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A Comprehensive Guide to Accounting and Reporting

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中文版序

以一句很多人使用的话说，会计行业近两年正处于争论的漩涡之中。

2001年以来，美国爆发一系列财务虚假案，使得安然、世通等巨型公司破产，也导致安达信这样一个有着九十多年历史的世界级会计师事务所饱含屈辱地退出审计市场。安然和世通等事件的影响巨大，损失了几十亿美元的价值。人们开始质疑，这些巨人公司的账面价值到底在多大程度上是真实的？事实上，公众对这种价值创造所依赖的会计和财务制度的信任已经动摇。为了重树公众信心，美国制定颁布了《公众公司会计改革和投资者保护法》(Public Company Accounting Reform and Investor Protection Act of 2002)，简称为《萨宾纳斯—奥克斯莱法案》(Sarbanes-Oxley Act)，对美国而且对世界各国会计、公司治理以致整个证券市场，都产生了相当大的影响。

在中国，上述问题也一样沉重。由于与会计信息相关的违规行为而被证监会查处，或被沪深证交所公开谴责和批评的上市公司，已经是越来越多。在一张张让人不放心的公司财务报表面前，公众感到疑惑，无所适从。银广夏和中天勤案件的查处，让会计师和注册会计师面临空前的信任危机，会计和审计专业的信誉面对巨大的挑战。

在会计信息和资本市场问题上，存在着一个“公司财务报告供应链”。谁组成了公司财务报告供应链呢？毫无疑问，公司财务报告供应链启动于公司内部管理层，他们是原始会计信息的拥有者，他们负责编制和向投资者与其他利益相关者提供财务报表，并承担会计信息质量的最终责任。实务中，会计报表和财务报告由CFO领导下的公司财务报告系统编制，由CPA进行独立审计鉴证，经过董事会批准和股东大会通过后予以公布，还要由证券分析师进行分析，由媒体进行信息传播。在获得上述直接和间接财务信息的基础上，投资人和其他利益相关者做出自己的决策。

显然，这个长长的公司财务报告供应链由许多环节组成，每个环节都有不同的供给方和需求方。

从公司财务报告供应链的视角看，应该说，财务信息的可靠性是由链条中的所有各方共同保证。当然，社会和公众有理由对链条中最为重要的两个环节——会计师和审计师——提出更高、更严格的要求。会计师和审计师必须在具备诚信度的同时，把透明度和受托责任奉为职业要素。

写了以上几段话，是为了引出对本套中信财会图书馆影印系列专业书籍的认识和介绍。这套系列丛书包括12本书。大体上可以归为三类：

第一类:《会计案头必备：财会人员日常速答手册》、《金融工具——会计及财务报告综合指南》、《商业企业与工业企业财务比率年鉴》、《购买和出售企业专业指南：税收、价值评估、法律和会计核算》、《启动财务——企业初创阶段筹集资金指南》。这几本书的内容聚焦于企业会计和财务管理人员的日常专业工作。

第二类:《审计委员会——公司董事、管理层以及咨询人员指引》、《会计违规和财务欺诈》、《审计程序》、《审计人员风险管理指南：审计与企业风险管理的结合》。这几本书的内容聚焦于审计方面，维护财务信息质量是共同主题。

第三类:《欧洲会计指南》、《国际会计准则指南》、《FASB准则的再阐释与分析：GAAP指南》。这几本书的共同主题是会计规范。

总而言之，这12本书是一套财会方面的好书，既包含有详细的专业规范，又包含了丰富的实务经验，具体应该特别指出以下重要话题：其一，与公司治理有关的机制问题，《审计委员会——公司董事、管理层以及咨询人员指引》非常值得细读；其二，有关《萨宾纳斯—奥克斯莱法案》的问题，在《会计案头必备：财会人员日常速答手册》一书中专设一章“The Sarbanes-Oxley Act of 2002”予以介绍；其三，《购买和出售企业专业指南：税收、价值评估、法律和会计核算》、《启动财务——企业初创阶段筹集资金指南》等书的主题，不在会计、审计方面，而是专项财务管理；其四，我国会计界对英美制度关注比较多，而对欧洲国家的会计制度了解很少，对此，阅读《欧洲会计指南》会有收益。

2003年初冬

于北京大学光华管理学院

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Aspen's Miller Comprehensive Online Libraries, available at www.millerseries.com or www.tax.cchgroup.com, include:

Miller GAAP Library—Miller GAAP Guide; Miller GAAP Practice Manual; Miller GAAP Financial Statement Disclosures Manual; and Miller GAAP Update Service

Miller GAAS Library—Miller GAAS Guide; Miller GAAS Practice Manual; and Miller GAAS Update Service

Miller Engagement Library—Miller Audit Procedures; Miller Compilations & Reviews; and CPA's Guide to Effective Engagement Letters

Miller Governmental GAAP Library—Miller Governmental GAAP Guide; Miller Governmental GAAP Practice Manual: A Guide to GASB 34; Miller Not-for-Profit Reporting; and Miller Governmental GAAP Update Service

Miller Governmental and Not-for-Profit Audit Library—Miller Single Audits; Miller Not-for-Profit Organization Audits; and Miller Local Government Audits

Miller International Accounting Library—Miller European Accounting Guide and Miller International Accounting Standards Guide

Original standards and pronouncements from **FASB, GASB,** and **IASB** are also available with any Miller Online Library.

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Preface

Accounting for financial instruments has undergone monumental changes in recent years. Previously, most financial instruments such as loans, securities, and derivatives were carried at historical cost (which was sometimes nothing) in the balance sheet and for many years that model seemed adequate. But changes in regulation and increasing volatility in the capital markets inspired innovations in the nature of financial instruments and new ways to bundle them, unbundle them, and modify them. Accounting for these newfangled instruments and nontraditional activities has been controversial. Several well-publicized accounting debacles, including gains-trading of securities, unforeseen losses on derivatives, upfront gain recognition on securitizations of subprime loans, inadequately documented loan loss reserves, and, most recently, off-balance-sheet financing, motivated the recent and ongoing changes in the accounting model.

The Financial Accounting Standards Board (FASB)—the primary accounting standard-setter in the United States—has been attempting to comprehensively address accounting for financial instruments for over 16 years.[1] However, as each recent financial reporting crisis arose, it demanded immediate attention, and, therefore, solutions were developed separately in sequence. The current state of affairs is a "multi-attribute model" that is instrument-specific and characterized by detailed rules and numerous interpretations of those rules. The trend in these recent standards is a broader use of market-based measures and a more "legalistic" determination of when risks have been transferred from one party to another. However, exceptions abound and there is currently no driving principle behind the accounting for all financial instruments.

Accountants and others (including bankers, analysts and lawyers) who deal with the accounting for financial instruments in their professions face a difficult task because the available guidance is fragmented and spread over hundreds of pieces of literature—and new rules continue to emerge, practically every month. To determine the proper accounting for a particular type of instrument, a practitioner must navigate a disjointed matrix of standards and interpretations issued by numerous standard-setters, including the FASB, the Emerging Issues Task Force (EITF) and other FASB implementation groups, as well as the American Institute of Certified Public Accountants (AICPA) and its subcommittees. Depending on the circumstances,

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1 The Financial Instruments project has been on the FASB's agenda since 1986. Several instrument-specific standards have been issued as "accelerated phases" of this project. The FASB is currently working on three "narrow-scope" projects involving financial instruments, which are discussed in the relevant chapters of this book, as well as its comprehensive project to recognize all financial instruments in the balance sheet at fair value. A fair-value standard for all financial instruments is not imminent.

guidance issued by the Securities and Exchange Commission and other regulators may come into play. Simply identifying all of the relevant literature is a daunting task. For example, over 50 pieces of literature address accounting for securities. Deciphering the complex rules (and the terms of the instruments themselves) is challenging for the most experienced accountants.

PURPOSE OF THIS BOOK

Miller Financial Instruments is written for practicing accountants and other professionals who need to understand the accounting for financial instruments. This book pulls together all of the existing accounting literature on financial instruments into one volume, organizes it logically, and describes the requirements as simply as possible. Given the complexity of the subject matter, there are limits on how "simple" one can make this material. However, this comprehensive, topic-based approach will save practitioners time and effort in researching accounting issues and provide a comfort level knowing that they have considered all of the relevant guidance. The text includes visual aids whenever possible; observations, such as differences between instrument types; practice pointers; and examples to help readers understand the requirements. The book also includes a cross-reference to the original pronouncements and cites the chapter(s) in which they are discussed, a glossary of terms that includes references to the applicable chapter(s), and a detailed index.

WHAT THIS BOOK COVERS

Miller Financial Instruments is a comprehensive reference manual of generally accepted accounting principles ("GAAP") in the United States about financial instruments.[2] It includes guidance issued by the Financial Accounting Standards Board, and the FASB's Emerging Issues Task Force and Derivatives Implementation Group. It also includes accounting guidance issued by the American Institute of Certified Public Accountants (AICPA), including standards issued by the Accounting Standards Executive Committee (AcSEC), and the audit and accounting guides issued by various committees of the AICPA. It covers accounting requirements for public and private companies and touches on unique aspects of reporting financial instruments by nonprofit organizations. Over 400 pieces of authoritative literature are referenced in this book.

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2 A financial instrument is cash, an ownership interest in another entity (such as common stock), or a contract that conveys an obligation and a corresponding right to require delivery of (or exchange) a financial instrument(s). The right may be contingent (such as an option) or unconditional (such as a loan). A financial instrument is ultimately convertible to cash (or stock) and does not involve the delivery of goods or services. (FAS-107, par. 3)

Miller Financial Instruments does not cover certain transactions that are technically financial instruments, but that are accounted for under specialized accounting models, including stock compensation and other forms of employee benefits (from the issuer's perspective), most leasing transactions, and insurance contracts. This book does not address the equity method of accounting (for investments that convey significant influence over the investee), consolidation of operating entities (for investments that convey control over the investee), or business combinations. *Miller GAAP Guide* addresses all of those subjects in detail. However, this book does address consolidation of special-purpose entities that are used to securitize financial assets. This book does not discuss in detail the specialized accounting models used by pension plans, brokers and dealers in securities, and investment companies whereby substantially all of their assets (and certain liabilities) are carried at fair value.

This book refers to positions of the SEC staff (and other guidance published by the SEC) when it interprets or elaborates on a financial reporting requirement established by the FASB or AICPA. This book does not represent a comprehensive guide to SEC reporting requirements, even for financial instruments. This book refers to some guidance that does not represent GAAP, including auditing standards published by the AICPA, rulings of the Internal Revenue Service, and regulatory principles developed by the federal banking agencies and the National Association of Insurance Commissioners. Those references are intended merely to provide context and depth to the discussion of the topic being discussed. This book contains cross-references to the source documents, so that readers can carefully review the full text and other relevant material.

HOW THIS BOOK IS ORGANIZED

Miller Financial Instruments is organized into five parts:

- Part I: Financial Assets, including cash, securities, loans, and servicing rights
- Part II: Financial Liabilities, including debt, securities lending arrangements, and convertible debt
- Part III: Derivative Instruments, including hedging activities
- Part IV: Equity Instruments, including various forms of stock and contracts indexed to a company's own stock
- Part V: Pervasive Issues, such as offsetting and fair value disclosures

Within each part, the chapters are organized by instrument type in the order in which they typically appear in a company's balance sheet. Each chapter integrates all of the available guidance for that type of instrument and alerts the reader to potential changes in accounting (such as an outstanding FASB exposure draft or an EITF Issue under discussion). Each chapter covers the relevant accounting questions for that type of instrument, including:

- When and how to initially recognize the instrument in the balance sheet.
- How to measure the instrument in subsequent periods (e.g., cost or fair value).
- How to recognize income or expense.
- When and how impairment must be recognized.
- When the instrument should be removed from the balance sheet (and whether a gain or loss should be recognized).
- What disclosures should be provided in the footnotes.

Each chapter also highlights any interesting aspects of regulatory reporting for certain institutions and areas of audit risk that stem from the financial reporting requirements. Certain positions of the Securities and Exchange Commission (and its staff) are included when they relate directly to information that must be included in the audited financial statements of a public company.

To facilitate additional research, *Miller Financial Instruments* includes references to pertinent paragraphs of the original pronouncements. Readers who are familiar with a specific pronouncement can locate that pronouncement in the cross-reference section (CR.01), and then refer to the chapter(s) in which it is discussed. The glossary and index can also be used to locate guidance on specific instruments and accounting topics.

This edition reflects authoritative guidance that pertains to financial instruments through the standard number or date indicated below:

- FASB Statement No. 145, "Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (generally effective for years beginning after May 15, 2002; this book discusses current GAAP and the anticipated effect of the standard)
- FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25)"
- FASB Technical Bulletin No. 01-1, "Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets"
- Derivatives Implementation Guidance that has been cleared by the FASB through May 10, 2002 (plus a few pivotal tentative conclusions that have been clearly identified as such)
- FASB Staff Implementation Guide, "A Guide to Implementation of Statement 140 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"

- Consensuses of the Emerging Issues Task Force reached through March 20-21, 2002 (the May 2002 meeting was canceled)
- AICPA Statement of Position No. 01-6, "Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others"[3]
- AICPA Practice Bulletin 15, "Accounting by the Issuer of Surplus Notes"
- AICPA Audit and Accounting Guides, 2002 editions (or the latest edition available)
- Statements on Auditing Standards No. 93, "Omnibus Statement on Auditing Standards—2000"

Establishing a "cut-off" for this book was difficult, given the dynamic nature of this subject and the lead-time necessary to publish a book of this length. Readers should understand that the accounting standard setters continuously address new issues, and interpret and amend existing standards. There are inevitable time delays between the promulgation of new standards and their inclusion in this or future editions of this book. Readers may find the following websites useful to monitor accounting developments:

- FASB website: www.fasb.org (includes FASB, EITF and DIG)
- AICPA website: www.aicpa.org (includes proposed Statements of Positions, Practice Bulletins, and Audit and Accounting Guides)

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The author and publisher welcome your suggestions to improve future editions of this Manual. Please send your comments to LFSeidman@GAAPresources.com.

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[3] Generally, SOP 01-6 applies prospectively for annual and interim financial statements issued for fiscal years beginning after December 15, 2001. However, adopting certain provisions will result in a cumulative effect for certain types of financial institutions that previously applied different procedures. Readers should review the detailed transition guidance provided in paragraphs 19-22 of SOP 01-6.

Publishers for their guidance and efforts in bringing this manual to press. Thanks are also due to James L. Ulvog, CPA, and Rosemarie Sangiuolo for their helpful review and comments on the manuscript of this edition. I would like to thank Noreen McPartland for her assistance in drafting certain materials for this manual. Thanks to Charry Boris of the Financial Accounting Foundation library, who generously donated her time and resources. Lastly, I'd like to thank my husband, daughter, and extended family and friends for their unfailing support and enthusiasm for this project.

About the Author

Leslie F. Seidman, CPA, is an independent financial reporting consultant, with extensive experience in the financial services industry and in accounting standard-setting. Her clients include global financial institutions and major corporations.

With an English major from Colgate University and a Masters Degree in accounting from New York University Stern School of Business, Ms. Seidman has a unique combination of writing ability and accounting knowledge. She was an auditor for Ernst & Young before joining J.P. Morgan, where she was a Vice President of accounting policy for many years. Ms. Seidman was selected for an industry fellowship at the Financial Accounting Standards Board, where she later served as assistant director of implementation and practice issues. She has authored, reviewed, and edited hundreds of accounting pronouncements at the FASB and AICPA, and contributed to several books and other publications. Ms. Seidman has spoken on a wide range of accounting issues at numerous industry conferences.

Ms. Seidman is a member of the AICPA and was recently appointed to the financial reporting committee of the Institute of Management Accountants.

Contents

PART I:
FINANCIAL ASSETS