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Accounting Roundup

3rd Quarter in Review — 2005

Preface

Accounting Roundup: 3rd Quarter in Review — 2005

During the third quarter of 2005, accounting standard-setters and accounting regulators issued a number of final and proposed FASB* Statements, FSPs, EITF consensuses, SEC rules, PCAOB rules, IFRSs, etc. (collectively, pronouncements) affecting accounting, financial reporting, and corporate governance.

This publication, *Accounting Roundup: 3rd Quarter in Review — 2005*, presents brief descriptions of those pronouncements, as well as certain other regulatory and professional developments in accounting and financial reporting. The articles included herein were primarily drawn from issues of the *Accounting Roundup* newsletters published in the third quarter of 2005 and have been updated when appropriate. Articles that were not included in prior issues are referenced "New" in the Table of Contents. These articles also provide links to locations where additional information can be found on each topic.

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

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

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FASB Developments

FASB Issues Exposure Draft on Earnings per Share

The FASB has issued an Exposure Draft[1] that would amend FASB Statement No. 128, *Earnings per Share*, to clarify guidance for mandatorily convertible instruments, the treasury stock method, contracts that may be settled in cash or shares, and contingently issuable shares. This proposed Statement was originally exposed in December 2003, but is being reexposed due to the significance of the changes to the computational guidance applicable to the treasury stock method. The proposed Statement is part of the short-term international convergence efforts and would:

- Amend the computational guidance for calculating the number of incremental shares included in diluted shares when applying the treasury stock method. The number of incremental shares included in year-to-date diluted earnings per share (EPS) would be computed using the average market price of common shares for the year-to-date period, **independent of the quarterly computations**. Similarly, contingently issuable shares in the year-to-date computation would be computed independent of the quarterly computations.
- Further amend the treasury stock method to **treat the carrying amount of an extinguished liability upon issuance of shares as assumed proceeds**. The extinguished liability would be included in assumed proceeds at the carrying amount as of the end of the period for which EPS is measured. This would lead to dilution when the share price used to compute the end-of-period liability is lower than the average share price used in the treasury stock method.
- Eliminate the provision of Statement 128 that allows an entity to rebut the presumption that contracts that may be settled in either cash or shares will be settled in shares. **Share settlement must be assumed**, if dilutive, for the purpose of computing diluted EPS for an otherwise cash-settled instrument that contains a provision that requires or permits share settlement under certain circumstances.
- Define a mandatorily convertible instrument and clarify that shares that would be issued upon conversion of a mandatorily convertible instrument should be included in the weighted-average number of ordinary shares outstanding used in computing **basic EPS, whether the effect is dilutive or antidilutive**, from the date the future conversion becomes mandatory using the if-converted method.
- Eliminate the weighted-average computation for calculating contingently issuable shares and require that contingently issuable shares be included in diluted EPS from the **beginning of the period that the conditions for issuance are satisfied**, or the date of the contingent share arrangement, if later.

The proposed Statement would be effective for interim and annual periods ending after June 15, 2006. Retrospective application would be required for all changes to Statement 128, except that retrospective application would be prohibited for contracts that were either settled in cash prior to adoption or modified prior to adoption to require cash settlement. The proposed Statement is available on the FASB's Web site. Comments are due November 30, 2005.

FASB Issues Three Proposed Amendments to Statement 140

The FASB has issued the following three proposed amendments to Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. (Clicking an Exposure Draft title below opens its full text on the FASB's Web site.)

- *Accounting for Transfers of Financial Assets* (a complete revision of the exposure draft initially released for public comment in June 2003);
- *Accounting for Servicing of Financial Assets*; and
- *Accounting for Certain Hybrid Financial Instruments* (also amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*).

A brief summary of each proposed Statement appears below. See Deloitte & Touche's *Heads Up* on the three amendments for additional information.

Transfers of Financial Assets

The proposed Statement on transfers of financial assets (1) provides guidance for determining whether financial assets must first be transferred to a qualifying special-purpose entity (QSPE) to be derecognized, (2) provides additional guidance on permitted activities of QSPEs, (3) **eliminates the prohibition** on a QSPE's ability to hold passive derivative financial instruments that pertain to beneficial interests held by a transferor, and (4) requires that interests related to transferred financial assets held by a transferor must be initially measured at **fair value**.

[1] Proposed FASB Statement, *Earnings per Share* — an amendment of FASB Statement No. 128.

Servicing of Financial Assets

The proposed Statement on servicing of financial assets:

- Requires additional disclosures for all separately recognized servicing rights.
- Requires all separately recognized servicing rights to be **initially measured at fair value**, if practicable.
- Permits an entity to choose either of the following subsequent measurement methods for each class of separately recognized servicing assets and liabilities:
  - **Amortize** servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss. This method, which is currently required by Statement 140, continues to require the assessment of servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date.
  - Report servicing assets or liabilities at **fair value at each reporting date** and report changes in fair value in earnings in the period in which the changes occur. This method mitigates the income statement effect of changes in the fair value of derivative financial instruments used to offset changes in the fair value of servicing assets and liabilities.

Hybrid Financial Instruments

The proposed Statement on hybrid financial instruments would amend Statement 133 and Statement 140, and would resolve issues addressed in Implementation Issue D1.[2] The proposed Statement would also eliminate the exemption from applying Statement 133 to beneficial interests in securitized financial assets. Specifically, the proposed Statement would:

- **Permit fair value remeasurement** for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation.
- Clarify which interest-only strips and principal-only strips are not subject to the requirements of Statement 133.
- Establish a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments containing an embedded derivative requiring bifurcation.
- Clarify that concentrations of credit risk in the form of subordination are not embedded derivatives.
- Eliminate restrictions on a QSPE's **ability to hold passive derivative financial instruments** pertaining to beneficial interests that are or contain a derivative financial instrument.

Effective Date and Transition of the Proposed Amendments

Generally, all three proposed amendments would be effective at the earlier of (1) fiscal years beginning after December 15, 2005, or (2) fiscal years that begin during the quarter in which the final Statement is issued. Special-purpose entities that are qualifying under existing rules generally would have their qualifying status grandfathered under the new rules unless they receive additional assets or issue additional beneficial interests other than those they were previously committed to receive or issue as a result of commitments to parties other than the transferor.

FASB Issues Exposure Draft on Uncertain Tax Positions

The FASB published an Exposure Draft entitled *Accounting for Uncertain Tax Positions* — an interpretation of FASB Statement No. 109.[3] The proposed interpretation is intended to reduce the significant diversity in practice associated with recognition and measurement of income taxes by establishing consistent criteria for evaluating uncertain tax positions.

- *Recognition* — The proposed interpretation establishes a **probable recognition threshold**. To recognize a benefit from a tax position, a company must conclude that the position is probable of being sustained upon audit based solely on the technical merits of the position. The term probable is used in this proposed interpretation consistent with its use in Statement 5[4] (i.e., "the future event or events are likely to occur"). In evaluating whether this requirement has been met, the proposed interpretation requires the company to presume that the tax position will be examined during an audit by the taxing authority. A tax position that did not previously meet the probable recognition threshold should be recognized in any subsequent period in which it is determined that the threshold has been met.
- *Measurement* — Once the probable recognition threshold is met, the **best estimate of the amount that would be sustained on audit** should be recognized. Any subsequent changes in the recognized amount should be made using a best estimate methodology and recognized in the period of change. "Best estimate" means the single most likely amount in a range of possible estimated amounts.
- *Derecognition* — In the period in which it becomes **more likely than not** that a tax position would no longer be sustained upon an audit by a taxing authority, the benefit should be derecognized by recording an income tax liability or reducing a deferred tax asset. A valuation allowance should not be used as a substitute for derecognition.

[2] Statement 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets."

[3] FASB Statement No. 109, *Accounting for Income Taxes*.

[4] FASB Statement No. 5, *Accounting for Contingencies*.

- *Classification* — A liability arising from the difference between the position taken in the tax return and the amount booked in the financial statements pursuant to the proposed interpretation should be classified as a current liability if expected to be paid within one year. However, if the liability arises from a taxable temporary difference, it would be classified as a deferred tax liability.
- *Disclosure* — Companies should follow the disclosure requirements of Statement 5 for both loss and gain contingencies related to uncertain tax positions.
- *Effective Date and Transition* — The Exposure Draft was to be effective as of the end of the first fiscal year ending after December 15, 2005 (see note below). Earlier application would be encouraged. Only tax positions meeting the probable recognition threshold at that date would be recognized. The transition adjustment resulting from application of this interpretation would be recorded as a cumulative-effect change in the income statement as of the end of the period of adoption. Restatement of prior periods or pro forma disclosures under APB Opinion No. 20, *Accounting Changes*, would not be permitted.

  [NOTE: Based on the FASB's technical plan found on its Web site, the final Interpretation is not planned for issuance until the first quarter of 2006. As such, the Board will decide on a revised effective date and transition during its redeliberations of the Exposure Draft.]

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

FASB Issues Invitation to Comment on Assets and Liabilities With Uncertainties

The Board issued an Invitation to Comment[5] to solicit input for use in the next phase of the Conceptual Framework project. The next phase will include assessing the **role of probability and uncertainty** in defining, recognizing, and measuring assets and liabilities. The FASB staff believes that the current FASB and IASB frameworks do not adequately address either probability or uncertainty in relation to assets and liabilities.

To some extent, either probability or uncertainty plays some role in defining, recognizing, and measuring assets and liabilities in both frameworks. However, that role is not always clear, and is at times inconsistent within or between frameworks. Issues regarding the treatment of probability and uncertainty exist at the standards level as well. Both the FASB and the IASB have a general standard relating to assets and liabilities with uncertainties (Statement 5 and IAS 37,[6] respectively). However, there are many differences between the two standards. The FASB's standard is also inconsistent with its framework, which was developed much later.

Another issue at the standards level is the change in the treatment of probability and uncertainty that has occurred in more recent standards. The FASB has increasingly favored the use of fair value measurement in its standards (e.g., Interpretation 45[7] and Statement 143[8]). In such cases, the change in the measurement attribute has been accompanied by a shift from the use of probability or uncertainty as a recognition criterion to its use in measuring the fair value of the item instead. The IASB standards are undergoing similar changes that would converge their standards with the recent FASB standards.

Among other issues, the FASB is seeking input on **eliminating the notions of contingent assets and contingent liabilities** and omitting the probability criterion for recognition of nonfinancial liabilities. Instead, according to the Invitation to Comment, companies would generally measure:

- Unconditional rights associated with conditional assets under the current recognition and measurement rules for intangible assets, and
- Stand-ready obligations associated with conditional liabilities at either (1) the amount they would rationally pay to settle the present obligation or to transfer it to a third party at the balance sheet date or (2) an estimate of such an amount using a discounted expected cash flow technique.

The Invitation to Comment is available on the FASB's Web site. Comments are due January 3, 2006.

FASB Issues Milestone Draft on Liabilities and Equity

The FASB released its milestone draft on the Liabilities and Equity project summarizing decisions reached to date. The project is designed to address issues raised after the issuance of Statement 150[9] and to converge with accounting standards developed by the IASB. The Boards plan to conduct the project under a modified joint approach to develop a common proposed Standard. This approach includes an IASB amendment to IAS 32, *Financial Instruments: Disclosure and Presentation*.

The draft proposes classification requirements for entities that issue or hold single-component instruments (including instruments whose payoffs are related to an entity's own equity instruments). Multiple-component instruments are not included in the scope of this draft; the FASB will address those instruments in the next phase of the project.

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

5 FASB Invitation to Comment, *Selected Issues Relating to Assets and Liabilities With Uncertainties*.

6 IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

7 FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* — an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34.

8 FASB Statement No. 143, *Accounting for Asset Retirement Obligations*.

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

component instruments should be classified as equity:

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

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

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

Final FSPs

FASB Issues Final FSP FAS 123(R)-1 on Freestanding Financial Instruments Originally Issued as Employee Compensation

Under Statement 123(R),[10] a freestanding instrument (such as a stock option) originally issued as employee compensation becomes subject to the recognition and measurement provisions of other GAAP when the rights conveyed by the instrument to the holder are no longer dependent upon the holder being an employee. Under this provision, an issuer may be required to reclassify an equity instrument as a liability (or vice versa) once it is subject to other GAAP. For example, a stock option whose exercise price is indexed to the S&P 500 may be classified as an equity award under Statement 123(R), but would be classified as a liability once other GAAP is applied.

To prevent such reclassifications, FSP FAS 123(R)-1[11] **preserves the Statement 123(R)** classification of these instruments even when the instrument is no longer dependent upon employment. In other words, the FSP **indefinitely defers** the requirement in Statement 123(R) for freestanding financial instruments to become subject to other GAAP (pending the Board's broader reconsideration of the distinction between liabilities and equity in its Liabilities and Equity project). An issuer applies other GAAP to these instruments only if a modification occurs after the time the conveyed rights are no longer dependent on employment.

In addition, the guidance in this FSP affects other existing authoritative literature as follows:

- FSP EITF 00-19-1[12] has been superseded because the issue addressed therein has been incorporated into FSP FAS 123(R)-1.
- Paragraph 11(b) of Statement 133 is amended to clarify that an employee award remains subject to the measurement and recognition provisions of Statement 123(R) unless the award is modified when the holder is no longer an employee.
- Implementation Issue C3[13] is amended to clarify that the indefinite deferral does not affect the requirement to evaluate the classification of an employee award once performance has occurred.

The FSP is effective upon initial adoption of Statement 123(R). An entity that adopted Statement 123(R) prior to August 31, 2005, should apply this FSP in 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. If a reclassification is necessary upon application of the FSP, entities can choose between retrospective application or a cumulative-effect-type change. If the latter method is chosen, the effect on retained earnings is determined as of the beginning of the reporting period in which the FSP is adopted, not the beginning of the fiscal year. The FSP is available on the FASB's Web site.

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

The FASB issued final FSP APB 18-1[14] to provide guidance on how an investor should account for its proportionate share of an equity method investee's equity adjustments for other comprehensive income (OCI) upon a loss of significant influence.

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

[10] FASB Statement No. 123 (revised 2004), *Share-Based Payment*.

[11] FASB Staff Position No. FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services Under FASB Statement No. 123(R)."

[12] FASB Staff Position No. EITF 00-19-1, "Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation."

[13] Statement 133 Implementation Issue No. C3, "Exception Related to Share-Based Payment Arrangements."

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

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

The FSP, which is available on the FASB's Web site, is effective as of the first reporting period beginning after July 12, 2005. Upon adoption of the FSP, the OCI related to an investee for which the investor no longer has significant influence should be offset against the carrying value of the investment. This adjustment should exclude any OCI arising from the available-for-sale treatment of the investment under Statement 115.[15] If comparative financial statements are provided, the previous periods should be retrospectively adjusted to reflect the application of this FSP.

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

The FASB issued this FSP,[16] which amends AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, to conform with the consensus reached in Issue 04-5.[17] Issue 04-5 provides a framework for addressing when a general partner controls a limited partnership. The final FSP makes changes to the consolidation guidance relating to both general and limited partnerships in SOP 78-9 as follows:

- *Amendments for Limited Partnerships* — The Board believes that the assessment of whether a general partner controls a limited partnership should be consistent for all limited partnerships, irrespective of the industry in which the partnership operates. Therefore, the FSP eliminates the concept of "important rights" from the limited partnership guidance in SOP 78-9 and replaces it with the concepts of **"kick-out rights" and "substantive participating rights"** as defined in Issue 04-5.
- *Amendments for General Partnerships* — The FSP amends SOP 78-9 to indicate that a general partner who is a majority holder in a general partnership may not control the entity if one or more of the other partners have substantive participating rights. The determination of whether the rights are substantive should be evaluated in accordance with Issue 04-5.
- *Effective Date and Transition* — For general partners of all new partnerships formed and for existing partnerships for which the partnership agreements are modified, the guidance in this FSP is effective after June 29, 2005. For general partners in all other partnerships, the guidance in this FSP is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005, and the application of either a cumulative-effect-type adjustment to the opening balance of retained earnings in the period of change or retrospective application under Statement 154[18] is permitted.

A copy of the complete FSP is available on the FASB's Web site.

Proposed FSPs

FASB Issues Proposed FSP FIN 46(R)-c on Assessing Variability Under Interpretation 46(R)

Proposed FSP FIN 46(R)-c[19] was issued to address current diversity in practice in the determination of variability to be considered when applying Interpretation 46(R).[20] The variability that is considered in applying Interpretation 46(R) may affect (1) the determination as to whether the entity is a variable interest entity (VIE), (2) the determination of which interests are variable interests in the entity, (3) if necessary, the calculation of expected losses and residual returns of the entity, and (4) the determination of which party is the primary beneficiary of the VIE.

The proposed FSP requires that the variability considered when applying Interpretation 46(R) should be based on the **purpose for which the entity was created and the nature of the risks** that the entity was designed to create and pass along to the entity's interest holders (e.g., credit risk, interest rate risk, commodity price risk, and operations risk). In obtaining an understanding of the design of the entity, all relevant facts and circumstances should be considered, including, but not limited to, the following factors:

- Activities of the entity,
- Nature of the entity's interests issued,
- Terms of the entity's contracts, and
- How the entity's interests were marketed to potential investors.

Once finalized, this FSP would be effective **prospectively** for all entities an enterprise first becomes involved with after the date the final FSP is posted to the FASB's Web site. In addition, the guidance would be effective for all entities previously analyzed under Interpretation 46(R) for which a reconsideration event as to whether the entity is a VIE occurs after the effective date. Early application would be permitted

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

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

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

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

[19] Proposed FASB Staff Position No. FIN 46(R)-c, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)."

[20] FASB Interpretation No. 46 (revised 2003), *Consideration of Variable Interest Entities* — an interpretation of ARB No. 51."

for periods for which financial statements have not yet been issued. Retrospective application to the date of the initial application of Interpretation 46(R) would be permitted but not required. If elected, retrospective application must be completed no later than the first interim or annual reporting period ending after April 15, 2006.

The proposed FSP, which is available on the FASB's Web site, contains numerous examples to illustrate how variability would be assessed for specific entities. See Deloitte & Touche's *Heads Up* for further information on the proposed FSP. Comments are due November 30, 2005.

FASB Issues Proposed FSP FAS 123(R)-c on Calculating the APIC Pool Under Statement 123(R)

Statement 123(R) 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 that would have qualified as such had the entity originally adopted Statement 123[21] for recognition purposes. Many companies have indicated that they do not have the relevant information or that there may be significant cost or complexities involved in determining the full historical APIC pool back to the original effective date of Statement 123.

As such, the FASB issued proposed FSP FAS 123(R)-c[22] to provide an **elective transition alternative** to calculating the transition APIC pool. Under this alternative, the beginning balance of a company's APIC pool should be calculated as follows:

- All increases of additional paid-in capital recognized in an entity's financial statements related to tax benefits from stock-based compensation during fiscal periods subsequent to the adoption of Statement 123 but prior to the adoption of Statement 123(R) less
- The cumulative gross compensation cost either (a) recognized pursuant to Statement 123 or (b) disclosed pursuant to the provisions of Statement 123, multiplied by the entity's current blended statutory tax rate.

Tax benefits realized in accordance with Statement 123(R) and recognized in equity subsequent to the adoption of Statement 123(R) that relate to an award that was fully vested prior to the adoption of Statement 123(R) should increase the APIC pool. The impact on the APIC pool of an award that is partially vested upon or granted after the adoption of Statement 123(R) should be determined in accordance with Statement 123(R).

Statement of Cash Flows — Under the FSP, tax benefits that are (1) realized in accordance with Statement 123(R), (2) recognized in equity subsequent to the adoption of Statement 123(R), and (3) related to an award that was fully vested prior to the adoption of Statement 123(R) should be included as a **cash inflow from financing** activities and **cash outflow from operating** activities. The cash flow impact of an award that is partially vested upon or granted after the adoption of Statement 123(R) should be determined in accordance with Statement 123(R).

Effective Date and Transition — The proposed FSP would be effective upon the date the final FSP is posted to the FASB's Web site. Companies that adopt Statement 123(R) using either modified retrospective or modified prospective application may make a one-time policy election to adopt either the elective transition alternative or the transition method described in paragraph 81 of Statement 123(R). A company may take up to one year from the later of its initial adoption of Statement 123(R) or the effective date of the final FSP to evaluate its available transition alternatives and finalize its election.

The proposed FSP is available on the FASB's Web site.

FASB Issues Proposed FSP FAS 123(R)-b on Determining Grant Date Under Statement 123(R)

Under Statement 123(R), companies estimate the fair value of their share-based payment awards when the awards have been granted. One of the criteria for determining that a share-based payment award has been granted is that the employer and its employees have a mutual understanding of the key terms and conditions of the award. Under proposed FSP FAS 123(R)-b,[23] 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:

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

Entities would apply the guidance in the proposed FSP upon initial adoption of Statement 123(R). Entities that adopt Statement 123(R) prior to issuance of the final FSP would apply the guidance in the first reporting period beginning after the date the final FSP is posted to the FASB's Web site. The proposed FSP is available on the FASB's Web site.

[Note: at its October 12, 2005, meeting, the FASB tentatively decided to revise the transition provisions to allow application of the FSP to the earliest reporting period for which financial statements have not yet been issued as of the date the final FSP is posted to the FASB's Web site.]

[21] FASB Statement No. 123, *Accounting for Share-Based Compensation*.

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

[23] Proposed FASB Staff Position No. FAS 123(R)-b, "Practical Exception to the Application of Grant Date as Defined in FASB Statement No. 123(R)."

FASB Issues Proposed FSP AAG INV-a on Accounting for Guaranteed Investment Contracts by Certain Investment Companies

Proposed FSP AAG INV-a[24] provides guidance for investment companies that:

- Are established under a trust adopted as part of one or more qualified employer-sponsored defined-contribution plans, and
- Invest in guaranteed investment contracts (GICs) or synthetic GICS that are considered to be "fully benefit-responsive."

The proposed FSP requires such an investment company to present these contracts on its balance sheet at **fair value** with an additional **single line item** that adjusts the net assets attributable to the contracts from fair value to contract value. Appendix A of the proposed FSP provides the following example to illustrate the balance sheet disclosure requirements:

Investments (at fair value)	$8,800,000
Wrapper contracts (at fair value)	100,000
Total assets	$8,900,000
Total liabilities	200,000
Net assets at fair value	$8,700,000
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	1,100,000
Net assets	$9,800,000

In general, contract value equals the principal balance plus accrued interest. The FSP states that contract value is a relevant measurement attribute because it is the amount participants in the fund would receive if they were to initiate withdrawals. The proposed FSP also:

- Includes the criteria that a contract must meet in order to be considered fully benefit-responsive, and
- Requires additional disclosures for fully benefit-responsive contracts individually and in the aggregate.

The guidance in this proposed FSP would be effective for financial statements for annual periods ending after December 15, 2005. Earlier application would be permitted. If comparative financial statements are presented, the guidance in the proposed FSP would be applied retroactively to all prior periods presented.

A complete copy of the proposed FSP is available on the FASB's Web site.

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

The FASB issued proposed FSP FAS 140-c[25] to clarify that paragraphs 40(b) and 40(c) of Statement 140 are only intended to be **applied at the date a qualified special-purpose entity (QSPE) issues beneficial interests** or when a passive derivative financial instrument needs to be replaced upon the occurrence of a specified event outside the control of the transferor. Unexpected subsequent events that were not contemplated when the beneficial interests of the QSPE were issued do not impair an entity's qualified status.

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

The proposed FSP, which is available on the FASB's Web site, would be applied prospectively to the evaluation of the qualified status of new and existing SPEs after the date the FSP is finalized.

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

The FASB issued proposed FSP FAS 13-b[26] to clarify the proper accounting for rental costs incurred on building or ground operating leases during a construction period. The proposed FSP indicates that:

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

A lessee should cease capitalizing rental costs as of the effective date of the FSP for operating lease arrangements entered into prior to that date. Retrospective application would be permitted but not required.

[24] Proposed FASB Staff Position No. AAG INV-a, "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide."

[25] Proposed FASB Staff Position No. FAS 140-c, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASBStatement No. 140."

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

[NOTE: this FSP was finalized as FSP FAS 13-1 on October 6, 2005, and is effective for the first reporting period beginning after December 15, 2005. Further information will be available in the October 2005 *Accounting Roundup*.]

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

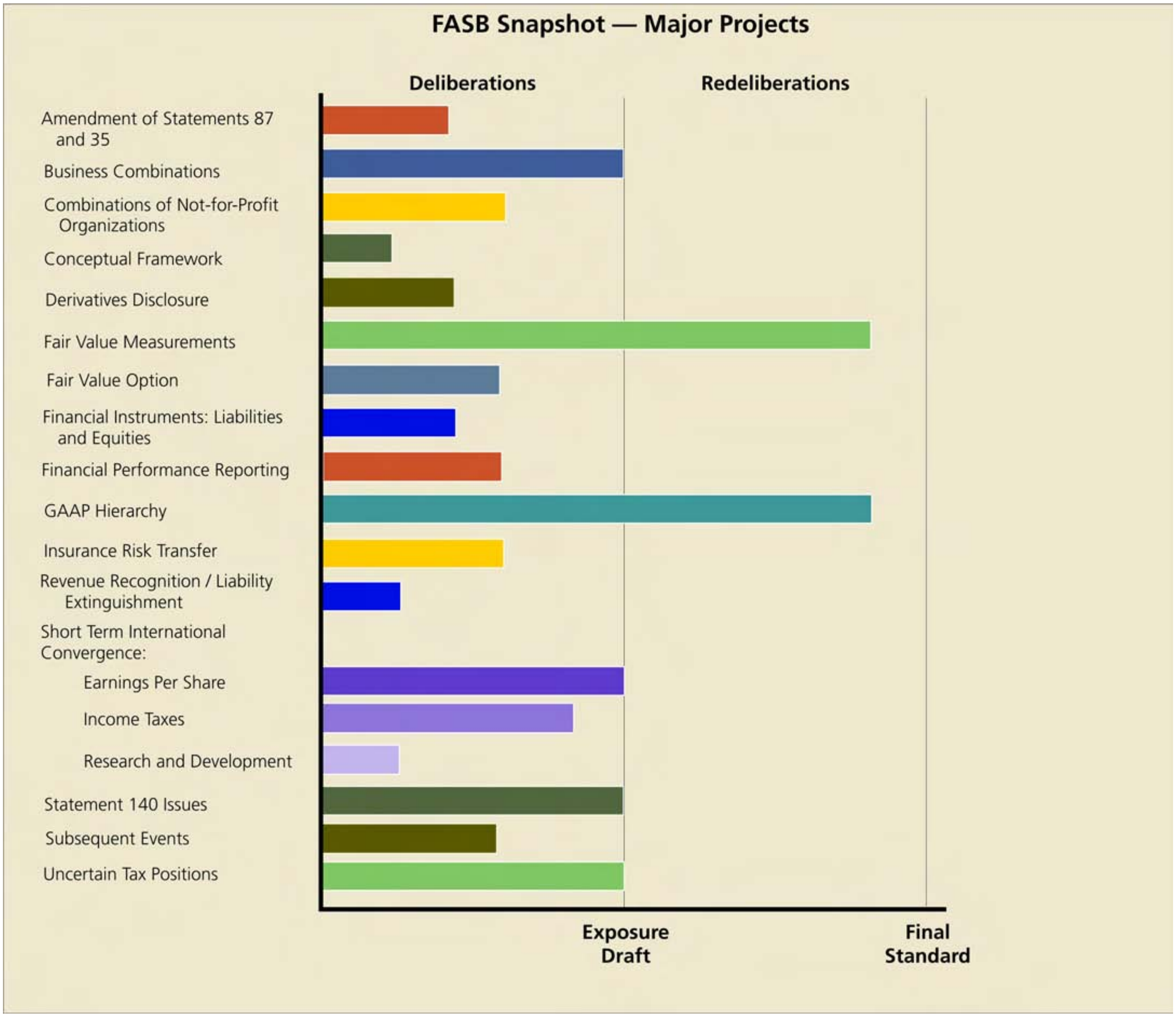
On July 14, 2005, the FASB issued proposed FSP FAS 13-a,[27] which amends FASB Statement No. 13, *Accounting for Leases*, to address how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease.

- *Important Assumptions* — This FSP would amend Statement 13 to include the **expected timing of income tax cash flows** from the leveraged lease as an important assumption that must be reviewed at least annually. The FSP would only apply to changes or projected changes in timing that are directly related to the leveraged lease transaction (e.g., an interpretation of the tax law or a change in the lessor's assessment of the likelihood of prevailing in a challenge by the taxing authority).
- *Recalculation* — If the expected timing of income tax cash flows is revised, the **rate of return and income allocation should be recalculated** from lease inception using the revised assumptions. The recalculation would include actual cash flows that occurred up to and including the point of the actual settlement or expected settlement and the estimated cash flows thereafter. Additionally, the recalculation would include any interest and penalties assessed or expected to be assessed by the taxing authority.
- *Change in Lease Characterization* — The recalculation may result in a situation in which the lease would not have originally qualified as a leveraged lease if the revised assumptions had been used at inception. If this occurs, **the lessor should reclassify the lease prospectively as a direct financing lease** as of the date the change in assumption occurs. The lessor would separately report (1) its investment in the direct financing lease, (2) the nonrecourse debt, and (3) the deferred taxes related to the direct financing lease on its balance sheet, as if the lease had been classified as direct financing since inception. The difference between these balances and the balance of the net investment in the leveraged lease prior to recalculation would be reported as a gain or loss in the period of change. The gain or loss would be included in income from continuing operations before income taxes in the same line item in which leveraged lease income is recognized.
- *No Change in Lease Characterization* — If the recalculation does not change the characterization of the lease, the net investment balance would be adjusted. Any gain or loss would be recorded in the period of change in income from continuing operations before income taxes in the same line item in which leveraged lease income is recognized.
- *Effective Date and Transition* — The guidance in this FSP would be effective as of the end of the first fiscal year ending after December 15, 2005, with earlier application encouraged. The impact of adopting this FSP will be recognized as the cumulative effect of a change in accounting principle through the income statement as described in Opinion 20.[28] Retrospective restatement of prior periods or pro forma disclosures under Opinion 20 would not be permitted.

The proposed FSP is available on the FASB's Web site.

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

[28] APB Opinion No. 20, *Accounting Changes*.



FASB Project Summaries and Meeting Minutes

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

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

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

EITF Developments

EITF Activity in the Third Quarter of 2005

The EITF discussed the following topics at the September 15, 2005, meeting.

EITF Issues on Which Consensuses Were Reached

- Issue No. 05-8, "Income Tax Consequences of Issuing Convertible Debt With a Beneficial Conversion Feature"
- Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues"
- Issue No. 04-13, "Accounting for Purchases and Sales of Inventory With the Same Counterparty"

EITF Issues Sent to FASB Staff for Follow-Up

- Issue No. 05-1, "The Accounting for the Conversion of an Instrument That Becomes Convertible Upon the Issuer's Exercise of a Call Option"

EITF Issues With Modifications of Final Consensuses

- Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased After Lease Inception or Acquired in a Business Combination"
- Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments"

Revised SEC Staff Announcement

- Topic No. D-98, "Classification and Measurement of Redeemable Securities"

The FASB ratified the final concensuses and the modifications to Issue 05-6 and Issue 96-19 as its September 28, 2005, meeting. No ratification of the modification to Topic D-98 is required.

Further discussion on these items can be found in Deloitte and Touche's *EITF Roundup*.

The minutes for the EITF meetings and the minutes of the FASB's September 28, 2005, ratification meeting are on the FASB's Web site.

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

GASB Developments

GASB Publishes Implementation Guide on Postemployment Benefits Other Than Pensions

The GASB has published a *Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits*, which provides **answers to over 250 questions** about topics including:

- Scope and applicability of Statement 43[29] and Statement 45,[30] including distinguishing between other postemployment benefits (OPEB) and other forms of employee benefits such as compensated absences, termination benefits, and pensions.
- Actuarial issues, including the timing and frequency of actuarial valuations associated with OPEB, and selection of methods and assumptions.
- Treatment of implicit rate subsidies that arise when retirees are insured in a group with current employees.
- Option for certain employers and plans with small plan memberships to apply an alternative measurement method to estimate liabilities and expenses associated with their OPEB obligations.

A press release on the Implementation Guide that includes ordering information is available on the GASB's Web site.

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.

[29] GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

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

AICPA Developments

AICPA Issues Proposed Auditing Standard on Communication of Internal Control Matters

The AICPA has issued a proposed Statement on Auditing Standards[31] designed to enhance the auditor's ability to **identify and communicate significant deficiencies and material weaknesses** in internal control identified in a financial statement audit. This document was previously exposed in 2003, but is being reexposed because significant changes have been made to address constituent comments and reflect certain definitions and guidance in PCAOB Auditing Standard 2.[32] The proposed SAS would supersede AICPA Statement on Auditing Standards No. 60, *Communication of Internal Control Related Matters Noted in an Audit*. Among other items addressed, the proposed SAS:

- Incorporates the definitions of the terms *control deficiency* and *material weakness* used in PCAOB Auditing Standard 2, and replaces the term *reportable condition* with the term *significant deficiency* and its related definition in PCAOB Auditing Standard 2.
- Requires the auditor to communicate significant deficiencies and material weaknesses in internal control, in writing, to management and those charged with governance. These matters should be communicated even if they were previously communicated in connection with previous audits. Communications must occur no later than **60 days** following the release date of the auditor's report.
- Provides guidance to the auditor in evaluating deviations and the severity of deficiencies.
- Identifies specified control deficiencies that ordinarily would be considered at least significant deficiencies.
- Identifies specified circumstances that should be regarded as at least a significant deficiency and a strong indicator of a material weakness.
- Presents revised illustrative written communications.

The proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2006, and is available on the AICPA's Web site. Comments are due October 31, 2005.

AICPA Issues Two TPAs on Accounting and Disclosure Requirements for Employee Benefit Plans

The AICPA has issued two TPAs that provide guidance on whether the effects of the federal subsidies from the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Act) to sponsors of certain retiree health care benefit plans should be reflected in the financial statements of health and welfare plans. The first TPA addresses single-employer plans and the second addresses multiemployer plans.

- AICPA Technical Practice Aids TIS Section 6930.09, "Accounting and Disclosure Requirements for ***Single-Employer Employee Benefit Plans*** Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," indicates that a single employer health and welfare **benefit plan should not consider the effects of the subsidy** when calculating the plan's postretirement benefit obligation. Therefore, the postretirement benefit obligation recorded in the plan's financial statements is not reduced by any potential subsidy and should differ from that recorded in the plan sponsor's financial statements.
- AICPA Technical Practice Aids TIS Section 6930.10, "Accounting and Disclosure Requirements for ***Multiemployer Employee Benefit Plans*** Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," indicates that a multiemployer plan's financial statements **should consider the effects of the subsidy** when calculating the plan's postretirement benefit obligation.

The difference occurs because for a single-employer plan, the subsidy is a benefit paid directly to the plan sponsor, and not to the plan (i.e., the plan sponsor is not obligated to contribute the subsidy to the plan). For a multiemployer plan, however, the trust and not the plan sponsor (i.e., the contributing employers) receives the subsidy directly.

The TPAs also include disclosure requirements related to the effect the subsidy had on the plan's accumulated postretirement benefit obligation as well as disclosure requirements for plans that have not yet determined actuarial equivalence to Medicare Part D.

If the effects of the subsidy were previously accounted for differently than as provided for in the TPAs, the resultant change should be recognized as a change in accounting principle.

AICPA Issues TPA on Losses From Natural Disasters

In the wake of Hurricane Katrina, the AICPA issued Technical Practice Aids TIS Section 5400.05, "Accounting and Disclosures Guidance for Losses from Natural Disasters — Nongovernmental Entities," to address issues that may arise in accounting for losses from natural disasters and to identify

[31] Proposed AICPA Statement on Auditing Standards, *Communication of Internal Control Related Matters Noted in an Audit*.

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

relevant accounting literature. The TPA provides guidance on the following matters:

- Income statement classification of losses (i.e., ordinary versus extraordinary);
- Recognition of impairment losses;
- Recognition of non-impairment losses and costs;
- Accounting for insurance recoveries, including business interruption insurance; and
- Required disclosures.

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

SEC Developments

SEC Extends Sarbanes-Oxley Compliance Date for Nonaccelerated Filers

The SEC has extended the compliance date for internal control reporting requirements for an additional year for nonaccelerated filers. Nonaccelerated filers, including foreign private issuers that are not accelerated filers, must begin to comply with the Sarbanes-Oxley Section 404 requirements in the first fiscal year ending on or after **July 15, 2007**. Foreign private issuers that are accelerated filers and file annual reports on Form 20-F or 40-F must begin to comply in the first fiscal year ending on or after July 15, 2006.

The extension is in response to recent recommendations by the SEC Advisory Committee on Smaller Public Companies and ongoing efforts to develop an enhanced COSO Framework for smaller public companies.

The SEC is also soliciting public comment on questions regarding the application of the internal control reporting requirements, including questions about the amount of time and expense that nonaccelerated filers have already incurred to prepare for compliance with the internal control reporting requirements. Comments are due October 31, 2005.

The full text of this release is available on the SEC's Web site.

SEC Proposes Amendments to Filing Deadlines and Definition of Accelerated Filers

The proposed amendments would create a new category of companies called "large accelerated filers" for companies that have a public float of $700 million or more and meet the other conditions that apply to accelerated filers. "Accelerated filers" would be redefined as companies that have at least $75 million, but less than $700 million in public float. The other conditions for qualifying as an accelerated filer (e.g., the issuer previously has filed at least one annual report) remain unchanged.

The proposal, if adopted, would include the following **deadlines for Form 10-K** annual reports:

Large accelerated filers	60 days after year end
Other accelerated filers	75 days after year end
Nonaccelerated filers	90 days after year end

The filing deadline for all accelerated filers would remain at **40 days for quarterly reports on Form 10-Q**.

The proposed amendments would also ease restrictions on the process for exiting accelerated filer status by allowing an accelerated filer whose public float drops below $25 million to file an annual report on a nonaccelerated basis for the same fiscal year that the determination of public float is made. Large accelerated filers will be allowed to exit that status once their public float has dropped below $75 million.

The proposed amendments are available on the SEC's Web site. Comments are due October 31, 2005.

SEC Issues Questions and Answers on Securities Offering Reform

In June 2005, the SEC issued the Securities Offering Reform rule. The more significant changes resulting from the rule:

- Improve communications to investors regarding securities offerings.
- Address disclosure liability in registration statements, prospectuses, and oral communications.
- Improve the shelf registration procedures.
- Introduce an ability to conduct securities offerings without printing and delivering final prospectuses.
- Require additional disclosures in 10-Ks.

Under the additional disclosure requirements, 10-K filers must include disclosures of risk factors, where appropriate. Accelerated filers and well-known seasoned issuers must **disclose material written SEC staff comments** that were issued more than 180 days before the end of the fiscal year to which the annual report relates when those comments remain unresolved at the time of filing the annual report.

In September 2005, the SEC issued a series of Questions and Answers regarding issuers' transition to compliance with the new rules and forms in the Securities Offering Reform rule.

SEC Releases Statement on Valuing Employee Stock Options

The SEC has issued informal staff progress reports on the ongoing Commission evaluation of proposals to value employee stock options for financial reporting purposes. SEC Chairman Christopher Cox issued a statement encouraging the private sector's efforts to design market instruments that have the potential to accurately measure the cost of employee stock option grants. Statement 123(R) indicates that the fair value of an employee stock option should be based on the observable market price of an option with the same or similar terms and conditions, if available.

The Office of Economic Analysis performed an evaluation of different market-based approaches to valuing stock options. Instruments designed under a "terms and conditions approach," which try to replicate the attributes of an employee stock option (such as non-transferability), are viewed as not producing values that are consistent with the principles of Statement 123(R).

However, instruments designed under a **"tracking approach" appear likely to produce a reasonable estimate** of the fair value of employee stock options. Under the tracking approach, a company issues an instrument that incorporates rights to future payouts that are identical to the future flows of net receipts by employees or net obligations of the company under the grant. When willing buyers and sellers trade a tracking instrument, they devote resources to estimating a value of the instrument, and reveal this information through the market price. In order to replicate the fair value of an employee stock option, no restriction can be imposed on the ability of the holder to trade or hedge the instrument, even though employees likely face such restrictions.

In addition, two other elements must be contained in any market-based approach: (1) the presence of an **information plan** to help investors properly value the instrument and (2) **market pricing mechanisms** through which an instrument can be traded to generate a price.

SEC Chief Accountant Donald Nicolaisen further stated that even if a company designs an acceptable instrument and the actual transaction price proved to be significantly different from the price expected based on widely used modeling techniques, the company must be able to sufficiently resolve questions surrounding that difference.

SEC Chairman Christopher Cox's statement, SEC Chief Accountant Donald Nicolaisen's statement, and the Office of Economic Analysis' evaluation are all available on the SEC's Web site.

SEC Extends XBRL Program to Investment Companies

The SEC has expanded its voluntary eXtensible Business Reporting Language (XBRL) program to investment companies. The expansion will allow mutual funds to file exhibits to their annual report to shareholders and quarterly statement of portfolio holdings using XBRL. XRBL turns text-based information, such as the filings currently available through the EDGAR system into documents that can be retrieved, searched and analyzed through automated means.

The press release and full text of the voluntary program release can be accessed on the SEC's Web site.

SEC Approves Regulatory Relief for Companies Affected by Hurricane Katrina

The SEC has issued an exemptive order providing emergency regulatory relief to investors, companies, and securities firms affected by Hurricane Katrina. Exchange Act **filing requirements** for the period from August 29 to October 14, 2005, have been **extended to October 17, 2005**, for affected companies.

The order also provides for a 90-day exemption on the requirement to deliver statutory prospectuses, annual reports, and semi-annual reports provided that certain conditions are met. Additional exemptions are provided for proxy and information statement delivery requirements, transfer agent compliance rules, and auditor independence rules. The auditor independence exception is limited to reconstruction of previously existing accounting records that were lost or destroyed as a result of the hurricane, and such services must cease as soon as the client's lost or destroyed records are reconstructed, its financial systems are fully operational, and the client can effect an orderly and efficient transition to management or other service provider. These services are still subject to pre-approval by the issuer's audit committee.

Christopher Cox Sworn In as SEC Chairman

On August 3, 2005, Christopher Cox took the oath of office to become the 28th Chairman of the SEC. Chairman Cox was nominated by President Bush on June 2, 2005, and was unanimously confirmed by the Senate on July 29, 2005. For the past 10 years, he served in the elected majority Leadership of the House of Representatives. Most recently, he was Chairman of the House Committee on Homeland Security. In addition, he served as White House counsel to President Reagan, was a securities partner in a law firm, and was a member of the Harvard Business School faculty.

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

PCAOB Developments

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

The PCAOB issued Auditing Standard 4.[33] This standard establishes guidance that applies when an auditor is engaged to report on management's assertion that a previously reported material weakness no longer exists as of a date specified by management. These stand-alone engagements are voluntary and are performed at the election of a company's management.

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

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

PCAOB Adopts Ethics and Independence Rules

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

- The firm enters into a **contingent fee arrangement** with that client. (Rule 3521)
- The firm provides services related to marketing, planning, or opining in favor of the tax treatment of a transaction (1) with tax-advisor imposed conditions of **confidentiality** or (2) that is based on an **aggressive** interpretation of applicable tax laws and regulations. The scope of this rule includes listed transactions as defined by U.S. Treasury Department regulations. (Rule 3522)
- The firm provides tax services to certain members of management who serve in financial reporting oversight roles at an audit client or to immediate family members of such persons. (Rule 3523)

The rules also **increase the audit committee pre-approval requirements for tax services** by requiring a firm to (1) describe the proposed tax services engagements in writing, (2) discuss with the audit committee the potential effects of the services on the firm's independence, and (3) document the substance of that discussion. (Rule 3524)

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

- *Independence Rule* — This rule, while not creating any new requirements, articulates the foundation for the current independence requirements. Firms and their associated persons must be independent of their audit clients throughout the audit and professional engagement period. (Rule 3520)
- *Ethics Rule* — The Board adopted an ethics rule codifying the principle that persons associated with a registered public accounting firm should not cause the firm to violate relevant laws, rules, and professional standards due to an act or omission that the person knew or should have known would directly and substantially contribute to such violation. (Rule 3502)

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

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

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

International Developments

IASB Issues IFRS 7 on Financial Instrument Disclosures and Amends IAS 1 for Capital Disclosures

IFRS 7, *Financial Instruments: Disclosures,* introduces new requirements to **improve disclosure of financial instruments**. The amendment to IAS 1, *Presentation of Financial Statements — Capital Disclosures*, introduces **disclosure requirements regarding an entity's capital**.

- *Principle Features of IFRS 7* — IFRS 7 applies to all risks arising from all instruments, except those covered by another more specific standard. The IFRS applies to all entities and requires disclosure of:
  - o The significance of financial instruments to an entity's financial position and performance; and
  - o Qualitative and quantitative information about **exposure to risks arising from financial instruments**, including specified minimum disclosures about credit risk, liquidity risk and market risk.
- *Amendments to IAS 1* — The amendments add requirements to disclose the following:
  - o The entity's objectives, policies, and processes for managing capital;
  - o Quantitative data about what the entity regards as capital;
  - o Whether the entity has complied with its capital requirements; and
  - o If it has not complied, the consequences of such non-compliance.

IFRS 7 and the amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2007. Earlier application is encouraged. A press release summarizing IFRS 7 and the amendments to IAS 1 is available on the IASB's Web site.

IFRIC Issues Interpretation on Electronic Waste Liabilities

IFRIC 6[34] provides guidance on accounting for liabilities for waste management costs. The Interpretation is in response to questions arising from the European Union's Directive on Waste Electrical and Electronic Equipment. The Interpretation applies only to waste from the sales of historical household equipment (i.e., household products sold before August 13, 2005).

The IFRIC concluded that the event giving rise to the liability for costs of such historical waste is **participation in the market** during a measurement period (i.e., a period in which market shares are determined for the purposes of allocating waste management costs). It is this date, rather than the date of production or sale of the equipment, that is the **triggering event for liability recognition**.

The Interpretation is effective for annual periods beginning on or after December 1, 2005. Earlier application is encouraged. A press release summarizing IFRIC 6 is available on the IASB's Web site.

IASB Issues Amendments for Financial Guarantee Contracts

The IASB has issued amended requirements for financial guarantee contracts, in the form of limited amendments to IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 4, *Insurance Contracts*.

The amendments **define a financial guarantee contract** and are intended to ensure that issuers of financial guarantee contracts **include the resulting liabilities in their balance sheets**. The issuer of the contract will initially measure it at fair value and subsequently measure it at the higher of (a) the amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*; or (b) the amount initially recognized less cumulative amortization recognized in accordance with IAS 18, *Revenue*. However, if specific criteria are met, the issuer may use the fair value option in IAS 39.

In an accommodation to credit insurers, the amendments allow issuers that have previously explicitly asserted that such contracts were insurance contracts and used accounting specific to insurance contracts to elect to apply either IFRS 4 or the guidance described above. The IASB expects to review the accounting for credit insurance contracts in more detail in its project on insurance contracts.

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

IASB Withdraws IFRIC 3 on Emission Rights

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

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

[34] IFRIC Interpretation 6, *Liabilities Arising From Participating in a Specific Market — Waste Electrical and Electronic Equipment*.

measurement when compared to other IFRSs.

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

IASB Issues Proposed Amendments to IAS 21 for Net Investments in Foreign Operations

The IASB issued DTC 1[35] to address concerns raised by constituents resulting from the 2003 amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates*. A principle in IAS 21 is that exchange differences arising on a monetary item that is, in substance, part of the reporting entity's net investment in a foreign operation are initially recognized in a separate component of equity in the consolidated financial statements of the reporting entity. Among the revisions to IAS 21 made in 2003 was that the monetary item be denominated in the functional currency of either the reporting entity or the foreign operation in order for exchange differences to be recognized in equity. If the monetary item was denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, the exchange differences were recognized in profit or loss.

The Board concluded that the accounting treatment in the consolidated financial statements should not be dependent upon the currency in which the monetary item is denominated or which entity in the group transacts with the foreign operation. Therefore, the proposed amendment in DTC 1 requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognized initially in a separate component of equity in the consolidated financial statements. This requirement applies **irrespective of the currency of the monetary item and irrespective of whether the monetary item** results from a transaction with the parent or with any of its subsidiaries.

The Board also decided to clarify that an investment by an associate of the reporting entity in a foreign operation is not part of the reporting entity's net investment in that foreign operation. Because the reporting entity does not control the associate's investment, it generally has no ability to control the terms and conditions of settlement of the associate's investment in a group entity.

The proposed amendments are available on the IASB's Web site. Comments are due October 31, 2005.

IASB Invites Comment on Its Proposed Technical Corrections Policy

The newly proposed IASB Policy on Technical Corrections would establish a **"fast track"** to address situations in which either (a) it is clear that the words in a standard do not convey the IASB's intention or (b) the standard has unexpected consequences. The proposed Policy establishes the ability of the IASB staff to take an issue directly to the Board for discussion at its next meeting. The Board would publish the proposed amendment on the IASB Web site and in the IASB Update and allow 30 days for comments.

The proposed Policy is available in its entirety on the IASB's Web site. Comments were due September 30, 2005.

Further information about the 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.

A summary of the IASB meetings, 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 available on the IASB's Web site.

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.

35 Draft Technical Correction 1, "Proposed Amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates* — Net Investment in a Foreign Operation."

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
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 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 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.
FSP FIN 46(R)-5, "Implicit Variable Interests Under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*"	Effective in the first reporting period beginning after March 3, 2005, for entities that have adopted Interpretation 46(R). For all other entities, effective in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-4, "Technical Correction of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, Relating to Its Effects on Question No. 12 of EITF Issue No. 96-21, 'Implementation Issues in Accounting for Leasing Transactions Involving Special-Purpose Entities'"	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-3, "Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions About an Entity's Activities Through Voting Rights or Similar Rights Under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*"	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-2, "Calculation of Expected Losses Under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*"	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).
FSP FIN 46(R)-1, "Reporting Variable Interests in Specified Assets of Variable Interest Entities as Separate Variable Interest Entities Under Paragraph 13 of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*"	The guidance should be applied in accordance with the effective dates of Interpretation 46(R).

FSP APB 18-1, "Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for Under the Equity Method in Accordance With APB Opinion No. 18 Upon Loss of Significant Influence"	Effective as of the first reporting period beginning after July 12, 2005.
FSP SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and 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 Statement, *Business Combinations* — a replacement of FASB Statement No. 141	Comments due October 28, 2005.
Proposed Statement, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries* — a replacement of ARB No. 51	Comments due October 28, 2005.
Proposed Statement, *Earnings per Share* — 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, *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 96-16 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 periods beginning after June 29, 2005.
Issue 05-5, "Accounting for Early Retirement Programs With Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements)"	Effective for fiscal years beginning after December 15, 2005.
Issue 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock'"	Effective for new instruments and modifications to existing instruments entered into after June 29, 2005.
Issue 04-13, "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.
AICPA/AcSEC	**Status**
Upcoming Adoption Dates	
SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions*	Effective for fiscal years beginning after June 15, 2005.
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.
Projects in Exposure Draft Stage	
Proposed Statement on Auditing Standards, *Communication of Internal Control Related Matters Noted in an Audit*	Comments due October 31, 2005.

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 their 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, 2006, for "nonaccelerated filers." Effective for fiscal years ending on or after July 15, 2006, for foreign private issuers that file annual reports on forms 20-F or 40-F.
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.
Projects in Request for Comment Stage	
Proposed Rule, *Revisions to Accelerated Filer Definition and Accelerated Deadlines for Filing Periodic Reports*	Comments due October 31, 2005.
Request for Comment, Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports of Companies That Are Not Accelerated Filers	Comments due October 31, 2005.
PCAOB	**Status**
Upcoming Adoption Dates	
Auditing Standard No. 4, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist*	Effective upon approval by the SEC.
Auditing Standard No. 3, *Audit Documentation*	Effective for audits of financial statements with fiscal years ending on or after November 15, 2004.

Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*	Effective for audits of companies with fiscal years ending on or after November 15, 2004, for certain accelerated filers, or July 15, 2007, for other companies. For accelerated filers with (i) public equity float of less than $700 million at the end of their second fiscal quarter in 2004 and (ii) fiscal years ending between November 15, 2004, and February 28, 2005, the filing date of management's report on internal control over financial reporting has been postponed 45 days.
Conforming Amendments to PCAOB Interim Standards Resulting From the Adoption of PCAOB Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements"	Effective for integrated audits of financial statements at the same time as Auditing Standard No. 2. Effective for audits of only financial statements for periods ending on or after July 15, 2005.
Rule 3501, *Definitions of Terms Employed in Section 3, Part 5 of the Rules;* Rule 3502, *Responsibility Not to Cause Violations;* Rule 3520, *Auditor Independence*	Effective 10 days after approval by the SEC.
Rule 3521, *Contingent Fees*	Effective for contingent fee arrangements that were not paid in their entirety, converted to fixed fee arrangements, or otherwise unwound before the later of December 31, 2005, or 10 days after approval by the SEC.
Rule 3522, *Tax Transactions*	Effective for tax services completed after the later of December 31, 2005, or 10 days after approval by the SEC.
Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*	Rule will not apply to tax services being provided pursuant to an engagement in process at the time the SEC approves the rules, provided that such services are completed on or before the later of June 30, 2006, or 10 days after approval by the SEC.
Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*	Rule will not apply to any tax service pre-approved before the later of December 31, 2005, or 10 days after approval by the SEC, or, in the case of an issuer that pre-approves non-audit services by policies and procedures, the rule will not apply to any tax service provided by March 31, 2006.

IASB/IFRIC	**Status**
Upcoming Adoption Dates	
IFRS 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 IFRS 6, *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 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	
Proposed Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and IAS 19, *Employee Benefits*	Comments due October 28, 2005.
Proposed Amendments to IAS 27, *Consolidated and Separate Financial Statements*	Comments due October 28, 2005.
Proposed Amendments to IFRS 3, *Business Combinations*	Comments due October 28, 2005.
Draft Technical Correction, "Proposed Amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates —* Net Investment in a Foreign Operation"	Comments due October 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

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