

Accounting

Time to Adopt the Measurement Provisions of Statement No.158

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which applies to business enterprises and nongovernmental not-for-profit organizations that sponsor single-employer defined benefit pension or other postretirement plans. This Statement included both recognition provisions and measurement provisions. Many employers have already adopted the recognition provisions of Statement No. 158. The requirement to recognize the funded status of a benefit plan 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 that requirement was 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 yearend balance sheet is effective for fiscal years ending after December 15, 2008, so for a calendar year-end company, the measurement provisions of this Standard go into effect in 2008. Previously, an employer had the option of performing the measurement within three months prior to the employer's year-end. With limited exceptions, Statement No. 158 requires employers to measure plan assets and obligations as of the balance sheet date.

Statement No. 158 provides two approaches for an employer that used an earlier measurement date to transition to a fiscal year-end measurement date. In the first approach, two actuarial valuations are required - one valuation at the earlier measurement date in the fiscal year prior to adoption of the measurement date provisions and another valuation as of the beginning of the fiscal year that the measurement date provisions are applied. An employer uses those new measurements to determine the effects of the measurement date change as of the beginning of the fiscal year that the measurement date provisions are applied. In the second approach, one actuarial valuation is performed. This valuation covers from the period of the earlier measurement date in the prior fiscal year through the year of adoption (up to a 15-month period). A prorated amount of the estimated periodic benefit cost is allocated between the transition period and the year of adoption. For companies electing either transition method, timely measurement is necessary to ensure appropriate recognition in any interim financial statements. Under either approach, a gain or loss from a curtailment or settlement is recognized in earnings of the period of the event and not as an adjustment of retained earnings. The following examples demonstrate the accounting under each transition method (assuming no curtailment or settlement):

Company B adopted the recognition provisions of Statement No. 158 in its December 31, 2006 financial statements. As required by the measurement provisions of this Statement, Company B must change its measurement date for its defined benefit pension plan from September 30 to December 31 for its 2008 financial statements.

Under the first approach, Company B obtains an actuarial valuation as of September 30, 2007 for the period from October 1, 2007 to December 31, 2007. Using this valuation, Company B recognizes the net periodic pension cost incurred from October 1, 2007 to December 31, 2007, net of tax, as an adjustment to beginning

retained earnings on January 1, 2008. The second valuation is performed as of January 1, 2008. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) from September 30, 2007 to January 1, 2008, net of tax, are recognized as an adjustment to beginning accumulated other comprehensive income for 2008. The second valuation is used to determine net periodic benefit cost for 2008.

Under the second approach, based on the measurement of plan assets and benefit obligations as of September 30, 2007, Company B's actuary prepares a 15-month projection of net periodic pension cost to December 31, 2008. In recognizing the effects of the change in measurement date for its 2008 financial statements, Company B allocates the net periodic pension cost for the 15-month period from October 1, 2007 to December 31, 2008, net of tax, proportionately between amounts to be recognized as an adjustment of retained earnings (for the period from October 1, 2007 to December 31, 2007) and net periodic pension cost for 2008. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) during the period from October 1, 2007 to December 31, 2008, net of tax, are recognized in other comprehensive income for 2008.

The guidance under both approaches also applies to a not-for-profit employer, except that any adjustments that would be made to retained earnings and accumulated other comprehensive income should instead be recognized as a change in unrestricted net assets in the statement of activities, net of tax, if any. Those amounts should be reported in a separate line item or items apart from expenses, and outside a performance indicator or other intermediate measure of operations, if one is presented.

FASB Ratifies EITF Final Consensuses

At its December 12, 2007 meeting, the Financial Accounting Standards Board (FASB) ratified the final consensuses for the following Issues reached at the November 29, 2007 Emerging Issues Task Force (EITF) meeting:

- *EITF Issue No. 07-01, "Accounting for Collaborative Arrangements"*

In several industries (e.g., the biotechnology, pharmaceutical, and motion picture industries), entities often enter into collaborative arrangements to share costs and revenues such as those related to research and development activities and commercialization of the resulting product. This Issue addresses the accounting for shared costs and revenues in collaborative arrangements in which a separate legal entity is not created. It should be noted that a collaborative arrangement falls within the scope of this issue only if the arrangement requires the parties to be active participants and the arrangement exposes the parties to significant risks and rewards that are tied to the commercial success of the endeavor.

In this Issue, a consensus was reached that costs incurred and revenue generated on sales to third parties should be reported by each of the parties to the collaborative arrangement based on the guidance in EITF Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." Payments between parties to the collaborative arrangement should be reported based on the nature of the arrangement and its contractual terms, the nature of each entity's business, and whether there are any existing generally accepted accounting principles that should be applied. The consensus also requires the parties to disclose certain information in their annual financial statements. The guidance in this Issue is effective in the first fiscal year beginning after December 15, 2008.

- *EITF Issue No. 07-06, "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"*

A buy-sell clause is often included in an arrangement whereby two investors create a jointly-owned entity, and one of the investors sells real estate to the jointly-owned entity. The buy-sell clause allows either of the two investors to make an offer to buy-out the other investor's interest in the joint venture. A buy-sell clause in an arrangement that also includes the sale of real estate raises a question as to whether such a clause constitutes an option or other prohibited form of continuing involvement that would preclude partial sale and

profit recognition by the investor that sold real estate to the jointly owned entity. This Issue concludes that each such situation should be evaluated based on the specific facts and circumstances in which a buy-sell clause is involved. The guidance in this Issue is effective in the first fiscal year beginning after December 15, 2007, including the interim periods within that fiscal year.

Proposed Delay of FIN 48 for Nonpublic Entities

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) was issued in July 2006. The original stated effective date was to be for fiscal years beginning after December 15, 2006. For a calendar year-end company, the effective date was the beginning of 2007.

On December 19, 2007, the Financial Accounting Standards Board (FASB) issued proposed FASB Staff Position (FSP) No. FIN 48-b to formally propose a deferral of the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, to fiscal years beginning after December 15, 2007, for nonpublic enterprises as defined by FASB Statement No. 109, *Accounting for Income Taxes*, including nonpublic not-for-profit organizations. FIN 48 also applies to nonpublic pass-through entities (such as Subchapter S corporations and partnerships) and entities whose tax liability is subject to 100 percent credit for dividends paid (such as real estate investment trusts) that are potentially subject to income taxes. Statement No. 109 defines a "nonpublic enterprise" as an enterprise other than one (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), or (c) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Since the delay is not officially effective until the final FSP is issued, which is not expected to occur until at least late January 2008, any financial statements issued before then for periods that began after December 15, 2006 must include the adoption of FIN 48. The delay will only be for those nonpublic entities that have not yet issued financial statements or information to third parties, including financial statements or information for any interim period, prepared in accordance with generally accepted accounting principles. We believe that entities with regulatory requirements to file quarterly or other interim statements prepared in accordance with generally accepted accounting principles were required to adopt FIN 48 in accordance with the original effective date and, therefore, do not qualify for the proposed deferral. Banks were required to adopt FIN 48 for their Call Reports earlier this year. Accordingly, we believe that banks do not qualify for the proposed deferral.

The proposed FSP is available for comment until January 18, 2008 at http://www.fasb.org/fasb_staff_positions/prop_fsp_fin48-b.pdf.

Partial Deferral of Statement No. 157 Proposed

The Financial Accounting Standards Board (FASB) has issued proposed FASB Staff Position (FSP) No. FAS 157-b, *Effective Date of FASB Statement No. 157*, to formally propose a partial deferral of FASB Statement No. 157, Fair Value Measurements. If finalized, this FSP would defer the effective date of Statement No. 157 for all 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. Examples of items to which the deferral would apply include, but are not limited to:

- Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or other new-basis event, but not measured at fair value in subsequent periods
- The following as described in Statement No. 142, *Goodwill and Other Intangible Assets*:
 - ♦ Reporting units measured at fair value in the first step of a goodwill impairment test

- ♦ Nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test
- ♦ Indefinite-lived intangible assets measured at fair value for an impairment assessment
- Asset retirement obligations initially measured at fair value under Statement No. 143, *Accounting for Asset Retirement Obligations*
- Long-lived assets (asset groups) measured at fair value for an impairment assessment under Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
- Liabilities for exit or disposal activities initially measured at fair value under Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*

Examples of items to which the deferral would not apply include, but are not limited to:

- Items within the scope of paragraph 7 of Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, that are recognized or disclosed at fair value on a recurring basis
- Financial and nonfinancial derivatives within the scope of Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*
- Servicing assets and servicing liabilities within the scope of Statement No. 156, *Accounting for Servicing of Financial Assets*, including situations in which an entity has elected the amortization method as the subsequent measurement attribute
- Loans measured for impairment using the practical expedient in Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (based on the fair value of collateral if the loan is collateral dependent), even if the underlying collateral is nonfinancial

If finalized, this FSP would not apply to entities that have issued financial statements that included the adoption of Statement No. 157 in its entirety. Any entity that has early adopted Statement No. 157 may not reverse that adoption. Any entity that has not applied the provisions of Statement No. 157 in interim or annual financial statements would be required to make certain financial statement disclosures until Statement No. 157 is applied to all assets and liabilities. Any entity that has not yet adopted Statement No. 157 is encouraged to carefully review each asset and each liability on its balance sheet to determine whether the proposed deferral would apply to each item.

The proposed FSP is available for comment until January 16, 2008 at http://www.fasb.org/fasb_staff_positions/prop_fsp_fas157-b.pdf.

Application of Two-Class Method to Master Limited Partnerships

At its November 29, 2007 meeting, the Emerging Issues Task Force (EITF) reached a tentative conclusion on EITF Issue No. 07-04, "Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships." Master limited partnerships (MLPs) often issue multiple classes of securities that participate in partnership distributions based on a formula. A typical MLP consists of a general partner interest (GP), publicly traded limited partner units (LPs), and incentive distribution rights (IDRs). IDRs are a type of limited partner interest; however, they are nonvoting interests that do not represent ownership in the MLP. The scope of the consensus-for-exposure on this Issue includes: (a) both separate IDRs and IDRs embedded in the GP interest and (b) only those incentive distributions to IDR holders that the MLP has concluded represent an equity distribution and not compensation expense. When the IDRs are a separate LP interest, the IDRs would represent a participating security and therefore the MLP would allocate current period earnings to the LP, GP, and IDR holder using the two-class method. When current-period earnings exceed cash distributions, undistributed earnings should be allocated to the

GP, LPs, and IDR holder utilizing the contractual terms of the partnership agreement. When cash distributions are in excess of current-period earnings, net income (or loss) should be reduced (or increased) by distributions to the GP, LPs, and IDR holder. The resulting hypothetical loss would be allocated to the GP and LPs based on their respective sharing of losses specified in the partnership agreement. This tentative conclusion assumes that the IDR holder does not have a contractual obligation to share in the losses of the MLP.

When the IDR is embedded in the GP interest, the IDR would not be considered a participating security; however, the MLP would still apply the two-class method to the interests of the GP and LPs (although the GP's earnings allocation would include the rights of the IDR). Undistributed earnings should be allocated to the GP (including the distribution rights of the embedded IDR) and LPs as if the undistributed earnings were available cash. When the IDR is embedded in the GP interest, net income (or loss) should be reduced (or increased) by distributions to the GP (including the distribution rights of the embedded IDR) and LPs. The resulting hypothetical loss would be allocated to the GP and LPs based on their respective sharing of losses specified in the partnership agreement.

If finalized, the guidance in this Issue would be effective in the first fiscal year beginning after December 15, 2008, including the interim periods within that fiscal year.

FAF Proposes Changes to Governance

The Financial Accounting Foundation (FAF) Board of Trustees is responsible for the oversight, funding, and appointment of members of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). In July 2007, the Board of Trustees established a Special Committee on Governance Review to re-examine the overall structure, effectiveness, and efficiency of the governance processes of the FAF, FASB, and GASB; to evaluate and plan for the future role of the FAF and FASB in a capital market environment moving toward a single set of global financial reporting standards; to evaluate and plan for the future funding and continuing role of the GASB; and to evaluate and plan for the ongoing and future role of the Board of Trustees in preserving the independence and promoting the effectiveness of private sector and governmental accounting standard setting. At a special meeting on December 14, 2007, the Board of Trustees voted to expose for comment a series of recommendations focusing on the FAF's oversight role, operations and governance; the FASB's structure and operations; and the GASB's funding and operations. These recommendations include the following, among others:

- Expand the breadth of individuals and organizations that are invited to submit nominations for the FAF Board of Trustees to include accounting, financial, investor, government, and other groups. Also, the public would be invited to submit nominations. Final authority for all appointments would rest solely with the Board of Trustees.
- Change the term of service for Trustees from two three-year terms to one five-year term.
- Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process, such as due process, agenda setting, solicitation of public comment, consideration of comments, and the retrospective evaluation of the effectiveness and efficiency of standards.
- Reduce the size of the FASB from seven members to five.
- Realign the FASB to include one member from each of the following areas of primary experience: auditor, preparer, academic, and financial statement user. In selecting a member for the remaining seat, the Trustees would analyze the expertise and experience of the candidates to achieve the appropriate balance on the FASB.
- Provide the FASB Chair and the GASB Chair with decision-making authority to set the FASB and GASB technical agendas, respectively.

- Secure a stable mandatory funding source for the GASB. This suggests that the funding be mandated through a state government assessment.

Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB is available for comment until February 10, 2008 at <http://www.fasb.org/FAF%20Proposed%20Changes.pdf>.

SEC

SEC Chair Recommends Delay of SOX 404 Audit Requirement

On December 12, 2007, SEC Chairman Christopher Cox told the House Small Business Committee that he would recommend to the SEC a one-year delay in the requirement for an audit of internal controls over financial reporting for public companies that are not required to file annual and quarterly reports on an accelerated basis (i.e., non-accelerated filers). Currently, the auditor's attestation report on internal control over financial reporting is required when a non-accelerated filer files an annual report for a fiscal year ending on or after December 15, 2008. It should be noted that a one-year grace period, if finalized, would not relieve non-accelerated filers of the obligation to provide management's report on internal control over financial reporting for annual reports for fiscal years ending on or after December 15, 2007.

We want to emphasize that Mr. Cox's recommended delay in the requirement for an audit of internal controls over financial reporting for non-accelerated filers has not yet been adopted by the SEC. You should monitor the SEC's Web site for updates.

SEC Issues SOX 404 Brochure for Small Businesses

The SEC has issued a brochure, *Sarbanes-Oxley Section 404 - A Guide for Small Business*, to assist smaller companies with management's assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 (SOX 404). The four-page brochure provides an overview of some of the key points from interpretative guidance issued by the SEC last spring, *Commission Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934*. The brochure suggests that management begin its evaluation of the effectiveness of its internal controls over financial reporting by having the certifying officers consider two basic questions:

- Do my employees understand what they need to do to properly prepare external financial reports?
- What information do I need to make sure they have done those things?

The brochure then outlines three steps to follow when considering these two questions: (1) identify financial reporting risks and the controls that address them; (2) ascertain whether the controls work; and (3) report management's conclusions on the overall effectiveness of internal control. Further, the brochure discusses written records that are needed to support management's assessment and lists other sources of information regarding SOX 404 that can be accessed on the SEC's web site.

The brochure is available at <http://www.sec.gov/info/smallbus/404guide.pdf>.

Auditing Fair Value Measurements

The Public Company Accounting Oversight Board (PCAOB) has published Staff Audit Practice Alert No. 2, *Matters Related to Auditing Fair Value Measurements of Financial Instruments and the Use of Specialists*. This Alert does not create any new auditing standards, but rather, it reminds auditors of their responsibilities for auditing fair value measurements of financial instruments and when using the work of specialists under PCAOB standards. The Alert highlights certain requirements in the auditing standards related to fair value measurements and disclosures in the

financial statements and certain aspects of generally accepted accounting principles that are particularly relevant to the current economic environment. Specifically, the Alert provides direction on issues related to:

- Auditing fair value measurements;
- Classification of fair value measurements within the fair value hierarchy established by FASB Statement No. 157, Fair Value Measurements;
- The use of specialists in fair value measurements; and
- The use of pricing services in fair value measurements.

The Practice Alert is available in full at http://www.pcaobus.org/Standards/Staff_Questions_and_Answers/2007/12-10_APA_2.pdf.

Disclosures Related to Off-Balance Sheet Entities

In December 2007, the SEC's Division of Corporation Finance sent letters to certain publicly held companies involved with non-consolidated conduits, investments in structured investment vehicles, or collateralized debt obligations (off-balance sheet entities). The letters highlighted some of the disclosure issues these companies may want to consider in preparing Management's Discussion and Analysis for their upcoming annual reports. The letters stated that in addressing the requirements of Item 303(a)(4) of Regulation S-K, the following matters should be considered for disclosure for any non-consolidated conduit, structured investment vehicle, or collateralized debt obligation for which a company has material exposure:

- Categories, rating, and weighted-average life of assets the off-balance sheet entity holds;
- Forms of funding and weighted-average life of the funding the off-balance sheet entity holds;
- Any material difficulties the off-balance sheet entity has experienced in issuing its commercial paper or other financing during the period;
- Any material write-downs or downgrades of assets the off-balance sheet entity holds;
- The maximum limit of the losses to be borne by any first loss note holders;
- Types of variable interests held by the company in the off-balance sheet entity;
- The company's obligations under the liquidity facilities;
- Whether the company purchased commercial paper or other securities issued by any off-balance sheet entities that the company manages, and whether any agreement required the company to make these purchases;
- Whether the company provided or assisted the off-balance sheet entity in obtaining any other type of support, or whether it is the company's current intention to do so; and
- The potential impact on debt covenants, capital ratios, credit ratings, or dividends, should the company be required to consolidate the entity or incur significant losses associated with the entity.

To the extent that a company has identified consolidation and variable interest entities as a critical accounting policy, the letter encouraged disclosure of the scenarios in which the company would have to consolidate the off-balance sheet entity, the company's expectation of the likelihood of such consolidation, the frequency with which the company reconsiders whether it is the primary beneficiary of the entity, and the typical triggers for such reconsideration. The SEC's letter also reminded these companies of the Item 303 requirement to discuss any known trends or uncertainties that the company may reasonably expect to have a material favorable or unfavorable impact on income

from operations, liquidity, and capital resources. Companies were encouraged to consider disclosing the amount of any material loss the company expects to realize as a result of its involvement with any material off-balance sheet entity.

A sample of the SEC's letter is available at <http://www.sec.gov/divisions/corpfin/guidance/cfoffbalanceltr1207.htm>.

SEC Amends Eligibility Requirements of Form S-3

Form S-3 is the "short form" used by eligible domestic companies to register securities offerings under the Securities Act of 1933. The form permits these companies to rely on their reports filed under the Securities Exchange Act of 1934 to satisfy the form's disclosure requirements, which allows for automatic updating of the registration statement. Previously, to use Form S-3, a company had to meet the form's registrant requirements, which generally pertained to reporting history under the Exchange Act, as well as at least one of the form's transaction requirements. These transaction requirements provided that companies could register primary offerings (that is, securities offered by or on behalf of the registrant for its own account) on Form S-3 only if their non-affiliate equity market capitalization, or "public float," was at least \$75 million.

Recently, the SEC amended the eligibility requirements of Form S-3 to allow companies with less than \$75 million in public float to register primary offerings of their securities on Form S-3, provided they:

- Meet the other registrant eligibility conditions for the use of Form S-3;
- Are not shell companies and have not been shell companies for at least 12 calendar months before filing the registration statement;
- Have a class of common equity securities listed and registered on a national securities exchange (NYSE, AMEX and NASDAQ, but not OTCBB or pink sheets); and
- Do not sell more than the equivalent of one-third of their public float in primary offerings pursuant to the new instructions of Form S-3 in any period of 12 calendar months.

The amendments are intended to allow more companies to benefit from the greater flexibility and efficiency in accessing the public securities markets afforded by Form S-3. The SEC also made comparable amendments to Form F-3, the equivalent short-form registration form available for use by foreign private issuers.

The effective date for these amendments will be 30 days after their publication in the Federal Register.

Electronic Filing and Simplification of Form D

Form D is the official notice of an offering of securities made without registration under the Securities Act of 1933 in reliance on an exemption provided by Regulation D. The Form D filing:

- Collects data for use in the SEC's rulemaking efforts and aids in the federal enforcement of the exemptions in Regulation D;
- Is used by the staffs of state securities regulators and NASD, formerly the National Association of Securities Dealers, to enforce federal and state securities laws and the rules of securities selfregulatory organizations; and
- Has become a source of disclosure for investors.

The SEC recently adopted provisions that will mandate the electronic filing of information required by Form D, after a phase-in period during which electronic filing will be voluntary. The phase-in period for Form D electronic filing will begin on September 15, 2008. Electronic filing will become mandatory on March 16, 2009. The information will be filed through an online filing system that would be accessible from any computer with Internet access, will capture and tag data items and will make the filed information available on the SEC's Web site.

The SEC also has revised and updated the information requirements of Form D, which will become effective on September 15, 2008.

International

Proposed Amendment of IAS 27

The International Accounting Standards Board (IASB) has published for public comment an Exposure Draft, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, in response to a related Exposure Draft published in January, 2007. The recent Exposure Draft addresses concerns that retrospectively determining cost in accordance with International Accounting Standard (IAS) 27, *Consolidated and Separate Financial Statements*, on first-time adoption of International Financial Reporting Standards (IFRS) cannot, in some circumstances, be achieved without undue cost or effort. Consequently, this might create a barrier to entities' adoption of IFRS in separate financial statements. Additionally, the Exposure Draft responds to inquiries received by the IASB about the measurement of cost in the separate financial statements of a new parent entity. The Exposure Draft proposes to amend IAS 27 and IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

Currently in accordance with IAS 27, a first-time adopter may elect to use a deemed cost to measure some or all investments in subsidiaries as at the date of transition to IFRS. For this purpose, a parent must use as deemed cost either its interest in the carrying amount of the subsidiary's assets less liabilities, using the carrying amounts that IFRS would require in the subsidiary's balance sheet or the fair value of the investment in the subsidiary. A first-time adopter may choose which measurement to use for each individual investment in a subsidiary. The Exposure Draft modifies the deemed cost exception to allow an entity to use as deemed cost either the investment's fair value determined in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, or previous GAAP carrying amount at the date of transition to IFRS in the entity's separate financial statements. If an entity elects to use a deemed cost for the initial measurement of its investment in a subsidiary, jointly controlled entity or associate in its separate financial statements, the entity's first IFRS separate financial statements must disclose which deemed cost option has been used.

For the purposes of applying the cost method in IAS 27, the Exposure Draft proposes to delete the cost method from IAS 27 (and all associated references) and the pre-acquisition retained earnings exemption for first-time adopters of IFRS.

Finally, the IASB proposes that a new parent should measure cost for the purpose of applying paragraph 37(a) of IAS 27 by using the carrying amounts of the equity, assets, and liabilities in the separate financial statements of the existing entity at the date of the formation.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate will be available for comment from December 24, 2007 until February 26, 2008 at <http://www.iasb.org/Home.htm>.

Guidance Proposed for Group Cash-Settled Share-Based Payment Arrangements

The International Accounting Standards Board (IASB) has received requests for guidance on how a group entity that receives goods or services from its suppliers (including employees) should account for an arrangement whereby the entity's suppliers will receive cash payments that are linked to the price of the equity instruments of the entity and an arrangement whereby the entity's suppliers will receive cash payments that are linked to the price of the equity instruments of the entity's parent. Under either arrangement, the entity's parent has an obligation to make the required cash payments to the entity's suppliers. The entity itself does not have any obligation to make such payments.

In response to these requests, the IASB has published for public comment an Exposure Draft, *Group Cashsettled Share-based Payment Transactions*. This Exposure Draft proposes to amend International Financial Reporting Standard (IFRS) 2, Share-based Payment, and International Financial Reporting Interpretations Committee (IFRIC) 11, IFRS 2— Group and Treasury Share Transactions. The proposed amendment to IFRS 2 clarifies that IFRS 2 applies to arrangements such as those described above even if the entity that receives goods or services from its suppliers has no obligation to make the required share-based cash payments. The proposed amendment to IFRIC 11 specifies that the entity should measure the goods or services in accordance with the requirements for cash-settled share-based payment transactions. Group Cash-settled Share-based Payment Transactions will be available for comment from December 24, 2007 until March 17, 2008 at <http://www.iasb.org/Home.htm>.

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