

# Insights

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## Auditing

### Proposed Statements Related to Controls at a Service Organization

The AICPA's Auditing Standards Board (ASB) has issued a proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at a Service Organization*. The proposed SSAE would supersede the requirements and guidance for auditors reporting on controls at service organizations (service auditors) in AU Section 324, *Service Organizations*. The ASB also concurrently issued a proposed Statement on Auditing Standards (SAS) that would replace the guidance in AU Section 324 for auditors of the financial statements of entities that use a service organization (user auditors), renaming that Section *Audit Considerations Relating to an Entity Using a Service Organization*. Consistent with the ASB's strategy to clarify its standards and converge them with those of the International Auditing and Assurance Standards Board, the proposed SSAE and SAS have been drafted using the December 2007 exposure drafts of International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Third Party Service Organization*, and International Standard on Auditing 402 (Revised and Redrafted), *Audit Considerations Relating to an Entity Using a Third Party Service Organization*, respectively, as bases.

Among other provisions, the proposed SSAE would require management of the service organization to provide the service auditor with a written assertion about the fairness of the presentation of the description of the service organization's system, the suitability of the design of the controls to achieve the related control objectives stated in the description, and, in a type 2 engagement that includes tests of operating effectiveness, the operating effectiveness of those controls to achieve the related control objectives stated in the description. The proposed SSAE would allow a service auditor to report on controls at a service organization other than controls that are relevant to user entities' financial reporting (e.g., controls related to user entities' regulatory compliance, production, or quality control). In a type 2 report, the service auditor's opinion on the fairness of the presentation of the description of the service organization's system and on the suitability of the design of the controls would be for a period rather than as of a specified date.

The proposed SAS would permit a user auditor to make reference to the work of a service auditor in his or her report to explain a modification of the user auditor's opinion. Also, a user auditor would be required to inquire of management of the user entity about whether the service organization has reported to the user entity any fraud, noncompliance with laws and regulations, or uncorrected misstatements. If so, the user auditor would be required to evaluate how such matters affect the nature, timing, and extent of the user auditor's further audit procedures. As proposed, the SAS would be applicable to situations in which an entity uses a shared service organization that provides services to a group of related entities.

The ASB plans to make most of its clarified standards, including the proposed SAS, effective at the same time (*i.e.*, no earlier than periods beginning on or after December 15, 2010). The effective date of the ISAE has not yet been determined. However, if the ISAE and the SSAE were to become effective at different times, two different standards resulting in two different reports, that frequently are used by auditors in multiple jurisdictions, would be available at the same time. To avoid the confusion that might result from that situation, the ASB has proposed making the proposed SSAE effective concurrently with the ISAE.

The proposed Statements are available for comment until February 17, 2009 at <http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Exposure+Drafts+of+Proposed+Statements/>.

### **Proposed Statement Clarifies Applicability of SSARS to Interim Financial Reporting**

In 2007, a joint AICPA Accounting and Review Services Committee (ARSC) and Auditing Standards Board (ASB) task force was established to develop guidance with respect to the performance of review engagements on condensed interim financial information for nonissuers. That task force concluded that such interim financial reporting is intended to provide a periodic update to year-end reporting and, therefore, the engagement to provide limited assurance on such financial reporting is considered an extension of the annual audit. The task force concluded that the requirements and guidance for the performance and reporting on such an engagement should reside in the auditing literature. Therefore, on September 2, 2008, the ASB exposed a proposed Statement on Auditing Standards (SAS), *Interim Financial Information*, which, if finalized, would amend AU Section 722, *Interim Financial Information*, to accommodate reviews of interim financial information of nonissuers, including companies offering securities pursuant to SEC Rule 144A or participating in private equity exchanges. See the September 16, 2008 edition of *Insights* for more information on the proposed SAS.

As a result of comments received on the proposed SAS, the task force recommended that AR section 100, *Compilation and Review of Financial Statements*, be revised to clarify that Statements on Standards for Accounting and Review Services (SSARS) do not apply when the provisions of AU Section 722 apply. Therefore ARSC has issued an exposure draft of a proposed SSARS, *Applicability of Statements on Standards for Accounting and Review Services—2008*, which states that SSARS are not applicable to reviews of interim financial information if:

- The entity's latest annual financial statements have been audited by the accountant or a predecessor;
- The accountant has been engaged to audit the entity's current year financial statements, or the client has a continuing contractual or regulatory obligation to have its annual financial statements audited; and
- The client prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements.

The proposed SSARS may have to be further revised based on the final SAS as issued by the ASB. If finalized, the proposed SSARS would be effective for compilations and reviews of financial statements for periods ending on or after June 15, 2009. Early application would be permitted.

The proposed SSARS is available for comment until January 9, 2009 at [http://www.aicpa.org/download/auditstd/SSARS\\_18\\_ED\\_Applicability.pdf](http://www.aicpa.org/download/auditstd/SSARS_18_ED_Applicability.pdf).

## Public Sector

### Interim Guidance on Reporting Deficiencies in Internal Control for GAGAS Financial Audits

Government Auditing Standards (GAGAS) incorporate the field work and reporting standards of the American Institute of Certified Public Accountants (AICPA) for financial audits and the related Statements on Auditing Standards (SAS), as well as the AICPA field work and reporting standards for attestation engagements and the related Statements on Standards for Attestation Engagements (SSAE) unless specifically excluded or modified by GAGAS. In October 2008, the AICPA's Auditing Standards Board (ASB) issued SSAE No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, which aligned the definitions of the various kinds of deficiencies in internal control and the related guidance for evaluating such deficiencies with the definitions and guidance in Public Company Accounting Oversight Board Auditing Standard No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*. Also, in October 2008, the ASB issued SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, which conformed the definitions of the various kinds of deficiencies in internal control and the related guidance for evaluating such deficiencies in AU Section 325, *Communicating Internal Control Related Matters Identified in an Audit*, with the definitions and guidance in SSAE No. 15.

These new AICPA standards have resulted in differences from the definitions of "material weaknesses" and "significant deficiencies" used in the July 2007 revision of GAGAS. To facilitate the reporting of internal control deficiencies identified in engagements performed under GAGAS and the new AICPA standards, the U.S. Government Accountability Office (GAO) has issued *Interim Guidance on Reporting Deficiencies in Internal Control for GAGAS Financial Audits and Attestation Engagements (November 2008)*, which provides:

- Auditors may satisfy the internal control reporting requirements in GAGAS paragraph 5.11 by including in the GAGAS report on internal control all identified "material weaknesses" and "significant deficiencies" following the new definitions and requirements from SAS No. 115 and SSAE No. 15, as applicable, providing those definitions, and describing the scope of testing performed on the entity's internal control over financial reporting.
- Auditors are reminded to comply with all other relevant GAGAS requirements related to reporting deficiencies in internal control, such as developing findings and providing recommendations for corrective action if findings are sufficiently developed (GAGAS paragraphs 5.21 and 6.42), obtaining views of responsible officials (GAGAS paragraphs 5.32 through 5.38 and 6.44 through 6.50), and ensuring appropriate report distribution (GAGAS paragraphs 5.44 and 6.56).

The GAO's interim guidance is effective concurrent with the implementation of SAS No. 115 and/or SSAE No. 15. SAS No. 115 is effective for audits of financial statements for periods ending on or after December 15, 2009, and SSAE No. 15 is effective for engagements for periods ending on or after December 15, 2008. Early implementation is permitted for both standards.

The interim guidance is available in full at <http://www.gao.gov/govaud/icguidance0811.pdf>. The Comptroller General's Advisory Council on Government Auditing Standards will fully deliberate this issue in conjunction with the next GAGAS update, at which time the interim guidance may change.

## International

### IFRIC Issues Guidance on Distributions of Non-cash Assets to Owners

Existing International Financial Reporting Standards do not address how an entity should measure distributions of assets other than cash when it pays dividends to its owners. The dividend payable is sometimes recognized at the carrying amounts of the assets to be distributed and sometimes at their fair value. As a result of this diversity in practice, the International Financial Reporting Interpretations Committee (IFRIC) has issued IFRIC 17, *Distributions of Non-cash Assets to Owners*. The Interpretation clarifies that:

- A dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity.
- An entity should measure the dividend payable at the fair value of the net assets to be distributed.
- An entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

IFRIC 17 also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Interpretation applies to pro rata distributions of non-cash assets except for common control transactions. The Interpretation requires prospective application and is effective for annual periods beginning on or after July 1, 2009. Earlier application is permitted.

### IASB Issues a Revised Version of IFRS 1 with Improved Structure

Since it was issued in 2003, International Financial Reporting Standard (IFRS) 1, *First-time Adoption of International Financial Reporting Standards*, has been amended many times to accommodate first-time adoption requirements resulting from new or amended IFRS, and as a result the text has become increasingly complex. Consequently, as part of its annual improvements project, the International Accounting Standards Board (IASB) has issued a revised version of IFRS 1 to make it easier to understand and to allow it to accommodate more easily any future changes that might be necessary. The revised version has an improved structure but does not contain any technical changes.

The revised IFRS 1 is effective for entities applying IFRS for the first time for annual periods beginning on or after January 1, 2009. Earlier application is permitted.

### Clarification of Effective Date for Amendments to IAS 39 and IFRS 7

On October 13, 2008, the International Accounting Standards Board (IASB) issued an amendment to International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, and International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures*, to permit the reclassification of some financial instruments. That amendment was discussed in the October 28, 2008 issue of *Insights*.

On November 27, 2008, the IASB issued a clarification of the effective date provisions of the October reclassification amendments to IAS 39 and IFRS 7. The clarification states that any reclassification made on or after November 1, 2008 takes effect from the date of reclassification. However, any reclassification before November 1, 2008 can take effect on or after July 1, 2008 or a subsequent date. The Board also emphasized that a reclassification cannot be applied retrospectively before July 1, 2008.

The revised amendments are available at [http://www.iasb.org/NR/ronlyres/595E2B2D-6434-44DC-82B7-E5B5F848E46C/0/Amendments\\_to\\_IAS\\_39\\_IFRS7.pdf](http://www.iasb.org/NR/ronlyres/595E2B2D-6434-44DC-82B7-E5B5F848E46C/0/Amendments_to_IAS_39_IFRS7.pdf).

## **An Overview of IFRS 1**

*This article is the eighth in a series of articles that takes our readers on a journey through International Financial Reporting Standards (IFRS) with a special focus on the standards' quintessential feature: they are principles-based. In this article, we provide an overview of IFRS 1, "First-time Adoption of International Financial Reporting Standards."*

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, is the standard that sets out the procedures that an entity must follow when it adopts IFRS as the basis for preparation of its financial statements for the first time. IFRS require retrospective application in most areas; however, for practical reasons, IFRS 1 grants limited exemptions from retrospective application of IFRS. IFRS 1 also prohibits retrospective application of IFRS in some areas, particularly where retrospective application would require judgment by management about past conditions after the outcome of a particular transaction is already known.

One of the major cornerstones of IFRS 1 is that an entity must have clearly in mind the following dates:

- The date of reporting under IFRS. This is the year-end date of the first IFRS financial statements.
- The date of transition to IFRS. This is the opening balances of the earliest year for which an entity presents comparative information under IFRS, and represents the starting point for an entity's accounting under IFRS. At this point in time, the general ledger is now under IFRS and runs parallel with the previous general ledger under previous generally accepted accounting principles (GAAP).
- The date of adoption of IFRS. This is the date of the opening balances of the first year of reporting under IFRS. At this date, the previous general ledger under previous GAAP is discontinued.

To illustrate the definitions of these dates, assume that a U.S. company will issue its first IFRS financial statements as of December 31, 2010 (the date of reporting under IFRS). If one year of comparative financial statements is required to be presented in addition to the current year, the date of transition to IFRS will be January 1, 2009, and the date of adoption of IFRS will be January 1, 2010.

A first time adopter of IFRS must select and use the same accounting policies in its opening IFRS balance sheet prepared at the date of transition to IFRS and throughout all periods presented in its first IFRS financial statements. IFRS requires extensive disclosures that explain the transition from previous GAAP to IFRS, including reconciliations of the entity's reported financial position, financial performance, and cash flows.

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## 2008 Effective Date Reminder

This Effective Date Reminder lists only those pronouncements issued as of November 1, 2008, which became effective on or after January 1, 2008 for most entities or have not yet become effective for all entities as of November 1, 2008.

### Financial Accounting Standards Board (FASB)

#### **SFAS No. 141 (revised 2007), *Business Combinations***

The business combination Statement fundamentally changes the manner in which an entity will account for a business combination by including, along with other significant changes, a requirement that an acquirer recognize virtually all assets acquired and liabilities assumed at 100% of their fair values, even in a partial acquisition. This Statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

#### **SFAS No. 157, *Fair Value Measurements***

The guidance on fair value measurements defines fair value, establishes a framework for measuring fair value where required or permitted in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, deferred the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The FSP does not apply to entities that have issued financial statements that included the adoption of SFAS No. 157 in its entirety.

#### **SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)***

SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on its balance sheet, to recognize changes in that funded status in the year in which the changes occur through comprehensive income, and to measure the funded status of a plan as of the date of its year-end balance sheet. The requirement to recognize the funded status of a benefit plan and the disclosure requirements for entities with publicly traded equity securities was effective as of the end of the fiscal year ending after December 15, 2006; for all other entities those requirements were effective at the end of the fiscal year ending after June 15, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end balance sheet is effective for fiscal years ending after December 15, 2008 for all affected employers.

**SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115***

The fair value option permits entities to choose to measure many financial instruments at fair value in order to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007.

**SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51***

This Statement on consolidated financial statements changes the accounting for noncontrolling (minority) interests to, among other things, require noncontrolling interest be clearly identified and separately reported from parent's equity on its consolidated balance sheet, and net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated income statement. This Statement is effective for annual periods beginning on or after December 15, 2008.

**SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133***

SFAS No. 161 requires expanded qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and credit-risk-related contingent features in derivative instruments. This Statement is effective for financial statements issued for any reporting period (annual or quarterly interim) beginning after November 15, 2008.

**SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles***

SFAS No. 162 effectively moves the GAAP hierarchy from the auditing standards to the accounting standards and incorporates slight modifications to the previously existing GAAP hierarchy. This Statement is effective November 15, 2008.

**SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60***

SFAS No. 163 changes recognition of premium revenue and claims liabilities for insurance enterprises as it relates to financial guarantee insurance contracts and requires expanded disclosures about financial guarantee insurance contracts. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, except for disclosures about the insurance enterprise's risk-management activities. Disclosures about the insurance enterprise's risk-management activities are effective the first period (including interim periods) beginning after May 23, 2008.

**FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109***

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation was effective for fiscal years beginning after December 15, 2006 for public entities. The Interpretation is effective for annual periods beginning after December 15, 2007 for nonpublic entities. As of November 1, 2008 the FASB has voted to propose a deferral of FIN 48 so that it would be effective for private entities for annual periods beginning after December 15, 2008 if they have not yet issued a full set of U.S. GAAP annual financial statements incorporating the recognition, measurement, and disclosure requirements of FIN 48.

**FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Fund***

FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and provides enhanced disclosures for all endowment funds of not-for-profit organizations, regardless of whether or not they are subject to UPMIFA. This FSP is effective for fiscal years ending after December 15, 2008.

**FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161***

This FSP amends existing guidance on derivatives to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument, and amends current guidance on accounting for guarantees to require an additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend SFAS No. 133 and FIN 45 are effective for reporting periods (annual or interim) ending after November 15, 2008. The provisions of the FSP that clarified the effective date of SFAS No. 161 were effective September 12, 2008.

**FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions***

FSP FAS 140-3 addresses when a repurchase financing transaction can be considered a separate transaction from the original transfer. This FSP is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

**FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets***

FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.

**FSP FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13***

This FSP amends SFAS No. 157 to exclude SFAS No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. This FSP is effective upon the initial adoption of SFAS No. 157.

**FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active***

FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective on October 10, 2008.

**FSP FAS 158-1, *Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides***

FSP FAS 158-1 makes conforming amendments to the illustrations in SFAS No. 87, *Employers' Accounting for Pensions*, No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, the Related Staff Implementation Guides, and the FASB Special Reports to reflect the provisions of SFAS No. 158, and incorporates the questions and answers contained in the FASB Special Reports into SFAS No. 87, No. 88, and No. 106 as appendixes. The conforming amendments made by this FSP are effective as of the effective dates of SFAS No. 158.

**FSP FIN 39-1, *Amendment of FASB Interpretation No. 39***

FSP FIN 39-1 makes certain modifications to FIN 39, *Offsetting of Amounts Related to Certain Contracts*, and addresses whether a reporting entity that is party to a master netting arrangement can offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with FIN 39. This FSP is effective for fiscal years beginning after November 15, 2007.

**FSP FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies***

This FSP deferred the effective date for applying the provisions of FIN 46(R), *Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51*, for investment companies that are not subject to SEC Regulation S-X, Rule 6-03(c)(1) but are currently accounting for their investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*, until the date that the investment company initially adopts SOP 07-01.

**FSP FIN 48-1, *Definition of "Settlement" in FASB Interpretation No. 48***

FSP FIN 48-1 provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. This FSP is effective upon the initial adoption of FIN 48.

**FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)***

FSP APB 14-1 requires that issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is subsequently recognized. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.

**FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities***

This FSP clarifies that unvested awards containing nonforfeitable rights to dividends (or dividend equivalents) are participating securities and should be included in earnings per share pursuant to the two-class method. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years.

**FSP SOP 90-7-1, *An Amendment of AICPA Statement of Position 90-7***

FSP SOP 90-7-1 amends SOP 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*, such that entities emerging from bankruptcy that use fresh start accounting only have to follow standards in place at the time they emerge from bankruptcy. This FSP is effective for financial statements issued subsequent to April 24, 2008.

**FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1***

Effective December 15, 2007, this FSP indefinitely defers the effective date of SOP 07-1.

**FSP SOP 94-3-1 and AAG HCO-1, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations***

This FSP makes several changes to the guidance on consolidation and the equity method of accounting in SOP 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, and the AICPA Audit and Accounting Guide, *Health Care Organizations*. This FSP is effective for fiscal years beginning after June 15, 2008, and for interim periods therein.

**DIG Issue No. E23, *Issues Involving the Application of the Shortcut Method under Paragraph 68***

Derivatives Implementation Group (DIG) Issue No. E23 provides guidance on certain practice issues related to the application of the shortcut method under SFAS No. 133, and amends paragraph 68 of SFAS No. 133 with respect to the conditions that must be met in order to apply the shortcut method for assessing hedge effectiveness. The implementation guidance in this Issue is effective for hedging relationships designated on or after January 1, 2008.

**DIG Issue No. G26, *Cash Flow Hedges: Hedging Interest Cash Flows on Variable-Rate Assets and Liabilities That Are Not Based on a Benchmark Interest Rate***

DIG Issue No. G26 addresses whether the designated risk that is being hedged in a cash flow hedge of variable-rate financial assets or liabilities can be the risk of changes attributable to changes in a benchmark interest rate when the cash flows of the hedged transaction are not also based on a designated benchmark interest rate. The effective date of the implementation guidance in this Issue is the first day of the first fiscal quarter beginning after January 8, 2007.

## Emerging Issues Task Force (EITF)

### **EITF Issue No. 06-1, *Accounting for Consideration Given by a Service Provider to a Manufacturer or Reseller of Equipment Necessary for an End-Customer to Receive Service from the Service Provider***

Issue No. 06-1 addresses whether the consideration given by a service provider to a manufacturer or a reseller of specialized equipment that reduces the price of the specialized equipment to an end-customer and is necessary for an end-customer to receive a service from the service provider should be accounted for as a reduction of revenue or as an expense pursuant to Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The consensus is effective for the first annual reporting period beginning after June 15, 2007.

### **EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements***

Issue No. 06-4 addresses whether the postretirement benefit associated with an endorsement split-dollar life insurance arrangement is effectively settled in accordance with either SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, or APB 12, *Omnibus Opinion – 1967*, upon entering into such an arrangement. This consensus is effective for fiscal years beginning after December 15, 2007.

### **EITF Issue No. 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums***

Issue No. 06-8 considers whether an entity needs to evaluate the adequacy of the buyer's continuing investment pursuant to SFAS No. 66, *Accounting for Sales of Real Estate*, to recognize profit under the percentage-of-completion method. This consensus is effective for the first annual reporting period beginning after March 15, 2007.

### **EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements***

Issue No. 06-10 addresses whether an entity should record a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106 or APB 12. This consensus is effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years.

### **EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards***

Issue No. 06-11 addresses how a company should recognize the tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and (b) charged to retained earnings under SFAS No. 123(R), *Share-Based Payment*. This consensus is effective prospectively for the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years.

### **EITF Issue No. 07-1, *Accounting for Collaborative Arrangements***

Issue No. 07-1 addresses indicators of a collaborative arrangement, classification of transactions with third parties, and classification of payments between participants. This consensus is effective in the first fiscal year beginning after December 15, 2008, and interim periods within those fiscal years.

**EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities***

Issue No. 07-3 addresses whether a non-refundable advance payment for research and development (R&D) should be recognized as an expense when the payment is made (or the obligation incurred) or when the related R&D activity has been performed. This consensus is effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years.

**EITF Issue No. 07-4, *Application of the Two-Class Method under FASB Statement No. 128, "Earnings per Share," to Master Limited Partnerships***

Issue No. 07-4 concludes that incentive distribution rights are to be treated as participating securities for purposes of computing earnings per unit in the period the general partner becomes contractually obligated to make the distribution. This consensus is effective in the first fiscal year beginning after December 15, 2008, including the interim periods within that fiscal year.

**EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock***

Issue No. 07-5 provides guidance regarding whether an equity-linked financial instrument (or embedded derivative) is indexed to an entity's own stock and, therefore, meets the exception to not be accounted for as a derivative. This consensus is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.

**EITF Issue No. 07-6, *Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, "Accounting for Sales of Real Estate", When the Agreement Includes a Buy-Sell Clause***

Issue No. 07-6 clarifies whether a buy-sell clause is a prohibited form of continuing involvement that would preclude partial sales treatment under SFAS No. 66. This consensus is effective for new arrangements entered into and assessments performed in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years.

**EITF Issue No. 08-3, *Accounting by Lessees for Maintenance Deposits***

Issue No. 08-3 concludes that maintenance deposits paid by a lessee, under an arrangement accounted for as a lease that are refunded only if the lessee performs specified maintenance activities, should be accounted for as a deposit asset. This consensus is effective for financial statements issued for fiscal years beginning after December 15, 2008, including interim periods within those fiscal years.

**EITF Issue No. 08-4, *Transition Guidance for Conforming Changes to Issue No. 98-5***

This consensus concludes that conforming changes made to Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" that resulted from Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, are effective for financial statements issued for fiscal years ending after December 15, 2008.

**EITF Issue No. 08-5, *Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement***

Issue No. 08-5 concludes that the issuer of a liability with a third-party credit enhancement that is inseparable from the liability should not include the effect of the credit enhancement in the fair value measurement of the liability. The consensus is effective on a prospective basis in the first reporting period beginning on or after December 15, 2008.

**AICPA Accounting Standards Executive Committee**

**SOP 07-1, *Clarification of the Scope of the Audit and Accounting Guide "Investment Companies" and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies***

This SOP provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide, *Investment Companies*, and for those entities that are investment companies under this SOP, addresses whether the specialized industry accounting principles of the Guide should be retained by a parent company in consolidation or by an equity method investor. The FASB has issued FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1*, which indefinitely defers the effective date of SOP 07-1.

**AICPA Auditing Standards Board**

**SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit***

SAS No. 115 conforms the definitions of the various kinds of deficiencies in internal control and the related guidance for evaluating such deficiencies with the definitions and guidance in SSAE No. 15. This Statement is effective for audits of financial statements for periods ending on or after December 15, 2009.

**SSAE No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements***

SSAE No. 15 aligned the definitions of the various kinds of deficiencies in internal control and the related guidance for evaluating such deficiencies with the definitions and guidance in Public Company Accounting Oversight Board Auditing Standard No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*. This Statement is effective for dates or periods ending on or after December 15, 2008.

**AICPA Accounting and Review Services Committee**

**SSARS No. 17, *Omnibus Statement on Standards for Accounting and Review Services – 2008***

This omnibus Statement is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008.

## Government Accountability Office

### **Revised Government Auditing Standards**

The 2007 revision of *Government Auditing Standards* is a fundamental change from the 2003 Revision that reinforces the principles of transparency and accountability and provides a framework for high-quality government audits that add value. It is effective for financial audits and attestation engagements for periods beginning on or after January 1, 2008, and for performance audits beginning on or after January 1, 2008. For financial audits, certain standards of the Auditing Standards Board that affect Government Auditing Standards become effective and should be implemented prior to these dates.

## Governmental Accounting Standards Board (GASB)

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

Statement No. 43 establishes uniform financial reporting standards for OPEB plans. Plans in which the sole or largest participating employer has total annual revenues in the first fiscal year ending after June 15, 1999 of:

- \$100 million or more were required to implement this Statement in financial statements for periods beginning after December 15, 2005.
- \$10 million or more but less than \$100 million were required to implement this Statement in financial statements for periods beginning after December 15, 2006.
- Less than \$10 million are required to implement this Statement in financial statements for periods beginning after December 15, 2007.

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

Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

Governments with total annual revenues in the first fiscal year ending after June 15, 1999 of:

- \$100 million or more were required to implement this Statement in financial statements for periods beginning after December 15, 2006.
- \$10 million or more but less than \$100 million are required to implement this Statement in financial statements for periods beginning after December 15, 2007.
- Less than \$10 million are required to implement this Statement in financial statements for periods beginning after December 15, 2008.

All component units are required to implement this Statement no later than the same year as the primary government.

**GASB Statement No. 47, *Accounting for Termination Benefits***

Statement No. 47 establishes accounting standards for termination benefits. This Statement was effective for financial statements for periods beginning after June 15, 2005. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, governments should implement Statement No. 47 simultaneously with Statement No. 45.

**GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations***

Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations. This Statement is effective for financial statements for periods beginning after December 15, 2007.

**GASB Statement No. 50, *Pension Disclosures***

Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this Statement generally are effective for financial statements for periods beginning after June 15, 2007. However, the requirements relating to governments using the aggregate actuarial cost method are effective for financial statements and required supplementary information that contains information from actuarial valuations as of June 15, 2007, or later.

**GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets***

Statement No. 51 establishes accounting and financial reporting requirements for intangible assets. This Statement is effective for financial statements for periods beginning after June 15, 2009.

**GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments***

Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. This Statement is effective for financial statements for periods beginning after June 15, 2008.

**GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments***

Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This Statement is effective for financial statements for reporting periods beginning after June 15, 2009.

**GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments From the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D***

This Technical Bulletin clarifies the reporting of payments that an employer or a defined benefit other postemployment benefit plan receives from the federal government under Medicare Part D. The Technical Bulletin was effective on June 30, 2006, except for portions of answers pertaining specifically to measurement, recognition, or required supplementary information requirements of Statement No. 43, or Statement No. 45. Those provisions should be applied simultaneously with the implementation of Statement No. 43 or Statement No. 45.

## U.S. Securities and Exchange Commission

### **Release No. 33-8934, *Final Rule: Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-accelerated Filers***

Under this Final Rule, the auditor's attestation report on internal control over financial reporting is not required until a non-accelerated filer files an annual report for a fiscal year ending on or after December 15, 2009. A non-accelerated filer is required to provide management's report on internal control over financial reporting when it files an annual report for a fiscal year ending on or after December 15, 2007.

### **Staff Accounting Bulletin No. 110, *Share-Based Payment***

This Staff Accounting Bulletin expresses the views of the SEC staff regarding the use of a "simplified" method, as discussed in SAB No. 107, in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment*. SAB 110 was effective January 1, 2008.

## Public Company Accounting Oversight Board

### **Auditing Standard (AS) No. 6, *Evaluating Consistency of Financial Statements***

AS 6 more closely aligns the auditor's responsibilities to evaluate the consistency of a company's financial statements with the provisions of SFAS No. 154, *Accounting Changes and Error Corrections*. AS 6 is effective November 15, 2008.

### **Amended Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles***

The amendment to this Rule excludes from its scope tax services provided during the portion of the audit period that precedes the beginning of the professional engagement period. The amendment to Rule 3523 was effective August 22, 2008.

### **Rule 3526, *Communication with Audit Committees Concerning Independence***

Rule 3526 requires a registered public accounting firm, before accepting an initial engagement pursuant to the standards of the PCAOB, to describe to the audit committee all relationships between the firm or any of its affiliates and the issuer or persons in a financial reporting oversight role at the issuer that may reasonably be thought to bear on the firm's independence, and to make a similar communication annually for continuing engagements. Rule 3526 was effective September 30, 2008.

## International Accounting Standards Board

### **Revised IAS 1, *Presentation of Financial Statements***

IAS 1, which prescribes the basis for presentation of general purpose financial statements, was amended to add new disclosure requirements for puttable instruments and obligations arising on liquidation. This revised Standard is effective for annual periods beginning on or after January 1, 2009.

### **Revised IAS 23, *Borrowing Costs***

IAS 23, *Borrowing Costs*, incorporates amendments to require capitalization of borrowing costs. This revised Standard is effective for annual periods beginning on or after January 1, 2009.

**Revised IAS 27, *Consolidated and Separate Financial Statements***

Revised IAS 27 focuses on changes in control as a significant economic event by introducing requirements to remeasure interests to fair value at the time when control is achieved or lost, and recognizing directly in equity the impact of all transactions between controlling and non-controlling shareholders not involving a loss of control. This revised Standard is effective for annual periods beginning on or after January 1, 2009.

**Revised IAS 32, *Financial Instruments: Presentation***

IAS 32 has been amended with respect to balance sheet classification for puttable instruments and obligations arising on liquidation. This revised Standard is effective for annual periods beginning on or after January 1, 2009.

**Revised IAS 39, *Financial Instruments: Recognition and Measurement***

IAS 39 has been amended for eligible hedged items and for reclassifications of financial assets out of the fair-value-through-profit-or-loss category and out of the available-for-sale category. This revised Standard is effective for annual periods beginning on or after July 1, 2009.

**Revised IFRS 1, *First-time Adoption of International Financial Reporting Standards***

Revised IFRS 1 allows first-time adopters of International Financial Reporting Standards to use a "deemed cost" of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities, and associates in the separate financial statements. This revised Standard is effective for annual periods beginning on or after January 1, 2009.

**Revised IFRS 2, *Share-based Payment***

Revised IFRS 2 clarifies the terms vesting conditions and cancellations. This revised Standard is effective for annual periods beginning on or after January 1, 2009.

**Revised IFRS 3, *Business Combinations***

IFRS 3 was amended to, among other things, place a greater emphasis on the use of fair value and focus on what is given to the vendor as consideration, rather than what is spent to achieve the acquisition. This revised Standard is effective for annual periods beginning on or after July 1, 2009.

**Revised IFRS 7, *Financial Instruments: Disclosures***

IFRS 7 was amended for disclosures relating to reclassifications of financial instruments. This revised Standard is to be applied from July 1, 2008.

**IFRS 8, *Operating Segments***

IFRS 8 covers the accounting and reporting for operating segments. IFRS 8 applies to the annual financial statements for periods beginning on or after January 1, 2009.

**IFRIC 11, IFRS 2—Group and Treasury Share Transactions**

IFRIC 11 provides guidance on the following circumstances: share-based payment involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation; a parent grants rights to its equity instruments to employees of its subsidiary; and a subsidiary grants rights to equity instruments of its parent to its employee. Entities must apply IFRIC 11 for annual periods beginning on or after March 1, 2007.

**IFRIC 12, Service Concession Arrangements**

IFRIC 12 defines service concession arrangements and provides guidance on accounting for such arrangements. Entities must apply IFRIC 12 for annual periods beginning on or after January 1, 2008.

**IFRIC 13, Customer Loyalty Programmes**

IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as “points” or travel miles) to customers who buy other goods or services. Entities must apply IFRIC 13 for annual periods beginning on or after July 1, 2008

**IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

IFRIC 14 addresses the interaction between a minimum funding requirement and the limit placed by IAS 19, *Employee Benefits*, on the measurement of the defined benefit asset or liability. Entities must apply IFRIC 14 for annual periods beginning on or after January 1, 2008.

**IFRIC 15, Agreements for the Construction of Real Estate**

IFRIC 15 standardizes accounting practice across jurisdictions for the recognition of revenue by real estate developers for sales of units, such as apartments or houses, before construction is complete. Entities must apply IFRIC 15 for annual periods beginning on or after January 1, 2009.

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation**

IFRIC 16 clarifies three main issues relating to hedges of a net investment in a foreign operation. Entities must apply IFRIC 16 for annual periods beginning on or after October 1, 2008.

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