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Learning Objectives

This course is designed to build awareness and understanding of recently released or pending technical guidance including:

- New Accounting Standards
- Proposed Accounting Standards
- IFRS
- Private Company Accounting Standards
- Regulatory
- Q&A
**List of Abbreviations Used**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ED*</td>
<td>Exposure Draft</td>
</tr>
<tr>
<td>ASU*</td>
<td>Accounting Standards Update</td>
</tr>
<tr>
<td>FI</td>
<td>Financial Instruments</td>
</tr>
<tr>
<td>NI</td>
<td>Net Income</td>
</tr>
<tr>
<td>OCI</td>
<td>Other Comprehensive Income</td>
</tr>
<tr>
<td>DTA</td>
<td>Deferred Tax Asset</td>
</tr>
<tr>
<td>FV</td>
<td>Fair Value</td>
</tr>
<tr>
<td>PV</td>
<td>Present Value</td>
</tr>
<tr>
<td>FASB</td>
<td>US Financial Accounting Standards Board</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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</tbody>
</table>

*ED and proposed ASU have sometimes been used interchangeably*
List of Abbreviations Used (cont.)

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>VIE</td>
<td>Variable Interest Entity</td>
</tr>
<tr>
<td>DC</td>
<td>Defined Contribution</td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>NCI</td>
<td>Non-Controlling Interest</td>
</tr>
<tr>
<td>B/S</td>
<td>Balance Sheet</td>
</tr>
<tr>
<td>I/S</td>
<td>Income Statement</td>
</tr>
<tr>
<td>F/S</td>
<td>Financial Statement</td>
</tr>
<tr>
<td>SOCF</td>
<td>Statement of Cash Flow</td>
</tr>
<tr>
<td>OTTI</td>
<td>Other Than Temporary Impairment</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>MLTN</td>
<td>More Likely Than Not</td>
</tr>
<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
</tr>
<tr>
<td>XBRL</td>
<td>eXtensible Business Reporting Language</td>
</tr>
</tbody>
</table>
New Accounting Standards
Accounting Standards Codification – “Refresher”

• Effective July 1, 2009
• 90 Accounting Topics
• Codification Topical Structure
  - XXX-YY-ZZ-PP (Topic, Subtopic, Section, Paragraph)
  - E.g., ASC 718 = Stock Compensation (p/k/a FAS 123)
    ASC 740 = Income Taxes (p/k/a FAS 109)
    ASC 805 = Business Combinations (p/k/a FAS 141)
    ASC 815 = Derivatives (p/k/a FAS 133)
    ASC 820 = Fair Value Measurements (p/k/a FAS 157)

• “Does not change GAAP, simply organizes it.”
• Accounting Standard Updates (“ASU’s”)
  - 2009 – 17 ASU’s issued (during 7/1/09-12/31/09)
  - 2010 – 26 ASU’S issued to date
New Accounting Standards

Nov/Dec 2009
- ASU 2009-17 - Variable Interest Entities (FAS 167)
- ASU 2009-16 - Accounting for Transfers of Financial Assets (FAS 166)

Q1 2010
- ASU 2010-01 - Shareholder Distributions w/Components of Stock & Cash
- ASU 2010-02 - Accounting/Reporting for Decreases in Ownership of Subsidiary
- ASU 2010-03 - Oil & Gas Reserve Estimation and Disclosures
- ASU 2010-04 - Various SEC Technical Corrections/Updates (SEC Update)
- ASU 2010-05 - Escrowed Share Arrangements (SEC Update)
- ASU 2010-06 - Improving Disclosures about Fair Value Measurements
- ASU 2010-07 - Not-for-Profit Entities: Mergers & Acquisitions (FAS 164)
- ASU 2010-08 - Technical Corrections to Various Topics
- ASU 2010-09 - Amendments to Subsequent Events Disclosures for SEC Filers
- ASU 2010-10 - VIE Amendments for Certain Investment Funds
- ASU 2010-11 - Scope Exception Related to Embedded Credit Derivatives
New Accounting Standards (cont.)

Q2 2010
- ASU 2010-12 - Tax Effects of the 2010 Health Care Reform Acts (SEC Update)
- ASU 2010-13 - Effect of Denominating the Exercise Price of a Share-Based Award in the Currency of its Primary Stock Trading Market
- ASU 2010-14 - Amendments to Oil & Gas Extractive Accounting (SEC Update)
- ASU 2010-15 - Investments Held through Separate Accounts for Insurance Co’s
- ASU 2010-16 - Accruals for Casino Jackpot Liabilities
- ASU 2010-17 - Milestone Method of Revenue Recognition
- ASU 2010-18 - Effect of a Loan Modification When the Loan Is Part of a Pool
- ASU 2010-19 - Multiple Foreign Currency Exchange Rates (SEC Update)

Q3 2010
- ASU 2010-20 - Disclosures about the Credit Quality of Financing Receivables
- ASU 2010-21 - Various SEC Technical Amendments (SEC Update)
- ASU 2010-22 - Various SEC Technical Corrections (SEC Update)
- ASU 2010-23 - Measuring Charity Care for Disclosure - Health Care Entities
- ASU 2010-24 - Presentation of Insurance Claims & Recoveries - H/C Entities
- ASU 2010-25 - Reporting Loans to Participants by DC Pension Plans
New Accounting Standards (cont.)

October 2010

- ASU 2010-26 - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts
ASU 2010-02, Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification

- **Scope applies to:**
  - a subsidiary or group of assets that’s a business
  - a subsidiary transferred to an equity method investee or JV
  - a group of assets exchanged for a NCI in an entity

- **Scope does not apply to:**
  - sales of in substance real estate
  - conveyances of oil and gas mineral rights

- **Expands existing disclosure and adds several new ones.**
  - Valuation techniques used to measure the FV of any retained investment
  - Nature of any continuing involvement
  - Related party involvement

- **Effective upon the adoption of FAS 160 (generally speaking 1/1/10).**
ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements

- Disaggregated disclosures for each “class” of assets and liabilities.
  - A class is often a lower level than a B/S line item.

- Requires two new disclosures:
  - Transfers in and out of Levels 1 and 2:
    - Disclose on a gross basis
    - Disclose the reasons
  - Activity in Level 3 fair value measurements:
    - Disclose gross the information about purchases, sales, issuances, and settlements
    - Disclose gross any significant transfers in/out of Level 3.

- Disclose the valuation techniques and inputs
  - Level 2 and Level 3 FV measurements
  - Changes in valuation techniques and related reasons

- Effective for periods beginning after 12/15/2009.
  - Level 3 exception (1-year deferral)
Example - Disaggregation by Class

<table>
<thead>
<tr>
<th>Class</th>
<th>12/31/XX</th>
<th>Quoted Prices (Level 1)</th>
<th>Observable Inputs (Level 2)</th>
<th>Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities - real estate industry</td>
<td>$90</td>
<td>$70</td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>Equity securities - oil &amp; gas industry</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities - other</td>
<td>20</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total trading securities</td>
<td>$160</td>
<td>$140</td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>Available-for-sale debt securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential mortgage-backed securities</td>
<td>$150</td>
<td>$25</td>
<td>$125</td>
<td></td>
</tr>
<tr>
<td>Commercial mortgage-backed securities</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>90</td>
<td>10</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Total available-for-sale debt securities</td>
<td>$290</td>
<td>$10</td>
<td>$105</td>
<td>$175</td>
</tr>
<tr>
<td>Available-for-sale equity securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services industry</td>
<td>$150</td>
<td>$150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthcare industry</td>
<td>110</td>
<td>110</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>20</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total available-for-sale equity securities</td>
<td>$280</td>
<td>$280</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate contracts</td>
<td>$60</td>
<td>$60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange contracts</td>
<td>40</td>
<td>40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total derivatives</td>
<td>$100</td>
<td>$100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private equity investments</td>
<td>$25</td>
<td></td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$855</td>
<td>$430</td>
<td>$225</td>
<td>$200</td>
</tr>
</tbody>
</table>
### Example - Level 3 Roll-forward

<table>
<thead>
<tr>
<th></th>
<th>Residential Mortgage-Backed Securities</th>
<th>Commercial Mortgage-Backed Securities</th>
<th>Private Equity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>$100</td>
<td>$40</td>
<td>$20</td>
<td>$160</td>
</tr>
<tr>
<td>Transfers into Level 3</td>
<td></td>
<td>60</td>
<td></td>
<td>60</td>
</tr>
<tr>
<td>Transfers out of Level 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total gain or losses:</td>
<td></td>
<td>(5)</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Included in earnings</td>
<td></td>
<td>(20)</td>
<td>(10)</td>
<td>(30)</td>
</tr>
<tr>
<td>Included in OCI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases, issuances, sales &amp; settlements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td></td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Issuances</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td>(10)</td>
<td>(10)</td>
</tr>
<tr>
<td>Settlements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending balance</td>
<td>$125</td>
<td>$50</td>
<td>$25</td>
<td>$200</td>
</tr>
</tbody>
</table>

(a) Transferred from Level 2 to Level 3 because of a lack of observable market data due to decrease in market activity for these securities.
ASU 2010-11, Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives

- Amends and clarifies guidance on how to evaluate credit derivatives embedded in beneficial interests in securitized financial assets.

- Addresses the scope exception in ASC 815-15-15-8: embedded credit derivatives in financial instruments that transfer credit risk only by subordinating one financial instrument to another (e.g., subordination between tranches of a securitization) do not require bifurcation.

- Allows entities to elect the fair value option (FVO) for any beneficial interest in securitized financial assets upon adoption of this ASU.

ASU 2010-18 Receivables (Topic 310):
Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset

- Affects any entity that acquires loans, accounts for some or all of those loans within “pools”, and subsequently modifies one or more of those loans.
- Modifications of loans within a “pool” does not result in the removal of those loans from the pool.
  - Even if the modification of the loans would be considered “troubled debt restructuring”
- Entities still need to consider potential impairment of the pool.
ASU 2010-20 Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

• **Purpose:** To provide additional information to assist F/S users in assessing an entity’s credit risk exposures and evaluating the adequacy of its allowance for credit losses.

• Required to provide disclosures on a disaggregated basis at 2 levels:
  - Portfolio segment
  - Class of financing receivable
ASU 2010-20 Receivables (Topic 310):
Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

- Existing disclosures amended to include disaggregation
  - Roll-forward schedule of the allowance for credit losses
  - Disclose the recorded investment
  - Disclose the nonaccrual status by class
  - Disclose impaired financing receivables by class

- New/additional disclosures disaggregated by class
  - Credit quality indicators
  - Aging of past due financing receivables
  - Troubled debt restructurings
  - Significant purchase and sales (by portfolio segment)

- Effective Date
  - Public entities – period ending on or after 12/15/10
  - Nonpublic entities – periods ending on or after 12/15/11
Proposed Accounting Standards
Proposed Accounting Standards
(a/k/a “Exposure Drafts” or “Proposed ASUs”)

- Fair Value Measurement
- Revenue Recognition
- Accounting for Financial Instruments
- Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts
- Statement of Comprehensive Income
- Disclosures about an Employer’s Participation in a Multiemployer Plan
- Disclosure of Certain Loss Contingencies
- Disclosures about an Employer’s Participation in a Multiemployer Plan
- Leases
- Accounting for Certain Fees Associated with Recently Enacted Health Care Legislation
- Accounting for Legal Costs Associated with Medical Malpractice Claims
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Financial Instruments – Proposed ASU

- Changes guidance for financial instruments (FI) as follows:
  - Classification & Measurement
  - Impairment
  - Hedge accounting
- More FI to be measured at fair value (FV) with changes recognized in net income (NI).
- Comments due 09/30/2010; final standard in 2011
- Not expected to be effective before 2013
- Certain measurement aspects will be deferred for 4 years for nonpublic entities < $1 billion in consolidated assets
- Proposal not unanimous: 2 of 5 board members dissented
Financial Instruments - Scope

Scoped in:
- Debt securities
- Loans
- Non-marketable equity investments not meeting the revised criteria for equity method accounting
- Beneficial interests in securitized financial assets
- Trade receivables and payables
- Own debt liabilities
- Derivatives

Scoped out:
Employee stock compensation, lease assets and liabilities, bifurcated equity component of a hybrid instrument, pension obligations, investments in consolidated subsidiaries, noncontrolling interests in a consolidated subsidiary, a loan commitment related to a line of credit issued under a credit card arrangement, forward contracts accounted per ASC 480-10-35-3, contingent consideration arrangements not based on an observable market or index, voluntary non-reciprocal pledge receivable or payable of nonprofits, many insurance and financial guarantee contracts, certain instruments or transactions that are excluded from the scope of Topic 815 on derivatives
Financial Instruments - Scope

- Eliminates “cost” method (for nonmarketable equity securities)
- Restricts the use of the “equity” method
  - To qualify, an investor must have:
    1) significant influence over the investee, and
    2) the operations of the investee are related to the investor’s operations
  - Eliminates the FV option for equity method eligible investments
- Changes to “hybrid” financial instruments
  - current guidance requires embedded derivative be bifurcated
  - proposed guidance measures the FI in its entirety at FV
    - FV changes are recognized in net income
Financial Instruments – Classification

• Unless a different measurement guidance is specified, FI would be classified as:
  ➢ FV with changes recognized in net income (FV-NI)
  ➢ FV with specified changes recognized in OCI (FV-OCI)
  ➢ Amortized Cost

• FV-OCI or amortized cost election permitted only for eligible FI
  ➢ Initial classification and/or election is irrevocable
Financial Instruments – Measurement “FV-NI”

- FV-NI is the default classification
- Initially measured at FV
- Any difference between FV and transaction price recognized immediately in net income
- All subsequent changes recorded in net income
- Transaction costs and fees immediately expensed
Financial Instruments – Measurement “FV-OCI”

- Initially measured at transaction price
- All subsequent changes in FV recognized in OCI except:
  - interest income or expense
  - amortization of premiums/discounts and related costs
  - realized gains/losses
  - credit losses or reversals thereof
  - hedged item basis adjustments
- Certain transaction costs and fees deferred in OCI
  - recognized in NI as a yield adjustment
- FV-OCI allowed only for a debt instrument that are:
  - “Plain vanilla” debt features
  - Business strategy to hold and collect/pay
  - No embedded derivatives
FI – Measurement “Amortized Cost”

• Initially measured at transaction price
• Can elect for trade receivables/payables
• Can elect debt instruments if:
  ➢ Meets the FV-OCI criteria, and
  ➢ Measuring the financial liability at FV would create or exacerbate a measurement mismatch
• “Measurement mismatch” exists if one of the following:
  ➢ The liability is linked to an asset under amortized cost
  ➢ The liability is part of a segment where <50% of the assets are subsequently measured at FV
  ➢ The liability of a consolidated entity for which <50% of the assets are subsequently measured at FV
Financial Instruments - Impairment

- Single impairment approach
  - For all loans and other FI’s not classified as FV-NI
  - Replaces existing OTTI guidance for debt securities
- Credit impairment recognized in NI when not expected to collect the contractual cash flows expected at asset origination or acquisition
  - Consider past events & current economic conditions
  - Should not consider future expectations
  - Should not apply probability threshold
  - Assess on an “individual” and/or “pool” basis
  - Recognize impairment in the period when estimated
  - Reverse impairment through net income
- Interest Income = Effective Interest Rate x (Amortized Cost – Allowance for Credit Losses)
Financial Instruments – Hedge Accounting

- Incorporates many proposals of the hedge accounting ED issued in 2008
- Eliminates “short-cut” and “critical-terms” match
- Requires *effectiveness* testing only at inception
  - unless circumstances warrant reassessment
  - qualitative assessment sufficient
  - “reasonably” vs. “highly” effective
- *Ineffectiveness* must be measured each period
- Voluntary de-designation of hedge *not* permitted
Financial Instruments – AFP Efforts

• AFP issued a comment letter on Exposure draft in September
  • Issues addressed:
    • Loss of the Shortcut and Critical Terms Match Method
    • Proposed Fair Value Measurement of Money Market Funds
    • Holding for contractual cash flows
    • Credit pool and day one losses
    • Reasonable effective defined
    • Calculation of ineffectiveness for cash flow hedges
    • Option hedging
    • De-designations
    • Intercompany hedging
Financial Instruments – IASB (IFRS)

- IASB project to replace IAS 39 is in 3 phases:
  - Classification and Measurement (finalized via IFRS 9)
  - Impairment
  - Hedge Accounting
- Although a joint project, the FASB ED and IASB so far have “diverged” instead of “converged!” For example:
  - More instruments at FV under the FASB ED vs. IFRS
  - FV-OCI classified FI’s under the FASB ED likely classified at amortized cost under IFRS
  - Hybrid liabilities do not require bifurcation under the FASB ED which does under IFRS
  - The credit impairment models are different under the FASB ED and IFRS
  - See Appendix A for a full comparison of the two sets of guidance
- FASB and IASB to jointly discuss feedback on both the IASB and FASB ED’s an attempt to harmonize and converge.
Comprehensive Income – Proposed ASU

A new Statement of Comprehensive Income to replace the current Income Statement

- Report total comprehensive income and its components in two parts—net income (NI) and other comprehensive income (OCI) in a single continuous statement
- Display each component of NI and OCI and a total for each part
- EPS would still be based on net income
- Reclassifications between NI and OCI to be shown on the face of the statement
- Disclose both NI and OCI attributable to the parent and noncontrolling interest
- Does not provide recognition guidance (i.e., when reclassifications from OCI occur)
- Does not change the components of NI and OCI
- No longer permitted to report OCI in a separate statement of comprehensive income or statement of changes in equity
- Does not change the option to show components of OCI gross vs. net-of-tax
Entity
Statement of Income and Comprehensive Income Year Ended December 31, 20X8

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$140,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>(25,000)</td>
</tr>
<tr>
<td>Other gains and losses</td>
<td>8,000</td>
</tr>
<tr>
<td>Gain on sale of securities</td>
<td>2,000</td>
</tr>
<tr>
<td>Income from operations before tax</td>
<td>125,000</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(31,250)</td>
</tr>
<tr>
<td>Income before extraordinary item</td>
<td>93,750</td>
</tr>
<tr>
<td>Extraordinary item, net of tax</td>
<td>(30,500)</td>
</tr>
<tr>
<td>[Net income]</td>
<td>63,250</td>
</tr>
</tbody>
</table>

Other comprehensive income, net of tax:

- Foreign currency translation adjustments (a)     | 8,000    |
- Unrealized gains on securities (x)
  - Unrealized holding gains arising during period  | $13,000  |
  - Less: reclassification adjustment for gains included in net income | (1,500)  |
- Defined benefit pension plans (x)
  - Prior service cost arising during period        | (1,600)  |
  - Net loss arising during period                  | (1,000)  |
  - Less: amortization of prior service cost included in net periodic pension cost | 100      |
- Other comprehensive income                         | 17,000   |
[Comprehensive income]                                | $80,250  |
Comprehensive Income – Proposed ASU

- Applies to all entities that report items of OCI
- Comments due by 09/30/10; final standard in Q4 2010
- Expected to be effective at the same time as the proposed ASU on Financial Instruments
- Full retrospective application on adoption, with early adoption permitted
- IASB Comparison
  - Proposed amendments to IAS 1 similar to the FASB’s
  - Differences in terminology
  - All items not recycled under IFRS
  - Separate presentation under IFRS of items of OCI that will and will not be reclassified
  - Reclassifications may be shown under IFRS either in the notes or on the face
Disclosure of Loss Contingencies – Proposed ASU

- **Lowers the “threshold” for disclosure…**
  - Loss contingencies that are “reasonably” possible are required to be disclosed
  - Loss contingencies that are “remote” are required to be disclosed if the potential impact is severe

- **Disclosure not required for unasserted claims, UNLESS considered probable that a material claim will be asserted and it is reasonable possible of an unfavorable outcome**

- **No exemption for disclosures that might be considered prejudicial**

- **Expands the level of disclosures**

- **Comments were due 9/20/10; final standard no earlier than 2011**
Disclosure of Loss Contingencies – AFP Efforts

• AFP issued a comment letter to the FASB

• Expressed concern the proposed disclosure of such detailed proprietary information
  • May unintentionally prejudice its position in pending litigation
  • require companies to disclose premature and unsubstantiated information could potentially mislead users of the financial statements and cause an unnecessary, unfavorable and unwarranted market reaction
  • Could have a negative impact small and mid-sized companies
  • Should not be issued prior to conducting an impact study with the legal community
Leases – Proposed ASU

- Released August 2010
- Represents a joint proposal by the FASB and IASB
- Significant changes to existing lease accounting model
- Would impact both lessees and lessors
- Eliminates “off-balance sheet” (i.e., operating) leases
- No grandfathering of existing leases is expected
- Comment period ends December 15, 2010
- Not expected to be effective before 2012

<table>
<thead>
<tr>
<th>Balance Sheet</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
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<td>Cash</td>
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<td>A/R</td>
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<td>Inventory</td>
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<td><strong>Liabilities &amp; Equity</strong></td>
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<td>A/P</td>
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<td>Accruals</td>
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<td>Debt</td>
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<tr>
<td>Equity</td>
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Leases – Proposed ASU

Scope

- Applies to all entities
- Includes leases of property, plant & equipment
- Excludes:
  - Leases of intangible assets
  - Leases for the exploration/use of natural resources
  - Leases of biological assets
  - Leases of certain investment properties

Most contracts viewed as leases under current GAAP will be subject to the new guidance.
Leases – Proposed ASU

Lessee Accounting Model

- Right-of-use approach
  - Right to use an asset for a specified period of time
  - Gives rise to both an asset and a liability
- Asset = right to use item for lease term
  - Recognized and carried at amortized cost
- Liability = obligation to pay rentals
  - Present value of payments
Leases – Proposed ASU

Lessor Accounting

- Dual model approach
  - Performance obligation, or
  - Derecognition
- Centers on whether significant risks or benefits of the leased asset are retained
  - Exposure to risk/benefits can occur during and after the lease term
    - Credit risk of lessee is not considered as part of this analysis
  - If retained = performance obligation model
  - If transferred = derecognition
- Model determined at lease inception and not reassessed
- Both models require estimates of lease term and contingent rentals
Leases – Proposed ASU

Lessor Accounting (cont.)

- Performance Obligation Approach
  - Used where lessor retains exposure to significant risks/benefits
  - Underlying asset stays on the lessor’s books
  - Record a lease receivable (LR) and lease liability (LL)
    - Receivable = Right to receive rental payments
    - Liability = Obligation to permit the lessee to use the asset
  - Discount the LR and LL to their present value using the lessor’s rate being charged to the lessee
  - Term = similar to lessee’s approach
Leases – Proposed ASU

Lessor Accounting (cont.)

- Derecognition Approach
  - Apply if performance obligation does not apply
  - Record a lease receivable for the right to receive rental payments with the offset to lease income
  - Derecognize a portion of the underlying leased asset with the corresponding charge to lease expense
  - The retained portion of the rights in the leased property would be reclassified as a “residual asset”
Leases – Proposed ASU

Other Provisions

- Short-term leases (12 months or less, with renewals)
- Sale-leasebacks
- Service components
- Disclosures
Leases – AFP’s Efforts

• July 7, 2009 AFP issues comment letter on FASB’s Preliminary Views Paper
• Working with US Chamber of Commerce (COC) and other trade associations of interest to develop common platform
• Second comment letter planned in response to recently issued Exposure Draft
• Issues AFP will address include:
  • Potential breach of loan covenants and the impact of other contractual arrangement
  • Uncertainty could affect future borrowing ability
  • Costs of implementation are unknown
  • Items may be placed on the balance sheet that are not a liability
  • Differing recognition rates regarding assets and liabilities.
  • Rules are not symmetrical between lessor and lessee
• Collaborating with the COC to send a letter to the G20
IFRS Update

- FASB and IASB convergence
  - Global convergence continues to be a key area of focus for the FASB
  - Since October 2009 the FASB and IASB have been meeting monthly
  - In November 2009, the boards affirmed June 2011 as the target date for completing the major convergence projects
    - also described project-specific milestone targets
  - Constituents concern of a “tsunami” of exposure drafts
    - Ability to provide high-quality input
    - Boards extended a few projects into the second half of 2011
    - Plan limits to 4 significant exposure drafts in any quarter
IFRS Update

- FASB and IASB convergence (cont.)
  - U.S. entities will be affected by the changes to U.S. GAAP as a result of the convergence, whether or not the SEC sets a date to convert to IFRS
  - Will seek stakeholder input about effective dates and transition methods
  - Project plan - [http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137074](http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137074)

- SEC
  - Confident that modified strategy will not affect SEC work plan to consider international financial reporting standards (IFRS) in 2011
IFRS Update – AFP’s Efforts

• AFP continues to monitor IFRS standards on issues impacting members
  
  • Recently sent comment letter September 7, 2010 concerning defined benefit plans amendment to IAS 19 on behalf of CIEBA members.
  • Previously issued comment letters on fair value measurement
  
• Advocates accounting standard setting should remain an independent standard setting body free of political influence
  
  • November 2009 AFP sent a comment letter to Congress opposing legislation that would have compromised their independence
On-Going Projects – Joint FASB/IASB

- Reporting Discontinued Operations
- Balance Sheet – Offsetting
- Emissions Trading Schemes
- Accounting for Financial Instruments
- Fair Value Measurement
- Statement of Comprehensive Income
- Consolidations: Policies and Procedures
- Financial Instruments with Characteristics of Equity
- Financial Statement Presentation
- Insurance Contracts
- Revenue Recognition
- Leases
- Financial Instruments: Derecognition (Research)
- Conceptual Framework
Proposed Exposure Draft on Changes to Financial Statement Presentation

- Staff draft issued July 2010 reflects the cumulative, tentative decisions made by the Boards concluding with their joint meeting in April 2010
- Entities should present information in their financial statements based on the following principles:
  - **Disaggregation** - An entity shall present information in its financial statements in a manner that:
    - The activities the entity engages in are clear
    - The cash flows of the entity are clear
    - The relationships between an asset or a liability and the effects of a change in that asset or liability are faithfully represented across the statements of financial position, comprehensive income, and cash flows.
  - **Cohesiveness** - An entity shall use the following factors in determining the items to disaggregate and present in its financial statements:
    - The function of the item
    - The nature of the item
    - The measurement basis of the item.
Proposed Changes to Financial Statement Presentation

• Fundamental changes proposed
  • Presentation of Balance Sheet based on operations of the entity
  • Cash equivalents classification eliminated
    • Will be shown as investments in order of liquidity
  • Statement of Cash Flows using the Direct Method only
• FASB not formally taking comments on draft but welcomes feedback
• Exposure Draft expected early 2011
On-Going Projects – FASB Only

- Disclosure of Certain Loss Contingencies
- Going Concern
- Disclosure Framework
- Investment Properties
- Disclosures about an Employer’s Participation in a Multiemployer Plan
- Transfers and Servicing – Repurchase Agreements
- Troubled Debt Restructuring

FASB Website:
http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137074
In December 2009, a blue-ribbon panel created
- American Institute of Certified Public Accountants (AICPA)
- National Association of State Boards of Accountancy
- Financial Accounting Foundation

Panel comprised of:
- Lenders
- Investors
- Owners
- Preparers
- Auditors

Panel is commissioned to issue a report on recommendations related to accounting standards specific to private companies

IFRS
- IFRS for Small and Medium-Sized Entities (IFRS for SMEs)
- IFRS for SMEs = IFRS for Private Companies
Regulatory Update

Topics:

- PCAOB – Supreme Court case challenging constitutionality
- Section 404(b) – ICFR audit requirements for non-accelerated filers
- XBRL phase-in – Companies with June, July and August year ends
XBRL Phase-In

- Three groups:
  1. Large accelerated filers – public float over $5 billion (6-15-09)
  2. Other large accelerated filers (6-15-10)
  3. All others (6-15-11)

- Gradual reporting
  - Domestic issuers first provide in Form 10-Q
  - Block tag in year 1; detail tag in year 2
Q&A Session
That concludes today’s program.

Thank you for attending!