

The Quarter Close

A look at this quarter's financial reporting issues



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What you need to know—Q2—2009

Welcome to this edition of **The Quarter Close**, our quarterly publication designed to keep you informed about the latest accounting and financial reporting issues.

In this edition, we highlight three recently issued FSPs that are effective in Q2, offer some perspectives from early adopters on the new impairment standard for debt securities, and provide some "lessons learned" in applying the new noncontrolling interest standard (FAS 160). Under the heading of "Hot off the press!" we spotlight two new standards that will have broad applicability in the near term: FAS 166 on transfers of financial assets and FAS 167 on consolidations of variable interest entities. And, in "On the horizon," we call your attention to some key EITF issues dealing with revenue recognition.

Accounting hot topics

FASB's three new standards—effective now

Last quarter, the headlines were all around the FASB fast-tracking three new FASB Staff Positions (FSPs). If you'll recall, companies could early adopt these standards in Q1. Not many did. As the dust begins to settle, we offer reminders and perspectives on the three FSPs that are now required guidance for Q2.

Impairments of debt securities—observations from early adopters

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary-Impairments*, revises the FASB's guidance for determining an other-than-temporary impairment (OTTI) of debt securities. The new guidance changes the recognition threshold of an other-than-temporary impairment for debt securities and provides some income statement relief by permitting the non-credit portion of the OTTI loss to be excluded from earnings and reported in other comprehensive income. While the guidance is expected to have a significant impact on financial institutions, other companies that have debt securities may also benefit from this new standard.

What was the reaction from companies that took advantage of the standard's early adoption provisions? Overall, companies observed that implementation was more challenging than expected, particularly in modifying systems and implementing new methodologies to develop estimated cash flows and disclosures. For example, in determining cash flows in measuring the credit loss, many have gravitated to the guidance in FAS 114, *Accounting by Creditors for Impairment of a Loan*. On a positive note, companies found the new model to be more reflective of management's cash flow expectations, providing better information for investors, while having a positive impact on regulatory capital in some cases.

Check out the following publications to help you navigate the new guidance:

- [DataLine 2009-23](#), *FASB's New Model for the Impairment of Debt Securities*
- [DataLine 2009-20](#), *FASB's New Guidance for Other-Than-Temporary Impairments*

Inactive markets? Orderly transactions?—the challenges of fair value

FSP FAS 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* (FSP 157-4), clarifies how companies should determine fair value measurements when the level of market activity for an asset or liability has significantly decreased. The FSP addresses issuer and other stakeholder concerns that measurements of securities that have become inactive are often based on stale, distressed, or one-time transactions that may not be representative of fair value. The FSP provides guidance on the measurement of these transactions and provides for the consideration and weighting of a broad range of inputs to supplement market inputs when these conditions exist.

Does this new guidance change the objective of fair value measurement in FAS 157? The answer is no. This new guidance remains consistent to the principles of FAS 157, retaining the existing "exit price" concept even when there has been a significant decrease in market activity. It's no surprise, then, that the FSP emphasizes the need for a significant degree of judgment when assessing the fair value of securities in markets where volume has declined significantly. The FSP also calls on companies to provide extensive new disclosures. Refer to [DataLine 2009-19](#), *FASB's New Guidance for Fair Value Measurement and Disclosures*, for guidance on these new requirements.

New interim disclosures of fair value—now required

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, continued the FASB's efforts to enhance transparency through financial statement disclosure. In a nutshell, the new guidance requires the FAS 107 disclosures to be made each quarter by publicly-traded companies, regardless of how these instruments are recognized in the financial statements. Refer to [DataLine 2009-19](#), *FASB's New Guidance for Fair Value Measurement and Disclosures*, for guidance on these new reporting requirements.

The new "Net Income"—lessons from Q1 on FAS 160

FAS 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (FAS 160), was effective on January 1, 2009 for calendar year-end companies. While on the surface it may seem that FAS 160 is much ado about nothing, the guidance in FAS 160 creates a fundamental shift in how companies communicate with their shareholders and the investing public about key aspects of their operations and cash flows. The Q1 earnings season, which was already turbulent because of speculation on how earnings reports would impact the economy, was even more challenging as investors and the financial community were thrown for another loop by the need to assess the "new" bottom line.

FAS 160 changes the presentation of "Net Income" on the income statement for companies that consolidate less than wholly owned subsidiaries by calling for presentation of a new bottom line "Net Income Attributable to Controlling Interest." The caption "Net Income" under FAS 160 includes results related to both the controlling and noncontrolling interest (formerly minority interest). To arrive at the "new" bottom line, net income attributable to the noncontrolling interest is subtracted from "Net Income." As a consolation, for the most part FAS 160 does not change the calculation of earnings per share.

FAS 160 also impacts the statement of cash flows. Cash flows presented using the indirect method will continue to begin with the caption "Net Income." However, as noted above, this caption now includes results related to both the controlling and noncontrolling interests. Activity related to the noncontrolling interest will no longer be a reconciling item within the operating cash flow section of the statement of cash flows.

The following publications continue to provide information on FAS 160, including some helpful implementation guidance.

- [DataLine 2008-02](#), *FAS 160, Noncontrolling Interests in Consolidated Financial Statements*
- [DataLine 2008-30](#), *Key Considerations for Implementing FAS 141(R) and FAS 160* (Updated April 19, 2009)
- [DataLine 2009-08](#), *Revisions to EITF Topic D-98, Classification and Measurement of Redeemable Securities*
- Alert 09/09¹, *Accounting for Certain Sales of Real Estate or In-Substance Real Estate Following the Effective Date of FAS 160*
- Mergers & Acquisitions—A snapshot, [vol. 1](#) & [vol. 3](#)
- [PwC Guide](#), *A Global Guide to Accounting for Business Combinations and Noncontrolling Interests*

¹ This publication is available only to PwC partners and staff.

Convertible debt offerings—on the rise

Convertible debt offerings are back, now that market conditions have begun to improve. But, before you jump in, be forewarned that the rules have changed and companies may need “an accounting GPS” to navigate them.

Convertible debt offerings involve a number of complex accounting and valuation questions ranging from determining debt or equity classification, analyzing whether embedded derivatives or a beneficial conversion feature exist, and evaluating the impact on earnings per share. The new rules include EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*, and FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)*. Additionally, revisions to EITF Topic No. D-98, *Classification and Measurement of Redeemable Securities*, are effective this year.

When analyzing these arrangements, carefully consider the impact of (1) triggers enabling the instrument to become convertible, (2) mechanisms that may adjust the conversion ratio upon the occurrence of an event, (3) variables affecting the settlement amount of the instrument upon conversion, including any contingent settlement provisions, (4) settlement methods and who decides the manner in which the instrument may be settled (i.e., in cash or shares), and (5) companion instruments entered into in conjunction with a convertible instrument that may have the effect of economically adjusting the strike price of that instrument.

The following publications continue to provide helpful guidance on some of the key aspects of accounting for convertible debt:

- [DataLine 2009-18](#), *Applying EITF 07-5 - Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*
- [DataLine 2008-11](#), *FASB issue Guidance on Convertible Debt Instruments that may be Settled in Cash Upon Conversion*
- [DataLine 2009-08](#), *Revisions to EITF Topic No. D-98, Classification and Measurement of Redeemable Securities*
- Alert 08/55², *Issuance of EITF 07-5 May require Reclassification of Certain Equity-linked Financial Instruments (or Equity-linked Embedded features) Containing Certain "Antidilution" or "Price Protection" Provisions*

Economic environment—still an issue

We are not yet out of the woods as it relates to the many issues that have surfaced during this extended economic slowdown. Many issues that we highlighted in our recent DataLines continue. For example, many companies experiencing sustained declines in the value of their debt and equity securities (some of which may be "other than temporary"), may be considering restructuring their operations, refinancing short-term debt, and evaluating whether they will be able to maintain compliance with their existing debt covenants that may have significant accounting consequences.

The following DataLines can serve as useful resources in these challenging economic times:

² This publication is available only to PwC partners and staff.

- [DataLine 2009-17](#), *Impact of the Global Economic Slowdown—Accounting and Reporting Considerations*
- [DataLine 2009-24](#), *Pension/OPEB Plans—Accounting for Certain Employer Actions Taken in Response to the Current Environment*
- [DataLine 2008-35](#), *Nonfinancial Asset Impairment Consideration* (Updated March 26, 2009)
- [DataLine 2008-32](#), *Year-end Considerations for Pension/OPEB Accounting and Reporting*
- [DataLine 2008-26](#), *Implications of Current Market Conditions on Pension/OPEB Accounting and Disclosures*
- [DataLine 2008-24](#), *Third Quarter Considerations Given Current Market Conditions*
- [DataLine 2008-22](#), *Accounting Considerations Related to Other-Than-Temporary Impairment of Certain Investments in Debt and Equity Securities* (Updated January, 22, 2009)

Hot off the press!

Spotlight on FASB—significant releases

While not yet effective, several new standards deserve your attention. Get ready to roll up your sleeves, as FIN 46(R), *Consolidation of Variable Interest Entities*, and FAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, re-emerge as newly-minted standards – with a relatively short period of time between now and their effective dates. For those in the not-for-profit environment, FAS 164, *Not-for-Profit Entities: Mergers and Acquisitions—including an amendment of FASB Statement No. 142* (FAS 164), introduces a whole new approach to mergers and acquisitions.

Transfers of financial assets—say good-bye to QSPEs

With the issuance of FAS 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140* (FAS 166), QSPEs (Qualified Special Purpose Entities) will soon be a distant memory. Although this new standard will not be effective until 2010 for calendar year-end companies, it should be on your radar screen now. While the impact may be felt more immediately by financial institutions, non-financial entities will be impacted by this new standard as well.

The QSPE concept, which was established to facilitate off-balance sheet treatment for certain securitizations, has been eliminated from the guidance. More stringent criteria must be met to qualify for sale accounting when only a portion of a financial asset is transferred. The derecognition criteria for a transfer to be accounted for as a sale also received a fundamental overhaul, as did the guidance on determining the gain or loss when a transfer qualifies as a sale. This guidance impacts new transfers of many types of financial assets (e.g., factoring arrangements, and sales of trade receivables, mortgages, and installment loans) occurring after the effective date. Refer to [DataLine 2009-29](#), *FAS 166—New Guidance for Transfers of Financial Assets*, for further details.

More consolidation on the horizon for VIEs?

FAS 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167), significantly changes the consolidation rules as they relate to variable interest entities (VIEs). Like FAS 166, the standard will not be effective until 2010 for calendar-year companies. However, depending on the number of VIEs you have, you may need that time to complete your reassessment.

FAS 167 makes significant changes to the model for determining who should consolidate a VIE, and also addresses how often this assessment should be performed. It comes in response to recent market events and practice concerns that companies can structure transactions to avoid consolidation and concerns about the lack of transparency in the financial statements about a company's involvement in a VIE. Under this new standard, we expect that many off-balance sheet entities previously exempt from consolidation (QSPEs) will need to be consolidated.

The effort to comply with this new standard should not be underestimated since the standard must be adopted through a cumulative-effect adjustment (with a retrospective option). All existing arrangements will need to be evaluated—not to mention the related impact on systems, processes, financial ratios, and debt covenants. While the impact of these changes may be more obvious to financial services companies (due to the elimination of the QSPE scope exception), the new guidance will have broad applicability across all industries for companies, including those that are involved in joint ventures and collaboration arrangements. Refer to [DataLine 2009-30](#), *FAS 167—New Consolidation Guidance for Variable Interest Entities*, for further details.

New mergers & acquisitions standard for not-for-profits

FAS 164 fundamentally changes the accounting for mergers and acquisitions entered into by not-for-profit organizations (NPOs) and many of the new provisions align recognition and measurement to the guidance in FAS 141(R), *Business Combinations* (FAS 141(R)), with some exceptions. Certain transactions that qualify as mergers will receive carryover accounting treatment. All other combinations will use acquisition (fair value) accounting, consistent with FAS 141(R).

The new standard also provides guidance on reporting noncontrolling interests within the NPO financial reporting model. The guidance in FAS 164 is effective for mergers occurring after December 15, 2009, and for acquisitions occurring in fiscal years beginning in 2010 for calendar year-end companies. Pre-existing goodwill of NPOs that are primarily supported by contributions and investment income will be written off in transition; all other pre-existing goodwill is subject to a transitional impairment test. Additionally, the provisions of FAS 142, *Goodwill and Other Intangible Assets*, related to subsequent accounting for combination-related intangibles become effective simultaneously with the effective date of FAS 164. Once effective, all remaining goodwill and indefinite-lived intangible assets will cease to be amortized, but must be tested for impairment at the "reporting unit" level, a new concept for NPOs. Refer to the guidance in [DataLine 2009-25](#), *FASB Issues Merger and Acquisition Guidance for Not-for-Profit Organizations*, for more information.

New accounting standards (effective Q2)

For a complete list of effective standards refer to Appendix A

Subsequent events—now in the accounting literature

The FASB recently re-mapped the auditing guidance on subsequent events to the accounting standards with the issuance of FAS 165, *Subsequent Events* (FAS 165). Effective this quarter for calendar year-end companies, the new guidance is modeled after the same principles as the subsequent event guidance in the auditing literature (AU 560) with some terminology changes and additional disclosures. For example, the familiar terminology of Type I and Type II has been replaced with "recognized" and "unrecognized" subsequent events. The standard also includes a required disclosure of the date through which the entity has evaluated subsequent events and whether that evaluation date is the date of issuance or the date the financial statements were available to be issued. Although, AU 560 has not changed, this new standard may impact the date of the auditor's report. Refer to [DataLine 2009-27](#), *Subsequent Events*, for further details.

SEC matters

Goodwill impairment remains an SEC focus

The SEC continues to focus on the timing, recognition, and measurement of goodwill impairments. The SEC staff believes companies should give investors more insight into the entire impairment process, including events or factors that may lead to or have led to goodwill impairment. Based on recent SEC comment letter trends and SEC staff presentations, some of the key areas of disclosure focus (largely in the MD&A) are:

- disaggregated information by reporting unit (including what the reporting units are, how they were determined, what their fair values and carrying values are, and how their fair values were estimated),
- judgments about whether a triggering event has occurred (or not occurred),
- judgments, estimates, assumptions and sensitivities inherent in valuation models,
- changes in valuation models/techniques,
- how changes in economic circumstances impact valuation models (e.g., the inputs used),
- the impact of market capitalization below book value, and
- risks and uncertainties relating to potential future impairments.

The SEC staff has indicated that many of these disclosures are applicable even if the registrant has not recognized an impairment in the current period. The following publications continue to provide relevant guidance on impairment and valuation issues:

- [DataLine 2009-09](#), *FASB's Valuation Resource Group: Highlights of February 2009 Meeting*
- [DataLine 2008-35](#), *Nonfinancial Asset Impairment Considerations*
- [DataLine 2008-34](#), *Highlights of the 2008 AICPA National Conference on Current SEC and PCAOB Developments*
- Mergers & Acquisitions—A snapshot, [vol. 2](#)

SAB 112 – Conforms guidance with FAS 141(R) and 160

The SEC staff recently issued Staff Accounting Bulletin No. 112 (SAB 112) to update their guidance for the new accounting for business combinations and consolidations (FAS 141(R) and FAS 160). While many of the changes were solely to conform language to the new standards, other changes in the SEC guidance were required to conform to the new principles introduced by these standards. For example, SAB 112 removes certain SEC guidance related to allowances for loan losses and contingent liabilities assumed in a business combination. In addition, SEC guidance related to decreases in ownership interests in subsidiaries that do not result in deconsolidation (i.e., SAB 51 transactions) was removed. SAB 112 also amends certain SEC guidance related to the application of push down accounting and subsidiary divestitures.

Adoption of new standards—interim disclosure reminders

If a company adopted a new accounting standard in the first quarter of 2009 (for calendar year-end companies), the annual disclosures associated with those standards were required to be provided in the quarterly report for the period of adoption. Companies should continue to provide these annual disclosures *in each quarterly report* filed until the accounting change is reflected in an annual report.

Adoption of new standards—revised financials may be required - an update

In the last edition of [The Quarter Close](#) we discussed the impact of adopting new standards that require retrospective application on SEC registration statements. If a company is thinking about preparing a registration statement that includes or incorporates by reference interim financial statements that reflect a change in accounting principle, the company must revise its previously filed annual financial statements included or incorporated by reference in the registration statement to reflect the impact of the change in accounting principle if the change is material.

The SEC Regulations Committee recently discussed with the SEC staff and determined that FSP EITF 03-6-1 is exempt from this requirement since the related guidance in EITF 03-6 was also previously exempt. It is important to note this exemption should not be applied by analogy to other standards.

For more information see - [CAQ Alert 2009-53](#), *Time Sensitive Issues from SEC Regulations Committee Meeting with SEC Staff Regarding FAS 160, FSP APB 14-1 & FSP EITF 03-6-1*.

XBRL—Interactive data is here!

XBRL is now a reality. The SEC's final rule requiring public companies to provide financial information in interactive data format using XBRL is effective for large accelerated filers³ that prepare U.S. GAAP financial statements for fiscal periods ending after June 15, 2009. Many companies are now stepping-up their readiness efforts to build sufficient time into their period-end financial reporting process for the preparation and review of the XBRL-formatted financial statements.

Recently, the SEC held a public seminar on its new interactive data reporting requirements to help companies comply with the new rules. During the seminar, the SEC staff continued to express its interest in working collaboratively with preparers to ensure the accuracy and reliability of the XBRL-formatted financial information.

The following resources, including new guidance issued by the SEC, are useful tools in preparing and complying with the new requirements:

- SEC—*Frequently Asked Questions Regarding the Interactive Data Program*
<http://www.sec.gov/spotlight/xbrl/xbrltechfaq.htm>
- SEC—*Compliance and Disclosure Interpretations: Interactive Data*
<http://www.sec.gov/divisions/corpfin/guidance/interactivedatainterp.htm>
- SEC—*Compliance and Disclosure Interpretations: Regulation S-T*
<http://www.sec.gov/divisions/corpfin/guidance/regs-tinterp.htm>
- June 10, 2009 Archived Webcast of the SEC's *Public Seminar on the New Interactive Data Reporting Requirements* <http://www.sec.gov/news/otherwebcasts.shtml>
- [DataLine 2009-06](#), *SEC Issues Final Rules Mandating Phased-In Use of Interactive Data*
- [PwC Archived Webcast](#): *The SEC has mandated XBRL—what should you do next?*

³ Foreign and domestic registrants with world-wide public float above \$5 billion as of the end of the second quarter of their most recently completed fiscal year.

Corporate governance

To the Point

The next issue of *To the Point*, PwC's quarterly newsletter for directors, will be released in early July. That issue will discuss the need for linkage between the audit committee and the compensation committee on compensation-related policies and decisions, provide an analysis of the Obama Administration's international tax proposal, and highlight the implications of issuing debt in the current environment. Once released, *To the Point* and archived issues are available for download at www.pwc.com/uscorporategovernance.

Audit committee charters—a fresh look

Is your audit committee in the midst of its annual charter review? Need some guidance on what's required or suggestions on how the charter might be improved? PwC has developed an Audit Committee Charter Review Checklist to help assess whether a charter captures applicable stock exchange governance listing standards and SEC rules, as well as today's leading practices. Companies can contact their local PwC engagement team for assistance. PwC partners and staff can access this tool through the Corporate Governance Page on myKcurve.

Governance resources

The Corporate Governance Home Page has other useful information on governance issues and trends, governance hot topics, and PwC's governance-related publications. PwC partners and staff can access the Corporate Governance Page on myKcurve.

IFRS

IFRS developments—useful resources

As the climate around IFRS continues to change, our IFRS placemat, newly updated, is a helpful resource to keep you apprised of the most current high-level developments in the area of IFRS. The IFRS placemat provides a snapshot of the responses to the SEC's proposed roadmap and PwC's related insight, focusing on key issues, such as timing and method of moving to IFRS. It also discusses related topics, such as the impact of the financial crisis and the road ahead.

In addition, new this quarter is the SEC Comment Letter placemat, focusing on the detailed responses to the SEC's proposed roadmap. It explores constituents' perspectives on specific milestones, the broader impacts of a move to IFRS, and the interaction of IFRS with U.S. culture. In addition, we include PwC's perspectives on these topics, as well as our expectations for how the SEC may proceed.

You can obtain a copy of the placemats from your local PwC engagement teams. PwC partners and staff can access it through the IFRS Page in myKcurve.

On the horizon

Your guide to selected issues affecting future quarters

Revenue recognition—weigh-in on EITF proposals

Now is your opportunity to weigh-in on new EITF proposals on revenue recognition. Abstracts on two EITF issues will soon be released for public comment. The EITF may reach final conclusions in September, so your input over the next few months will be important.

Multiple element arrangements—new guidance eases separation criteria

Allocating arrangement consideration in a multiple element arrangement may get easier with the EITF's latest consensus-for-exposure on Issue 08-1, *Revenue Arrangements with Multiple Deliverables*. Issue 08-1 will supersede the guidance in Issue 00-21, *Revenue Arrangements with Multiple Deliverables*, and provide another alternative for establishing fair value for a deliverable. When vendor specific objective evidence or third party evidence for deliverables in an arrangement are unavailable, companies would develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, some companies will be impacted by the EITF's decision to eliminate the residual method from the proposed model.

The changes proposed in this EITF issue are significant in terms of the potential impact on a company's financial statements as well as the effort required to modify systems, implement internal controls, and develop new methodologies. In addition, extensive new disclosures have been proposed. Once the consensus-for-exposure is released for public comment, companies should stand up and be counted. The EITF is anxious to get feedback. Watch for a DataLine coming soon, which will provide some practical observations concerning the new EITF issue.

Software revenue recognition—scope revisited

Fewer companies will apply the existing software revenue recognition model if the EITF's proposed changes to the scope of SOP 97-2, *Software Revenue Recognition*, are finalized. At issue, companies that sell tangible products are required to apply the software revenue recognition guidance if those tangible products have "more than incidental" software. These days, many traditional products that contain software but are not thought of as primarily software products get scoped into the standard and, as a result, companies' reported financial results do not reflect the economics of the transactions. Following on the coat tails of Issue 08-1, many companies voiced their concern that the software revenue recognition model should also be revisited.

So the EITF did just that and is about to issue an exposure draft that will amend the guidance to exclude from the scope of SOP 97-2 certain tangible products that contain software and non-software components that work together to deliver the product's "essential functionality." The proposal will provide factors and examples to help companies consider whether they qualify for this scope exception and can apply the separation model in Issue 08-1. A DataLine will be issued soon that will provide some observations on this significant change. This consensus-for-exposure will provide another opportunity for companies to provide their views in advance of the September EITF meeting.

The milestone method—to be codified in GAAP

The EITF is currently deliberating an issue that is expected to be finalized in September that will recognize the milestone method as an acceptable method of revenue recognition. These arrangements are common in the pharmaceutical and biotech industries. In a milestone revenue arrangement, a vendor receives consideration contingent upon the vendor's performance or a specific outcome (such as achieving FDA approval for a new drug compound). Currently, no authoritative literature addresses the application of the milestone method, but practice has evolved to recognize revenue based upon achievement of a substantive milestone.

The EITF has already exposed this Issue and is currently fine-tuning scope and transition requirements. Once finalized, this issue will provide guidance on how to determine when a milestone is substantive and when companies can use the milestone method in an arrangement. It is important for companies that currently use the milestone method to consider the implications of the new guidance. Any concerns about the proposed guidance should be voiced to the EITF before it completes its deliberations in September.

Employers' pension plan/OPEB plan assets—new disclosures

When FAS 157, *Fair Value Measurements* (FAS 157), was issued, many questioned whether the disclosures were applicable to pension and OPEB plan assets. The FASB initially said no, but a recently issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1), changed that response. The FSP significantly expands the required disclosures for pension and OPEB plan assets, including disclosures similar to the fair value measurement disclosures required by FAS 157.

Although the FSP is not effective until December 31, 2009 for calendar year-end financial statements, certain information will need to be accumulated as of January 1, 2009. As with many new standards, compliance starts well before the effective date. Companies need to start collecting and evaluating the information necessary to meet the annual reporting requirements, particularly information related to hard-to-value assets that may be more difficult to obtain. Refer to [DataLine 2009-13, *New Disclosures Required in Employers Financial Statements about Pension/OPEB Plan Assets*](#), for further information.

Liabilities—fair value guidance expected for Q3

The FASB is expected to soon release a new FSP to address several issues that arise when measuring the fair value of a liability under FAS 157. Some of the key topics to be addressed include the impact of transfer restrictions on the fair value of a liability and the ability to use the fair value of a liability that is traded as an asset as an input to the valuation of the underlying liability. The FSP is also expected to provide practical guidance for valuing liabilities that are not traded in active markets.

Since the proposed guidance is largely consistent with practices that have emerged for applying FAS 157 to liability measurements, we don't expect it to have a significant impact on financial reporting. However, some will find it helpful as it is expected to validate some existing practices and provide examples of measuring the fair value of a liability. While the final FSP has not yet been issued, we expect it will be effective in the third quarter for calendar year-end companies and that it will allow for early adoption. For additional information, refer to [DataLine 2009-26, *FASB's Proposed Guidance on Measuring the Fair Value of a Liability*](#).

Alternative investments—fair value changes – ED issued

More guidance is on the horizon for determining the fair value measurements for certain alternative investments (hedge funds, real estate funds, venture capital funds, etc). The proposal, released in Q2 by the FASB, creates a practical expedient for estimating fair value for investments in entities that are within the scope of the AICPA Audit and Accounting Guide, *Investment Companies* (the Guide), that do not have a readily determinable price. The practical expedient allows companies to use net asset value (NAV) without adjustment if NAV has been determined in accordance with the Guide. This standard is expected to be issued in late July or August and is expected to be effective for financial statements issued after that date. [DataLine 2009-28, *FASB's Proposes Guidance on Determining the Fair Value of Alternative Investments*](#), provides more information.

New going concern standard—stay tuned

The FASB is continuing its deliberations on a proposed accounting standard related to the assessment of an entity's ability to continue as a going concern. Today, only the auditing literature provides guidance on this subject. This new standard, once finalized, will provide guidance directed specifically to management. In addition, the FASB is debating whether

the scope should be expanded to require disclosures of short-term and long-term risks, specifically risks for which there is more than a remote likelihood of occurrence.

The proposed model is expected to extend the time horizon to be evaluated when making the going concern assessment from the not to exceed one year beyond the end of the reporting period threshold used in current auditing standards to a time frame that is generally, but not limited to, twelve months from the end of the reporting period. We expect the final standard to contain language clarifying that while certain events beyond one year should be considered, the FASB's intent is not to create an indefinite look-forward period.

Given the ongoing dialogue and expanded scope, a new standard will not be effective for second-quarter reporting as originally expected. It is possible that a new standard could be effective as early as the third-quarter, so stay tuned.

Codification—launches July 1, 2009

It's official! The FASB *Accounting Standards Codification* will launch on July 1, 2009, becoming the single source of authoritative nongovernmental U.S. GAAP. Although the Codification is not intended to change GAAP, it will represent a significant change in the way we research issues and reference U.S. GAAP in our work papers and how preparers use references in their financial statements and in their accounting policies. The Codification will be effective in the third quarter for calendar year-end companies (for financial statements ending after September 15, 2009). The FASB Codification can be accessed via the FASB website, <http://asc.fasb.org/home>. Registration is required. Also see the demonstration on how Comperio users can access and use the Codification. For more information, refer to the following:

- [DataLine 2009-12, *Preparing for the Transition*](#) (updated June 4, 2009)
- [DataLine 2008-04, *FASB Codification of U.S. GAAP*](#)
- [Archived Codification Webcast—Preparing for the Transition](#)
- [Comperio Demonstration](#)

Watchlist—President Obama's financial regulatory reform proposal

Another sign of the times. In mid-June, President Obama proposed sweeping financial regulatory reforms designed to ensure stability in the financial markets. There's much to be debated in the weeks ahead, but if the first six months of President Obama's administration is any indication of what's ahead, we likely will see a robust debate of this highly controversial proposal. At its core, the proposal would (1) significantly increase the oversight and regulation of financial institutions, (2) establish comprehensive regulation of financial markets, (3) establish new consumer protection laws, (4) grant more powers to the government to manage financial crises, and (5) enhance international regulation and cooperation. With a proposal this broad, undoubtedly many companies will feel the regulatory and financial impacts. As we have seen throughout the financial crisis, the reverberations of turbulence in the financial markets have a tendency to migrate to well beyond financial institutions. Companies should monitor the status of this proposal since it could change as a result of Congressional debate. For more information on the proposal, including the white paper and fact sheets, refer to http://www.financialstability.gov/latest/tg_06172009.html.

Watchlist—President Obama's international tax proposal

President Obama's 2010 budget proposals offer a glimpse of new fiscal policies to rein in tax breaks and find new revenue sources. Significant changes have been proposed on how U.S. based multinationals are to be taxed on foreign earnings, which are budgeted to generate approximately \$210 billion in revenue over a ten year period beginning in 2011. The proposal, if enacted, will generally result in a higher tax cost for foreign operations that may reduce the competitiveness of U.S. multinational companies, particularly in foreign markets. Specifically, the proposed changes are intended to (1) limit companies' ability and incentive to defer U.S. tax on foreign earnings and (2) limit the shifting of income to low-tax countries. As the possibility of enactment progresses, multinational businesses will undoubtedly be revisiting their international structures, modeling the potential impacts of the law change, and considering a variety of possible courses of action. For more information refer to [10Minutes on International Tax Increases](#)

Standards that became effective in the recent periods

Effective for fiscal years beginning after November 15, 2008

- FAS 157, *Fair Value Measurements* (for the delayed application of this Statement for nonfinancial assets and nonfinancial liabilities)
- FAS 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*
- FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*

Effective for fiscal years beginning after December 15, 2008

- FAS 141 (revised 2007), *Business Combinations*
- FAS 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*
- FAS 163, *Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60*
- FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*
- FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*
- FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*
- FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*
- FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*
- FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*
- FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*
- EITF 07-1, *Accounting for Collaborative Arrangements*
- EITF 07-4, *Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships*
- EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*
- EITF 08-3, *Accounting by Lessees for Nonrefundable Maintenance Deposits*
- EITF 08-4, *Transition Guidance for Conforming Changes to EITF Issue No. 98-5, 'Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios'*
- EITF 08-5, *Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement*
- EITF 08-6, *Equity Method Investment Accounting Considerations*
- EITF 08-7, *Accounting for Defensive Intangible Assets*
- EITF 08-8, *Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary*

Appendix A

Effective for periods ending after June 15, 2009, early adoption permitted

- FAS 165, *Subsequent Events*
- FSP FAS 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*
- FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*
- FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*

Effective for fiscal years beginning after November 15, 2009

- FAS 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140*
- FAS 167, *Amendments to FASB Interpretation No. 46(R)*

Effective for fiscal years ending after December 15, 2009

- FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*

Effective for fiscal years beginning after December 15, 2009

- FAS 164, *Not-for-Profit Entities: Mergers and Acquisitions—Including an amendment of FASB Statement No. 142*

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