant Conrad Hewitt [www.sec.gov/news/speech/2007/spch020907cwh.htm](http://www.sec.gov/news/speech/2007/spch020907cwh.htm)
- **SEC:** Speech by Deputy Chief Accountant James Kroeker at the 2007 Conference on Principles-Based Accounting and the Challenges of Implementation [www.sec.gov/news/speech/2007/spch040407jlk.htm](http://www.sec.gov/news/speech/2007/spch040407jlk.htm)
- **FASB:** The FASB and the International Accounting Standards Board (IASB) are working on a joint project to develop a conceptual framework to provide a foundation for the development of an improved principles-based accounting framework [www.fasb.org/project/conceptual\\_framework.shtml](http://www.fasb.org/project/conceptual_framework.shtml)
- **FASB:** *Preliminary Views for Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information* [www.fasb.org/draft/pv\\_conceptual\\_framework.pdf](http://www.fasb.org/draft/pv_conceptual_framework.pdf)
- **FEI:** *FEI Issues Four-Point Plan for Reducing Financial Reporting Complexity* [www.fei.org/eweb/upload/FEI/4%20point%20plan.pdf](http://www.fei.org/eweb/upload/FEI/4%20point%20plan.pdf)

## 7. Derivatives

A FASB Staff Position (FSP), effective for fiscal years beginning after December 15, 2006, permits offsetting receivables and liabilities associated with cash collateral against the recorded amount of a net derivative position subject to a master netting agreement.

### Considerations

A significant issue related to derivatives is matching critical terms in hedge strategies. The task of quantifying a derivative for hedge accounting is greatly simplified under the matched-critical-terms method. However, the issue is whether the critical terms truly match in certain hedge accounting applications. If the applications do not match, a company will need to modify its hedge approaches.

Audit committees may want to discuss with management whether the company is using the critical-terms-match method. If the method is being used, the company should revisit and confirm the critical-terms-match hedging relationships. If hedging terms are essentially matched, the company can continue with its current hedge accounting.

## Resources

- **Deloitte & Touche:** *Accounting Roundup: April 2007* – highlights FSP FIN 39-1, *Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts* [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Heads Up: Using the Critical-Terms-Match Method for Evaluating Hedges* from March 19, 2007 – summarizes the SEC staff announcement describing an approach for evaluating cash flow hedges under the critical-terms-match method when all critical terms do not exactly match [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Heads Up: SEC Discusses Ramifications of Matching Critical Terms in Hedge Strategies; Best Practices for Managing Unresolved SEC Comment Letters* from January 18, 2007 – discusses matching critical terms in hedge strategies [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Heads Up: Holiday Traditions 2006: Highlights of the AICPA National Conference on Current SEC and PCAOB Developments* from December 21, 2006 – summarizes the application of SFAS 133 and issues involving hedge effectiveness [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **FASB:** FSP FIN No. 39-1, *Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts* – finalized April 30, 2007 [www.fasb.org/fasb\\_staff\\_positions/fsp\\_fin39-1.pdf](http://www.fasb.org/fasb_staff_positions/fsp_fin39-1.pdf)

## 8. Pensions

SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, requires most public companies, as defined in the statement, to fully recognize an asset or liability for the overfunded or underfunded status of their benefit plans in financial statements for years ending after December 15, 2006.

### Considerations

Increased focus on retirement benefit accounting has resulted in the need to recognize the funded status of a defined-benefit postretirement plan in financial statements. SFAS 158 can be especially important for companies with large, underfunded plans.

The Pension Protection Act of 2006 specifies that there are limitations on benefits for “poorly” funded plans. A poorly funded plan is defined as one in which less than 60 percent of the plan is funded. If, as a result of a poorly funded plan, a plan curtailment occurs, the company should consult with specialists to determine if there is an accounting impact.

Audit committees should ask to be informed of how the company is considering the statement's impact on foreign plans and whether all relevant plan information is being taken into account. A company should also evaluate the overall process and the time necessary to determine adjustments to the balance sheet, including the fair value

of plan assets and the appropriate discount rates. Finally, a company may want to reconsider the implications on the financial closing and reporting controls.

## Resources

- **Deloitte & Touche:** *Accounting Roundup: Year in Review 2006*, pages 1–2 – highlights of SFAS 158 [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** *Heads Up: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: FASB Issues Statement 158* from October 5, 2006 – summarizes SFAS 158 [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **Deloitte & Touche:** Financial Executives Deloitte Dbriefs Webcast: "FASB Final Standard on Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans" from October 20, 2006 – an overview of SFAS 158, revisions from the exposure draft, and implementation challenges <http://deloitte.12hna.com/files/calendar/fe10202006.htm>
- **FASB:** SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* – released in September 2006 [www.fasb.org/st/](http://www.fasb.org/st/)

## 9. Earnings per Share

Earnings per share is one of five topics being addressed as part of the short-term international convergence project between the IASB and the FASB. The two organizations have reached different conclusions on certain issues related to earnings per share. The FASB has directed the staff to analyze those issues for discussion at a future meeting.

### Considerations

Deloitte & Touche supports the convergence of global high-quality accounting standards. After considering comments received on the FASB Exposure Draft, *Earnings per Share*, and the tentative conclusions of the IASB on proposed amendments to International Accounting Standards (IAS) 33, *Earnings per Share*, the FASB decided to modify the application of the treasury-stock method and the reverse-treasury-stock method to options and warrants.

Though the FASB and the IASB currently support different conclusions on earnings per share, audit committees may consider management's understanding of IASB rules to prepare for a possible future convergence of the FASB and the IASB rules on this subject.

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## Resources

- **FASB:** A description of the earnings-per-share portion of the international convergence project [www.fasb.org/project/short-term\\_intl\\_convergence.shtml#eps](http://www.fasb.org/project/short-term_intl_convergence.shtml#eps)

## 10. Business Combinations

The FASB and the IASB are working jointly on major changes to business-combination accounting. The exposure draft on applying the acquisition method indicates a move toward a fair-value model. The standard may set a tone for future reporting and measurement.

### Considerations

The FASB issued two exposure drafts: *Business Combinations*, a replacement of SFAS 141, *Business Combinations*; and *Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, a replacement of ARB No. 51, *Consolidated Financial Statements*.

If the exposure drafts are adopted, audit committees should consider requesting management to update them on developments related to the impact on financial statements and the potential income statement volatility in periods following a business combination.

### Resources

- **Deloitte & Touche:** *Accounting for Business Combinations, Goodwill, and Other Intangible Assets: A Roadmap to Applying Statements 141 and 142 – reference guide* [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Audit Committee/Financial Reporting section
- **Deloitte & Touche:** *Heads Up: Construction Ahead: Use Caution When Merging* from June 30, 2005 – outlines key concepts of the exposure drafts and compares the proposed accounting pronouncement to existing guidance [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com) in the Deloitte Periodicals section
- **FASB:** A description of the business combinations project [www.fasb.org/project/bc\\_acquisition\\_method.shtml#ed](http://www.fasb.org/project/bc_acquisition_method.shtml#ed)
- **FASB:** The exposure draft on business combinations [www.fasb.org/draft/ed\\_business\\_combinations\\_replacement\\_of\\_fas141.pdf](http://www.fasb.org/draft/ed_business_combinations_replacement_of_fas141.pdf)
- **FASB:** The exposure draft on consolidated financial statements, including accounting and reporting of noncontrolling interests in subsidiaries [www.fasb.org/draft/ed\\_noncontrolling\\_interests.pdf](http://www.fasb.org/draft/ed_noncontrolling_interests.pdf)