

The 13th Annual Americas School of Mines US GAAP Update*

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PRICEWATERHOUSECOOPERS 

Agenda

New guidance for 2009

SEC Staff Focus

What's to come

The Road Ahead for IFRS in the US

Other-Than-Temporary Impairments (ASC 320)

FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” issued April 2009

New triggers for OTTI recognition:

- Intent to sell
- More likely than not (MLTN) will be required to sell before recovery of cost basis
- Non-recovery of entire amortized cost basis of security (credit loss)

OTTI still consists of entire difference between fair value and cost basis, however, the FSP introduces a new presentation of OTTI components:

- If no intent to sell and not MLTN will be required to sell, recognize only credit loss in earnings with noncredit component in OCI
- If intent to sell or MLTN will sell, recognize entire OTTI in earnings

Other-Than-Temporary Impairments (ASC 320) (cont.)

Implications of OTTI changes

- Better aligns impairment models for financial instruments with similar economics (debt securities and loans)
- Recognizing only incurred credit losses in earnings in certain cases better reflects expectations of future cash flows
- New triggers are considered more operational than prior “ability and intent to hold to recovery”
- Previously recognized non-credit OTTI may be recycled through the income statement

Effective

- For periods ending after June 15, 2009
- Cumulative catch-up adjustment
- Earlier adoption allowed

Other-Than-Temporary Impairments (ASC 320) (cont.)

Observations from early adopters

- Don't underestimate effort to comply
 - While retroactive restatement is not allowed, a cumulative catch-up adjustment is required
- Disclosure requirements are significant
- Consider impact on systems, processes and controls needed to accumulate required information
- Practices for determining credit loss (expected cash flows) are evolving
- Don't forget post-OTTI accounting (Day 2)
- Status quo for equity securities

SAB 111 on OTTI of Certain investments in Debt & Equity Securities

New Fair Value Guidance (ASC 820)

FSP 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” issued April 2009

- Response to difficulties in applying FAS 157 in current market environment:
 - When should observable inputs (transaction or quoted price) be significantly adjusted?
 - Concerns that fair value hierarchy may encourage undue weighting of “last transaction price”
- Response to recommendations in SEC’s recent study on market to market accounting
- Reaffirms fair value objective in FAS 157: transfer in an orderly transaction between market participants under market conditions at the measurement date

New Fair Value Guidance (ASC 820) (cont.)

FSP 157-4 requires a two-step approach

- Step 1: Assess factors to determine if the market has become inactive (i.e., there has been a significant decline in volume/activity compared to normal levels)
 - Do not presume transactions are not orderly
- Step 2: If market is inactive, perform additional analysis as the transaction price may not represent FV
 - Preparer must use judgment in determining valuation based on facts and circumstances

New Fair Value Guidance (ASC 820) (cont.)

Identifying transactions that are not orderly

- Even when a market is considered inactive, it is not appropriate to conclude that all transactions in that market are not orderly
- Observable transactions must be evaluated based on the weight of evidence to determine whether they represent orderly transactions
- Entities are not required to undertake all efforts to determine whether transactions are orderly, but cannot ignore information that is available without undue cost and effort
- Transaction prices may have to be weighed (vs. disregarded) in determining fair value

New Fair Value Guidance (ASC 820) (cont.)

Disclosures

- Inputs and valuation techniques used in interim and annual periods
- Include changes in valuation techniques or inputs made during the interim period
- Disclose fair value of debt and equity securities by major security type

Effective

- For periods ending after June 15, 2009
- Earlier adoption allowed

Accounting for Transfers of Financial Assets – an amendment of FAS 140 (to be codified/FAS 166)

FAS 140 established, among other things:

- Criteria for determining whether a transfer of financial assets should be accounted for as a sale or as a secured borrowing: and
- Conditions that an entity must meet to be considered a qualifying special-purpose entity (QSPE)

Accounting for Transfers of Financial Assets – an amendment of FAS 140 (to be codified/FAS 166) (cont.)

Key Changes

- Elimination of QSPE concept
- No exemption of QSPEs from FIN 46(R)
- Participating interest definition for sale of portions of financial assets
- Enhanced disclosures

Accounting for Transfers of Financial Assets – an amendment of FAS 140 (to be codified/FAS 166) (cont.)

Not only financial services companies impacted

- Could change whether transfers of financial assets are accounted for as sales or secured borrowings

Effective

- Prospective for new transfers of financial assets occurring in fiscal years beginning after Nov 15, 2009

Amendments to FIN 46R - (to be codified/FAS 167)

Amends FIN 46(R) for consolidation of variable interest entities

Key Changes

- Elimination of the scope exception for QSPEs
- Methodology for determining the Primary Beneficiary
 - Shift towards a “qualitative analysis” focusing on
 - Power to direct activities that most significantly impact the VIE, and
 - Right to receive benefits or obligation to absorb losses that could potentially be significant to the VIE
- Continuous reassessment of Primary Beneficiary
- Enhanced disclosures

Amendments to FIN 46R - (to be codified/FAS 167) (cont.)

Practical Implications

- More consolidations with elimination of QSPE scope exception
- May change who consolidates

Effective

- No grandfathering – all existing VIEs need to be evaluated under the new standard.
- Option of Retrospective or Cumulative Effect adoption
- Effective for fiscal years beginning after November 15, 2009

Disclosures of Derivative Instruments and Hedging Activities (ASC 815/FAS 161)

FAS 161 amends and expands FAS 133 disclosure requirements to provide an enhanced understanding of:

- How and why an entity uses derivative instruments
- How derivative instruments and related hedged items are accounted for under FAS 133
- How derivative instruments affect an entity's financial position, performance and cash flows

Effective

- Interim and annual periods beginning after November 15, 2008

Business combinations and noncontrolling interests Deal or no Deal (ASC 805 and 810/FAS 141R and 160)

Even with no merger and acquisition activity, the new M&A standards could

- Increase the number of reporting units
- Result in more transactions or other events being recorded as business combinations
- Cause tax adjustments to be recorded in earnings
- Change the presentation of your financial statements

Business combinations and noncontrolling interests

Deal or no Deal (ASC 805 and 810/FAS 141R and 160) (cont.)

Key changes with new standards for business combinations

- Definition of a business
- Measurement principle
- Transaction costs/Restructuring costs
- Contingent consideration
- Noncontrolling interest (minority interest)

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Business combinations and noncontrolling interests

Deal or no Deal (ASC 805 and 810/FAS 141R and 160) (cont.)

Development during 2009

ASC 805/FSP FAS 141R-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies

SAB 112

Codification and Hierarchy of GAAP - (ASC 105/FAS 168)

- Single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP)
- Not intended to change US GAAP
- Launched on July 1, 2009

Effective

- Interim and annual periods ending after September 15, 2009

Subsequent Events - (ASC 855/FAS 165)

Standard incorporates auditing literature into the accounting literature with some modification

- Refers to subsequent events as recognized and unrecognized
- Revises the definition of subsequent events to include concept of financial statements "being available to be issued"
- Requires disclosure of the date through which management has evaluated subsequent events

Effective

- Interim or annual periods ending after June 15, 2009

Employers' Disclosures about Postretirement Benefit Plan Assets (ASC 715)

FSP FAS 132R-1 amends FAS 132(R) to include objectives for disclosing information about postretirement benefit plan assets including providing users with an understanding of:

- How investment allocation decisions are made, including an understanding of investment policies and strategies
- The major categories of plan assets
- The inputs and valuation techniques used to measure the fair value of plan assets
- The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets
- Significant concentrations of risk within plan assets

Effective

- Annual periods ending after December 15, 2009

SEC Staff Focus

- Valuations
 - Area of intense focus (financial and non-financial assets/liabilities)
 - Variables, estimates, judgments, sensitivities
 - Disclosures
- Goodwill and intangible assets
 - Comments ask for disclosure at reporting unit level
 - What does an impairment reflect about the business
 - Foreshadowing

SEC Staff Focus (cont.)

- Segments
 - Aggregation continues to be the principal focus
 - Do market/economic events impact economic similarities?
- Debt and liquidity
 - Disclose items that impact the availability of credit
 - Compliance with covenants/Likelihood of covenant defaults
 - Tabular presentation of financial covenants versus actual ratios
 - Counterparty risks
 - Capital raising needs/plans

What's to come – Overview of Joint Projects of the MOU

Topic	Est. Timing	Lead
Business combinations	completed	Joint
Revenue recognition	2011	Joint
Financial instruments	2009*	Joint
Fin. stmt presentation	2011	Joint
Leases	2011	Joint
Liabilities and equity	2011	Joint
Consolidations	2009	IASB
Derecognition	2010	IASB
Fair value measurement	2007*	FASB
Post-employment benefits	2011*	IASB
Income taxes	2010*	IASB

*On these projects, one Board will (has) release(d) in advance of the other.

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What's to come

- Revenue recognition
- Leases
- Financial instruments

The Road Ahead for IFRS in the US

Expected SEC next steps

- Near-term focus on financial crisis and regulation
- Expect increased activity later in 2009 or into 2010
- SEC will assess
 - How much convergence is necessary before a mandatory date is established?
 - What other preparations are needed?

The Road Ahead for IFRS in the US (cont.)

PwC viewpoint

- SEC continues to be interested in moving towards IFRS
- SEC will continue to take a thoughtful, measured approach
- SEC will propose a revised roadmap, although timing may change
- Adoption of IFRS in the US remains inevitable

The Road Ahead for IFRS in the US (cont.)

Extended Period of Significant Change

- US path to IFRS will likely be one of convergence, ultimately followed by conversion
- Companies face four near-term change drivers:
 - Unprecedented level of accounting change driven by continued convergence of standards
 - Non-US subsidiaries moving to IFRS as other countries continue to adopt
 - Customers/suppliers increasing interest in IFRS accounting outcomes
 - Continued focus on differences between IFRS and US GAAP, as full convergence will not be achieved
- Over the next few years, US GAAP will be significantly influenced by IFRS

Questions