



Accounting Roundup

3rd Quarter in Review — 2004



October 14, 2004

Preface

Accounting Roundup: 3rd Quarter in Review — 2004

During the third 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: 3rd 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 third 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 also should consult upcoming issues of *Accounting Roundup* for reports of new developments.

*See Appendix B for a key to abbreviations used in this publication.

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 Developments

FASB Issues Final FSPs

FSP FAS 142-2, *Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil- and Gas-Producing Entities*

In September 2004, the FASB staff issued FSP FAS 142-2. SFAS 142 states that its provisions do not change the accounting prescribed in FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. FSP FAS 142-2 concludes that the scope exception in SFAS 142 extends to the balance sheet classification and disclosure provisions for drilling and mineral rights of oil- and gas-producing entities. An entity is not precluded, however, from providing information about its drilling and mineral rights, in addition to the information required by FASB Statement No. 69, *Disclosures About Oil and Gas Producing Activities*.

The FSP is effective for the first reporting period beginning after September 2, 2004. If adoption of the FSP results in the reclassification of an asset, prior-period amounts on the statements of financial position should be reclassified. Early application of FSP FAS 142-2 is permitted in periods for which financial statements have not yet been issued.

The [FSP](#) is available on the FASB's Web site.

FSP EITF Issue 03-1-1, *Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"*

In September 2004, the FASB issued FSP EITF Issue 03-1-1, which delayed the effective date of paragraphs 10-20 of EITF Issue No. 03-1. Paragraphs 10-20 of EITF Issue No. 03-1 give guidance on how to evaluate and recognize an impairment loss that is other than temporary (i.e., steps 2 and 3 of the impairment model). Application of these paragraphs is deferred pending issuance of proposed FSP EITF Issue 03-1-a. The guidance in paragraphs 6-9 of EITF Issue No. 03-1 (i.e., step 1 of the impairment model), as well as the disclosure requirements in paragraphs 21 and 22, have not been deferred and should be applied based on the transition provisions in EITF Issue No. 03-1.

The [FSP](#) is available on the FASB's Web site.

FASB Issues Proposed FSPs

Proposed FSP FAS 140-b, *Application of EITF Issue No. 85-24, "Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge," When Future Distribution Fees Are Sold to Unrelated Third Parties*

In August 2004, the FASB staff issued proposed FSP FAS 140-b to clarify whether the receipt of cash in exchange for the rights to future cash flows from distribution fees can be treated as revenue or gain for accounting purposes. The proposal states the following:

- Recognition of revenues or gains is not appropriate at the time cash is received from a third party for a right to future fees.
- Cash received from a third party should not be considered "fees" as discussed in EITF Issue 85-24.
- Transfers of the rights to future fees that are not recognized as a receivable by the distributor are not within the scope of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.
- Classification of the cash received from a third party should be based on the provisions of EITF Issue 88-18, *Sales of Future Revenues*, that is, as debt or deferred income.

The proposed FSP would be effective for transactions entered into after the final FSP is posted to the FASB Web site. The impact of applying the FSP to previously recognized transactions would be recorded as a cumulative effect of a change in accounting principle.

The [proposed FSP](#) is available on the FASB's Web site. The comment period ended September 2, 2004.

Proposed FSP FAS 142-c, *Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Exchange Memberships*

In July 2004, the FASB staff issued proposed FSP FAS 142-c to address whether exchange memberships are intangible assets that should be accounted for in accordance with SFAS 142. The proposed FSP observes that an exchange membership may have the attributes of an intangible asset, a financial asset, or both. The provisions of the proposal state that an exchange membership should be accounted for as a

that an exchange membership should be accounted for as a financial asset if the membership is an ownership interest in the exchange and one of the following criteria exists:

- The entity is required to consolidate the exchange.
- The entity is required to apply the equity method of accounting to its investment in the exchange.
- The predominant objective of the entity for owning its membership is to earn a return as an investor from the underlying operations and residual value of the exchange.

Otherwise, the exchange membership should be accounted for as an intangible asset.

The [proposed FSP](#) is available on the FASB's Web site. The comment period ended August 20, 2004.

Proposed FSP EITF Issue 03-1-a, *Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"*

EITF Issue No. 03-1 provides guidance on the meaning of the phrase *other-than-temporary impairment* and its application to several types of investments including debt securities classified as held-to-maturity and available-for-sale under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Paragraph 16 of EITF Issue No. 03-1 provides separate guidance for evaluating whether an impairment is other-than-temporary for debt securities that cannot be contractually prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost.

In September 2004, the FASB issued proposed FSP EITF Issue 03-1-a to address the application of EITF Issue No. 03-1 to debt securities that are impaired solely because of interest-rate and/or sector-spread increases, and analyzed for impairment under paragraph 16 of EITF Issue No. 03-1. The proposed FSP states the following:

- An investor should assert its ability and intent to hold an investment until a forecasted recovery at the individual security level.
- Minor impairments caused by interest-rate and/or sector-spread increases can be considered temporary and would not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery.
- An impairment is considered other-than-temporary when the investor's assertion to hold an investment until a forecasted recovery changes.
- There are circumstances in which a sale of an interest-rate impaired or sector-spread impaired security, for which an investor previously had asserted its ability and intent to

hold until a forecasted recovery, may not necessarily call into question the investor's ability or intent to hold other securities to recovery.

The proposed FSP would be effective for other-than-temporary impairment evaluations of interest-rate impaired and sector-spread impaired debt securities that are analyzed under paragraph 16 of EITF Issue No. 03-1 on the last reporting date for reporting periods ending after the final FSP is posted to the FASB Web site.

The [proposed FSP](#) is available on the FASB's Web site. The comment period ends October 29, 2004.

FASB Clears SOP, Accounting for Real Estate Time-Sharing Transactions

In August 2004, the FASB cleared AcSEC's SOP related to real estate time-sharing transactions. This SOP addresses issues such as the accounting for (1) cost of sales and inventory, (2) allowances for uncollectible receivables, and (3) deferred selling costs. The final approved SOP did not contain any broad-based revenue recognition guidance.

The SOP will be effective for fiscal periods beginning after June 15, 2005. Final issuance of the approved SOP is expected in the near term.

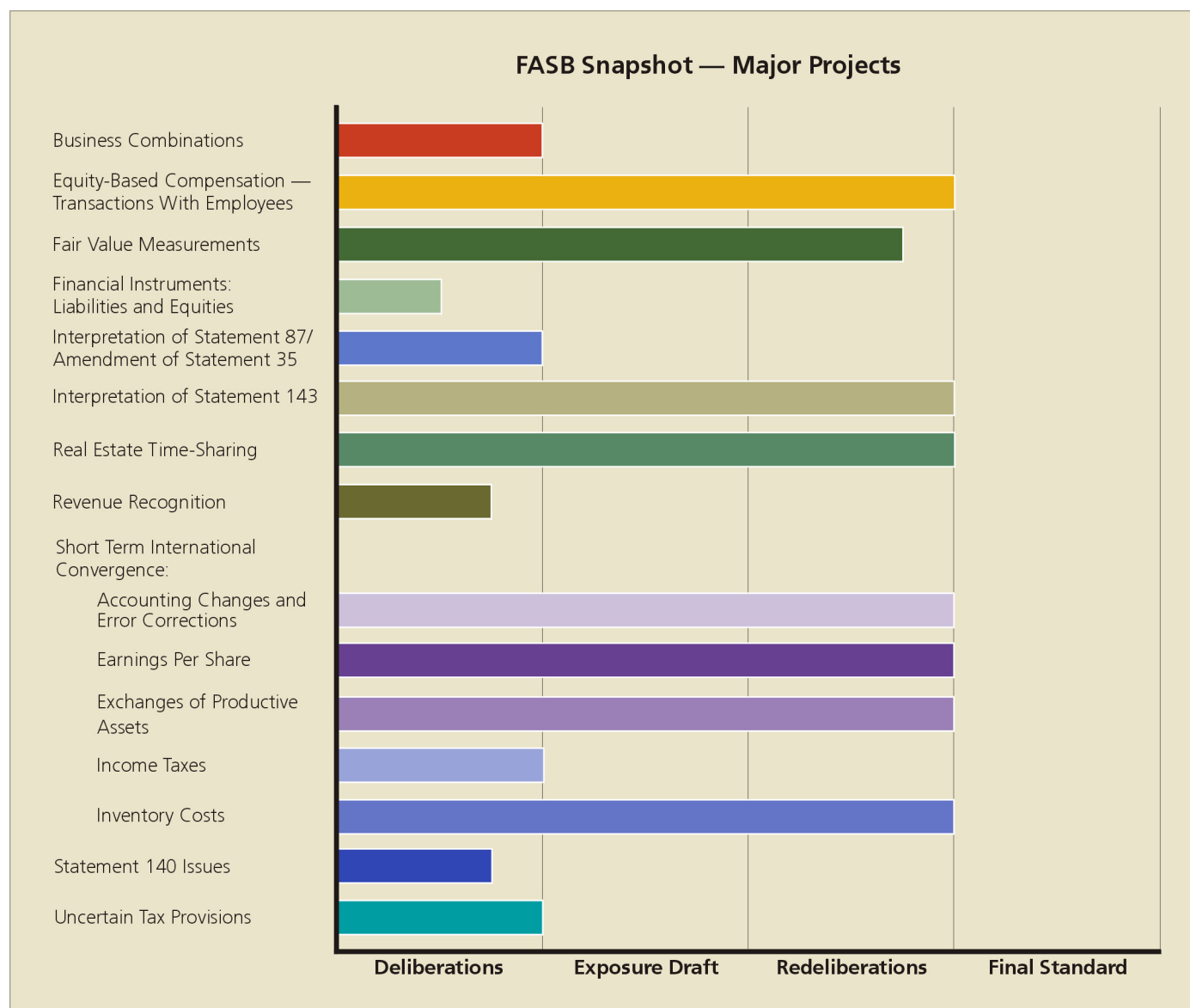
The approved [SOP summary](#) is available on the AICPA's Web site.

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.

See chart on following page.

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FASB Project Summaries and 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 to its issuance.

Emerging Issues Task Force (EITF) Developments

EITF Activity in the Third Quarter of 2004

EITF discussed the following topics at its September 29–30, 2004 EITF meeting:

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

- Issue 04-1, *Accounting for Preexisting Contractual Relationships between the Parties to a Business Combination*
- Issue 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share*
- Issue 04-10, *Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds*

Other EITF Issues Discussed

- 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 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 04-6, *Accounting for Stripping Costs Incurred During Production in the Mining Industry*
- Issue 04-7, *Determining Whether an Interest Is a Variable Interest in a Potential Variable Interest Entity*

Issues Removed

- Issue 03-9, *Determination of the Useful Life of Renewable Intangible Assets under FASB Statement No. 142, Goodwill and Other Intangible Assets*
- Issue 04-9, *Accounting for Suspended Well Costs*
- Issue 04-E, *The Meaning of Similar Economic Characteristics*

The [minutes](#) for the EITF meetings are posted to the FASB's Web site.

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

GASB Developments

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

In August 2004, the GASB issued Statement 45 to address how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits (collectively, "OPEB"). The Statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. In addition, Statement 45 establishes certain disclosure requirements.

Statement 45 is effective in three phases based on a government's total annual revenues. The largest employers are required to implement the requirements for periods beginning December 15, 2006. Medium-sized employers have one additional year to implement the standards, and the smallest employers have two additional years. Earlier implementation is encouraged.

A [summary](#) of Statement 45 is available on the GASB's Web site.

GASB Issues Proposal on Net Assets Restricted by Enabling Legislation

In July 2004, the GASB issued an exposure draft of a proposed Statement to clarify the requirements for reporting net assets contained in GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. The proposal is intended to improve the comparability of net asset information by clarifying the circumstances under which net assets should be restricted due to enabling legislation enacted by a government. The proposed Statement clarifies that a legally enforceable restriction is one that a party external to a government can compel a government to honor. The proposal also provides guidance on how to adjust financial reporting to reflect changes in circumstances surrounding an enabling legislation restriction and requires net assets restricted by enabling legislation to be displayed separately from other restricted net assets.

The provisions would be effective for periods beginning after June 15, 2005.

A [summary](#) of the proposed Statement is available on the GASB's Web site. The comment period ended August 31, 2004.

Further information about the 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.

AICPA Developments

AICPA Issues Technical Questions and Answers

Technical Questions and Answers Related to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*

In July 2004, the AICPA issued the following Technical Questions and Answers to provide guidance on the application of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to arrangements in which a hospital recruits a physician by providing a mortgage guarantee or making a loan to the physician and forgiving that loan over a set period of time:

- [TPA 6400.45](#), *Applicability of FASB Interpretation No. 45 — Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others — Physician Loans*
- [TPA 6400.46](#), *Applicability of FASB Interpretation No. 45 — Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others — Mortgage Guarantees*

Technical Questions and Answers to Address Financial Accounting and Reporting Issues Related to SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*

In September 2004, the AICPA issued the following Technical Questions and Answers to address financial accounting and reporting issues related to SOP 03-1:

- [TPA 6300.05](#), *Definition of an Insurance Benefit Feature*
- [TPA 6300.06](#), *Definition of an Assessment*
- [TPA 6300.07](#), *Level of Aggregation of Additional Liabilities Determined under SOP 03-1*
- [TPA 6300.08](#), *Losses Followed by Losses*
- [TPA 6300.09](#), *Reinsurance*
- [TPA 6300.10](#), *Accounting for Contracts that Provide Annuitization Benefits*

The [Technical Questions and Answers](#) are available on the AICPA's Web site.

These Technical Questions and Answers, like all Technical Questions and Answers, have not been approved, disapproved, or otherwise acted upon by any senior technical committee of the AICPA. Although they may provide useful guidance, they are nonauthoritative and do not establish new U.S. GAAP.

AICPA Ethics Committee Proposes Outsourcing Disclosure Rule

In August 2004, the Professional Ethics Committee of the AICPA proposed rules that would require AICPA members to disclose to their clients the outsourcing of professional services.

The [Exposure Draft](#), "Omnibus Proposal of Professional Ethics Division Interpretations and Rulings," is available on the AICPA's Web site. The comment period ended October 8, 2004.

AcSEC Meetings

AcSEC discussed the following projects at its third quarter meetings:

- Airline Guide
- Casino Guide
- Deferred Acquisition Costs on Internal Replacements
- Fair Value Measurements
- Proposed FIN, *Accounting for Conditional Asset Retirement Obligations*

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

Further information about the AICPA and AcSEC 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 Developments

SEC Issues Staff Accounting Bulletin No. 106 Regarding the Application of FASB Statement No. 143, Accounting for Asset Retirement Obligations, by Oil- and Gas-Producing Companies Following the Full Cost Accounting Method

In September 2004, the SEC released SAB 106, which expresses the staff's views on the application of SFAS 143 by oil- and gas-producing companies following the full cost accounting method. SAB 106 provides interpretive responses related to the following:

- Computing the full cost ceiling to avoid double-counting the expected future cash outflows associated with asset retirement obligations,
- Required disclosures relating to the interaction of SFAS 143 and the full cost rules,
- The impact of SFAS 143 on the calculation of depreciation, depletion, and amortization.

SAB 106 is effective prospectively as of the beginning of the first fiscal quarter beginning after October 4, 2004 and is available on the SEC's Web site.

SEC Proposes Temporary Postponement of the Final Phase-In Period for Acceleration of Periodic Report Filing Dates

In August 2004, the SEC proposed to postpone, for one year, the final phase-in period for acceleration of the due dates of quarterly and annual reports required for accelerated filers. The postponement is proposed to allow additional time and opportunity for accelerated filers and their auditors to focus their efforts on complying with the SEC's new requirements regarding internal control over financial reporting.

The [proposed rule](#) is available on the SEC's Web site. The comment period ended October 1, 2004.

SEC Proposes Rule to Establish Voluntary Program for Reporting Financial Information on EDGAR Using XBRL

In September 2004, the SEC proposed rule amendments to enable registrants to submit voluntarily supplemental tagged financial information using the eXtensible Business Reporting Language (XBRL) format as exhibits to certain EDGAR filings. Registrants who choose to participate in the program, which is expected to begin with the 2004 calendar year-end reporting

season, would continue to file their financial information in HTML or ASCII format as currently required. The voluntary program, in general, is intended to help the SEC evaluate the usefulness of data tagging, and XBRL in particular, to registrants, investors, the Commission, and the marketplace.

The SEC also issued a concept release which provides additional information on tagged data, and solicits comment on the benefits and implications of data tagging as well as the adequacy and efficacy of XBRL as a format for reporting financial information.

The [proposed rule](#) and [concept release](#) are available on the SEC's Web site. The comment period for the proposed rule ends November 1, 2004. Comments on the concept release should be submitted by November 15, 2004.

SEC Approves PCAOB Rules

Auditing Standard No. 3, Audit Documentation, and an Amendment to Interim Auditing Standards — AU sec. 543, Part of Audit Performed by Other Independent Auditors

In August 2004, the SEC approved PCAOB Auditing Standard No. 3, and a related amendment to an interim auditing standard, which establish general requirements for the documentation that auditors 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. In addition, the amendment to AU sec. 543 imposes unconditional responsibility upon the principal auditor to obtain certain audit documentation from another auditor (who, though not named in the audit report, has performed part of the audit work used by the principal auditor) prior to the audit report release date, and provides that the principal auditor should consider performing certain procedures outlined in AU sec. 543.

The Standard is effective for audits of financial statements with fiscal years ending on or after November 15, 2004.

A [summary](#) of Auditing Standard No. 3 is available on the SEC's Web site.

Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, and an Amendment to Rule 1001, *Definitions of Terms Employed in Rules*

In September 2004, the SEC approved PCAOB's Rule 3101, and an amendment to Rule 1001. Rule 3101 sets forth the terminology the PCAOB will use to describe the degree of responsibility that the auditing and related professional practice standards impose on auditors who conduct engagements pursuant to the standards of the PCAOB, and Rule 1001 defines the term "auditor" when applied to rules and standards adopted by the PCAOB.

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

Oversight of Non-U.S. Registered Public Accounting Firms

In August 2004, the SEC approved PCAOB 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 [final rules](#) are available on the PCAOB's Web site.

SEC Staff Announcement on the Use of the Residual Method to Value Acquired Assets Other Than Goodwill

In September 2004, the SEC staff provided, through an announcement at the EITF meeting, guidance on the use of the residual method to value acquired assets other than goodwill. The announcement indicated that the SEC staff believes that the residual method does not comply with the requirements of FASB Statement No. 141, *Business Combinations*, and, accordingly, should no longer be used. Instead, a direct-value method should be used to determine the fair value of all intangible assets required to be recognized under SFAS 141. Impairment testing of intangible assets, similarly, should not rely on a residual method, and should instead comply with the provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

The SEC staff announcement provides that registrants should no longer apply the residual method to assets (other than goodwill) acquired in business combinations completed after September 29, 2004. Further, companies that have applied the residual method to the valuation of intangible assets for purposes of impairment testing will be required to perform an impairment test no later than the beginning of their first fiscal year beginning after December 15, 2004 using a direct method. Reclassification of recorded balances between goodwill and intangible assets immediately prior to adoption of the staff announcement is prohibited.

The [announcement](#) is available on the FASB's Web site.

SEC Posts Technical Corrections to Final Rule on Additional Form 8-K Disclosure Requirements and Acceleration of Filing Date

In August 2004, the SEC posted technical corrections to final rules related to Form 8-K disclosures and accelerated filing dates. Those amendments were adopted in March 2004 and increased the number of events requiring disclosure on Form 8-K and the accelerated filing deadline for that form.

The corrections were effective on August 23, 2004. The [rule](#) 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

Board Adopts Conforming Amendments to PCAOB Interim Standards Resulting from the Adoption of PCAOB Auditing Standard No. 2, “An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements”

In September 2004, the PCAOB adopted amendments to its interim standards that conform the text of the interim standards to the requirements of PCAOB Auditing Standard No. 2. The amendments that affect integrated audits would be effective at the same time Auditing Standard No. 2 becomes effective. Amendments that affect audits of financial statements would be effective only for audits of financial statement periods ending on or after July 15, 2005. The conforming amendments will be submitted to the SEC for final approval, as required by the Sarbanes-Oxley Act of 2002.

The [proposed amendments](#) are available on the PCAOB's Web site.

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

International Developments

IASB Issues Exposure Drafts

Exposure Draft 7, *Financial Instruments: Disclosures*

In July 2004, the IASB published an exposure draft that would improve disclosures about financial instruments in financial statements. Although the proposed IFRS would apply to all entities, the extent of disclosure required would depend on the extent of an entity's use of financial instruments and its risk exposure. The proposed IFRS, which is intended to simplify financial instrument disclosure, would replace IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*.

The [Exposure Draft](#) is available on the IASB's Web site. The comment period ends October 22, 2004.

Limited Amendments to IAS 39, *Financial Instruments: Recognition and Measurement*

In July 2004, the IASB published three short exposure drafts proposing limited amendments to IAS 39. The proposed amendments aim to ease implementation of the revised IAS 39, issued in December 2003, by providing additional and immediate guidance on issues identified by the business community, and ensure that a guarantor's balance sheet includes all guarantees issued. The exposure drafts are:

- [Transition and Initial Recognition of Financial Assets and Financial Liabilities](#) — This proposal would apply when entities first adopt IAS 39. The proposed amendment would allow, but not require, entities to adopt a transition approach that is easier to implement and would enable entities to eliminate a difference between IFRS and U.S. requirements. This amendment would be effective for annual periods beginning on or after January 1, 2005.
- [Cash Flow Hedge Accounting of Forecast Intragroup Transactions](#) — This proposal clarifies the treatment in consolidated financial statements of a foreign currency cash flow hedge of a highly probable forecasted external transaction denominated in the functional currency of the group entity (e.g., a subsidiary) entering into the transaction. This amendment would be effective for annual periods beginning on or after January 1, 2006.
- [Financial Guarantee Contracts and Credit Insurance](#) — This exposure draft proposes that the issuer of a financial guarantee contract measure the contract initially at fair

value. The proposal also addresses the subsequent measurement of those guarantees. This guidance would apply even if the contract meets the definition of an insurance contract in IFRS 4, *Insurance Contracts*. The amendment would be effective for annual periods beginning on or after January 1, 2006.

The Exposure Drafts are available on the IASB's Web site. The comment period for each Exposure Draft ended October 8, 2004.

IFRIC Issues Proposed Interpretation D9, *Employee Benefit Plans With a Promised Return on Contributions or Notional Contributions*

In July 2004, the IFRIC issued a proposed Interpretation to provide guidance on the accounting for cash balance plans (plans with benefits that depend on future returns on assets). The proposal provides a method of accounting for cash balance plans that is easier than the traditional method of accounting for defined benefit plans under IAS 19, *Employee Benefits*. The Interpretation proposes that the amount that ultimately will be payable for benefits that depend on future returns on assets should not be estimated because of the difficulty in estimating what asset returns will be in the future. Instead, the measurement of the liability for such benefits should be based on the value of the assets at the balance sheet date.

The [proposed Interpretation](#) is available on the IASB's Web site. The comment period ended September 21, 2004.

IASCF Issues an Executive Briefing on International Standards

In July 2004, the International Accounting Standards Committee Foundation (IASCF) published a briefing on IFRSs for senior executives and directors that provides an overview of each Standard together with possible business implications. The publication also provides an overview of IFRSs for others interested in financial markets, such as analysts, regulators, and the media.

A [press release](#) describing the Executive Briefing and how to obtain it is available on the IASB's Web site.

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IFRIC Meeting

The IFRIC discussed the following topics at its September 2-3, 2004 meeting:

- D1, *Emission Rights*
- D3, *Determining Whether an Arrangement Contains a Lease*
- D4, *Decommissioning, Restoration and Environmental Rehabilitation Funds*
- Service Concession Arrangements
- Waste Electrical and Electronic Equipment.

A [summary](#) of the September 2004 meeting is available on the IASB's Web site. The [observer notes and staff presentations](#) made at the meeting are available on the IASB's Web site. A [summary of meeting](#) decisions and discussions is available on Deloitte's IAS Plus Web site.

Further information about the IASB and IFRIC 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 and IFRIC 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.

Other Developments

Deloitte Touche Tohmatsu Publishes Guide to Applying IFRS 3, *Business Combinations*

In August 2004, Deloitte Touche Tohmatsu published a guide to IFRS 3 that (1) outlines key features of IFRS 3; (2) provides examples to assist in applying the standard; (3) discusses requirements of other IFRSs as they relate to business combinations; and (4) includes guidance on determining fair value for business combination accounting, a comparison of IFRS and U.S. GAAP, frequently-asked-questions, and illustrative disclosures.

The [guide](#) is available on the IAS Plus Web site.

Appendix A: Significant Upcoming Dates

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

FASB	Status
Upcoming Adoption Dates	
FIN 46(R), <i>Consolidation of Variable Interest Entities</i>	<p><u>Public companies that are not small business issuers:</u></p> <ul style="list-style-type: none"> – Provisions of FIN 46(R) currently are effective. <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 “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).
SFAS 133 Implementation Issue G25, <i>Cash Flow Hedges: Using the First-Payments-Received Technique in Hedging the Variable Interest Payments on a Group of Non-Benchmark-Rate-Based Loans</i>	Effective the first day of the first fiscal quarter beginning after August 9, 2004.
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.
FSP FAS 142-2, <i>Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil- and Gas-Producing Entities</i>	Effective for reporting periods beginning after September 2, 2004.

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Projects in Exposure Draft Stage	
Proposed FSP EITF Issue 03-1-a, <i>Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"</i>	Comments due October 29, 2004.
GASB	Status
Upcoming Adoption Dates	
GASB Statement No. 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i>	Effective in three phases based on a government's total annual revenues.
GASB Statement No. 44, <i>Economic Condition Reporting: The Statistical Section</i>	Effective for statistical sections prepared for periods beginning after June 15, 2005.
GASB Statement No. 43, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	Effective one year prior to the effective date of GASB Statement No. 45 for the employer in a single-employer plan or the largest participating employer in a multi-employer plan.
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.
SEC	Status
Upcoming Adoption Dates	
Final Rule, <i>Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports</i> (an extension of compliance date)	Effective for fiscal years ending on or after November 15, 2004, for "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.
SAB 106 Regarding the Application of FASB Statement No. 143, <i>Accounting for Asset Retirement Obligations</i> , by Oil- and Gas-Producing Companies Following the Full Cost Accounting Method	Effective prospectively as of the beginning of the first fiscal quarter beginning after October 4, 2004.
Use of the Residual Method to Value Acquired Assets Other Than Goodwill	Effective for business combinations completed after September 29, 2004. Companies that have applied the residual method to the valuation of intangible assets for purposes of impairment testing will be required to perform an impairment test no later than the beginning of their first fiscal year beginning after December 15, 2004 using a direct method.
Proposed Rules	
XBRL Voluntary Financial Reporting Program on the EDGAR System	Comments on the proposed rule due November 1, 2004. Comments on the concept release due November 15, 2004.

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PCAOB	Status
Upcoming Adoption Dates	
Auditing Standard No. 1, <i>References in Auditors' Reports to the Standards of the Public Company Accounting 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.
Auditing Standard No. 3, <i>Audit Documentation</i>	Effective for audits of financial statements with fiscal years ending on or after November 15, 2004.
<i>Conforming Amendments to PCAOB Interim Standards Resulting From the Adoption of PCAOB Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements"</i>	Effective for integrated audits of financial statements at the same time as Auditing Standard No. 2. Effective for audits of only financial statements for periods ending on or after July 15, 2005.
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</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	
ED 7, <i>Financial Instruments: Disclosures</i> (replaces IAS 30, <i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i> , and the disclosure requirements in IAS 32, <i>Financial Instruments: Disclosure and Presentation</i>)	Comments due October 22, 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
GASB	Governmental Accounting Standards Board	SOP	Statement of Position
IAS	International Accounting Standards	TPA	Technical Practice Aid
IASB	International Accounting Standards Board		

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