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Accounting Roundup

Audit and Enterprise Risk Services

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FASB Developments

FASB Issues Exposure Draft on Uncertain Tax Positions

On July 14, 2005, the FASB published an exposure draft entitled *Accounting for Uncertain Tax Positions — an interpretation of FASB Statement No. 109*.[1] The proposed interpretation is intended to reduce the significant diversity in practice associated with recognition and measurement of income taxes by establishing consistent criteria for evaluating uncertain tax positions.

- *Recognition* — The proposed interpretation establishes a **probable recognition threshold**. To recognize a benefit from a tax position, a company must conclude that the position is probable of being sustained upon audit based solely on the technical merits of the position. The term probable is used in this proposed interpretation consistent with its use in Statement 5[2] (i.e., "the future event or events are likely to occur"). In evaluating whether this requirement has been met, the proposed interpretation requires the company to presume that the tax position will be examined during an audit by the taxing authority. A tax position that did not previously meet the probable recognition threshold should be recognized in any subsequent period in which it is determined that the threshold has been met.
- *Measurement* — Once the probable recognition threshold is met, the **best estimate of the amount that would be sustained on audit** should be recognized. Any subsequent changes in the recognized amount should be made using a best estimate methodology and recognized in the period of change. "Best estimate" means the single most likely amount in a range of possible estimated amounts.
- *Derecognition* — In the period in which it becomes **more likely than not** that a tax position would no longer be sustained upon an audit by a taxing authority, the benefit should be derecognized by recording an income tax liability or reducing a deferred tax asset. A valuation allowance should not be used as a substitute for derecognition.
- *Classification* — A liability arising from the difference between the position taken in the tax return and the amount booked in the financial statements pursuant to the

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

2 FASB Statement No. 5, *Accounting for Contingencies*.

proposed interpretation should be classified as a current liability if expected to be paid within one year. However, if the liability arises from a taxable temporary difference, it would be classified as a deferred tax liability.

- *Disclosure* — Companies should follow the disclosure requirements of Statement 5 for both loss and gain contingencies related to uncertain tax positions.
- *Effective Date and Transition* — The proposed interpretation would be effective as of the end of the first fiscal year ending after December 15, 2005. Earlier application would be encouraged. Only tax positions meeting the probable recognition threshold at that date would be recognized. The transition adjustment resulting from application of this interpretation would be recorded as a cumulative-effect change in the income statement as of the end of the period of adoption. Restatement of prior periods or pro forma disclosures under APB Opinion No. 20, *Accounting Changes*, would not be permitted.

See Deloitte & Touche's *Heads Up* on the exposure draft for further analysis. The proposed interpretation may be viewed in its entirety on the FASB's Web site. The comment period ends September 12, 2005.

Final FSPs

FASB Issues Final FSP APB 18-1 on Other Comprehensive Income of an Equity Method Investee Upon Loss of Significant Influence

On July 12, 2005, the FASB issued final FSP APB 18-1[3] to provide guidance on how an investor should account for its proportionate share of an equity method investee's equity adjustments for other comprehensive income (OCI) upon a loss of significant influence.

FASB Statement No. 130, *Reporting Comprehensive Income*, indicates that an investor should record its proportionate share of an equity method investee's OCI adjustments as corresponding increases or decreases in its own OCI balance. However, prior to the issuance of this FSP, GAAP did not provide guidance on accounting for the OCI adjustments once significant influence was lost.

This FSP requires that when equity method accounting ceases upon the loss of significant influence of an investee, the investor's proportionate share of the investee's OCI should be offset against the carrying value of the investment. To the extent that this results in a negative carrying value, the investor should **adjust the carrying value to zero and record the residual balance through earnings**.

The FSP, which is available on the FASB's Web site, is effective as of the first reporting period beginning after July 12, 2005. Upon adoption of the FSP, the OCI of an investee for which the investor no longer has significant influence should be offset against the carrying value of the investment. This adjustment should exclude any OCI arising from the available-for-sale treatment of the investment under Statement 115.[4] If comparative financial statements are provided, the previous periods should be retrospectively adjusted to reflect the application of this FSP.

FASB Issues Final FSP SOP 78-9-1[5] on Control of Limited Partnerships

On July 14, 2005, the FASB issued this FSP, which amends AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, to conform with the consensus reached in Issue 04-5.[6] See EITF Developments, below, for additional information on Issue 04-5, which provides a framework for addressing when a general partner controls a limited partnership. The final FSP makes changes to the consolidation guidance relating to both general and limited partnerships in SOP 78-9 as follows:

- *Amendments for Limited Partnerships* — The Board believes that the assessment of whether a general partner controls a limited partnership should be consistent for all limited partnerships, irrespective of the industry in which the partnership operates. Therefore, the FSP eliminates the concept of "important rights" from the limited partnership guidance in SOP 78-9 and replaces it with the concepts of **"kick-out rights" and "substantive participating rights"** as defined in Issue 04-5.
- *Amendments for General Partnerships* — The FSP amends SOP 78-9 to indicate that a general partner who is a majority holder in a general partnership may not control the entity if one or more of the other partners have substantive participating rights. The determination of whether the rights are substantive should be evaluated in accordance with Issue 04-5.
- *Effective Date and Transition* — For general partners of all new partnerships formed and for existing partnerships for which the partnership agreements are modified, the guidance in this FSP is effective after June 29, 2005. For general partners in all other partnerships, the guidance in this FSP is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005, and the application of either a cumulative-effect-type adjustment to the opening balance of retained earnings in the period of change or retrospective application under Statement 154[7] is permitted.

3 FASB Staff Position No. APB 18-1, "Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for Under the Equity Method in Accordance With APB Opinion No. 18 Upon a Loss of Significant Influence."

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

5 FASB Staff Position No. SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5."

6 EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights."

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

A copy of the complete FSP and minutes of the June 29, 2005, meeting at which the FASB finalized this FSP are available on the FASB's Web site.

Proposed FSPs

FASB Issues Proposed FSP FAS 13-a on Changes in the Timing of Income Tax Cash Flows on Leveraged Leases

On July 14, 2005, the FASB issued proposed FSP FAS 13-a,[8] which amends FASB Statement No. 13, *Accounting for Leases*, to address how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease.

- *Important Assumptions* — This FSP would amend Statement 13 to include the **expected timing of income tax cash flows** from the leveraged lease as an important assumption that must be reviewed at least annually. The FSP would only apply to changes or projected changes in timing that are directly related to the leveraged lease transaction (e.g., an interpretation of the tax law or a change in the lessor's assessment of the likelihood of prevailing in a challenge by the taxing authority).
- *Recalculation* — If the expected timing of income tax cash flows is revised, the **rate of return and income allocation should be recalculated** from lease inception using the revised assumptions. The recalculation would include actual cash flows that occurred up to and including the point of the actual settlement or expected settlement and the estimated cash flows thereafter. Additionally, the recalculation would include any interest and penalties assessed or expected to be assessed by the taxing authority.
- *Change in Lease Characterization* — The recalculation may result in a situation in which the lease would not have originally qualified as a leveraged lease if the revised assumptions had been used at inception. If this occurs, **the lessor should reclassify the lease prospectively as a direct financing lease** as of the date the change in assumption occurs. The lessor would separately report (1) its investment in the direct financing lease, (2) the nonrecourse debt, and (3) the deferred taxes related to the direct financing lease on its balance sheet, as if the lease had been classified as direct financing since inception. The difference between these balances and the balance of the net investment in the leveraged lease prior to recalculation would be reported as a gain or loss in the period of change. The gain or loss would be included in income from continuing operations before income taxes in the same line item in which leveraged lease income is recognized.
- *No Change in Lease Characterization* — If the recalculation does not change the characterization of the lease, the net investment balance would be adjusted. Any gain or loss would be recorded in the period of change in income from continuing operations before income taxes in the same line item in which leveraged lease income is recognized.
- *Effective Date and Transition* — The guidance in this FSP would be effective as of the end of the first fiscal year ending after December 15, 2005, with earlier application encouraged. The impact of adopting this FSP will be recognized as the cumulative effect of a change in accounting principle through the income statement as described in Opinion 20. Retrospective restatement of prior periods or pro forma disclosures under Opinion 20 would not be permitted.

A complete copy of this proposed FSP is obtainable from the FASB's Web site. The comment period ends September 12, 2005.

FASB Issues Proposed FSP FAS 13-b on Capitalization of Rental Costs During a Construction Period

On July 19, 2005, the FASB issued proposed FSP FAS 13-b[9] to clarify the proper accounting for rental costs incurred on building or ground operating leases during a construction period. The proposed FSP indicates that:

- In accordance with FASB Technical Bulletin No. 88-1, *Issues Related to Accounting for Leases*, rental costs should be expensed as rental expense on a straight-line basis starting at the beginning of the lease term (i.e., when the lessee takes possession of or is given control of the leased property), which may be different than the lease inception date (i.e., the date of the lease agreement).
- **A lessee may not capitalize rental costs** incurred during the construction period associated with either ground or building operating leases.

The guidance would be applied to the first reporting period beginning after September 15, 2005. A lessee should cease capitalizing rental costs as of the effective date of the FSP for operating lease arrangements entered into prior to that date. Retrospective application would be permitted but not required.

The proposed FSP and minutes from the June 29, 2005, meeting at which the FASB reached its conclusions are available on the FASB's Web site. The comment period ends August 18, 2005.

FASB Issues Proposed FSP FAS 140-c on Qualified Special Purpose Entities

On July 21, 2005, the FASB issued proposed FSP FAS 140-c.[10] This FSP clarifies that paragraphs 40(b) and 40(c) of

8 Proposed FASB Staff Position No. FAS 13-a, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction."

9 Proposed FASB Staff Position No. FAS 13-b, "Accounting for Rental Costs Incurred During a Construction Period."

10 Proposed FASB Staff Position No. FAS 140-c, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140."

Statement 140[11] are only intended to be **applied at the date a qualified special-purpose entity (QSPE) issues beneficial interests** or when a passive derivative financial instrument needs to be replaced upon the occurrence of a specified event outside the control of the transferor. Unexpected subsequent events that were not contemplated when the beneficial interests of the QSPE were issued do not impair an entity's qualified status.

To be considered a QSPE, Statement 140 limits the derivatives an entity can hold to passive derivative financial instruments pertaining to beneficial interests. To determine if a derivative pertains to beneficial interests, paragraphs 40(b) and 40(c) require a consideration of whether the notional amount of derivatives held or issued by a QSPE exceeds the amount of beneficial interests issued to third parties. The proposed FSP addresses when those analyses must be performed.

The proposed FSP, which is available on the FASB's Web site, would be applied prospectively to the evaluation of the qualified status of new and existing SPEs after the date the FSP is finalized. Minutes from the July 6, 2005, meeting at which the FASB agreed to issue the proposed FSP are available on the FASB's Web site. The comment period ends August 22, 2005.

FASB Issues Milestone Draft on Liabilities and Equity

On July 20, 2005, the FASB released its milestone draft on the Liabilities and Equity project summarizing decisions reached to date. The project is designed to address issues raised after the issuance of Statement 150[12] and to converge with accounting standards developed by the IASB. The Boards plan to conduct the project under a modified joint approach to develop a common proposed Standard. This approach includes an IASB amendment to IAS 32, *Financial Instruments: Disclosure and Presentation*.

The draft proposes classification requirements for entities that issue or hold single-component instruments (including instruments whose payoffs are related to an entity's own equity instruments). Multiple-component instruments are not included in the scope of this draft; the FASB will address those instruments in the next phase of the project. See Recent FASB Meetings below for a summary of the June 29, 2005, discussion on multiple-component instruments.

In determining the classification of instruments, the FASB used an **Ownership-Settlement Approach** that focuses on both the settlement obligation and whether the counterparty is an owner or is in a position similar to that of an owner. Using this approach, the Board determined that the following single-component instruments should be classified as equity:

- *Direct Ownership Instruments* — These are the most basic form of equity because the holder of a direct ownership instrument bears the ultimate risks and rewards generated by the activities of the issuing entity, limited only by its share of ownership.
- *Perpetual Instruments* — These instruments lack a settlement obligation and, therefore, meet a primary determining factor in equity classification decisions.
- *Indirect Ownership Instruments That Are Both Indexed to and Ultimately Settled With the Same Class of Direct Ownership Shares* — Because the holder of this type of instrument has an interest similar to that of an owner and, upon settlement, ultimately becomes an owner, these instruments should be classified as equity.

Other instruments in the scope of this draft would be classified as liabilities or assets because the counterparties are not owners nor do they have relationships similar to owners.

The milestone draft may be viewed in its entirety on the FASB's Web site.

Recent FASB Meetings

The summary below highlights certain tentative decisions reached or topics discussed at recent FASB meetings. Final conclusions were not reached and further consideration is expected. Additional information is available in the FASB's weekly *Action Alert* newsletter, which is available on the FASB's Web site.

Dates in parentheses indicate FASB meetings at which respective issues were discussed.

Conceptual Framework (June 22)

The Board continued its deliberations on the joint IASB/FASB Conceptual Framework project by discussing issues relating to qualitative characteristics of accounting information. The Board reached the following conclusions:

- *Comparability* — Comparability enables users to identify similarities in and differences between economic phenomena and should be distinguished from consistency (the consistent use of accounting methods). Concerns about comparability or consistency should not preclude reporting information that is of greater relevance, or that more faithfully represents the economic phenomena it purports to represent. Disclosures can help compensate for lessened comparability or consistency.
- *Understandability* — The information in general-purpose external financial reports should be understandable to financial statement users who have a reasonable knowledge of business, economic activities, and accounting and a willingness to study the information with reasonable diligence. Relevant information should not be excluded because it is too complex or difficult for some users to understand.
- *Materiality* — Materiality relates not only to relevance, but also to faithful representation. Materiality should be

[11] FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

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

included in the converged framework as a screen or filter to determine whether information is sufficiently significant to influence the decisions of users in the context of the entity, rather than as a qualitative characteristic of decision-useful financial information.

- *Transparency* — Transparency encompasses some of the qualitative characteristics already included in the framework. Because it would be redundant, transparency will not be added to the converged framework as a separate qualitative characteristic.
- The converged framework should include information about the types of costs that should be considered in deciding what financial information to provide, as well as criteria to help standard setters decide how to take particular types of costs into account.
- The converged framework should include presumptions not only about the capabilities of financial statement users but also about the capabilities of financial statement preparers and auditors.

The IASB separately discussed the same issues and reached similar conclusions. The Boards will separately discuss how the qualitative characteristics relate to one another.

Derivative Disclosures (July 6)

The Board decided that at this time, the scope of the Derivative Disclosures project would be limited to disclosure relating to:

- All derivatives accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.
- All related hedged items, including those that are not part of a designated and qualifying hedging relationship in accordance with Statement 133, sometimes referred to as "economic hedges."

The Board supported considering at a future date, but not within this project, whether to provide additional disclosures relating to all financial instruments, regardless of whether they are part of a hedging relationship. The Board also agreed that further research should be performed related to the presentation and classification within the balance sheet and income statement for instruments included in the project's scope. The Board directed the staff to continue research in these areas.

Fair Value Measurements (June 29)

The Board continued its deliberations on the FASB exposure draft, *Fair Value Measurements*, and reached the following tentative conclusions:

- *Definition of Fair Value* — The Board modified the definition of fair value to refer to an estimate of the price that could be received for an asset or paid to settle a liability in a current transaction between marketplace participants in the reference market for the asset or liability. Previously, the Board clarified that the reference market is the most advantageous market for the asset or liability considered from the reporting entity's perspective. The Board also clarified that at initial recognition, the transaction price might not provide presumptive evidence of the fair value of an asset or liability if the market in which the transaction occurs is not the most advantageous market for the asset or liability considered from the reporting entity's perspective.
- *Fair Value Hierarchy* — The Board expanded the levels within the fair value hierarchy to segregate quoted prices for identical assets or liabilities in active markets (Level 1), quoted prices for similar assets or liabilities (Level 2), direct market inputs other than quoted prices (Level 3), indirect market inputs (Level 4), and entity inputs (Level 5). The five-level hierarchy should be used to estimate fair value. However, estimates within Levels 2 and 3 and Levels 4 and 5 should be combined for disclosure purposes.
- *Fair Value of Certain Derivative Contracts* — The Board reconsidered the guidance in EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," in the context of the guidance developed to date in the Fair Value Measurement project. The Board decided that a difference between the transaction price and the initial fair value estimate should be recognized in earnings only when the estimate is derived principally from market-based inputs, whether directly observable or otherwise derived. Otherwise, the difference should be deferred until the fair value can be estimated from market-based inputs. At initial recognition, an entity should disclose:
    - The fair value estimate,
    - The data used to derive the estimate, and
    - Unrealized gains or losses recognized in earnings.
- In all periods, an entity should disclose deferred amounts (in the period and cumulative) and a description of where those amounts are reported in the statement of financial position.

Financial Instruments: Liabilities and Equity (June 29)

The Board made the following decisions related to multiple-component instruments in the Milestone 2 phase of the Liabilities and Equity project:

- A multiple-component instrument is a financial instrument with two or more equity or nonequity components. Equity and nonequity components can be identified using the classification decisions reached in the first milestone of this project considering (a) the existence or nonexistence of settlement requirements, (b) the characteristics of the settlement requirements, and (c) the counterparty's payoff.

- The Board is considering possible separation of the following multiple-component instruments:
  - o Instruments with both equity and nonequity components involving (1) at least two settlement alternatives with differing counterparty payoffs at the settlement date or (2) at least one settlement alternative and at least one perpetual alternative with differing counterparty payoffs at the settlement or outcome date. Examples include debt convertible into a fixed number of shares and stock puttable at a fixed price.
  - o Instruments with more than one nonequity component involving at least two settlement alternatives with differing counterparty payoffs at the settlement date. An example is a prepaid written put option.
  - o Instruments with one settlement requirement with a counterparty payoff at settlement that is based on at least two market factors (dual-indexed at settlement). An example is a written call option indexed to both shares and gold.
- Instruments that do not meet the separation criteria would be classified in their entirety as equity, liabilities, or assets under the classification decisions reached in Milestone 1. For example, instruments with two equity components (perpetual shares convertible into a fixed number of common shares) would be classified as equity.

Other-Than-Temporary Impairment of Investment Securities (June 29)

The Board decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed the staff to issue final FSP FAS 115-1[13] (formerly FSP EITF 03-1-a[14]). The final FSP will supersede EITF Issue 03-1[15] and EITF Topic D-44[16] and will instead refer to other existing guidance on other-than-temporary impairment. The final FSP will codify the guidance set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other than temporary, even if a decision to sell has not been made.

FSP FAS 115-1 would be effective for other-than-temporary impairment analyses conducted in periods beginning after September 15, 2005.

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.

EITF Developments

EITF Issues Draft Abstract on Issue 04-5 and Amendment to Issue 96-16 on Controlling Interests

On June 29, 2005, the FASB ratified the EITF's consensus on Issue 04-5 regarding control of a limited partnership and approved conforming amendments to Issue 96-16.[17]

- *Issue 04-5 Consensus* — There is a presumption that the general partner in a limited partnership or similar entity has control unless the limited partners have **substantive kick-out rights or participating rights**. For general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, Issue 04-5 is effective after June 29, 2005. For general partners in all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005, and the application of either a cumulative-effect-type adjustment to the opening balance of retained earnings in the period of change or retrospective application under Statement 154 is permitted.
- *Issue 96-16 Amendment* — The amendment conforms the guidance in Issue 96-16 to the consensus reached in Issue 04-5. Before the amendment, the ability of minority shareholders to block acquisitions and dispositions of assets greater than 20 percent of the fair value of the total assets was considered a protective right that would not overcome the presumption of consolidation by the investor with the majority voting interest. As amended, Issue 96-16 defines a participating right as one in which minority shareholders are able to block asset acquisitions and dispositions in

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

14 Proposed FASB Staff Position No. EITF 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1."

15 EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments."

16 EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security Whose Cost Exceeds Fair Value."

17 EITF Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholders Have Certain Approval or Veto Rights."

instances that are expected to occur **in the ordinary course of business**. The amendment should be applied prospectively to new investments and to investment agreements that are modified after June 29, 2005.

To view the draft abstract of Issue 04-5 and the amendment to Issue 96-16, visit the FASB's Web Site. The draft abstract contains all substantive aspects of the consensus; however, editorial revisions may be made prior to issuance of the final abstract. An in-depth discussion of Issue 04-5 is covered in Deloitte & Touche's June *EITF Roundup* and *Heads Up*.

EITF Issues Draft Abstract on Issue 04-13 on Purchases and Sales of Inventory With the Same Counterparty

On July 7, 2005, the EITF issued a draft abstract on Issue 04-13[18] to address the following issues:

- *Issue 1*— Are there circumstances under which two or more transactions with the same counterparty should be viewed as a single nonmonetary transaction within the scope of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*?

  The EITF's consensus on this issue is that inventory purchases and sales transactions with the same counterparty that are **entered into in contemplation of one another** should be combined for purposes of applying Opinion 29. The consensus includes factors that should be considered to determine if transactions are in contemplation of one another.

- *Issue 2* — Are there circumstances under which nonmonetary exchanges of inventory within the same line of business should be recognized at fair value?

  The EITF's consensus on this issue is that an entity that exchanges finished goods for raw materials or work-in-process within the same line of business should recognize the transaction at **fair value** if the transaction has commercial substance and fair value is determinable within reasonable limits. All other inventory exchanges would be recognized at the carrying amount of the inventory transferred.

The consensuses in this issue would be prospectively applied to transactions completed in reporting periods beginning after March 15, 2006. Earlier application would be permitted in periods for which financial statements have not been issued. The draft abstract is posted on the FASB's Web site. Comments are due August 20, 2005.

SEC Developments

SEC Amends "Penny Stock" Rules

On July 8, 2005, the SEC posted a final rule amending the Exchange Act rules that define the term "penny stock" and requiring broker-dealers to provide certain information to customers regarding penny stock transactions. These amendments are intended to ensure that investors continue to receive the protections of the penny stock rules, regardless of changing technology or market structures. The following is a summary of the amendments:

- *Exchange Act Rule 3a51-1* — Requires that reported securities must satisfy certain standards in order to be excluded from the definition of a penny stock. Security futures products are excluded from the definition of penny stock.
- *Exchange Act Rules 15g-2 and 15g-9* — Establishes a **two-day waiting period** for all penny stock transactions. During the waiting period, a broker-dealer cannot sell a penny stock to a customer even if the customer, either electronically or on paper, has signed and returned the documents required by the penny stock rules.
- *Schedule 15G* — The penny stock disclosure document and its instructions have been streamlined and made easier to read.

A complete copy of the final rule, which is effective September 12, 2005, is available on the SEC's Web site.

SEC Amends Delisting and Deregistering Rules

On July 8, 2005, the SEC adopted a final rule amending the procedures for delisting and deregistering securities under Section 12(b) of the Securities Exchange Act of 1934 ("Exchange Act"). The final rule incorporates the following amendments:

- All issuers and national securities exchanges seeking to delist and/or deregister a security in accordance with the rules of an exchange and the Commission must file the amended **Form 25** in an electronic format with the Commission on the EDGAR database.
- Form 25 serves as an exchange's notice to the Commission under Section 19(d) of the Exchange Act.
- Standardized options and security futures products traded on a national securities exchange are exempt, on a permanent basis, from Section 12(d) of the Exchange Act.

The amendments serve to reduce regulatory burdens on the

18 EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory With the Same Counterparty."

exchanges and issuers, and to make the delisting and deregistration process more transparent and efficient. The final rule, which is effective August 22, 2005, is available on the SEC's Web site.

SEC Changes EDGAR Requirements for Investment Companies

On July 21, 2005, the SEC issued a final rule that expands the information that investment companies are required to provide electronically through the EDGAR[19] system.

Open-end investment companies and insurance company separate accounts issuing variable annuity contracts or variable life insurance policies must now **electronically identify** in their filings to which series and class the filing relates. In addition, the SEC added two investment company filings (related to Section 17 fidelity bonds, and claims and settlements) to the list of filings that must be submitted electronically. Finally, the SEC is making certain minor, technical amendments to the rules and forms for submissions of filings through EDGAR.

The amendments become effective on various dates; see Appendix A for further details. The final rule is available on the SEC's Web site.

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

PCAOB Developments

PCAOB Issues Auditing Standard 4 on Reporting on the Elimination of a Material Weakness

On July 26, 2005, the PCAOB issued Auditing Standard 4.[20] This standard establishes guidance that applies when an auditor is engaged to report on management's assertion that a previously reported material weakness no longer exists as of a date specified by management. These stand-alone engagements are voluntary and are performed at the election of a company's management.

- *Procedures* — The auditor's testing is limited to the controls specifically identified by management as addressing the material weakness. Both management and the auditor use the company's stated control objective as the basis for determining whether the specified controls sufficiently address the material weakness.
- *Auditor's Report* — The auditor's report must describe (1) the material weakness, (2) all specified controls that management asserts address the material weakness, and (3) the control objective achieved by these controls. The auditor's opinion is expressed as "the material weakness no longer exists" or "the material weakness exists." Qualified opinions are not permitted.
- *Audit Committee Communications* — If a material weakness continues to exist and the auditor does not issue a report, the audit committee must be informed, in writing, that the weakness continues to exist. In addition, the auditor must inform the audit committee, in writing, of any new material weaknesses identified during the engagement.

The standard does not become effective until approved by the SEC. A copy of the standard is available on the PCAOB's Web site.

PCAOB Adopts Ethics and Independence Rules

These newly adopted rules limit the types of tax services that accounting firms may provide to public company audit clients. The rules identify the following three circumstances in which the provision of tax services impairs an auditor's independence:

- The firm enters into a **contingent fee arrangement** with that client.
- The firm provides services related to marketing, planning, or opining in favor of the tax treatment of a transaction (1) with tax-advisor imposed conditions of **confidentiality** or (2) that is based on an **aggressive** interpretation of applicable tax laws and regulations. The scope of this rule includes listed transactions as defined by U.S. Treasury Department regulations.
- The firm provides tax services to certain members of management who serve in financial reporting oversight roles at an audit client or to immediate family members of such persons.

The rules also **increase the audit committee pre-approval requirements for tax services** by requiring a firm to (1) describe the proposed tax services engagements in writing, (2) discuss with the audit committee the potential effects of the services on the firm's independence, and (3) document the substance of that discussion.

In addition to the rules relating to tax services, the PCAOB adopted two new rules on independence and ethics:

- *Independence Rule* — This rule, while not creating any new requirements, articulates the foundation for the current independence requirements. Firms and their associated persons must be independent of their audit clients throughout the audit and professional engagement period.
- *Ethics Rule* — The Board adopted an ethics rule codifying

[19] Electronic Data Gathering, Analysis, and Retrieval.

[20] PCAOB Auditing Standard No. 4, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist*.

the principle that persons associated with a registered public accounting firm should not cause the firm to violate relevant laws, rules, and professional standards due to an act or omission that the person knew or should have known would directly and substantially contribute to such violation.

The rules become effective on various dates after approval by the SEC; see Appendix A for further details. The rules are available on the PCAOB's Web site.

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

International Developments

IASB Withdraws IFRIC 3 on Emission Rights

At its June meeting, the IASB **withdrew IFRIC 3, *Emission Rights*, with immediate effect**.

IFRIC 3 was developed to explain how to apply existing IFRSs to "cap and trade" emission rights schemes. However, IFRIC 3 created unsatisfactory mismatches in reporting and measurement when compared to other IFRSs.

Further information about the decision to withdraw IFRIC 3 can be found in the June edition of IASB Update, which is available on the IASB's Web site.

Recent IASB Meeting

The IASB discussed the following topics when it met in London on July 19–22, 2005:

- Financial Instruments Working Group meeting
- European roadshows
- Conceptual Framework
- Short-term convergence: income taxes
- Financial reporting by small and medium-sized entities
- Extractive activities
- Insurance contracts (phase II)
- Consolidation (including special purpose entities)

Summaries of the 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 the IASB meeting decisions and discussions are also available on Deloitte's IAS Plus Web site. Summaries of the IFRIC meeting decisions and discussions are also available on the IASB Web site.

Further information about the IASB and the IFRIC can be found on the IASB's 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.

Appendix A: Significant Adoption Dates and Deadlines

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

FASB	Status
Upcoming Adoption Dates	
Statement 154, *Accounting Changes and Error Corrections* — a replacement of APB Opinion No. 20 and Statement No. 3	Effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after May 30, 2005.
Statement 153, *Exchanges of Nonmonetary Assets* — an amendment of APB Opinion No. 29	Effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.
Statement 152, *Accounting for Real Estate Time-Sharing Transactions* — an amendment of FASB Statements No. 66 and 67	Effective for fiscal years beginning after June 15, 2005.
Statement 151, *Inventory Costs* — an amendment of ARB No. 43, Chapter 4	Effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004.
Statement 123(R), *Share-Based Payment*, (reflecting change in effective dates for public companies as a result of the SEC's Final Rule amending Rule 4-01(a) of Regulation S-X)	Effective for public entities (other than those filing as small business issuers) as of the first interim or annual reporting period of the registrant's first fiscal year that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply Statement 123(R) in the first interim or annual reporting period of the registrant's first fiscal year that begins after December 15, 2005. Nonpublic entities will be required to apply Statement 123(R) in the first annual reporting period that begins after December 15, 2005.
Interpretation 47, *Accounting for Conditional Asset Retirement Obligations* — an interpretation of FASB Statement No. 143	Effective as of the end of fiscal years ending after December 15, 2005.
Interpretation 46(R), *Consolidation of Variable Interest Entities* — an interpretation of ARB No. 51	**Public companies that are not small business issuers:** – Provisions of Interpretation 46(R) currently are effective. **Small Business Issuers:** – For interests in SPEs, Interpretation 46 or Interpretation 46(R) must be applied no later than for financial statements ending after December 15, 2003. – For interests in all entities, Interpretation 46(R) must be applied no later than for financial statements ending after December 15, 2004. **Nonpublic Entities:** – Interpretation 46(R) must be applied by the beginning of the first annual period beginning after December 15, 2004. For guidance related to foreign private issuers, refer to the SEC's Letter to AICPA Regarding Interpretation 46(R) Effective Date Provisions With Regard to Foreign Private Issuers on the SEC's Web site.
FSP FAS 150-5, "Issuer's Accounting Under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable"	Effective for the first reporting period beginning after June 30, 2005.

FSP FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests Under FASB Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity"*	Certain mandatorily redeemable shares are subject to the provisions of Statement 150 for the first fiscal period beginning after December 15, 2004. Other mandatorily redeemable shares are deferred indefinitely, but may be subject to classification or disclosure provisions of the Statement.
FSP FAS 143-1, "Accounting for Electronic Equipment Waste Obligations"	Effective the later of the first reporting period ending after June 8, 2005, or the date of the adoption of the Waste Electrical and Electronic Equipment Directive by the applicable EU-member country. Early application is encouraged in periods for which financial statements have not yet been issued if the Directive has been adopted in those periods by the applicable EU-member country.
FSP FAS 142-2, "Application of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to Oil- and Gas-Producing Entities"	Effective for reporting periods beginning after September 2, 2004.
FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision Within the American Jobs Creation Act of 2004"	Effective as of December 21, 2004.
FSP FAS 109-1, "Application of FASB Statement No. 109, *Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004"	Effective as of December 21, 2004.
FSP FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"	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.
FSP FAS 19-1, "Accounting for Suspended Well Costs"	Effective for the first reporting period beginning after April 4, 2005.
FSP FIN 46(R)-5, "Implicit Variable Interests Under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*"	Effective in the first reporting period beginning after March 3, 2005, for entities that have adopted Interpretation 46(R). For all other entities, effective in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-4, "Technical Correction of FASB Interpretation No. 46(R), *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'"	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-3, "Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions About an Entity's Activities Through Voting Rights or Similar Rights Under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*"	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-2, "Calculation of Expected Losses Under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*"	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-1, "Reporting Variable Interests in Specified Assets of Variable Interest Entities as Separate Variable Interest Entities Under Paragraph 13 of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*"	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).

FSP APB 18-1, "Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for Under the Equity Method in Accordance With APB Opinion No. 18 Upon Loss of Significant Influence"	Effective as of the first reporting period beginning after July 12, 2005.
FSP SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and ETIF Issue No. 04-5	Effective after June 29, 2005, for new limited partnership agreements and for pre-existing limited partnership agreements that are modified; otherwise, effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005.
FSP EITF 00-19-1, "Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation"	The guidance should be applied in accordance with the effective date of Statement 123(R).
FSP EITF 85-24-1, "Application of EITF Issue No. 85-24, 'Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge,' When Cash for the Right to Future Distribution Fees for Shares Previously Sold Is Received From Third Parties"	Effective for reporting periods beginning after March 11, 2005.
Statement 133 Implementation Issue No. G1, "Cash Flow Hedges: Hedging an SAR Obligation"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. E22, "Hedging — General: Accounting for the Discontinuance of Hedging Relationships Arising From Changes in Consolidation Practices Related to Applying FASB Interpretation No. 46 or 46(R)"	Effective as of the date of initial application of Interpretation 46 and/or Interpretation 46(R).
Statement 133 Implementation Issue No. E19, "Hedging — General: Methods of Assessing Hedge Effectiveness When Options Are Designated as the Hedging Instrument"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. C3, "Scope Exceptions: Exception Related to Share-Based Payment Arrangements"	Revisions effective as of the beginning of the period in which the entity initially adopts Statement 123(R).
Statement 133 Implementation Issue No. B39, "Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor"	Effective the first day of the first fiscal quarter beginning after December 15, 2005. Earlier application, as of the beginning of a fiscal quarter, is permitted provided that early application as of the same date is elected for Implementation Issue B38.
Statement 133 Implementation Issue No. B38, "Embedded Derivatives: Evaluation of Net Settlement With Respect to the Settlement of a Debt Instrument Through Exercise of an Embedded Put Option or Call Option"	Effective the first day of the first fiscal quarter beginning after December 15, 2005. Earlier application, as of the beginning of a fiscal quarter, is permitted provided that early application as of the same date is elected for Implementation Issue B39.
Projects in Exposure Draft Stage	
Proposed FSP TB 85-4-a, "Accounting for Life Settlement Contracts by Investors"	Comments due August 1, 2005.
Proposed FSP FIN 45-b, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners"	Comments due August 8, 2005.
Proposed FSP FAS 13-b, "Accounting for Rental Costs Incurred During a Construction Period"	Comments due August 18, 2005.
Proposed FSP FAS 140-c, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140"	Comments due August 22, 2005.
Proposed Interpretation, *Accounting for Uncertain Tax Positions* — an interpretation of FASB Statement No. 109	Comments due September 12, 2005.

Proposed FSP FAS 13-a, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction"	Comments due September 12, 2005.
Proposed Statement, *Business Combinations* — a replacement of FASB Statement No. 141	Comments due October 28, 2005.
Proposed Statement, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries* — a replacement of ARB No. 51	Comments due October 28, 2005.
EITF	**Status**
Upcoming Adoption Dates	
Issue 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased After Lease Inception or Acquired in a Business Combination"	Effective for periods beginning after June 29, 2005.
Issue 05-5, "Accounting for Early Retirement Programs With Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements)"	Effective for fiscal years beginning after December 15, 2005.
Issue 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock'"	Effective for new instruments and modifications to existing instruments entered into after June 29, 2005.
Issue 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds"	Effective for fiscal years ending after September 15, 2005.
Issue 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share"	Effective for fiscal periods ending after December 15, 2004.
Issue 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry"	Effective for fiscal years beginning after December 15, 2005.
Issue 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights"	Effective after June 29, 2005, for new limited partnership agreements and for pre-existing limited partnership agreements that are modified; otherwise, effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005.
Issue 04-1, "Accounting for Preexisting Relationships Between the Parties to a Business Combination"	Effective for business combinations completed and goodwill impairment tests performed in reporting periods beginning after October 13, 2004.
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"	Effective for components either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004.
Issue 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock"	Effective for the first reporting period beginning after September 15, 2004.
Amendment to Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholders Have Certain Approval or Veto Rights"	Effective for new investments and investment agreements modified after June 29, 2005.
Topic D-108, "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.

Draft Abstract Posted for Comment	
Issue 04-13, "Accounting for Purchases and Sales of Inventory With the Same Counterparty"	Comments due August 20, 2005.
GASB	**Status**
Upcoming Adoption Dates	
GASB Statement No. 47, *Accounting for Termination Benefits*	For termination benefits provided through an existing defined benefit OPEB plan, the provisions should be applied simultaneously with the requirements of GASB Statement 45. For all other termination benefits, effective for periods beginning after June 15, 2005. Earlier application is encouraged.
GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* — an amendment of GASB Statement No. 34	Effective for fiscal periods beginning after June 15, 2005.
GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*	Effective in three phases based on a government's total annual revenues.
GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section* — an amendment of NCGA Statement 1	Effective for statistical sections prepared for periods beginning after June 15, 2005.
GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*	Effective one year prior to the effective date of GASB Statement 45 for the employer in a single-employer plan or the largest participating employer in a multi-employer plan.
GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*	Effective for fiscal periods beginning after December 15, 2004.
GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers*	For pension transactions, effective for financial statements for periods ending after December 15, 2004, with earlier application encouraged. For OPEB transactions, the provisions should be applied simultaneously with the requirements of GASB Statement 45.
AICPA/AcSEC	**Status**
Upcoming Adoption Dates	
SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions*	Effective for fiscal years beginning after June 15, 2005, with early adoption encouraged.
SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*	Effective for loans acquired in fiscal years beginning after December 15, 2004, with early adoption encouraged.
Project in Exposure Draft Stage	
Eight Proposed Statements on Auditing Standards Related to Risk Assessment	Comments due August 15, 2005.
SEC	**Status**
Upcoming Adoption Dates	
Final Rule, *Securities Offering Reform*	Effective December 1, 2005.
Final Rule, *Amendments to the Penny Stock Rules*	Effective September 12, 2005.
Final Rule, *Removal From Listing and Registration of Securities Pursuant to Section 12(d) of the Securities Exchange Act of 1934*	Effective August 22, 2005.

Final Rule, *Rulemaking for EDGAR System*	Effective September 19, 2005, for the amendments to Rules 101(b), 102(d), 201(a)(1), and 311(h)(1) under Regulation S- T. Effective February 6, 2006, for Rule 313 under Regulation S-T and the amendments to Rule 11 under Regulation S-T and to Forms TH and SE (relating to the series and class identification requirements). Effective June 12, 2006, for the amendments to Rules 101(a) and 101(c) under Regulation S-T.
Final Rule, *Use of Form S-8, Form 8-K, and Form 20-F by Shell Companies*	Effective August 22, 2005, except that Form 8-K, Item 5.06 is effective November 7, 2005.
Final Rule, *Regulation NMS*	Effective August 28, 2005.
Final Rule, *First-Time Application of International Financial Reporting Standards* (amendments to Form 20-F)	Rule will apply to foreign private issuers that adopt IFRS prior to or for the first financial year starting on or after January 1, 2007.
Final Rule, *Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (revised 2004)*, Share-Based Payment	Effective for public entities (other than those filing as small business issuers) as of the first interim or annual reporting period of the registrant's first fiscal year that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply Statement 123(R) in the first interim or annual reporting period of the registrant's first fiscal year that begins after December 15, 2005.
Final Rule, *Asset-Backed Securities*	Effective as of March 8, 2005.
Final Rule, *Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports* (an extension of compliance date)	Effective for fiscal years ending on or after November 15, 2004, for certain "accelerated filers." Effective for fiscal years ending on or after July 15, 2006, for "nonaccelerated filers." Effective for fiscal years ending on or after July 15, 2006, for foreign private issuers that file annual reports on forms 20-F or 40-F. For accelerated filers with (i) public equity float of less than $700 million at the end of its second fiscal quarter in 2004; and (ii) fiscal years ending between November 15, 2004, and February 28, 2005, the filing date of management's report on internal control over financial reporting has been postponed 45 days.
SAB 107 (on the interaction between FASB Statement No. 123(R), *Share-Based Payment*, and certain SEC rules and regulations)	Effective upon the adoption of Statement 123(R).
SAB 106 (on the application of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, 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.
Temporary Postponement of the Final Phase-In Period for Acceleration of Periodic Report Filing Dates	Effective as of December 23, 2004.
PCAOB	**Status**
Upcoming Adoption Dates	
Auditing Standard No. 4, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist*	Effective upon approval by the SEC.
Auditing Standard No. 3, *Audit Documentation*	Effective for audits of financial statements with fiscal years ending on or after November 15, 2004.
Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*	Effective for audits of companies with fiscal years ending on or after November 15, 2004, for certain accelerated filers, or July 15, 2006, for other companies. For accelerated filers with (i) public equity float of less than $700 million at the end of its second fiscal quarter in 2004 and (ii) fiscal years ending between November 15, 2004, and February 28, 2005, the filing date of management's report on internal control over financial reporting has been postponed 45 days.

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"	Effective for integrated audits of financial statements at the same time as Auditing Standard No. 2. Effective for audits of only financial statements for periods ending on or after July 15, 2005.
Rule 3501, *Definitions of Terms Employed in Section 3, Part 5 of the Rules;* Rule 3502, *Responsibility Not to Cause Violations;* Rule 3520, *Auditor Independence*	Effective 10 days after approval by the SEC.
Rule 3521, *Contingent Fees*	Effective for contingent fee arrangements that were not paid in their entirety, converted to fixed fee arrangements, or otherwise unwound before the later of December 31, 2005, or 10 days after approval by the SEC.
Rule 3522, *Tax Transactions*	Effective for tax services completed after the later of December 31, 2005, or 10 days after approval by the SEC.
Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*	Rule will not apply to tax services being provided pursuant to an engagement in process at the time the SEC approves the rules, provided that such services are completed on or before the later of June 30, 2006, or 10 days after approval by the SEC.
Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*	Rule will not apply to any tax service pre-approved before the later of December 31, 2005, or 10 days after approval by the SEC, or, in the case of an issuer that pre-approves non-audit services by policies and procedures, the rule will not apply to any tax service provided by March 31, 2006.
IASB/IFRIC	**Status**
Upcoming Adoption Dates	
IFRS 6, *Exploration for and Evaluation of Mineral Resources*	Effective for annual periods beginning on or after January 1, 2006.
IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Effective for annual periods beginning on or after January 1, 2005.
IFRS 4, *Insurance Contracts*	Effective for annual periods beginning on or after January 1, 2005.
IFRS 2, *Share-based Payment*	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and IFRS 6, *Exploration for and Evaluation of Mineral Resources*	Effective immediately.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement — The Fair Value Option*	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement — Cash Flow Hedge Accounting of Forecast Intragroup Transactions*	Effective for annual periods beginning on or after January 1, 2006.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement — Transition and Initial Recognition of Financial Assets and Financial Liabilities*	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 32, *Financial Instruments: Disclosure and Presentation*	Effective for annual periods beginning on or after January 1, 2005.
Amendment to IAS 19, *Employee Benefits*	Effective for annual periods beginning on or after January 1, 2006.
Improvements to International Accounting Standards	Effective for annual periods beginning on or after January 1, 2005.

Amendment to SIC-12, *Consolidation — Special Purpose Entities*	Effective for annual periods beginning on or after January 1, 2005.
IFRIC Interpretation 5, *Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds*	Effective for annual periods beginning on or after January 1, 2006.
IFRIC Interpretation 4, *Determining Whether an Arrangement Contains a Lease*	Effective for annual periods beginning on or after January 1, 2006.
IFRIC Interpretation 2, *Members' Shares in Co-operative Entities and Similar Instruments*	Effective for annual periods beginning on or after January 1, 2005.
IFRIC Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Effective for annual periods beginning on or after September 1, 2004.
Projects in Exposure Draft Stage	
Proposed Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and IAS 19, *Employee Benefits*	Comments due October 28, 2005.
Proposed Amendments to IAS 27, *Consolidated and Separate Financial Statements*	Comments due October 28, 2005.
Proposed Amendments to IFRS 3, *Business Combinations*	Comments due October 28, 2005.

Appendix B: Abbreviations

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

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On September 20 at 2:00 PM EDT, we will host a 90-minute webcast on the highlights of the September EITF Meeting. Register for this webcast today.

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