Deloitte.

Accounting Roundup

Audit and Enterprise Risk Services

November 2005
Table of Contents

FASB Developments

FSP FAS 123(R)-3 Provides a Transition Election for Calculating the APIC Pool Under Statement 123(R)

Statement 123(R) APIC Pool — Statement 123(R)[1] requires companies to calculate the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of Statement 123(R) (the "APIC pool"). In calculating the APIC pool, a company must include the net excess tax benefits as if the company originally adopted Statement 123[2] for recognition purposes. Many companies have indicated that they do not have, and may not be able to re-create, such information.

Transition Alternative — Accordingly, the FASB issued FSP FAS 123(R)-3[3] to provide an **elective transition alternative** to calculating the APIC pool. Under this alternative, the beginning balance of a company's APIC pool is calculated as follows:

- The sum of all net increases of APIC recognized in an entity's annual financial statements related to tax benefits from stock-based employee compensation during fiscal periods subsequent to the adoption of Statement 123 but prior to the adoption of Statement 123(R), less
- The cumulative incremental pretax employee compensation costs that would have been recognized if Statement 123 had been used to account for stock-based employee compensation costs, multiplied by the entity's blended statutory tax rate upon adoption of Statement 123(R).

The alternative transition method applies only to awards that are fully vested and outstanding upon the adoption of Statement 123(R). For partially vested awards, the compensation deduction for tax purposes should be compared with the sum of compensation cost recognized or disclosed for that award under Statement 123 and Statement 123(R). The tax effect of any resulting excess deduction for tax purposes should increase the APIC pool; the tax effect of any resulting deficient deduction for tax purposes should be deducted from the APIC pool.

1 FASB Statement No. 123(R), *Share-Based Payment*.

2 FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

3 FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards."

Statement of Cash Flows — Tax benefits related to employee awards that are (1) fully vested prior to the adoption of Statement 123(R), (2) realized in accordance with Statement 123(R), and (3) recognized in equity subsequent to the adoption of Statement 123(R) should be classified as a cash **inflow from financing activities** and a cash **outflow from operating activities** within the statement of cash flows. For partially vested awards, the tax benefit excess to be included in cash flows should be determined as if the entity had always followed a fair-value-based method of recognizing compensation cost in its financial statements.

Effective Date and Transition — The guidance in the FSP is effective after November 10, 2005. Companies that adopt Statement 123(R) using either modified retrospective or modified prospective application may make a one-time policy election to adopt the alternative transition method. A company may take up to one year from the later of its initial adoption of Statement 123(R) or November 11, 2005, to make its election. If a company elects the transition method in the FSP and previously reported cash flows or results of operations under paragraphs 68 and 81 of Statement 123(R), the effect of applying the transition method should be reported as a change in accounting principle in accordance with Statement 154.[4]

The FSP and minutes of the October 19, 2005, meeting at which the Board finalized the FSP are available on the FASB's Web site.

FSP FIN 45-3 Amends Interpretation 45 to Include Minimum Revenue Guarantees

Under FSP FIN 45-3,[5] guarantors **must apply Interpretation 45[6] to minimum revenue guarantees**. In a minimum revenue guarantee, the guarantor makes payments to a business or its owners if the revenue of the business falls below a certain amount during a specified period of time. Under Interpretation 45, a guarantor recognizes a liability at inception for the fair value of its stand-ready obligation under the guarantee even if it is not probable that the contingent events that would cause payment will occur. Interpretation 45 also requires the guarantor to make certain disclosures regarding the guarantee.

The FSP gives examples of different types of minimum revenue guarantees and is effective for new minimum revenue guarantees issued or modified on or after the beginning of the first fiscal quarter following November 10, 2005. Earlier application is permitted. A guarantor's previous accounting for minimum revenue guarantees issued prior to the FSP's initial application should not be changed to reflect the application of Interpretation 45. The disclosure requirements of Interpretation 45 should be applied to any minimum revenue guarantee, regardless of whether the guarantee was recognized and measured under Interpretation 45.

The FSP and minutes of the October 19, 2005, meeting at which the Board approved the issuance of the final FSP are available on the FASB's Web site.

FSP FAS 140-2 Clarifies a QSPE's Ability to Hold Derivatives

Many times the ultimate purchaser of receivables in a securitization structure is an entity called a qualifying special-purpose entity (or QSPE). The QSPE issues interests (beneficial interests) in the pool of receivables to investors. Companies frequently use QSPEs in these transactions because sale accounting and non-consolidation are easier to achieve using such an entity under the applicable accounting literature (namely Statement 140[7]).

Statement 140 includes criteria that an entity must meet in order to be considered a QSPE. One such criterion is that a QSPE may hold only passive derivatives that pertain to beneficial interests sold to parties other than the transferor (seller of receivables).

Paragraph 40(b) of Statement 140 requires that in determining whether a derivative pertains to beneficial interests sold to parties other than the transferor, a consideration must be made as to whether the notional amount of the derivative held by a QSPE initially exceeds the amount of beneficial interests issued to third parties. Further, paragraph 40(c) requires an analysis of the characteristics of the derivative.

FSP FAS 140-2[8] clarifies that the requirements of paragraphs 40(b) and 40(c) must be met **only at the date a 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. The analysis of these requirements shall include the expected assets of the QSPE and the expected amount of beneficial interests held by outside parties over the expected life of the QSPE. Unexpected subsequent events outside the control of the transferor that were not contemplated when the beneficial interests of the QSPE were issued do not impair an entity's qualified status.

Additionally, purchases of previously issued beneficial interests by a transferor from outside parties that are held temporarily and classified as trading securities should not be considered when determining if the requirements of paragraphs 40(b) and 40(c) have been met.

4 FASB Statement No. 154, *Accounting Changes and Error Corrections*.

5 FASB Staff Position No. FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners."

6 FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

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

8 FASB Staff Position No. FAS 140-2, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140."

This FSP is effective as of November 9, 2005. The guidance regarding unexpected events should be applied prospectively. The guidance regarding a transferor's purchases of beneficial interests from outside parties is effective as of November 9, 2005, for such purchases and for transferors' previous purchases that were consistent with the guidance in this FSP. The FSP is available on the FASB's Web site.

FSP FAS 115-1 and FAS 124-1 Addresses Investment Impairment

FSP FAS 115-1 and FAS 124-1[9] outlines the following three-step model that should be applied each reporting period to identify investment impairments:

Step 1: Determine Whether the Investment Is Impaired — An investment is impaired if its **fair value is less than its cost**, as assessed at the individual security level (which is the level and method of aggregation used to measure realized and unrealized gains and losses). For cost-method investments, investors should use the fair value calculated for disclosure under Statement 107,[10] if applicable. If the cost-method investment's fair value wasn't calculated, the FSP requires an investor to consider whether any impairment indicators are present, and gives examples of such indicators.

Step 2: Evaluate Whether the Impairment Is Other Than Temporary — Investors should **look to existing applicable guidance** (e.g., paragraph 16 of Statement 115,[11] paragraph 6 of Opinion 18,[12] and SEC Staff Accounting Bulletin Topic 5.M[13]) to determine whether an impairment is other than temporary. If an investor has decided to sell an impaired available-for-sale security and does not expect the fair value to fully recover prior to the time of sale, the security should be deemed other-than-temporarily impaired in the period the decision to sell is made. Notwithstanding the above, an investor must recognize an impairment loss when the impairment is deemed other than temporary, **even if a decision to sell has not been made**.

Step 3: If Other Than Temporary, Recognize an Impairment Loss — If the impairment is other than temporary, the investor should recognize an impairment loss in earnings equal to the difference between the investment's cost and its fair value at the balance sheet date. Recoveries subsequent to the balance sheet date cannot be factored into the impairment measurement. The fair value of the investment becomes the new cost basis and should not be adjusted for subsequent recoveries in fair value.

Impaired Debt Securities — In periods after an impairment loss on a debt security is recognized, the investor should account for the security as if it had been purchased on the impairment measurement date. The discount (or reduced premium), based on the new cost basis, should be **amortized over the remaining life** of the security.

Disclosures — The FSP carries forward the disclosure requirements of Issue 03-1[14] and clarifies that investments within the scope of Issue 99-20[15] must be included in the required tabular disclosures.

Scope — The guidance in this FSP amends Statement 115, Statement 124,[16] and Opinion 18. It also nullifies certain requirements of Issue 03-1 and supersedes Topic D-44.[17] The guidance is applicable for the following investments:

- Debt and equity securities that are within the scope of Statement 115 (including all equity securities held by insurance companies).
- Debt and equity securities that are within the scope of Statement 124 and that are held by an investor that reports a "performance indicator" as defined in the AICPA Accounting and Audit Guide, *Health Care Organizations*.
- Cost-method investments — equity securities that are not subject to the scope of Statements 115 and 124 and not accounted for under the equity method pursuant to Opinion 18 and related interpretations.

Effective Date — The FSP's guidance should be applied to reporting periods beginning after December 15, 2005. Earlier application is permitted.

The FSP is available on the FASB's Web site. See Deloitte & Touche's *Heads Up* on this FSP for further information.

FASB Adds Project on Pensions and Other Postretirement Benefits

The Board added a comprehensive project to its agenda to reconsider the existing guidance on accounting for postretirement benefits, including pensions.

The first phase of the project will address the concern that important information about the financial status of a

9 FASB Staff Position Nos. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments."
10 FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*.
11 FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.
12 APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*.
13 SEC Staff Accounting Bulletin Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities."
14 EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments."
15 EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets."
16 FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.
17 EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security Whose Cost Exceeds Fair Value."

company's postretirement benefit plans is reported in the notes to the financial statements but not in the balance sheet. Accordingly, this phase would require that the funded or unfunded status of postretirement benefit plans, measured as the difference between the fair value of plan assets and the benefit obligation, be recognized on the balance sheet. This phase of the project, which is targeted for completion by the end of 2006, is not expected to change the amount of net benefit cost recognized.

A second, multiyear phase will be conducted collabor-atively with the IASB and will comprehensively consider a variety of issues related to the accounting for postretirement benefits, such as:

- How the various elements affecting the cost of post-retirement benefits are best recognized and displayed in the statement of earnings and comprehensive income.
- How to best measure an entity's benefit obligations, including whether more or different guidance should be provided regarding assumptions used in measuring the benefit obligations.
- Whether postretirement benefit trusts should be consolidated by the plan sponsor.

Minutes of the November 10, 2005, meeting at which the Board added this project are available on the FASB's Web site.

Recent FASB Meetings

Conceptual Framework (Joint FASB/IASB Meeting, October 25)

The Boards continued their deliberations on developing a common conceptual framework as follows:

- The Boards discussed how to best illustrate the process for resolving issues raised by relationships between qualitative characteristics of accounting information when developing financial reporting standards. The Boards directed the staff to proceed to drafting qualitative characteristics concepts.
- The Boards decided that there is no need to modify the objectives of financial reporting or qualitative characteristics of decision-useful financial reporting for any types of private-sector entities. However, the Boards acknowledged that there might be differences in how certain qualitative characteristics are applied.
- In the staff's draft objectives for financial reporting, the objectives will be described as those of financial reporting rather than of financial statements. The first due process document for the objectives of financial reporting and qualitative characteristics of accounting information will be an Exposure Draft.

Fair Value Option (October 19)

The Board concluded that debtors should incorporate their own creditworthiness in the measurement of liabilities that are reported at fair value. That decision applies to derivative liabilities reported at fair value under Statement 133[18] as well as any other liabilities reported at fair value.

The Board also discussed specific disclosures related to liabilities reported at fair value and the portion of the fair value change attributable to changes in the debtor's creditworthiness. The Board indicated preliminary support for disclosing the difference between the carrying amount of a financial liability and the amount the entity would be contractually required to pay to the holder at maturity; however, no decisions regarding disclosures were made at this time. Instead, disclosures will be addressed later in the Board's deliberations on this project.

Financial Instruments (Joint FASB/IASB Meeting, October 25)

The Boards established three objectives for improving financial reporting for financial instruments. One long-term objective is to require that all financial instruments be measured at fair value with realized and unrealized gains and losses recognized in the period in which they occur. However, a number of issues remain to be resolved before the Boards establish such a requirement.

Another objective is to simplify requirements for hedge accounting and, if possible, reduce or eliminate the need for special accounting. A third objective is to develop a converged standard for derecognition of financial instruments that is simpler and more consistent with concepts of financial reporting than existing derecognition standards.

As part of the project to address how to report changes in fair values, the Boards also discussed possible methods for disaggregating the changes, which would be included in a future due process document on disaggregation. The Boards decided that classifying the changes as operating or financing and recurring or nonrecurring should be considered as part of the performance reporting project. The Boards would require disclosure of the total changes in fair value for each type of instrument and the cash receipts and cash payments for each type of instrument, as well as information about the relative subjectivity of estimated changes in fair value. The staff will provide more specific recommendations about those disclosures at future Board meetings.

Finally, the Boards directed the staff to seek the views of users of financial statements about the information that those users would find relevant with regard to past changes in fair value of financial instruments, exposures to future changes in market factors, and how they might use that information.

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

First Time Adoption of IFRS (October 19)

The Board rejected a request to undertake a project relating to the application of U.S. GAAP by foreign private issuers that have adopted IFRS. The project would have eliminated certain differences between net income and equity reported under U.S. GAAP and the amounts reported under IFRS arising from differing adoption dates of certain otherwise similar standards.

Hybrid Financial Instruments (November 16)

Based on issues raised by constituents in comment letters on the Exposure Draft, *Accounting for Certain Hybrid Financial Instruments*, the Board decided to:

- Reinsert the practicability exception that had been removed from paragraph 16 of Statement 133.
- Add examples clarifying what types of risks should be evaluated to determine if an embedded derivative exists.
- Clarify paragraph 14 of Statement 133 to illustrate which interest-only and principal-only strips are intended to be eligible for the exemption from bifurcation.

The fair value election for bifurcated instruments will be available for instruments existing as of the adoption date. The final Statement will be effective for fiscal years beginning after September 15, 2006, with early application allowed as of the beginning of a fiscal year for which interim financial statements have not been issued previously.

Further discussion on this issue, including transition provisions for existing instruments, is planned for the December 14, 2005, Board meeting.

Life Settlement Contracts (October 19, November 16)

Based on issues raised in constituent comment letters on proposed FSP TB 85-4-a,[19] the Board decided to allow an investor to select either fair value or the investment method as the relevant measurement attribute for investments in life settlement contracts. The election is an irrevocable, item-by-item decision made upon entering into the contract. The balance sheet and income statement display should separate investments measured at fair value from those under the investment method. The scope exception for certain insurance contracts in paragraph 10(g) of Statement 133 will be expanded to include investments in life settlement contracts.

Investments Measured at Fair Value — Entities should do the following:

- Account for premiums paid in the income statement on the same reporting line as the changes in fair value are recognized.
- Report cash flows associated with the contracts as investing activities.
- Disclose the accounting policy used, the methods and significant assumptions for estimating fair value, total realized gains or losses for each period, and changes in unrealized gains or losses for investments held at the balance sheet date.

Investments Measured Using the Investment Method — Entities should do the following:

- Disclose the accounting policy used and premiums anticipated to be paid in each of the next five years to keep the policy in force.
- Test for impairment when impairment indicators exist and write impaired investments down to fair value.

The FSP will be effective for fiscal years beginning after June 15, 2006, with early adoption permitted. The guidance in the FSP should be applied prospectively for all new investments. Upon adoption, the fair value option can be applied to existing investments in life settlement contracts. In such a case, the cumulative effect of the change would be recognized as an adjustment to the opening balance of retained earnings.

The Board also decided not to expand the scope of the FSP at this time. However, it will consider adding a second phase after the redeliberations on the current FSP are completed. The second phase would address expanding the scope to include all purchases of life insurance accounted for in accordance with FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*. These decisions will not result in reexposure of the proposed FSP.

Performance Reporting by Business Entities (Joint FASB/IASB Meeting, October 24)

The Chartered Financial Analyst ("CFA") Institute presented its model for Comprehensive Business Reporting. The model lays out twelve broad areas of change and calls for including more line items in income statements, applying a fair value analysis to all assets and liabilities, and reporting the current cost of transactions that now typically appear exclusively in footnotes (or are carried in off-balance sheet entities). The Boards will consider the views of the Institute in the joint FASB/IASB project on performance reporting. The Institute's model is available on its Web site, www.cfainstitute.org.

The Boards also concluded that:

- Financing transactions and events should be aggregated and displayed as a category on the face of the statement of earnings and comprehensive income.
- A definition for a financing category should be developed before any other category.
- The definition of financing should be applied consistently by all entities, excluding financial institutions.

The Boards also discussed several approaches the staff might use to define a financing category; however, no decisions were made.

[19] Proposed FASB Staff Position No. TB 85-4-a, "Accounting for Life Settlement Contracts by Investors."

Revenue Recognition (Joint FASB/IASB Meeting, October 24)

In regard to certain decisions reached in prior meetings, the Boards:

- Clarified that the definition of performance obligations should include obligations to provide not only goods and services, but also other rights.
- Indicated that the costs incurred to extinguish a performance obligation should be recognized as a component of comprehensive income and not as a reduction of the recognized performance obligation.
- Clarified the criteria for disaggregating contracts involving several performance obligations into separate components ('units of account').
- Refined the proposed way in which the customer consideration would be allocated among those units of account.

One of the proposed criteria for disaggregating contracts into separate units of account is that the goods, services, or other rights underlying a performance obligation are sold separately or as an optional extra by any vendor or could be resold separately by the customer. The Boards decided to specify the market in which such sales by the customer would take place and asked the staff to consider how to define that market.

The Boards previously decided that total customer consideration should be allocated to each unit of account based on the price at which the underlying good, service, or other right would be sold on a standalone basis. That price would be estimated by reference to the most reliable available evidence. The Boards asked the staff to review the guidance in the proposed relative reliability hierarchy as it relates to estimating standalone prices of performance obligations in the absence of market evidence (i.e., Level 4 measurements) for consistency with the overall measurement objective.

Unconditional Stand-Ready Obligations — The FASB previously decided that unconditional stand-ready obligations should be measured at the allocated customer consideration amount (unless required to be measured at fair value by another accounting standard), while the IASB decided they should be initially measured at fair value. At their October meeting, the Boards decided to present both views in the Preliminary Views document. The IASB further clarified that an unconditional stand-ready obligation would be measured at fair value even if that obligation is the only obligation in the arrangement. That means that for some arrangements, a reporting entity might recognize some revenue at the inception of the contract.

Illustrative Examples — The Boards considered examples that illustrated the customer consideration allocation approach. The examples highlighted a need to consider further how the approach would apply to revenue transactions in which:

- Customers are not expected to exercise all rights under the contract, or
- Nonrefundable up-front fees are paid to access another service or right.

The Boards considered an example involving statutorily imposed obligations and decided that such obligations should be accounted for like any other contractual obligations.

Definition of Revenues — The Boards considered a basis for distinguishing revenues from other positive components of comprehensive income (such as gains). The basis contemplates whether the transactions involved items produced or purchased by the entity for the purpose of sale or resale. They decided this proposed basis merited further investigation and asked the staff to explore it further.

Servicing of Financial Assets (November 16)

Based on issues raised by constituents in comment letters on the Exposure Draft, *Accounting for Servicing of Financial Assets*, the Board decided the following:

- An entity that undertakes an obligation to service financial assets should recognize a servicing asset or liability if the servicing obligation is the result of (a) a transfer of the servicer's financial assets that meets the requirements for sale accounting or (b) an acquisition or assumption of a servicing contract that does not relate to financial assets transferred by the servicer.
- A one-time reclassification of available-for-sale (AFS) securities to trading securities will be permitted upon initial application of the Statement without calling into question the treatment of those securities under Statement 115. The reclassification is limited to AFS securities identified as economic hedges of servicing rights that the servicer elects to subsequently measure at fair value.
- A risk management approach will be allowed for identifying the classes of servicing rights to apply the fair value election based on the different valuation and risk characteristics of the underlying assets and the way the economic risks are managed.

The Board also discussed the disclosure requirements and transition provisions. The final Statement will be effective for fiscal years beginning after September 15, 2006, with early application allowed as of the beginning of a fiscal year for which interim financial statements have not previously been issued.

Short-Term Convergence: Income Taxes (Joint FASB/IASB Meeting, October 24)

On uncertain tax positions, the Boards confirmed their desire to find converged requirements.

On the effect of using the undistributed rate to measure tax assets and liabilities on entities that regard themselves as tax exempt because of tax deductions available on distributions, the Boards asked the staff to explore the following options:

- Keep the proposed requirements; entities that did commit themselves to making a distribution would recognize the distributions and the available deductions.

- Create a definition of an "in-substance tax exempt entity" that would cover entities whose tax structure is set up to avoid shareholders suffering double taxation and that involves tax deductions being available if the entity distributes all or almost all of its total income.
- Require a point-in-time analysis of whether an entity has the ability to be effectively tax exempt, in which case it would be treated as tax exempt. Disclosure would be required of why the entity qualifies as tax exempt and what it has to do in the future to continue to qualify.
- Allow the effects of a distribution outside the entity to be included as a tax-planning strategy in determining whether the recovery of an asset or settlement of a liability has taxable consequences and, hence, whether a temporary difference exists.

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, Interpretation, or Staff Position) 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, Interpretation, or FASB Staff Position.

GASB Developments

GASB Issues Questions and Answers on Postemployment Benefits

The GASB issued a series of questions and answers on Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The questions and answers as well as 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 Series of TPAs on Lease Accounting

The AICPA issued 11 TPAs, summarized as follows:

- *Lease Term* — The **lease term for accounting purposes may differ** from the fixed and noncancelable term stated in the lease. For example, the lease term begins before the date stated in the lease if the lease allows the tenant to make improvements to the leased space before that date. The lease term extends beyond the fixed and noncancelable term to include renewal periods if failure to exercise the renewals would impose a penalty on the lessee.
- *Recognition of Rent Expense and Rent Revenue on Operating Leases* — Rent should be recognized on a **straight line basis over the lease term** unless another systematic and rational basis is more representative of the use of the property. The TPAs illustrate the application of this guidance using three examples: scheduled increases in rental space, rent holidays, and scheduled rent increases.
- *Depreciation of Leasehold Improvements in an Operating Lease* — Leasehold improvements contemplated at or near the beginning of the initial lease term should be depreciated over the **shorter of (a) the useful life of the improvements or (b) the remaining lease term**. If the leasehold improvements are placed in service significantly after lease inception, the assets should be depreciated over the shorter of (a) the useful life of the improvements or (b) the required lease periods and any renewals that are reasonably assured as of the date the assets are acquired.
- *Effect of Leasehold Improvements on Lease Term* — If a lessee acquires leasehold improvements that are expected to have significant value at the end of the initial term of the lease, such that the lessee would not be willing to abandon them, the chances that the lessee will exercise renewal options may be reasonably assured. Renewal options that are reasonably assured of being exercised must be added to the term of the lease for accounting purposes.
- *Landlord Incentive Allowances Toward the Cost of the Lessee's Leasehold improvements* — The lessee should report the allowances as a liability and amortize them on a straight line basis over the lease term as a reduction of rent expense. In the cash flow statement, lessees should classify expenditures for leasehold improvements as an investing activity. Lessees should classify cash allowances received from the landlord as an operating activity.

The TPAs are available on the AICPA's Web site.

Accounting and Review Services Committee Seeking Input on Independence in Compilation Engagements

Given the increasing complexity of the Independence Standards in the AICPA's *Code of Professional Conduct*, the Accounting and Review Services Committee (ARSC) has issued a survey regarding independence when performing compilation engagements. After considering the comments received, the ARSC will decide if it should undertake a project to revisit the need for independence when performing such engagements, and if required, how the impairment of a practitioner's independence should be communicated in the compilation report.

The survey is available on the AICPA's Web site and should be completed by May 19, 2006.

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

SEC Developments

SEC Issues Technical Amendments on Requirements for Asset-Backed Securities

The SEC made technical amendments to the rules regarding registration, disclosure, and reporting requirements for asset-backed securities under the Securities Act of 1933 and the Securities Exchange Act of 1934.

SEC Issues Questions and Answers on Securities Offering Reform

In mid-2005, the SEC issued the Securities Offering Reform rule, which modified the registration, communications, and offering processes under the Securities Act of 1933. The rule is effective December 1, 2005. This month the SEC published a second series of questions and answers addressing the following topics related to the Reform rule:

- Filing requirements related to free writing prospectuses (written communications that constitute an offer to sell or solicitations of an offer to buy securities that are or will be the subject of a registration statement);
- The definition of well-known seasoned issuers;
- The definition of ineligible issuers;
- Requirements related to automatic shelf registration statements;
- Availability of "Access Equals Delivery" provisions (Rule 172);
- Timing of required notifications to purchasers of registered securities (Rule 173); and
- Determination of the principal amount of securities being registered for the purposes of Rule 3-10 of Regulation S-X (Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered).

The questions and answers and further information about the SEC are available on the SEC's Web site, www.sec.gov.

PCAOB Developments

PCAOB Amends Ethics and Independence Rules Regarding Tax Services

In July of 2005, the PCAOB adopted certain rules related to registered public accounting firms' provision of tax services to public company audit clients. The rules were designed to address certain concerns related to auditor independence when auditors become involved in marketing or otherwise opining in favor of aggressive tax shelter schemes or in selling personal tax services to individuals who play a direct role in preparing the financial statements of public company audit clients. As part of this rulemaking, the Board adopted ethics Rule 3502, *Responsibility Not to Cause Violations*, to codify the principle that persons associated with a registered public accounting firm should not cause the firm to violate relevant laws, rules, and standards.

After discussions with the SEC, the PCAOB issued a technical amendment to Rule 3502 that removes the word "cause" from the title and text of the rule and replaces it with the concept of knowingly or recklessly contributing to violations. The amendment is intended to avoid any misperception that the rule affects the interpretation of any provision of the federal securities laws; however, the **change does not affect the substance of the rule** that was initially adopted by the Board in July 2005.

In addition, the Board **amended the effective date** of Rule 3521, *Contingent Fees*, Rule 3522, *Tax Transactions*, and 3524, *Audit Committee Pre-approval of Certain Tax Services*. The rules previously had an effective date of the later of December 31, 2005, or 10 days after approval by the SEC. Due to the time that has elapsed since adoption by the Board in July 2005 and the fact that the rules still have not been approved by the SEC, the effective dates have been revised to 60 days after approval by the SEC to provide sufficient time to implement the rules.

The amendments are available on the PCAOB's Web site.

PCAOB Issues Report on Implementation of Auditing Standard 2

The PCAOB released a report[20] discussing issues identified during its monitoring of the implementation of Auditing Standard 2[21]. The PCAOB found that firms and issuers both faced enormous challenges in the first year of implementation and identified areas for improvement. The report identifies areas in which auditors should be able to **make their audits more effective and efficient** in the future. The PCAOB also found that improvements are already becoming apparent in the second year of implementation, as auditors and their clients gain experience and as challenges that were unique to the first year's implementation abate.

The report and further information about the PCAOB can be found on the PCAOB's Web site, www.pcaob.org.

International Developments

IASB Publishes IFRIC 7 on Restatements for Hyperinflationary Economies

IAS 29, *Financial Reporting in Hyperinflationary Economies*, outlines the procedures for restating the financial statements of an entity when its functional currency becomes hyperinflationary and for determining when an economy is hyperinflationary. IFRIC 7[22] clarifies IAS 29 with respect to the following:

- *Restatement of Comparative Amounts When Hyperinflation Is Identified* — In the period in which the economy of an entity's functional currency becomes hyperinflationary, an entity should **apply the requirements of IAS 29 as though the economy had always been hyperinflationary**. Restatements of nonmonetary items carried at historical cost are made to reflect inflation from the dates when those items were first recognized to the closing balance sheet date of the reporting period. Restatements of other nonmonetary items are made to reflect inflation from the dates at which the current values for those items were established to the closing balance sheet date of the reporting period.
- *Restatement of Deferred Taxes in the Opening Balance Sheet* — The opening balance sheet value of deferred taxes should be determined in **two stages**:
    - o Remeasure deferred tax items in accordance with IAS 12, *Income Taxes*, after restating the nominal carrying amounts of the nonmonetary items in the opening balance sheet by applying the measuring unit at that date.
    - o Restate remeasured deferred tax items for the change in the measuring unit from the date of the opening balance sheet to the closing balance sheet date of that period.

The Interpretation is effective for annual periods beginning on or after March 1, 2006. Earlier application is encouraged. A press release summarizing the Interpretation is available on the IASB's Web site.

IASB Publishes Discussion Paper on Measurement Bases for Financial Accounting

The IASB is seeking comments on the Canadian Accounting Standards Board's Discussion Paper, *Measurement Bases for Financial Accounting — Measurement on Initial Recognition*. The Discussion Paper analyzes possible bases for measuring assets and liabilities upon initial recognition, including historical cost, current cost, fair value, net realizable value, value in use, and deprival value (which combines several measurement bases in a single model).

The IASB has not yet debated the document, but will consider constituent responses in its joint conceptual framework project. The Discussion Paper is available on the IASB's Web site. Comments are due May 19, 2006.

IASC Issues User's Guide to Financial Instruments Standards

The International Accounting Standards Committee (IASC) Foundation issued a user's guide that consolidates the financial instruments standards and amendments issued by the IASB as of October 1, 2005, together with the relevant IFRIC interpretation. The guide also includes all consequential amendments to the related standards that result from new IFRSs or amendments of existing IFRSs. In addition, the text is annotated with relevant agenda decisions of the IFRIC. Finally, the volume contains an overview of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, which sets out the exemptions available and exceptions to retrospective application of the standards on financial instruments.

The user's guide can be ordered from the IASB's Web site.

Recent IASB Meeting

The International Accounting Standards Board met in London on November 15–18, 2005, when it discussed:

- Consolidation — Control

[20] PCAOB Report on the Initial Implementation of Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

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

[22] IFRIC Interpretation 7, *Applying the Restatement Approach Under IAS 29*, Financial Reporting in Hyperinflationary Economies.

- Insurance contracts
- Accounting standards for small and medium-sized entities
- Performance reporting — Segment A
- Short-term convergence — Segment reporting
- Short-term convergence —– Borrowing costs
- Short-term convergence — Earnings per share
- Business combinations roundtables debrief
- Technical corrections
- IFRIC update
- Fair value measurements (education session)

Recent IFRIC Meeting

The International Financial Reporting Interpretation Committee met in London on November 1–2, 2005, when it discussed:

- Service concession arrangements
- Customer loyalty programs
- D15, *Reassessment of Embedded Derivatives*
- D16, *Scope of IFRS 2*
- D17, *Group and Treasury Share Transactions*
- IAS 19 — D9 plans
- Applying the restatement approach under IAS 29 — a further amendment
- IAS 34 — Interaction with IAS 36 and IAS 39
- IFRIC review of operations
- Agenda matters

Summaries of the meetings, 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 also are 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 IASB and 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 deadline dates 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.
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.
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.
FSP FAS 140-2, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140"	Effective as of November 9, 2005.
FSP FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards"	Effective after November 10, 2005. Entities may take up to one year from the later of the initial adoption of Statement 123(R) or the effective date of the FSP to make its election.
FSP FAS 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)"	Effective upon initial adoption of Statement 123(R). For an entity that adopted Statement 123(R) prior to October 18, 2005, this FSP is effective for the first reporting period after October 18, 2005, for which financial statements or interim reports have not been issued.
FSP FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services Under FASB Statement No. 123(R)"	Effective upon initial adoption of Statement 123(R). For an entity that adopted Statement 123(R) prior to August 31, 2005, this FSP is effective for either (a) the first reporting period beginning after August 31, 2005, or (b) an earlier period if the financial statements for that period have not been issued.
FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"	Effective for reporting periods beginning after December 15, 2005.
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 FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period"	Effective for the first reporting period beginning after December 15, 2005. Lessees should cease capitalizing rental costs as of the effective date of this FSP for operating lease arrangements entered into prior to that date.
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 FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners"	Effective for new minimum revenue guarantees issued or modified on or after the beginning of the first fiscal quarter following November 10, 2005.
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 a 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 EITF 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 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.
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.
Project in Exposure Draft Stage	
Invitation to Comment, *Selected Issues Relating to Assets and Liabilities With Uncertainties*	Comments due January 3, 2006.
EITF	**Status**
Upcoming Adoption Dates	
Issue 05-8, "Income Tax Consequence of Issuing Convertible Debt With a Beneficial Conversion Feature"	Effective for the first interim or annual reporting period beginning after December 15, 2005.

Issue 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues"	Effective for future modifications of debt instruments that occur in all interim and annual reporting periods beginning after December 15, 2005. Public companies should also consider the remarks of the SEC Staff at the December 2004 AICPA Conference on Current SEC and PCAOB Developments stating that public companies should include the change in fair value of a modified conversion option in their Issue 96-19 cash flow analysis.
Issue 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased After Lease Inception or Acquired in a Business Combination"	Effective for leasehold improvements purchased or acquired in periods beginning after June 29, 2005.
Issue 05-5, "Accounting for Early Retirement or Postemployment 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 04-13, "Accounting for Purchases and Sales of Inventory With the Same Counterparty"	Effective for new inventory arrangements entered into, or modifications or renewals of existing inventory arrangements occurring, in interim or annual reporting periods beginning after March 15, 2006.
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 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.
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.
Topic D-98, "Classification and Measurement of Redeemable Securities"	Effective for the first fiscal quarter ending after December 15, 2001, except that paragraph 19 is effective for the first fiscal period beginning after September 15, 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.
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.
Projects in Exposure Draft Stage	
Proposed Statement, *Sales and Pledges of Receivables and Future Revenues*	Comments due December 30, 2005.
AICPA/AcSEC	**Status**
Upcoming Adoption Dates	
SOP 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*	Effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Initial application of this SOP should be as of the beginning of an entity's fiscal year.
SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions*	Effective for fiscal years beginning after June 15, 2005.
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.
Project in Request for Comment Stage	
Accounting and Review Services Committee Survey, "Need for Independence in Compilation Engagements"	Survey due May 19, 2006.
SEC	**Status**
Upcoming Adoption Dates	
Final Rule, *Securities Offering Reform*	Effective December 1, 2005.
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, *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." 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. Effective for fiscal years ending on or after July 15, 2007, for "nonaccelerated filers," including foreign private issuers that are not accelerated filers. Effective for fiscal years ending on or after July 15, 2006, for foreign private issuers that are accelerated filers and file annual reports on forms 20-F or 40-F.
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).
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. 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, 2007, 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 Knowingly or Recklessly Contribute to 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 60 days after approval by the SEC.
Rule 3522, *Tax Transactions*	Effective for tax services completed later than 60 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 60 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 7, *Financial Instruments: Disclosures*	Effective for annual periods beginning on or after January 1, 2007.
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 IFRS6, *Exploration for and Evaluation of Mineral Resources*	Effective June 30, 2005.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 4, *Insurance Contracts*	Effective for annual periods beginning on or after January 1, 2006.
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.
Amendment to IAS 1, *Presentation of Financial Statements — Capital Disclosures*	Effective for annual periods beginning on or after January 1, 2007.
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 7, *Applying the Restatement Approach Under IAS 29*, Financial Reporting in Hyperinflationary Economies	Effective for annual periods beginning on or after March 1, 2006.
IFRIC Interpretation 6, *Liabilities Arising From Participating in a Specific Market — Waste Electrical and Electronic Equipment*	Effective for annual periods beginning on or after December 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.
Projects in Exposure Draft Stage	
Discussion Paper, *Management Commentary*	Comments due April 28, 2006.
Discussion Paper, *Measurement Bases for Financial Accounting — Measurement on Initial Recognition*	Comments due May 19, 2006.
Other	**Status**
Project in Request for Comment Stage	
COSO Guidance for Smaller Public Companies Reporting on Internal Control Over Financial Reporting	Comments due December 31, 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
DTC	Draft Technical Correction
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

Subscriptions

If you wish to receive *Accounting Roundup* and other accounting publications issued by the Accounting Standards and Communications Group of Deloitte & Touche, please register at www.deloitte.com/us/subscriptions.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte & Touche's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts presented each month on:

- Sarbanes-Oxley
- Financial Reporting
- Corporate Governance
- Driving Enterprise Value

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk. Join *Dbriefs* to receive notifications about future webcasts.

On January 19 at 2:00 PM EST, we will host a 90-minute webcast, "Quarterly Accounting Roundup: An Update of Important Developments." Registration will be available soon.

Deloitte Accounting Research Tool Available

Deloitte is making available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called the Deloitte Accounting Research Tool (DART), the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting manual and other interpretative accounting guidance.

Updated every business day, DART has an intuitive design and navigation system that, together with its powerful search features, enables users to quickly locate information anytime, from any computer. Additionally, DART subscribers receive periodic e-mails highlighting recent additions to the DART library.

For more information, including subscription details and an online DART demonstration, visit www.deloitte.com/us/dart.