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Accounting Roundup

2nd Quarter in Review—2004



July 9, 2004

Preface

Accounting Roundup: 2nd Quarter in Review—2004

During the second quarter of 2004, accounting standard-setters and accounting regulators issued a number of final and proposed SFASs,* FSPs, EITF consensuses, GASB Statements, AcSEC SOPs, SEC rules, PCAOB rules, IASs, etc. (collectively, pronouncements) affecting accounting, financial reporting, and corporate governance.

This publication, *Accounting Roundup: 2nd Quarter in Review—2004*, presents brief descriptions of those pronouncements, as well as certain other regulatory and professional developments in accounting and financial reporting. The articles included herein were primarily drawn from issues of the *Accounting Roundup* newsletters published in

the second quarter of 2004 and have been updated when appropriate. These articles also provide links to locations where additional information can be found on each topic.

Readers seeking additional information about these topics or other activities of key standard-setters and regulators should review the information available via the hyperlinks. Further information can be found on the Web site of the organizations discussed in this publication, including the FASB, GASB, SEC, PCAOB, AICPA, and IASB. Readers should also consult upcoming issues of *Accounting Roundup* for reports of new developments.

*See the appendix for a key to abbreviations used in this publication.

Accounting Roundup is prepared by the National Office Accounting Standards and Communications Group of Deloitte & Touche LLP ("Deloitte & Touche"). For further information, contact your local Deloitte & Touche office.

The purpose of this publication is to briefly describe key regulatory and professional developments that have recently occurred in the field of accounting and to provide links to locations where additional information can be found on each topic. Readers seeking additional information about a topic should review the information referred to in the hyperlinks and not rely solely on the descriptions included in this communication.

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FASB Issues Final FSPs

FSP FIN 46(R)-4, Technical Correction of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, Relating to Its Effects on Question No. 12 of EITF Issue No. 96-21, "Implementation Issues in Accounting for Leasing Transactions Involving Special-Purpose Entities"

In April 2004, the FASB issued FSP FIN 46(R)-4 to correct Appendix F of FIN 46(R), which incorrectly states that FIN 46(R) fully nullifies Question 12 of EITF 96-21. The nullification noted in FIN 46(R) should apply only to a guarantor-lessee that is the primary beneficiary of a lessor that is a variable interest entity. A guarantor-lessee that is not the primary beneficiary of the lessor under FIN 46(R) should continue to apply the Question 12 guidance for the timing of the accrual for a contingent loss under the guarantee.

The guidance should be applied in accordance with the effective dates and transition provisions of FIN 46(R). Appendix F of FIN 46(R) is revised to reflect the guidance in this FSP.

FSP FIN 46(R)-4 is available on the FASB's Web site.

FSP FAS 97-1, Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments, Permit or Require Accrual of an Unearned Revenue Liability

In June 2004, the FASB issued FSP FAS 97-1 to address questions that exist in practice regarding when it is appropriate to recognize an unearned revenue liability under SFAS 97. These questions became evident when companies adopted SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*.

SFAS 97 specifies the components of the liability for policy benefits for universal life-type contracts, and states that the liability should include "any amounts that have been assessed [against the contract holder's account balance] to compensate the insurer for services to be performed over future periods." SOP 03-1 requires such a liability to be recorded "if the amounts assessed against the contract holder each period for the insurance benefit feature are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function."

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FSP FAS 97-1 clarifies whether it is appropriate to recognize an unearned revenue liability to compensate the insurer for services to be performed over future periods when future profits are expected to decline from the current level, or only when current profits are expected to be followed by future losses (consistent with SOP 03-1). The FSP states that the guidance in SOP 03-1 addresses only one situation, and does not limit the SFAS 97 requirement to recognize a liability for unearned revenue only to those situations in which profits are expected to be followed by losses.

The FSP is effective for financial statements for fiscal periods beginning after June 18, 2004. If applying the FSP results in changes to previously reported information, the cumulative effect of the accounting change should be reported as of the beginning of the first fiscal period beginning after June 18, 2004.

FSP FAS 97-1 is available on the FASB's Web site.

FSP FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003

In May 2004, the FASB issued FSP FAS 106-2 to provide guidance on accounting for the effects of the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act), to employers that sponsor postretirement health care plans which provide prescription drug benefits. This FSP supersedes FSP FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*.

FSP FAS 106-2 applies only to sponsors of single-employer defined benefit postretirement health care plans for which (1) the employer has concluded that prescription drug benefits available under the plan to some or all participants, for some or all future years, are "actuarially equivalent" to Medicare Part D and thus qualify for the subsidy provided by the Act, and (2) the expected subsidy will offset or reduce the employer's share of the cost of the underlying postretirement prescription drug coverage on which the subsidy is based. The FSP provides guidance on measuring the accumulated postretirement benefit obligation (APBO) and net periodic postretirement benefit cost, and the effects of the Act on APBO. In addition, the FSP addresses accounting for plan amendments and requires certain disclosures about the Act and its effects in financial statements.

This FSP is effective for the first interim or annual period beginning after June 15, 2004. However, certain nonpublic entities meeting specified criteria may defer adoption of the FSP until fiscal years beginning after December 15, 2004. Earlier application of the FSP is encouraged in financial statements for any period including or following enactment of the Act (December 8, 2003), that has not been issued as of the issuance date of the FSP (May 19, 2004). Detailed transition guidance, and examples of the application of that guidance are provided in the FSP.

FSP FAS 106-2 is available on the FASB's Web site.

FSP FAS 129-1, Disclosure Requirements Under FASB Statement No. 129, Disclosure of Information About Capital Structure, Relating to Contingently Convertible Securities

In April 2004, the FASB issued FSP FAS 129-1 to provide disclosure guidance for contingently convertible securities, including those instruments with contingent conversion requirements that have not been met and are otherwise not required to be included in the computation of diluted earnings per share. The FSP addresses concerns that disclosures relating to contingently convertible securities are inconsistent between companies or may be inadequate. FSP FAS 129-1 notes that to comply with the requirements of SFAS 129, the significant terms of the conversion features of the contingently convertible security should be disclosed to enable users of financial statements to understand the circumstances of the contingency and the potential impact of conversion.

The FSP further states that the disclosures should indicate whether the shares that would be issued, if the contingently convertible securities were converted, are included in the calculation of diluted earnings per share, and the reasons why or why not. Disclosure of the impact of derivative transactions entered into in connection with the issuance of the contingently convertible securities should be provided if they are necessary to help fully explain the potential impact of the contingently convertible securities.

The FSP is effective immediately and applies to all existing and newly created securities.

FSP FAS 129-1 is available on the FASB's Web site.

This FSP may be modified in the future depending upon the resolution of EITF Issue No. 04-8, *Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings Per Share*.

FSPs FAS 141-1 and FAS 142-1, Interaction of FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and EITF Issue No. 04-2, "Whether Mineral Rights are Tangible or Intangible Assets"

In April 2004, the FASB issued FSPs FAS 141-1 and FAS 142-1 to address inconsistencies between the consensus reached for EITF 04-2 that certain mineral rights are tangible assets and the characterization of mineral rights as intangible assets in SFAS 141 and SFAS 142. The FSPs amend SFAS 141 and SFAS 142 to conform them to the EITF consensus.

The FSPs are effective for the first reporting period beginning after April 29, 2004. If the guidance in the FSPs results in recharacterization of an asset, prior period amounts in the statements of financial position should be reclassified, and any effects on amortization or depreciation of the asset should be accounted for prospectively. Early application of this guidance is permitted in periods for which financial statements have not yet been issued.

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FSPs FAS 141-1 and FAS 142-1 are available on the FASB's Web site.

FASB Issues Exposure Draft, *Fair Value Measurements*

In June 2004, the FASB issued this exposure draft to provide guidance on how to measure the fair value of financial and non-financial assets and liabilities when required by other authoritative accounting pronouncements. The proposed Standard attempts to address constituents' concerns about the ability to develop reliable estimates of fair value and inconsistencies in fair value guidance provided by current generally accepted accounting principles (GAAP), by creating a framework that clarifies the fair value objective and its application in GAAP. Also, it creates a fair value hierarchy that groups into three broad categories the inputs that should be used to estimate fair value.

The proposed guidance differs from existing practices in accounting for (1) the fair value of financial instruments for which bid and asked prices are more readily available than closing prices, (2) quoted prices of identical or similar assets, and (3) no quoted price for identical or similar assets. In addition, the proposal expands disclosures required about the use of fair value to remeasure assets and liabilities.

The proposed Standard would be effective for financial statements issued for fiscal years beginning after June 15, 2005, with earlier application encouraged. The provisions of this Standard would be applied prospectively, except for the change in accounting principle relating to bid-asked spread measurements, which will require a retroactive transition approach.

The [exposure draft](#) is available on the FASB's Web site. The comment period ends September 7, 2004.

FASB Issues Proposed Interpretation, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations*

In June 2004, the FASB proposed an Interpretation to clarify the scope and timing of liability recognition for conditional asset retirement obligations under SFAS 143. The proposed Interpretation specifies that a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of SFAS 143. Therefore, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when that obligation is incurred, if its fair value can be reasonably estimated. Any uncertainty surrounding the timing and method of settlement that is conditional on the occurrence of future events should be factored into the measurement of the liability, not the timing of its recognition.

The proposed Interpretation would be effective no later than the end of the fiscal year ending after December 15, 2005.

The [proposed Interpretation](#) is available on the FASB's Web site. The comment period ends August 1, 2004.

FASB Does Not Clear AcSEC's Proposed SOP on Property, Plant, and Equipment

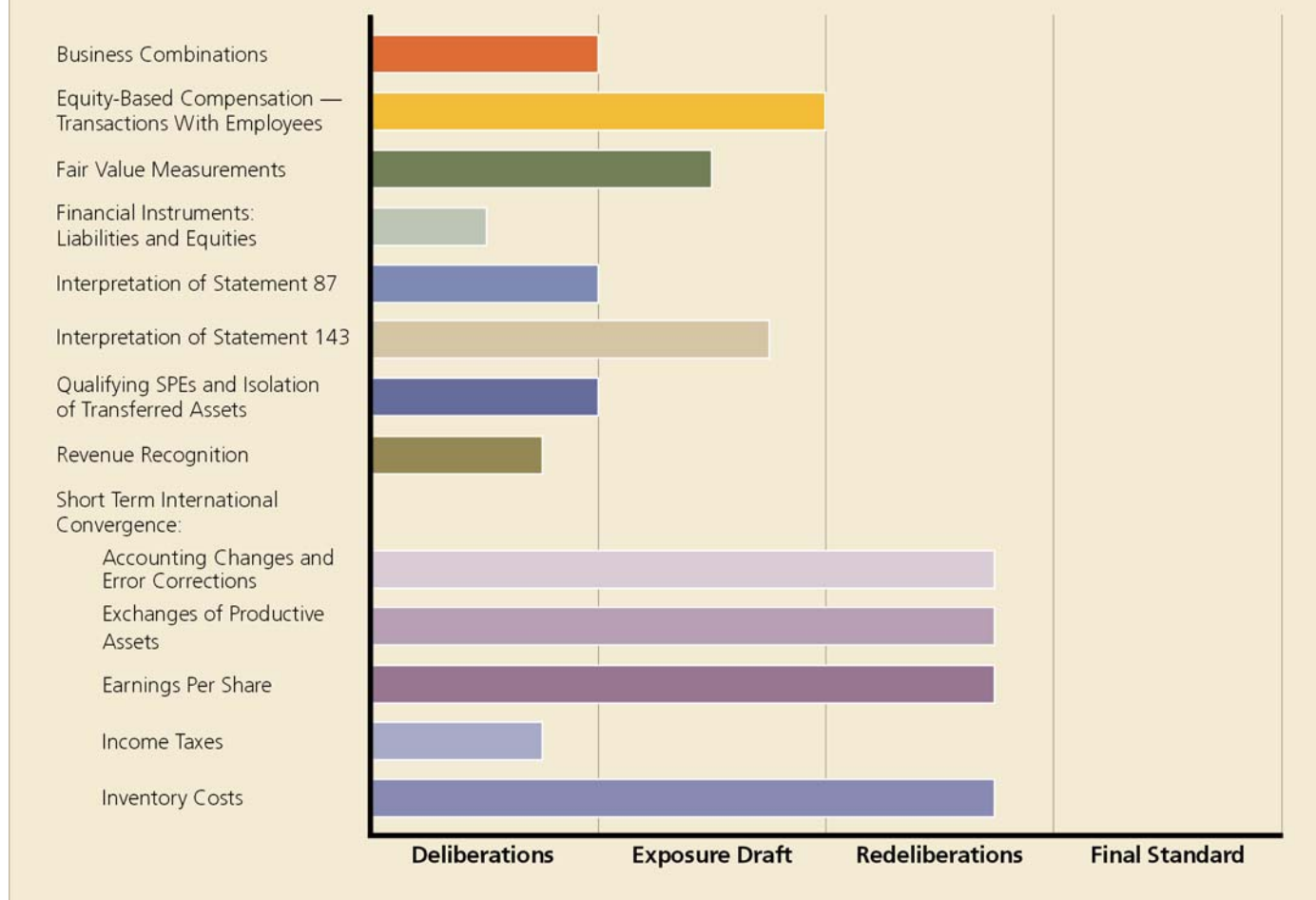
In April 2004, the FASB voted unanimously not to clear AcSEC's draft SOP on property, plant, and equipment. The Board anticipates considering the work performed by AcSEC during the project when it deliberates the short term convergence project with the IASB on property, plant, and equipment, including depreciation.

FASB Major Projects

The FASB currently has several ongoing projects in various stages of deliberation. The following graph illustrates the status of the FASB's major projects. [Project summaries](#) are maintained by the FASB staff and made available on the FASB's Web site.

See chart on following page.

FASB Snapshot — Major Projects



FASB Meeting Minutes

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

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

Conclusions of the FASB are subject to change at future Board meetings and generally do not affect current accounting requirements until an official position (Statement or Interpretation) is issued. Official positions of the FASB are determined only after extensive deliberation and due process, including a formal vote by written ballot to issue a Statement or Interpretation. The FASB Staff's guidance (FASB Staff Positions) is proposed after the Board's review, and after being exposed for public comment, becomes final if a majority of the Board does not object.

Emerging Issues Task Force (EITF) Developments

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EITF Activity in the Second Quarter of 2004

The following is a list of consensuses reached and other Issues discussed from the June 30 – July 1, 2004 EITF meeting. Consensuses reached are not final until ratified by the FASB.

EITF Issues on Which Consensuses (or Partial Consensuses) Were Reached

- Issue No. 02-14, *Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock If the Investor Has the Ability to Exercise Significant Influence Over the Operating and Financial Policies of the Investee*

Other EITF Issues Discussed

- Issue No. 03-9, *Determination of the Useful Life of Renewable Intangible Assets Under FASB Statement No. 142, Goodwill and Other Intangible Assets*
- Issue 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations*
- Issue No. 04-1, *Accounting for Pre-existing Contractual Relationships between the Parties to a Business Combination*
- Issue No. 04-5, *Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights*
- Issue No. 04-6, *Accounting for Post-Production Stripping Costs in the Mining Industry*
- Issue No. 04-7, *Determining Whether an Interest Is a Variable Interest in a Variable Interest Entity*
- Issue No. 04-8, *Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share* (EITF will post its tentative conclusion for public comments. See further discussion on the following page.)
- Issue No. 03-S, *Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil and Gas Companies* (Removed Issue from agenda)

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Issue No. 04-8, Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share

Contingently convertible debt instruments, commonly referred to as Co-Cos, are structured financial instruments that add a contingent feature to a convertible debt instrument. Co-Cos are generally convertible into common shares of the issuer after the market price of the issuer's common stock exceeds a predetermined threshold for a specified period of time (market price trigger). Co-Cos are designed to take advantage of certain provisions of FASB Statement No. 128, *Earnings Per Share*, related to the computation of diluted earnings per share (EPS). Under current practice, Co-Cos typically are excluded from diluted EPS until the market price trigger is met.

At its June/July meeting, the EITF reached a tentative conclusion that Co-Cos should be included in diluted EPS in ALL periods (except when inclusion is anti-dilutive), regardless of whether the contingency has been met or whether the market price contingency is substantive. The EITF's rationale for its conclusion is that a Co-Co is contingently *convertible*, not contingently *issuable*, and should be treated no differently than a conventional convertible debt instrument. This conclusion, if finalized and ratified by the FASB, would require retroactive restatement of EPS for periods ending after December 15, 2004.

Due to its potentially significant impact on practice, the tentative conclusion will be posted to the FASB's Web site for public comment. The EITF will consider comments from constituents at its September 29-30 meeting.

Approval of the EITF's tentative conclusion in its current form may also cause the FASB staff to revise FSP FAS 129-1, *Disclosure Requirements Under FASB Statement No. 129, Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities*.

Further information about the EITF and the Issues discussed above can be found on the FASB's Web site, www.fasb.org/eitf. In addition, Deloitte & Touche publishes the EITF Roundup newsletter, which provides an overview of consensuses reached and discussions held at EITF meetings. EITF Roundup can be accessed on the Deloitte & Touche Web site, www.deloitte.com/us/eitfroundup.

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GASB Issues Final Statements

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

In May 2004, the GASB issued Statement No. 43 to establish uniform financial reporting standards for other postemployment benefits (OPEB) plans. GASB 43 supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The guidance in GASB 43 applies to OPEB trust funds in the financial reports of plan sponsors or employers, as well as the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties that administer them. The Statement also provides requirements for the reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. A related Statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (the "related statement") will address standards for (1) measurement, recognition, and display of employers' OPEB expense/expenditures and related liabilities (assets), (2) disclosure requirements, and (3) required supplementary information, if applicable. GASB 43 is effective one year prior to the effective date of the related statement for the employer (single-employer plan) or for the largest participating employer in the plan (multi-employer plan).

A [summary of Statement No. 43](#) is available on the GASB's Web site.

Statement No. 44, *Economic Condition Reporting: The Statistical Section — an amendment of NCGA Statement 1*

On June 7, 2004, the GASB issued Statement No. 44 to enhance and update the statistical section that accompanies a state or local government's basic financial statements. GASB 44 amends NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, guidance for preparing statistical sections. The statistical section presents detailed information that assists users in analyzing financial statements and assessing the economic condition of a government. The amendment was issued to:

- Improve comparability between the statistical sections of different governments;
- Provide clearer guidelines that can be implemented by any type of governmental entity; and

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- Encompass new information required by GASB Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*.

This Statement applies to any statistical section that accompanies a government’s basic financial statements. The provisions are effective for statistical sections prepared for periods beginning after June 15, 2005.

A [summary of Statement No. 44](#) is available on the GASB’s Web site.

GASB Issues Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues

In May 2004, the GASB issued Technical Bulletin No. 2004-1 which addresses state and local government accounting and financial reporting issues related to the settlement reached between the states and the U.S. tobacco companies. The guidance clarifies (1) whether a Tobacco Settlement Authority that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it, and (2) how a government should recognize the settlement payments made to that government.

A [summary of Technical Bulletin No. 2004-1](#) is available on the GASB’s Web site.

GASB Issues Exposure Draft, Communications Method

In June 2004, the GASB issued a proposed Concept Statement that would provide a conceptual basis for selecting communication methods to present items of information within general purpose external financial reports that contain basic financial statements. These communication methods would include recognition in basic financial statements, disclosure in notes to basic financial statements, presentation as required supplementary information, and presentation as supplementary information.

The [related press release](#) is available on the GASB’s Web site. The comment period ends September 30, 2004.

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

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

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AICPA Issues Technical Practice Aid 6930.05, Sale of Real Estate Investments Held by Employee Benefit Plans and Discontinued Operations

In April 2004, the AICPA issued TPA 6930.05 to provide guidance to employee benefit plans on how to account for an investment in real estate (that generates rental income and operating expenses), that has been disposed of or is held for sale. The TPA states that there is no reason for employee benefit plans to distinguish between continuing and discontinued operations, because their financial statements do not show a statement of operations or activities. A real estate investment in an employee benefit plan should be carried at fair value and the related income/expenses and net appreciation/depreciation should be included in the statement of changes in financial status or statement of changes in net assets available for benefits.

TPA 6930.05 is available on the AICPA's Web site.

This TPA, like all TPAs, has not been approved, disapproved, or otherwise acted upon by any senior technical committee of the AICPA. Although it may provide useful guidance, it is nonauthoritative and does not establish new GAAP.

Major Issues Discussed by AcSEC During the Second Quarter of 2004

AcSEC discussed the following projects at its second quarter meeting:

- Allowance for Credit Losses — Proposed SOP
- Airlines Audit and Accounting Guide

A [summary of the meeting](#) is available on the AICPA's Web site.

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

Conclusions of the AcSEC are subject to change at future meetings and generally do not affect current accounting requirements until an official position (Statement of Position or Guide) is issued and cleared by the FASB. Official positions of the AcSEC are determined only after extensive deliberation and due process.

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SEC Approves PCAOB Standards

Auditing Standard No. 1, References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board

Public accounting firms registered with the PCAOB are required to comply with all applicable auditing and related professional practice standards established or adopted by the PCAOB. This requirement, coupled with the PCAOB's adoption of interim standards that incorporate the existing body of generally accepted auditing standards (GAAS), makes references to "generally accepted auditing standards" in auditors' reports issued for public companies no longer necessary or appropriate. In May 2004, the SEC approved the PCAOB's Auditing Standard No. 1, which requires that an auditor's report issued in connection with any engagement performed in accordance with the auditing and related professional practice standards of the PCAOB states that the engagement was performed in accordance with "the standards of the Public Company Accounting Oversight Board (United States)."

Auditing Standard No. 1 is effective for auditors' reports issued or reissued on or after May 24, 2004. A related interpretive release, [Interpretation 1](#), was issued concurrent with the SEC's approval of this Standard.

The [rule](#) is available on the SEC's Web site.

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

In June 2004, the SEC approved the PCAOB's Auditing Standard No. 2, which addresses both the work required to audit internal controls over financial reporting, and the relationship between that audit and the audit of financial statements. The rule requires a company to include in its annual report a report by management on the company's internal control over financial reporting and an accompanying auditor's report. The management's report is required to include management's assessment of the effectiveness of the company's internal control over financial reporting. The independent auditor is required to attest to and report on management's assessment and on whether the company has maintained effective internal control over financial reporting. The rule was issued in accordance with Sections 404 and 103 of the Sarbanes-Oxley Act of 2002.

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Auditing Standard No. 2 is effective for audits of companies with fiscal years ending on or after November 15, 2004, for accelerated filers, or July 15, 2005, for other companies.

The [rule](#) is available on the SEC's Web site.

SEC Issues Interpretive Release: Commission Guidance Regarding the Public Company Accounting Oversight Board's Auditing and Related Professional Practice Standard No. 1

In May 2004, concurrent with the SEC's approval of PCAOB Auditing and Related Professional Practice [Standard No. 1](#), the SEC issued an interpretive release relating to this standard. The interpretive release observes that many parts of SEC rules and SEC staff guidance include direct references to "GAAS" or refer to specific auditing procedures under GAAS. Effective immediately, references in SEC rules, SEC staff guidance and in the federal securities laws to GAAS or to specific standards under GAAS, as they relate to issuers, should be understood to mean the standards of the PCAOB plus any applicable rules of the SEC. The SEC intends to codify this Interpretation in the near future. In addition, if, in a filing with the SEC, an SEC registrant incorporates by reference a report previously filed with the SEC rather than include a new report in the filing, the report incorporated by reference will not need to include the otherwise-required reference to the standards of the PCAOB.

The [Interpretation](#) is available on the SEC's Web site.

SEC Approves PCAOB's Proposed Technical Amendments to Interim Standards Rules

In April 2004, the SEC approved PCAOB-proposed rule amendments pursuant to the Sarbanes-Oxley Act of 2002, which consist of technical amendments to the PCAOB's interim standards rules. In 2003, the PCAOB adopted initial, transitional-basis temporary rules that directed registered public accounting firms to comply with the then-existing generally accepted standards on auditing, attestation, quality control, ethics, and independence (the "interim standards rules"). The approved amendments clarify that, when the PCAOB adopts a new auditing or related professional practice standard that addresses a subject matter also addressed in the interim standards, the affected portion of the interim standards are superseded or amended. Specifically, the technical amendments add the phrase "to the extent not superseded or amended by the Board" to each of the interim standards rules.

The [rule](#) is available on the SEC's Web site.

SEC Issues Proposed Rules

Use of Form S-8 and Form 8-K by Public Shell Companies

In April 2004, the SEC issued a proposed rule and form amendments relating to public shell companies that are intended to protect investors by deterring fraud and abuse in the securities market through the inappropriate use of shell companies. The rule would assure that investors in shell companies that acquire operations or assets have access, on a timely basis, to the same kind of information as is available to investors in public companies with continuing operations. The proposed rule would prohibit shell companies from using Form S-8 and require a public shell company, when obligated to report a corporate event on Form 8-K that causes it to cease being a shell company, to include the same type of information as it would be required to file to register a class of securities under the Securities Exchange Act of 1934. The proposed amendments to Form S-8 will allow a company that ceases to be a shell company to use Form S-8 to register securities 60 days after it has filed information equivalent to the information filed by companies registering a class of securities under the Securities Exchange Act of 1934.

The [proposed rule](#) is available on the SEC's Web site. The comment period ended June 7, 2004.

Asset-Backed Securities

In April 2004, the SEC proposed new and amended rules and forms to address comprehensively the registration, disclosure, and reporting requirements for asset-backed securities under the Securities Act of 1933 and the Securities Exchange Act of 1934. Principally, the SEC proposed to:

- Update and clarify the Securities Act registration requirements for asset-backed securities offerings, including expanding the types of asset-backed securities that may conduct delayed primary offerings on Form S-3;
- Consolidate and codify existing interpretive positions that allow modified Exchange Act reporting that is more tailored and relevant to asset-backed securities;
- Provide tailored disclosure guidance and requirements for Securities Act and Exchange Act filings involving asset-backed securities; and
- Streamline and codify existing interpretive positions that permit the use of written communications in a registered offering of asset-backed securities in addition to the statutory registration statement prospectus.

The [proposed rule](#) is available on the SEC's Web site. The comment period ends July 12, 2004.

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SEC Staff Announces Intent to Publicly Release Comment Letters and Responses

In June 2004, the SEC staff announced that it will begin providing public access to comment letters and filer responses. Comment letters and filer responses are currently released only in response to a Freedom of Information Act request (FOIA process) after the staff's review is complete. The staff decided to expand the transparency of the comment process so that this information is available to a broader audience, free of charge. The letters set forth the staff's positions on a particular filing only and do not constitute an official expression of the Commission's views.

The SEC staff will begin releasing their comment letters and response letters relating to filings made after August 1, 2004 that are selected for review. The staff will announce shortly a specific date after which these documents will become publicly available. Filers may still request confidential treatment for some portions of a written response to a staff comment letter under SEC Rule 83 (17 CFR 200.83). In addition, the staff may ask companies to represent in writing that they will not use the SEC's comment process as a defense in any securities-related litigation against them.

A [related press release](#) is available on the SEC's Web site.

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

PCAOB Developments

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PCAOB Approves Auditing Standard No. 3, *Audit Documentation*

In June 2004, the PCAOB approved Auditing Standard No. 3, and a related amendment to an interim auditing standard, to establish general requirements for the documentation an auditor should prepare and retain in connection with engagements conducted pursuant to the standards of the PCAOB. The Sarbanes-Oxley Act of 2002 (the Act) directed the PCAOB to establish auditing standards that require registered public accounting firms to prepare and maintain, for at least seven years, audit documentation “in sufficient detail to support the conclusions reached” in the auditor’s report. The standard will be submitted to the SEC for final approval, as required by the Act.

[Auditing Standard No. 3](#) is available on the PCAOB’s Web site.

PCAOB Approves Final Rules

Oversight of Non-U.S. Firms

In June 2004, the PCAOB approved rules related to the oversight of non-U.S. public accounting firms. The Sarbanes-Oxley Act of 2002 (the Act) provides that any non-U.S. public accounting firm that prepares or furnishes an audit report with respect to any U.S. public company is subject to the Act and the rules of the PCAOB. The adopted rules set out a framework under which, with respect to non-U.S. firms, the PCAOB could implement the Act’s provisions by relying on a non-U.S. system, to an appropriate degree. The rules will be submitted to the SEC for final approval, as required by the Act.

The [rules](#) are available on the PCAOB’s Web site.

Certain Terms Used in Auditing and Related Professional Practice Standards

The PCAOB adopted a rule to set forth the terminology the PCAOB will use to describe the degree of responsibility that the auditing and related professional practice standards impose on auditors. The rule will be submitted to the SEC for final approval, as required by the Sarbanes-Oxley Act of 2002.

The [rule](#) is available on the PCAOB’s Web site.

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PCAOB Forms Standing Advisory Group

In April 2004, the PCAOB formed the Standing Advisory Group to assist the Board in carrying out its standard-setting responsibilities. The Group is composed of 30 individuals with expertise in areas such as accounting, auditing, finance, etc., and will provide guidance to the Board on standard-setting priorities and policy implications of existing and proposed standards.

The [related press release](#) is available on the PCAOB's Web site.

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

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- IFRIC Issues Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
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IFRIC Issues Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

In May 2004, IFRIC issued Interpretation 1 to provide guidance on accounting for changes in existing decommissioning, restoration and similar liabilities that are recognized both as part of the cost of an item of property, plant, and equipment in accordance with IAS 16, *Property, Plant and Equipment*, and as a liability in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Interpretation 1 confirms that decommissioning, restoration, and similar liabilities should be measured using a current market-based discount rate. In addition, the Interpretation generally requires changes in the liability arising from changes in cash flows or the discount rate to be capitalized and depreciated prospectively over the life of the item to which they relate, while changes due to the passage of time are recognized in profit and loss as a finance cost upon occurrence.

An entity should apply this Interpretation for annual periods beginning on or after September 1, 2004. Earlier application is encouraged. If an entity applies the Interpretation for a period beginning before September 1, 2004, it should disclose that fact.

A [summary of Interpretation 1](#) is available on the IASB's Web site.

IASB Issues Exposure Drafts

Amendment to IFRS 3, *Business Combinations: Combinations by Contract Alone or Involving Mutual Entities*

In April 2004, the IASB proposed amendments to IFRS 3, *Business Combinations*, as an interim solution to the issue of accounting for combinations involving mutual entities or combinations in which separate entities are brought together by contract alone. The proposed amendments include:

- Removal of certain IFRS 3 scope exclusions (i.e., combinations involving two or more mutual entities, etc.)
- Determination of how an acquirer should measure the cost of these combinations.

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The proposal states that, until guidance on applying the purchase method to such transactions is developed by the IASB as part of a later phase of its Business Combinations project, an acquirer should recognize goodwill equal to the fair value of any consideration given by the acquirer in exchange for control of the acquiree. The IASB intends for the amendments to take effect at the same time IFRS 3 (as issued in March 2004) is applied.

The [exposure draft](#) is available on the IASB's Web site. The comment period ends July 31, 2004.

Amendment to IAS 19, *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures*

In April 2004, the IASB issued proposals on certain aspects of pension cost accounting. In particular, the proposal provides entities with an option to show, in full, pension deficits and available surpluses. Approval of this proposed option would enable companies that already show the surplus or deficit in full under IAS 17, *Retirement Benefits*, and are adopting IFRSs to continue with their present policy. Entities choosing the proposed option would recognize in the balance sheet the surplus or deficit in the plan at the balance sheet date and would show the best estimate for gains and costs of the plan in the income statement. The exposure draft also includes proposals:

- To extend the application of multi-employer plan accounting to entities within a consolidated group that meet specified criteria, and
- To provide additional disclosures.

The IASB will continue to permit the option under IAS 19 to recognize actuarial gains and losses in profit or loss, either in the period in which they occur or spread over the service lives of the employees, until a project considering the fundamental aspects of pension measurement and recognition is undertaken.

The [exposure draft](#) is available on the IASB's Web site. The comment period ends July 31, 2004.

Amendment to IAS 39, *Financial Instruments: Recognition and Measurement: Fair Value Option*

In April 2004, the IASB issued an exposure draft to amend IAS 39 to address concerns that the fair value option provided by IAS 39 (as revised) is being applied inappropriately by some entities. The exposure draft proposes to limit the financial assets and financial liabilities to which the option may be applied, while preserving the key benefits of the option. The Board decided to achieve this by:

- Limiting the types of financial assets and financial liabilities to which the option may be applied to five specified categories
- Requiring that the option may be applied only to financial assets and financial liabilities whose fair value is verifiable.

The fair value of a financial asset or financial liability would be verifiable if, and only if, the variability in the range of reasonable fair value estimates made in accordance with IAS 39 is low. The proposal that fair value must be verifiable would apply only when the fair value option is used. It is a stricter test (i.e., one that more items will fail) than that of "reliably measured" which applies to items classified as held-for-trading (including derivatives) and available-for-sale financial assets.

The [exposure draft](#) is available on the IASB's Web site. The comment period ends July 21, 2004.

IFRIC Issues Interpretations

D6, *Multi-employer Plans*

In May 2004, the IFRIC released a draft Interpretation providing guidance on employee benefit plans that have more than one participating employer (multi-employer plans). The proposed Interpretation addresses a concern that IAS 19, *Employee Benefits*, has been interpreted as allowing all participating entities in a multi-employer plan to receive an automatic exemption from defined benefit accounting, which was not the intent of the IASB. The proposal also resolves uncertainty over when the definition of multi-employer plans is met and how defined benefit accounting should be applied to such plans.

The [draft](#) is available on the IASB's Web site. The comment period ends July 9, 2004.

D7, *Scope of SIC-12, Consolidation-Special Purpose Entities*

In June 2004, the IFRIC released a draft Interpretation to amend the scope of Interpretation SIC-12 to remove the exclusion for equity compensation plans. Therefore, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement would be required to consolidate that trust. In addition, the Interpretation proposes that the SIC-12 scope exclusion for post-employment benefit plans should be amended to include other long-term employee benefit plans to ensure consistency with the requirements of IAS 19, *Employee Benefits* (as amended in 2002).

The [draft](#) is available on the IASB's Web site. The comment period ends September 13, 2004.

D8, *Members' Shares in Co-operative Entities*

In June 2004, the IFRIC released a draft Interpretation to address concerns that the appropriate classification of members' shares in co-operative entities as either financial liabilities or equity is unclear under IAS 32, *Financial Instruments: Disclosure and Presentation*. Specifically, the proposed Interpretation discusses how redemption terms for

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members' shares in co-operative entities and similar instruments should be evaluated in determining whether the financial instrument should be classified as financial liabilities or as equity.

The [draft](#) is available on the IASB's Web site. The comment period ends September 13, 2004.

IASB Appoints Jan Engstrom to the IASB

In April 2004, Jan Engstrom was appointed to the IASB, effective May 1, 2004. Mr. Engstrom will succeed Harry Schmid in a full-time preparer position. His term will expire on June 30, 2009.

A [related press release](#) is available on the IASB's Web site.

IASB Issues Discussion Paper on Standards for Small and Medium-sized Entities

In June 2004, the IASB issued a discussion paper on its proposal to develop a separate set of international accounting standards for small and medium-sized entities (SMEs). The paper sets out preliminary views on aspects of the proposal. The paper does not include proposals for specific financial reporting standards for SMEs.

A [related press release](#) is available on the IASB's Web site. The comment period ends September 24, 2004.

Major Topics Discussed by IASB During the Second Quarter

The IASB discussed the following topics during the second quarter:

- Business Combinations (Phase II)
- Consolidation, including SPEs
- Exploration for and Evaluation of Mineral Resources
- Financial Activities — Risk Disclosures (IAS 30)
- Financial Instruments: Amendment to IAS 32
- Financial Instruments: Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- Financial Instruments
 - Disclosures (sweep issues)
 - Proposed amendments to IAS 39, *Financial Instruments: Recognition and Measurement*
 - Reassessed Outcomes Approach
- Financial Reporting Standards for Small and Medium-sized Entities
- IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets*
- IFRIC Issues — Changes in Existing Decommissioning, Restoration and Similar Liabilities (sweep issue)

- Leases
- Reporting Comprehensive Income
- Research and Development
- Revenue Recognition
- Short-Term Convergence Projects
 - IAS 12, *Income Taxes*
 - IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

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

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

Conclusions of the IASB are subject to change at future Board meetings and generally do not affect current accounting requirements for entities that apply IASB standards until an official position (IFRS or Interpretation) is issued. Official positions of the IASB are determined only after extensive deliberation and due process, including a formal vote by written ballot to issue an IFRS or Interpretation.

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Other Developments

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Deloitte Publishes “Key Differences Between IFRSs and U.S. GAAP”

In June 2004, Deloitte published a booklet, “Key Differences Between IFRSs and U.S. GAAP,” which highlights significant differences between international standards and U.S. GAAP. The booklet also provides information regarding what is being done about each of these differences.

The [publication](#) is available on the IASPlus Web site.

Appendix A: Significant Upcoming Dates

The chart below illustrates significant upcoming dates for the FASB, EITF, GASB, SEC, PCAOB, and IASB/IFRIC.

FASB	Status
Upcoming Adoption Dates	
FIN 46(R), <i>Consolidation of Variable Interest Entities</i>	<p>For interests in entities created after December 31, 2003:</p> <ul style="list-style-type: none"> • FIN 46(R) must be applied immediately. <p><u>Public companies that are not small business issuers:</u></p> <ul style="list-style-type: none"> • For interests in SPEs, FIN 46 or FIN 46(R) must be applied no later than for financial statements ending after December 15, 2003. • For interests in all entities, FIN 46(R) must be applied no later than for financial statements ending after March 15, 2004. <p><u>Small Business Issuers:</u></p> <ul style="list-style-type: none"> • For interests in SPEs, FIN 46 or FIN 46(R) must be applied no later than for financial statements ending after December 15, 2003. • For interests in all entities, FIN 46(R) must be applied no later than for financial statements ending after December 15, 2004. <p><u>Nonpublic Entities:</u></p> <ul style="list-style-type: none"> • FIN 46(R) must be applied by the beginning of the first annual period beginning after December 15, 2004. <p>For guidance related to foreign private issuers, refer to the related article, "SEC Issues Letter to AICPA Regarding FIN 46(R) Effective Date Provisions With Regard to Foreign Private Issuers" on the SEC's Web site.</p>
SFAS 133 Implementation Issue E22, <i>Accounting for the Discontinuance of Hedging Relationships Arising From Changes in Consolidation Practices Related to Applying FASB Interpretation No. 46 or 46(R)</i>	Effective as of the date of initial application of FIN 46 and/or FIN 46(R).
FSP FIN 46(R)-4, <i>Technical Correction of FASB Interpretation No. 46 (revised December 2003)</i>	The guidance should be applied in accordance with the effective dates of FIN 46(R).
FSP FAS 97-1, <i>Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments, Permit or Require Accrual of an Unearned Revenue Liability</i>	Effective for financial statements for fiscal periods beginning after June 18, 2004.
FSP FAS 106-2, <i>Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003</i>	Effective for the first interim or annual period beginning after June 15, 2004, except for certain nonpublic entities for which the effective date is for fiscal years beginning after December 15, 2004.
FSPs FAS 141-1 and FAS 142-1, <i>Interaction of FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and EITF Issue No. 04-2, "Whether Mineral Rights are Tangible or Intangible Assets"</i>	Effective for the first reporting period beginning after April 29, 2004.

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FASB		Status
Projects in Exposure Draft Stage		
<i>Accounting for Conditional Asset Retirement Obligations — an Interpretation of FASB Statement No. 143, a proposed Interpretation</i>		Comments due August 1, 2004.
<i>Fair Value Measurements, a proposed statement</i>		Comments due September 7, 2004.
EITF		Status
Upcoming Adoption Dates		
Issue 02-14, <i>Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Stock if the Investor Has the Ability to Exercise Significant Influence Over the Operating and Financial Policies of the Investee</i>		Effective for the first reporting period beginning after September 15, 2004. (If ratified by the Board)
GASB		Status
Upcoming Adoption Dates		
GASB Statement No. 44, <i>Economic Condition Reporting: The Statistical Section</i>		Effective for statistical sections prepared for periods beginning after June 15, 2005.
GASB Statement No. 43, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>		Effective one year prior to the effective date of the related Statement for the employer (single-employer plan) or for the largest participating employer in the plan (multi-employer plan). The requirements of the related Statement are effective in three defined phases.
GASB Statement No. 42, <i>Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries</i>		Effective for fiscal periods beginning after December 15, 2004.
GASB Statement No. 40, <i>Deposit and Investment Risk Disclosures — an amendment of GASB Statement No. 3</i>		Effective for fiscal periods beginning after June 15, 2004.
Projects in Exposure Draft Stage		
<i>Communications Method, a proposed concept statement</i>		Comments due September 30, 2004.
SEC		Status
Upcoming Adoption Dates		
Final Rule, <i>Additional Form 8-K Disclosure Requirements and Acceleration of Filing Date</i>		Effective August 23, 2004.
Final Rule, <i>Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports (an extension of compliance date)</i>		Effective for fiscal years ending on or after November 15, 2004, for "accelerated filers." Effective for fiscal years ending on or after July 15, 2005, for "nonaccelerated filers." Effective for fiscal years ending on or after July 15, 2005, for foreign private issuers that file annual reports on forms 20-F or 40-F.

PCAOB	Status
Upcoming Adoption Dates	
Auditing Standard No. 1, <i>References in Auditors' Reports to the Standards of the Public Company Oversight Board</i>	Effective for financial reports issued or reissued on or after May 24, 2004.
Auditing Standard No. 2, <i>An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements</i>	Effective for audits of companies with fiscal years ending on or after November 15, 2004, for accelerated filers, or July 15, 2005, for other companies.
IASB/IFRIC	Status
Upcoming Adoption Dates	
IFRS 5, <i>Non-current Assets Held-for-Sale and Discontinued Operations</i>	Effective for annual periods beginning on or after January 1, 2005.
IFRS 4, <i>Insurance Contracts</i>	Effective for annual periods beginning on or after January 1, 2005.
IFRS 3, <i>Business Combinations</i>	Effective for business combinations for which the agreement date is on or after March 31, 2004.
IFRS 2, <i>Share-based Payment</i>	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement (IAS 39 (Revised))</i>	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 32, <i>Financial Instruments: Disclosure and Presentation</i>	Effective for annual periods beginning on or after January 1, 2005.
Improvements to International Accounting Standards	Effective for annual periods beginning on or after January 1, 2005.
IFRIC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	Effective for annual periods beginning on or after September 1, 2004.
Projects in Exposure Draft Stage	
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement: The Fair Value Option</i>	Comments due July 21, 2004.
Amendment to IAS 19, <i>Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures</i>	Comments due July 31, 2004.
Amendment to IFRS 3, <i>Business Combinations: Combinations by Contract Alone or Involving Mutual Entities</i>	Comments due July 31, 2004.
D6, <i>Multi-employer Plans</i>	Comments due July 9, 2004.
D7, <i>Scope of SIC-12, Consolidation-Special Purpose Entities</i>	Comments due September 13, 2004.
D8, <i>Members' Shares in Co-operative Entities</i>	Comments due September 13, 2004.

Appendix B: Abbreviations

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

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