

Accounting Roundup

Audit and Enterprise Risk Services

October 2005

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FASB Developments

FASB Issues Working Draft of the *Fair Value Measurements Standard*

The FASB issued a Working Draft of its *Fair Value Measurements Standard* in conjunction with the issuance of proposed FSP FAS 133-a.¹ The Standard addresses inconsistencies in the definition of fair value that are dispersed among existing pronouncements requiring fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value under accounting pronouncements that require such measurements, and enhances related disclosures about fair value measurements.

Definition — Fair value is the price that would be received for an asset or paid to transfer a liability in a current transaction between marketplace participants **in the reference market**² for the asset or liability. An estimate of the fair value of a liability should consider the effect of the issuer's credit standing.

Fair Value Estimates — When an entity acquires an asset or assumes a liability, **the transaction price is presumed to represent fair value at initial recognition**, absent evidence to the contrary.

In periods subsequent to initial recognition in which an asset or liability is remeasured, the fair value estimate should be updated so that it represents the price at which marketplace participants would currently transact.

Fair Value Hierarchy — The Standard creates a hierarchy that distinguishes between the reliability of inputs used in valuation techniques. The levels range from highest to lowest reliability as follows:

- Level 1 — Quoted prices for identical assets or liabilities in active markets. The use of a blockage factor is precluded when valuing a large position of a financial instrument.
- Level 2 — Quoted prices for identical assets or liabilities in inactive markets, or quoted prices for similar assets or liabilities in all markets. Quoted prices should be adjusted

¹ Proposed FASB Staff Position No. FAS 133-a, "Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value Under Statement 133."

² A reference market is the most advantageous market in which the reporting entity would transact for the asset or liability. Refer to the Working Draft of the *Fair Value Measurements Standard* for more information.

for factors specific to the asset or liability. The fair value of a restricted security should be based on a quoted price for an otherwise identical unrestricted security of the same issuer, adjusted to reflect the effect of the restriction.

- Level 3 — Market inputs other than quoted prices that are directly observable (e.g., interest rates or yield curves).
- Level 4 — Market inputs that are not directly observable, but that are corroborated by other market data through correlation or other means (e.g., inputs derived through extrapolation or interpolation). If the asset or liability is a financial instrument, a Level 4 input must be corroborated by other market data over the full term of the instrument.
- Level 5 — Entity inputs (e.g., inputs derived through extrapolation or interpolation but not corroborated by other market data). Entity inputs may be used to estimate fair value as a practical expedient in the absence of market inputs.

Disclosures — Disclosures are expanded to include information about the extent to which fair value is used to remeasure assets and liabilities, the inputs and techniques used to develop the fair value estimates, and the effects of fair value remeasurements on income (or changes in net assets) for the period.

Effective Date and Transition — The Standard would be effective for fiscal years beginning after December 15, 2006, and interim periods in those fiscal years, except that the disclosure requirements will be effective for fiscal years ending after December 15, 2006. Earlier application is encouraged. The Standard should be applied prospectively, except that a change in method for estimating the fair value of a block should be applied retrospectively.

See Deloitte & Touche's *Heads Up* on the Working Draft for additional information. The *Working Draft* of the *Fair Value Measurements* Standard and its *Basis for Conclusions* are available on the FASB's Web site. Although the FASB is not formally seeking comment on the Working Draft, it will consider any comments received by November 21, 2005.

FASB Issues FSP FAS 123(R)-2 on Determining Grant Date

Statement 123(R)³ requires companies to estimate the fair value of their share-based payment awards as of the **grant date**. One criterion necessary for determining that an award has been granted is that the employer and its employees have a mutual understanding of the key terms and conditions of the award.

FSP FAS 123(R)-2⁴ clarifies that a **mutual understanding is presumed to exist** at the date the award is approved by the board of directors, or management with relevant authority, if the following conditions are met:

- (1) The recipient does not have the ability to negotiate the key terms and conditions of the award with the employer,
- (2) The key terms and conditions of the award are expected to be communicated to all recipients within a relatively short time period from the date of approval, and
- (3) All other criteria for determining the grant date have been met.

The FSP should be applied upon the initial adoption of Statement 123(R). Those entities that have previously adopted Statement 123(R) must apply the FSP's provisions to the first reporting period after October 18, 2005, for which financial statements or interim reports have not been issued. The *FSP* and *minutes* of the October 12, 2005, meeting at which the Board finalized this FSP are available on the FASB's Web site.

FASB Issues FSP FAS 13-1 on Capitalization of Rental Costs During a Construction Period

The FASB issued FSP FAS 13-1⁵ to specify the proper accounting for rental costs associated with building or ground operating leases during a construction period. The FASB concluded that there is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Accordingly, a lessee **may not capitalize rental costs incurred during a construction period**.

The FSP does not address whether a lessee that accounts for the sale or rental of real estate projects under Statement 67⁶ should capitalize rental costs associated with ground and building operating leases. Also, the FSP does not affect the application of the maximum guarantee test in Issue 97-10⁷ for determining if the lessee should be considered the owner of a real estate project during the construction period and be subject to sale-leaseback accounting.

This FSP is effective for the first reporting period beginning after December 15, 2005. Early adoption is permitted for financial statements or interim financial statements that have not yet been issued. Lessees should cease capitalizing rental costs as of the effective date of this FSP for operating lease arrangements entered into prior to that date. Retrospective application is permitted but not required. The *FSP* and *minutes* of the September 21, 2005, meeting at which the Board finalized this FSP are available on the FASB's Web site.

³ FASB Statement No. 123 (revised 2004), *Share-Based Payment*.

⁴ FASB Staff Position No. FAS 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)."

⁵ FASB Staff Position No. FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period."

⁶ FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*.

⁷ EITF Issue No. 97-10, "The Effect of Lessee Involvement in Asset Construction."

FASB Issues Proposed FSP FAS 133-a on Unrealized Gains/Losses on Derivatives Measured at Fair Value

Proposed FSP FAS 133-a addresses the accounting for unrealized gains (losses) relating to derivative instruments measured at fair value under Statement 133.⁸ It nullifies footnote 3 of Issue 02-3⁹ (although the remainder of that consensus remains unaffected) and also makes conforming amendments to Statement 133 Implementation Issue B6.¹⁰

Fair Value Estimate at Initial Recognition — In a transaction in which an entity acquires an asset or assumes a liability that is a derivative, the **transaction price is presumed to represent the fair value** at initial recognition. That presumption is **rebutted if the market in which the transaction occurs is not the reference market**¹¹ for the derivative. In that case, the fair value estimate is the price for that derivative in the reference market (generally a model value).

Any unrealized gain (loss), measured as the difference between the transaction price and the fair value estimate for the derivative, is recognized in income when the estimate meets a minimum reliability threshold, defined as Levels 1–4 of the fair value hierarchy (as set forth in the in the Working Draft of the *Fair Value Measurements* Standard). If the fair value estimate is based on a Level 5 measurement (i.e., the estimate is based on entity inputs), any unrealized gain (loss) is recorded as a deferred credit or debit, separate from the derivative. The deferred amount will be recognized in income only when the minimum reliability threshold for the estimate (i.e., Level 1–4) is met or when the contract expires (i.e., no amortization of the deferred unrealized gain (loss) is permitted). See the [article above](#) for further information regarding the Working Draft of the *Fair Value Measurements* Standard.

Fair Value Estimates in Subsequent Periods — Changes in the fair value of the derivative are recognized in income or other comprehensive income in accordance with Statement 133, regardless of the estimate's level in the hierarchy.

Hybrid Instruments — The proposed FSP also includes an amendment to Implementation Issue B6. The proposed amendment clarifies that embedded derivatives in hybrid instruments must be accounted for in a manner consistent with other derivatives, as described above.

Disclosures — The proposed FSP also adds new disclosure requirements regarding (1) the treatment of unrealized gains and losses at initial recognition, (2) the activity in deferred balances during the reporting period, and (3) the location of the deferred amounts in the statement of financial position.

Effective Date and Transition — The proposed FSP would be effective for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years. Earlier application would be encouraged, but only if the *Fair Value Measurements* Standard has been applied. The FSP would be applied retrospectively as of the beginning of the fiscal year in which the FSP is initially applied.

See Deloitte & Touche's *Heads Up* on the proposed FSP for additional information. The [proposed FSP](#) is available on the FASB's Web site. Comments are due November 21, 2005.

FASB Issues Proposed FSP SOP 94-6-a on Nontraditional Loan Products

Proposed FSP SOP 94-6-a¹² addresses (1) whether, under existing accounting guidance, "nontraditional loan products" represent a concentration of credit risk and (2) what disclosures and other accounting considerations are required for nontraditional loan products. The proposed FSP discusses how such products might fall within the scope of existing authoritative literature and trigger disclosure requirements therein; however, it **does not create new accounting rules or disclosure requirements**.

The proposed FSP defines nontraditional loan products as those that expose the originator, holder, investor, guarantor, or servicer to **higher risk than traditional products**. Typical features of nontraditional loan products may include (a) interest and/or principal repayments that are less than the repayments for fully amortizing mortgages of an equivalent term or (b) high loan-to-value ratios.

Products that meet this definition include, but are not limited to:

- Loans with the contractual ability to negatively amortize;
- Loans with below-market or teaser interest rates;
- Interest-only loans;
- Home equity lines of credit, second mortgages, etc., that result in a high loan-to-value ratio when combined with other mortgages on the same collateral; or
- Option ARMs or similar products that may expose the borrower to future increases in repayments in excess of changes that result solely from increases in the market interest rate.

The FSP is not intended to apply exclusively to nontraditional loan products; rather, it is intended to emphasize the requirement to assess the adequacy of disclosures for all lending products and the effect of changes in market or

⁸ FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

⁹ 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."

¹⁰ Statement 133 Implementation Issue No. B6, "Allocating the Basis of a Hybrid Instrument to the Host Contract and the Embedded Derivative."

¹¹ See Footnote 2.

¹² Proposed FASB Staff Position No. SOP 94-6-a, "Nontraditional Loan Products."

economic conditions on the adequacy of those disclosures.

The proposed FSP would be effective immediately and includes no transition provisions, as the guidance in the FSP does not extend beyond existing authoritative literature. The [proposed FSP](#) and [minutes](#) of the September 21, 2005, meeting at which the FASB approved the issuance of the proposed FSP are available on the FASB's Web site. Comments are due November 11, 2005.

FASB Releases Results of the 2005 FASAC Survey

The 2005 Financial Accounting Standards Advisory Council (FASAC) survey asked Council members, Board members, and constituents to provide input on topics such as the FASB's priorities and future financial reporting issues. The survey provides perspectives and observations about the Board's process and direction.

Key observations from the survey include the following:

- For the fourth straight year, FASAC members indicated that revenue recognition should be at the top of the FASB priority list.
- FASAC members also placed priority on pension/postretirement benefit accounting, the conceptual framework, financial performance reporting, and lease accounting.
- Nearly all FASAC respondents believe that a separate set of accounting standards for private companies is not warranted.

The full [survey results](#) are available on the FASB's Web site.

Recent FASB Meetings

Auction Rate Securities (October 5)

The Board decided not to add a project to its agenda to address the financial statement classification of auction rate securities pursuant to the definition of cash equivalents under FASB Statement No. 95, *Statement of Cash Flows*. The Board may consider this issue at a later time, if staff resources permit.

Conceptual Framework (September 21)

The Board continued its deliberations on the joint FASB/IASB conceptual framework project. Issues discussed at the meeting included:

- The process for assessing qualitative characteristics of financial information in setting standards,
- Planning issues for the reporting entity phase of the project,
- Planning issues for the discussion of prospective financial

information, and

- Issuing the Invitation to Comment relating to assets and liabilities with uncertainties.

Derivatives Held by a QSPE (October 5)

The Board decided the following with respect to issues raised by constituents on proposed FSP FAS 140-c,¹³ which interprets the restrictions that are placed on the notional amount of derivatives that may be held by a qualifying special purpose entity (QSPE):

- The term *analysis* rather than *comprehensive analysis* should be used with regard to the requirement that an analysis be performed of expected limits on the notional amount of derivatives that a QSPE may hold over the life of the QSPE.
- The limits on the notional amount of derivatives that a QSPE may hold will not be impacted by a transferor's purchases of beneficial interests that were previously issued to outside parties as long as the transferor holds those beneficial interests temporarily and reports them as trading securities in accordance with Statement 115.¹⁴
- The FSP will be effective as of the date the final FSP is issued. The guidance for unexpected prepayments should be applied to new SPEs and existing SPEs that receive additional assets or issue additional beneficial interests (other than those previously committed to be received or issued as a result of commitments to parties other than the transferor) after the FSP's effective date.
- The guidance for a transferor's purchases of beneficial interests from outside parties (as described in paragraph 10 of the FSP) will be effective as of the date that the final FSP is issued for such purchases and for transferors' previous purchases of beneficial interests from outside parties that were consistent with the guidance in the FSP.

The Board directed the staff to draft a final FSP for vote by written ballot.

Financial Instruments: Liabilities and Equity (October 5)

The Board continued its discussion of the "ownership-settlement" approach to accounting for financial instruments with characteristics of equity, liabilities, or both, and focused on how multiple-component instruments might be separated under that approach.

The Board agreed on the following separation principles:

- Instruments should be separated if they embody an obligation and have both equity and nonequity components involving one of the following:
 - o Two or more settlement alternatives or possibilities with differing counterparty payoffs at the settlement date,

¹³ Proposed FASB Staff Position No. FAS 140-c, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140."

¹⁴ FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

- o At least one settlement alternative or possibility and at least one perpetual alternative or possibility with differing counterparty payoffs at the settlement or outcome date, or
- o One settlement requirement with a counterparty payoff at settlement that is based on more than one market factor.
- Applying those separation principles would produce the following results:
 - o Only instruments with both equity and nonequity components would be separated.
 - o Instruments that do not embody an obligation would not be separated (e.g., callable stock that is otherwise perpetual would be classified as equity in its entirety).
 - o Instruments having interim settlements consisting of instruments that would be separated (e.g., warrants on puttable stock) would not be separated until the interim settlement occurs. Prior to any interim settlement, those instruments would be liabilities or assets in their entirety.
 - o Upon separation, there would be only two ultimate components — equity and nonequity; components would not be further subdivided unless required by Statement 133.
 - o The fair value option for an instrument in its entirety would not be available in lieu of separation. However, the fair value option could be applied to the nonequity component. (This requirement is pending the Board's finalization of the fair value option and hybrid instruments projects.)

For separated instruments, the Board agreed:

- To first identify and measure the obligation embedded in the debt component at its fair value and then allocate the remaining proceeds to equity.
- That the following measurement requirements would apply under the obligation-first approach:
 - o Embedded issuance costs would be expensed before separation occurs.
 - o The identified debt component would be separated and measured at fair value.
 - o If the debt component's settlement date or amount is unknown, the debt component would be subjected to Statement 133 to determine whether the component is or has an embedded derivative that is measured at fair value or is accounted for under Interpretation 45.¹⁵ If so, the debt component (or embedded derivative) would be accounted for under those provisions. Otherwise, it would be measured at the amount that would be paid if settlement occurred at the reporting

date in an orderly liquidation.

- o If an instrument's debt outcome occurs (e.g., it is put or called early) or the terms are modified, the extinguishment proceeds (ignoring issuance costs) would be reallocated by remeasuring the debt component at the discount rate in effect at that date for the remaining most-distant stated maturity period. A gain or loss would be recognized for the difference between the old and new carrying amounts. Any remaining proceeds would be allocated to equity.
- o If an instrument's equity outcome occurs, no gain or loss would be recognized.
- o However, if the conversion terms are modified, resulting in the equity outcome, extinguishment accounting would be applied to compute any gain or loss before the carrying amount is recorded in equity.
- o A debt component that is a guarantee or a derivative in its entirety would be accounted for under Interpretation 45 or Statement 133, respectively.
- o Debt components that are separated but that are not derivatives in their entirety also would be first analyzed under Statement 133 to determine if there are any embedded derivatives that must be bifurcated before applying the measurement requirements.
- o All instruments are reevaluated at each reporting date to determine if they continue to meet the separation criteria. If not, the instruments would be accounted for as single-component instruments as of the date the change occurred. No gains or losses would be recognized for such reclassifications unless a debt extinguishment or modification occurs.

Revenue Recognition (September 21)

The Board made the following decisions relating to the initial identification and measurement of performance obligations based on an allocation of the customer consideration:

- Revenues arise when each contract deliverable (or performance obligation) is delivered (or extinguished). All legal rights conveyed to a customer in a revenue contract give rise to an element of revenue.
- Performance obligations in revenue contracts should be disaggregated from the customer's perspective, based on whether the deliverable has utility to the customer. The deliverable has utility to a customer if either (a) it is sold separately by any vendor (or as an optional extra) or it could be resold separately by the customer in the customer's reference market or (b) it obligates the reporting entity to stand ready to provide goods, services, or other consideration to the customer if specified events occur.
- Performance obligations should be measured based on the

¹⁵ FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

amount at which the product is sold or could be sold unless other GAAP requires that they be measured at fair value.

- The amount at which the product is sold or could be sold should be measured by the most reliable available evidence.
- The difference between the customer consideration amount and the sum of the amounts at which the products are sold or could be sold should be allocated to those performance obligations on a pro rata basis. However, no part of that difference should be allocated to performance obligations that other GAAP requires to be measured at fair value.

The Board also decided not to explore an alternative approach in which performance obligations would be measured at fair value if active layoff markets for those obligations exist.

Useful Life and Amortization of Intangibles (October 12)

The Board discussed a proposed FSP that would amend Statement 142¹⁶ as it relates to the determination of the useful life and amortization of renewable intangible assets.

The Board decided that the proposed FSP would be applied prospectively for (1) all renewable intangible assets that are acquired and (2) all preexisting renewable intangible assets that are renewed subsequent to the FSP's effective date. The guidance would be effective for interim and annual periods beginning after June 15, 2006. The comment period for the proposed FSP will be 90 days.

The Board directed the staff to proceed with a draft of the proposed FSP for vote by written ballot.

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 Exposure Draft on Sales and Pledges of Receivables and Revenues

The GASB issued an Exposure Draft, *Sales and Pledges of Receivables and Future Revenues*, to address diversity in practice.

The proposed Statement **presumes that a transaction would be reported as a collateralized borrowing** unless the criteria indicating that a sale has taken place are met. Those criteria focus on the extent to which the transferor government either retains or relinquishes control over the receivables or future revenues through its level of continuing involvement.

In addition, the proposed Statement would:

- Require enhanced disclosures pertaining to future revenues that have been pledged or sold.
- Provide guidance on sales of receivables and future revenues within the same financial reporting entity.
- Provide guidance on recognizing other assets (e.g., residual interests) and liabilities (e.g., recourse obligations) arising from the sale of specific receivables or future revenues.

The [proposed Statement](#), which is available on the GASB's Web site, would be effective for financial statements for periods beginning after December 15, 2006. Comments are due December 30, 2005.

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 SOP 05-1 on Deferred Acquisition Costs for Insurance Contracts

The AICPA issued SOP 05-1¹⁷ to provide guidance on insurance enterprises' accounting for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement 97.¹⁸

¹⁶ FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

¹⁷ AICPA Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*.

¹⁸ FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments*.

The SOP defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The accounting treatment for such replacements depends on whether, under the provisions of the SOP, the replacement contract is considered substantially changed from the replaced contract. A substantial change would be treated as the extinguishment of the replaced contract, and all unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets from the replaced contract would not longer be deferred in connection with the replacement contract. The SOP also requires certain disclosures.

SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. Retrospective application is not permitted. Initial application of the SOP should be as of the beginning of an entity's fiscal year (i.e., if the SOP is adopted prior to the effective date, all prior interim periods of the year of adoption should be restated).

The SOP can be ordered from the AICPA's Web site.

AICPA Issues Three TPAs as a Result of Recent Natural Disasters

In the wake of the recent natural disasters, the AICPA issued three TPAs related to the destruction of documentation and subsequent events.

- *Client Evidence and Corroborating Evidence* — Either prior to the commencement of audit procedures or during an audit, a fire, flood or natural disaster may destroy some or all of a client's evidence that supports or corroborates its financial statements. TIS Section 8345.01¹⁹ addresses the impact of such destruction on an auditor's procedures and report.
- *Audit Documentation* — Prior to issuance of an auditor's report on financial statements, an auditor's documentation may be destroyed by fire, flood, or natural disaster. For those circumstances, TIS Section 8345.02²⁰ addresses the extent to which an auditor must reperform audit procedures or recreate audit documentation in order to express an opinion on the financial statements.
- *Subsequent Events* — TIS Section 9070.05²¹ addresses an

auditor's responsibilities with respect to the consideration of a material subsequent event, such as a natural disaster, that occurs after completion of field work and after the signing of the auditor's report but before issuance of the auditor's report and the audited financial statements.

A loss from a natural disaster occurring after year end would be considered a Type II subsequent event that would not result in an adjustment to the financial statements, but may require disclosure therein. Management and the auditor also should consider whether the event affects the entity's ability to continue as a **going concern**.

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

AICPA Issues Practice Alert on Auditing Variable Interest Entities

The AICPA Professional Issues Task Force issued Practice Alert 2005-1²² to provide guidance to auditors in planning and performing auditing procedures with respect to variable interest entities (VIEs). A VIE should be evaluated by an entity for consolidation under Interpretation 46(R)²³ based on all contractual, ownership, or other monetary interests (both explicit and implicit) in the VIE that expose the entity to the economic risks and rewards of the VIE.

The Practice Alert does not provide guidance with respect to accounting for VIEs, but outlines a detailed nine-step methodology for auditing VIEs. The Alert is nonauthoritative; however, it may help an auditor understand and apply Statements on Auditing Standards.

The Practice Alert is available on the AICPA's Web site

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

International Developments

IASB Publishes Discussion Paper on Management Commentary

The IASB commissioned a project team consisting of the staff of various standard-setters to prepare a Discussion Paper²⁴ addressing the role the Board could play in improving the quality of management commentary that accompanies financial statements.

¹⁹ AICPA Technical Practice Aids, TIS Section 8345.01, "Audit Considerations When Client Evidence and Corroborating Evidence in Support of the Financial Statements Has Been Destroyed by Fire, Flood, or Natural Disaster."

²⁰ AICPA Technical Practice Aids, TIS Section 8345.02, "Considerations When Audit Documentation Has Been Destroyed by Fire, Flood, or Natural Disaster."

²¹ AICPA Technical Practice Aids, TIS Section 9070.05, "Consideration of Impact of Losses From Natural Disasters Occurring After Completion of Audit Field Work and Signing of the Auditor's Report but Before Issuance of the Auditor's Report and Related Financial Statements."

²² AICPA Practice Alert 2005-1, "Auditing Procedures With Respect to Variable Interest Entities."

²³ FASB Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities*.

²⁴ IASB Discussion Paper, *Management Commentary*.

Management commentary is the information that accompanies financial statements as a part of an entity's financial reporting (e.g., Management Discussion & Analysis in the United States). It explains the main trends and factors affecting the performance, position, and development of the entity's business.

The project team made the following recommendations:

- An entity's financial report should be viewed as a package comprising the primary financial statements, accompanying notes, and management commentary.
- The objective of management commentary is to provide information that allows investors to interpret and assess the financial statements, management's views of the most important issues facing the entity, and strategies adopted by the entity.
- The Board should not specify the precise information to be disclosed or its presentation within management commentary, but rather should set out the principles, qualitative characteristics, and essential content.

The Board has not developed its views on these recommendations. If the Board adds the management commentary project to its agenda, this Discussion Paper will be regarded as the first stage in its due process. A [press release](#) addressing the Discussion Paper is available on the IASB's Web site. Comments are due April 28, 2006.

Recent IASB Meeting

The International Accounting Standards Board met in London from October 18–20, 2005, and discussed the following topics:

- Proposed technical correction: IFRS 1 and IAS 12
- Business combinations
- Short-term convergence: borrowing costs
- Conceptual framework
- Revenue recognition
- Financial instruments
- Consolidation
- Performance reporting
- IFRIC update
- Insurance contracts (Phase II education session)
- Service concessions (education session)

The IASB also met with the FASB on October 24 and 25, 2005, for a joint meeting in Norwalk, Connecticut, and

discussed the following topics:

- Comprehensive business reporting model
- Financial performance reporting
- Revenue recognition
- Short-term convergence: income taxes
- Financial instruments
- Conceptual framework

Further information on the joint meeting will be provided in the November edition of *Accounting Roundup*.

[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.

Other Developments

COSO Issues Proposed Internal Control Guidance for Smaller Businesses

In June 2003, the SEC approved the use of the COSO²⁵ framework in fulfilling the requirements of Section 404 of the Sarbanes-Oxley Act. On October 26, 2005, COSO issued an Exposure Draft²⁶ that provides guidance on the use of that framework by smaller businesses.

This guidance does not change the requirements for effective internal control over financial reporting, but rather clarifies how smaller businesses can achieve **effective internal control in a more cost-effective and practical manner**.

The Exposure Draft outlines fundamental principles that smaller businesses should address in implementing effective internal control over financial reporting. These principles are derived from the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. The proposed guidance

²⁵ The Committee of Sponsoring Organizations of the Treadway Commission.

²⁶ COSO Exposure Draft, *Guidance for Smaller Public Companies Reporting on Internal Control Over Financial Reporting*.

provides (1) examples of how smaller businesses can incorporate these principles and (2) a tool for management to use in determining whether the organization has effectively implemented the key principles in the proposed guidance.

The [Exposure Draft](#) is available on COSO's Web site, www.coso.org. Comments are due December 31, 2005.

Appendix A: Significant Adoption Dates and Deadlines

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

| FASB | Status |
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| Upcoming Adoption Dates | |
| Statement 154, <i>Accounting Changes and Error Corrections</i> — 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, <i>Exchanges of Nonmonetary Assets</i> —an amendment of APB Opinion No. 29 | Effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. |
| Statement 152, <i>Accounting for Real Estate Time-Sharing Transactions</i> — an amendment of FASB Statements No. 66 and 67 | Effective for fiscal years beginning after June 15, 2005. |
| Statement 151, <i>Inventory Costs</i> — an amendment of ARB No. 43, Chapter 4 | Effective for inventory costs incurred during fiscal years beginning after June 15, 2005. |
| Statement 123(R), <i>Share-Based Payment</i> (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, <i>Accounting for Conditional Asset Retirement Obligations</i> — an interpretation of FASB Statement No. 143 | Effective as of the end of fiscal years ending after December 15, 2005. |
| Interpretation 46(R), <i>Consolidation of Variable Interest Entities</i> — an interpretation of ARB No. 51 | <p>Public companies that are not small business issuers:</p> <ul style="list-style-type: none"> – Provisions of Interpretation 46(R) currently are effective. <p>Small Business Issuers:</p> <ul style="list-style-type: none"> – 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. <p>Nonpublic Entities:</p> <ul style="list-style-type: none"> – Interpretation 46(R) must be applied by the beginning of the first annual period beginning after December 15, 2004. <p>For guidance related to foreign private issuers, refer to the SEC’s Letter to AICPA Regarding Interpretation 46(R) Effective Date Provisions With Regard to Foreign Private Issuers on the SEC’s Web site.</p> |
| 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, <i>Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity</i> ” | 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. |

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| 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 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 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, <i>Accounting for Income Taxes</i> , 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), <i>Consolidation of Variable Interest Entities</i> " | 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), <i>Consolidation of Variable Interest Entities</i> , 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), <i>Consolidation of Variable Interest Entities</i> " | 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), <i>Consolidation of Variable Interest Entities</i> " | 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), <i>Consolidation of Variable Interest Entities</i> " | 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 a Loss of Significant Influence" | Effective as of the first reporting period beginning after July 12, 2005. |

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| 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. |
| Projects in Exposure Draft Stage | |
| Proposed FSP SOP 94-6-a, "Nontraditional Loan Products" | Comments due November 11, 2005. |
| Proposed FSP FAS 133-a, "Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value Under Statement 133" | Comments due November 21, 2005. |
| Working Draft, <i>Fair Value Measurements</i> | The FASB will consider any comments received by November 21, 2005. |
| Proposed Statement, <i>Earnings per Share</i> — an amendment of FASB Statement No. 128 | Comments due November 30, 2005. |
| Proposed FSP FIN 46(R)-c, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" | Comments due November 30, 2005. |
| Invitation to Comment, <i>Selected Issues Relating to Assets and Liabilities With Uncertainties</i> | 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. |

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| 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, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i> , 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 |
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| Upcoming Adoption Dates | |
| GASB Statement No. 47, <i>Accounting for Termination Benefits</i> | 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, <i>Net Assets Restricted by Enabling Legislation</i> — an amendment of GASB Statement No. 34 | Effective for fiscal periods beginning after June 15, 2005. |
| GASB Statement No. 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i> | Effective in three phases based on a government's total annual revenues. |
| GASB Statement No. 44, <i>Economic Condition Reporting: The Statistical Section</i> — an amendment of NCGA Statement 1 | Effective for statistical sections prepared for periods beginning after June 15, 2005. |
| GASB Statement No. 43, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i> | Effective one year prior to the effective date of GASB Statement 45 for the employer in a single-employer plan or the largest participating employer in a multi-employer plan. |
| GASB Statement No. 42, <i>Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries</i> | Effective for fiscal periods beginning after December 15, 2004. |
| GASB Technical Bulletin No. 2004-2, <i>Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers</i> | 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. |
| Project in Exposure Draft Stage | |
| Proposed Statement, <i>Sales and Pledges of Receivables and Future Revenues</i> | Comments due December 30, 2005. |
| AICPA/AcSEC | Status |
| Upcoming Adoption Dates | |
| SOP 05-1, <i>Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts</i> | 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, <i>Accounting for Real Estate Time-Sharing Transactions</i> | Effective for fiscal years beginning after June 15, 2005. |
| SOP 03-3, <i>Accounting for Certain Loans or Debt Securities Acquired in a Transfer</i> | Effective for loans acquired in fiscal years beginning after December 15, 2004. |
| Projects in Exposure Draft Stage | |
| Proposed Statement on Auditing Standards, <i>Communication of Internal Control Related Matters Noted in an Audit</i> | Comments due October 31, 2005. |
| SEC | Status |
| Upcoming Adoption Dates | |
| Final Rule, <i>Securities Offering Reform</i> | Effective December 1, 2005. |
| Final Rule, <i>Use of Form S-8, Form 8-K, and Form 20-F by Shell Companies</i> | Effective August 22, 2005, except that Form 8-K, Item 5.06 is effective November 7, 2005. |
| Final Rule, <i>First-Time Application of International Financial Reporting Standards</i> (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. |

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| Final Rule, <i>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</i> | 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, <i>Asset-Backed Securities</i> | Effective as of March 8, 2005. |
| Final Rule, <i>Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports</i> (an extension of compliance date) | Effective for fiscal years ending on or after November 15, 2004, for 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), <i>Share-Based Payment</i> , 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, <i>Reporting on Whether a Previously Reported Material Weakness Continues to Exist</i> | Effective upon approval by the SEC. |
| Auditing Standard No. 3, <i>Audit Documentation</i> | Effective for audits of financial statements with fiscal years ending on or after November 15, 2004. |
| Auditing Standard No. 2, <i>An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements</i> | Effective for audits of companies with fiscal years ending on or after November 15, 2004, for 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. |
| <i>Conforming Amendments to PCAOB Interim Standards Resulting From the Adoption of PCAOB Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements"</i> | Effective for integrated audits of financial statements at the same time as Auditing Standard No. 2. Effective for audits of only financial statements for periods ending on or after July 15, 2005. |
| Rule 3501, <i>Definitions of Terms Employed in Section 3, Part 5 of the Rules</i> ; Rule 3502, <i>Responsibility Not to Cause Violations</i> ; Rule 3520, <i>Auditor Independence</i> | Effective 10 days after approval by the SEC. |
| Rule 3521, <i>Contingent Fees</i> | 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, <i>Tax Transactions</i> | Effective for tax services completed after the later of December 31, 2005, or 10 days after approval by the SEC. |

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| Rule 3523, <i>Tax Services for Persons in Financial Reporting Oversight Roles</i> | 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, <i>Audit Committee Pre-approval of Certain Tax Services</i> | 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 7, <i>Financial Instruments: Disclosures</i> | Effective for annual periods beginning on or after January 1, 2007. |
| IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i> | Effective for annual periods beginning on or after January 1, 2006. |
| IFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i> | Effective for annual periods beginning on or after January 1, 2005. |
| IFRS 4, <i>Insurance Contracts</i> | Effective for annual periods beginning on or after January 1, 2005. |
| IFRS 2, <i>Share-based Payment</i> | Effective for annual periods beginning on or after January 1, 2005. |
| Amendment to IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i> , and IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i> | Effective June 30, 2005. |
| Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement</i> , and IFRS 4, <i>Insurance Contracts</i> | Effective for annual periods beginning on or after January 1, 2006. |
| Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement — The Fair Value Option</i> | Effective for annual periods beginning on or after January 1, 2006. |
| Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement — Cash Flow Hedge Accounting of Forecast Intragroup Transactions</i> | Effective for annual periods beginning on or after January 1, 2006. |
| Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement — Transition and Initial Recognition of Financial Assets and Financial Liabilities</i> | Effective for annual periods beginning on or after January 1, 2005. |
| Amendment to IAS 32, <i>Financial Instruments: Disclosure and Presentation</i> | Effective for annual periods beginning on or after January 1, 2005. |
| Amendment to IAS 19, <i>Employee Benefits</i> | Effective for annual periods beginning on or after January 1, 2006. |
| Amendment to IAS 1, <i>Presentation of Financial Statements — Capital Disclosures</i> | 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, <i>Consolidation — Special Purpose Entities</i> | Effective for annual periods beginning on or after January 1, 2005. |
| IFRIC Interpretation 6, <i>Liabilities Arising From Participating in a Specific Market — Waste Electrical and Electronic Equipment</i> | Effective for annual periods beginning on or after December 1, 2005. |
| IFRIC Interpretation 5, <i>Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds</i> | Effective for annual periods beginning on or after January 1, 2006. |
| IFRIC Interpretation 4, <i>Determining Whether an Arrangement Contains a Lease</i> | Effective for annual periods beginning on or after January 1, 2006. |

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| IFRIC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i> | Effective for annual periods beginning on or after January 1, 2005. |
| Project in Exposure Draft Stage | |
| Discussion Paper, <i>Management Commentary</i> | Comments due April 28, 2006. |
| Other | Status |
| Project in Request for Comment Stage | |
| COSO Exposure Draft, <i>Guidance for Smaller Public Companies Reporting on Internal Control Over Financial Reporting</i> | Comments due December 31, 2005. |

Appendix B: Abbreviations

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

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