
***Current Accounting and Reporting
Developments Webcast Series***

Third Quarter

September 19, 2012

Welcome and opening remarks

John Bishop

Accounting Services Group Partner

Today's agenda

SEC Hot Topics

Current Accounting Developments

Income Tax Accounting Reminders

Q&A

CPE & Evaluation

In order to receive CPE credit for this program, you must stay on for the entire program.

You must respond to the multiple choice questions.

If you are viewing this webcast in a group, everyone in the group can receive CPE credit.

Please complete the evaluation that will appear at the end of the webcast.

Today's program will be worth approximately 1.5 CPE credits.

Polling question #1

Which of the following best describes your role or responsibilities within your organization?

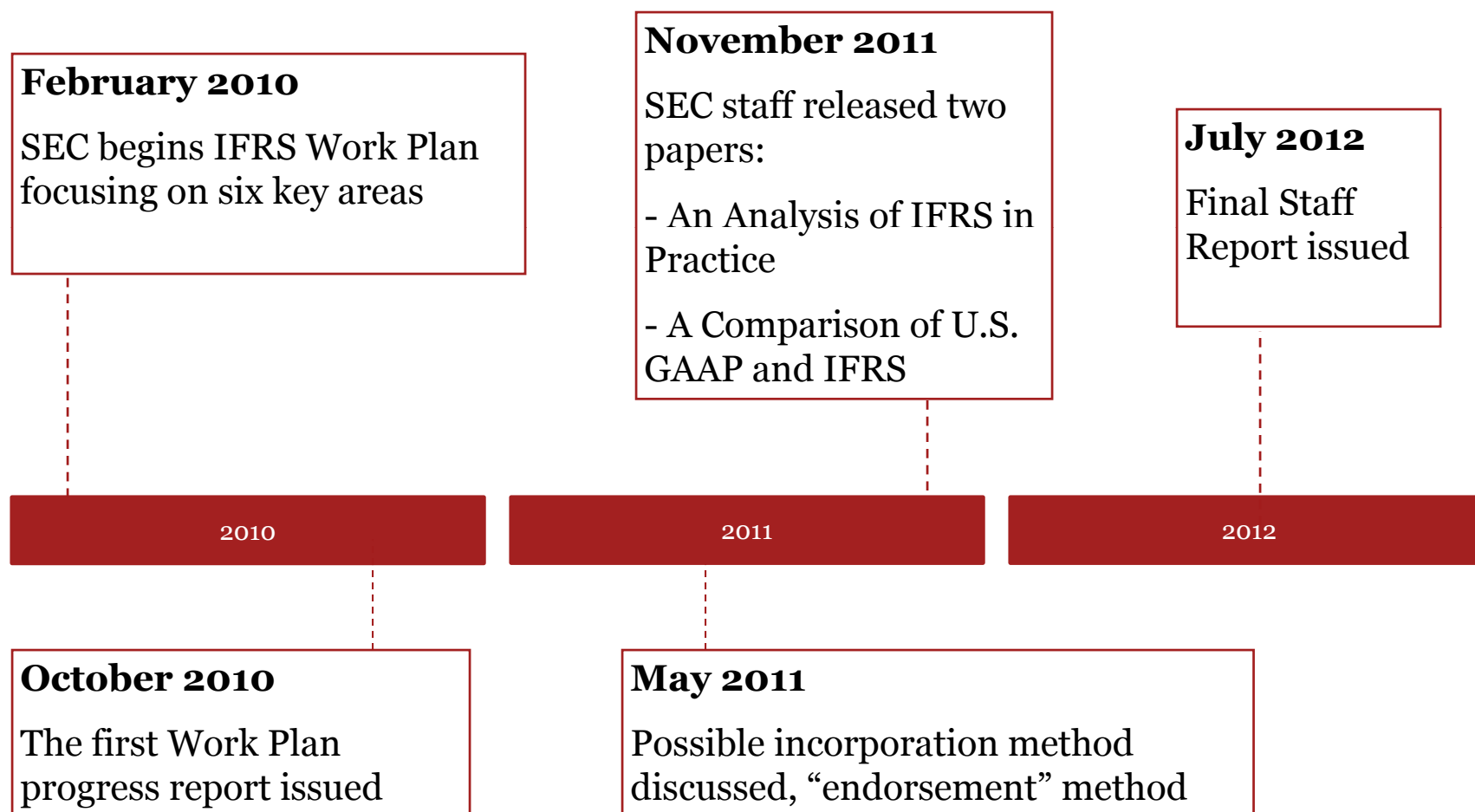
- A. CFO or Controller / Assistant Controller
- B. SEC or Financial Reporting Director/Manager
- C. Accounting/Finance Manager
- D. Tax Director/Manager
- E. Other

SEC Hot Topics

Diane Howell, Partner

SEC hot topics

IFRS work plan



SEC hot topics

Conflict minerals

- Mandated by Dodd-Frank Act and is effective for calendar year 2013; first filing due May 31, 2014
- Describes the assessment and reporting requirements for in-scope issuers, broken down into three steps
- SEC created new Form SD that must be filed annually
- Information necessary to comply with rule must come from issuer supply chains, which include both public and non-public companies
- Broad range of industries use conflict minerals, including:

<i>Electronics</i>	<i>Technology</i>	<i>Aerospace</i>
<i>Jewelry</i>	<i>Consumer goods</i>	<i>Medical devices</i>
<i>Auto</i>	<i>Telecom</i>	<i>Industrial manufacturing</i>

SEC hot topics

Conflict minerals

Step One – Who is in scope?

- **Any** company that is required to file periodic reports under Sections 13(a) or 15(d) of the Exchange Act who:
 - Manufactures or contracts to manufacture products, **and**
 - Conflict minerals are necessary to the functionality or production of those products

Step Two – Reasonable country of origin inquiry (RCOI)

- Conduct RCOI to determine whether the conflict minerals originated in the Democratic Republic of the Congo (“DRC”) region
 - Must be reasonably designed to determine whether the minerals originated in the DRC region or came from recycled/scrap materials, and must be performed in good faith
- If issuer determines that minerals originated in the DRC region and did not come from recycled/scrap sources, **or** has reason to believe that they may have originated in the DRC region, proceed to Step 3

SEC hot topics

Conflict minerals

Step Three – Due diligence and the Conflict Minerals Report

- Conduct due diligence on the source and chain of custody of the conflict minerals using a recognized due diligence framework
- File a Conflict Minerals Report as an exhibit to Form SD describing the due diligence measures taken and disclosing whether products are:
 - DRC Conflict Free
 - Not DRC Conflict Free, or
 - DRC Conflict Undeterminable – for a temporary 2-year period (4 years for smaller issuers), if the issuer is unable to determine origin of minerals or whether they financed armed groups

SEC hot topics

Conflict minerals

Independent Audit Requirement

- Conflict Minerals Report must include an independent audit report to express an opinion or conclusion covering:
 - Appropriateness of the design of the due diligence framework in conformity with a nationally or internationally recognized framework, and
 - Accuracy of the description of the due diligence measures undertaken
- Exemption for temporary ‘Undeterminable’ period

Polling question #2

How do you expect the conflict mineral reporting requirements to impact your organization?

- A. Significant impact
- B. Some impact
- C. Little to no impact
- D. I am a private company, but will still be impacted
- E. I am a private company, the requirement does not impact me

Current Accounting Developments

Chad Soares, Partner
Suzanne Stephani, Director and
Lambert Shiu, Senior Manager

Current accounting developments

Debt restructuring

Troubled Debt Restructuring? ASC 470-60



Loan or Line of Credit?



Debt Security or Term Loan



Line of Credit

Extinguishment or Modification

(ASC 470-50-40)

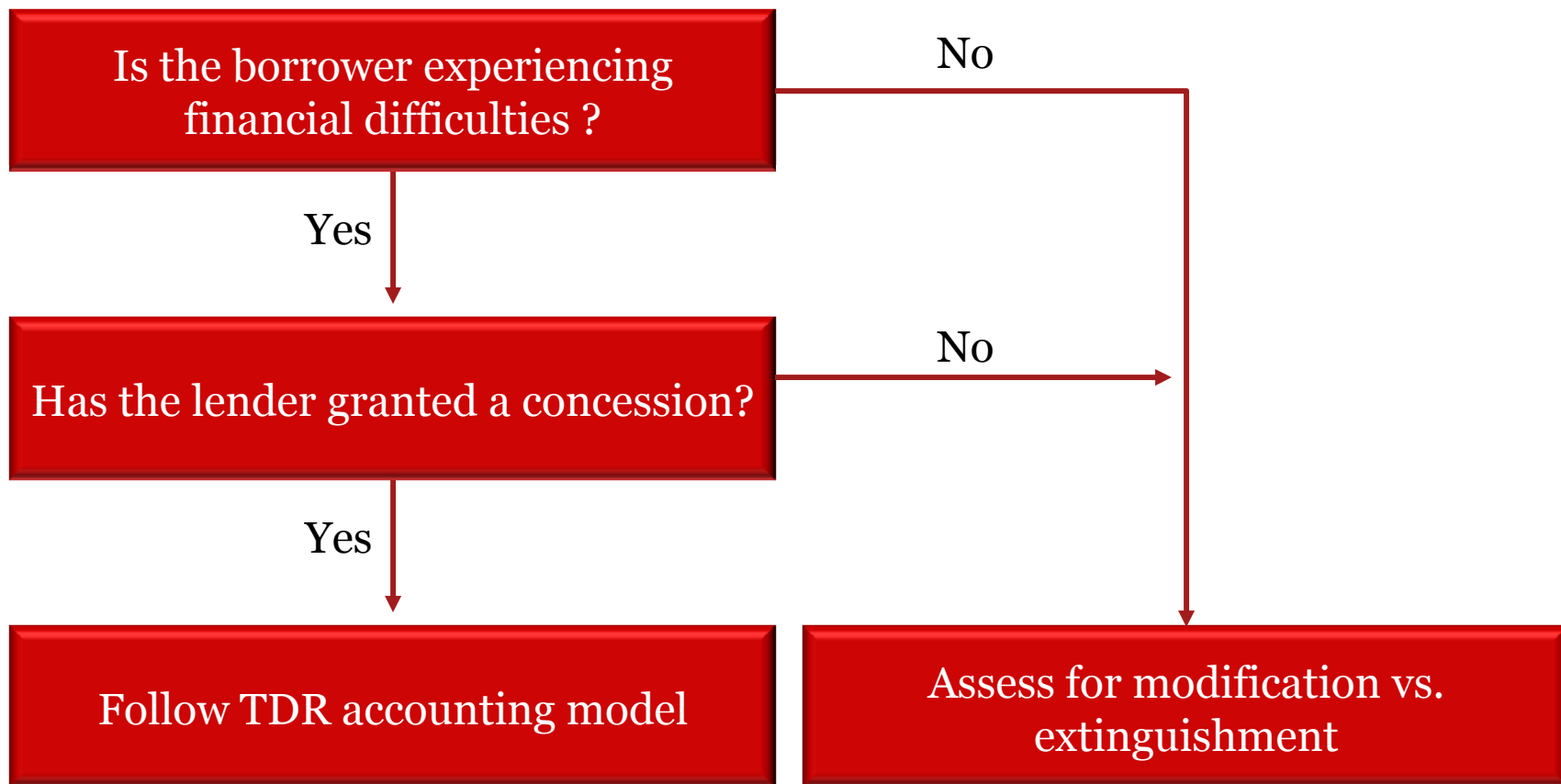
Assess borrowing capacity

(ASC 470-50-40-21)

Current accounting developments

Debt restructuring

Is there a troubled debt restructuring (“TDR”)?

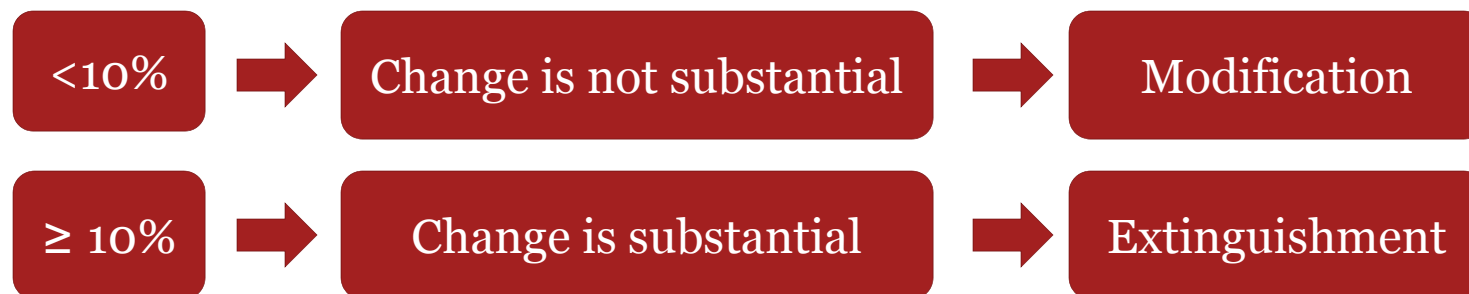


Current accounting developments

Debt restructuring

Modification vs. Extinguishment

- The legal form of the transaction does not drive the accounting analysis.
- What is relevant?
 - (1) whether the creditor remains the same **and**
 - (2) whether the change in the debt terms is substantial
- What is substantial?
 - If the difference between the present value of the cash flows of the new debt and the present value of the remaining cash flows of the original debt is...



Current accounting developments

Debt restructuring

Type of transaction	Gain / loss recognition and interest expense impact	New fees paid to creditor	New third party fees (i.e. debt issue costs)
Modification	<ul style="list-style-type: none">• No gain or loss is recognized (i.e. no write-off of unamortized costs).• A new effective interest rate is established based on the existing carrying value and the revised cash flows.	Capitalize and amortize	Expense
Extinguishment	<ul style="list-style-type: none">• A gain or loss is recorded for the difference between the net carrying amount of the original debt and the fair value of the new debt.• Interest expense is recorded based on the effective interest rate of the new debt.	Expense	Capitalize and amortize

Current accounting developments

Debt restructuring

Prepayment options

- Prepayment options must be considered in the calculation of cash flows
- Simplifies the calculation
- Many instruments which can be prepaid are accounted for as modifications

Multiple lender syndicates

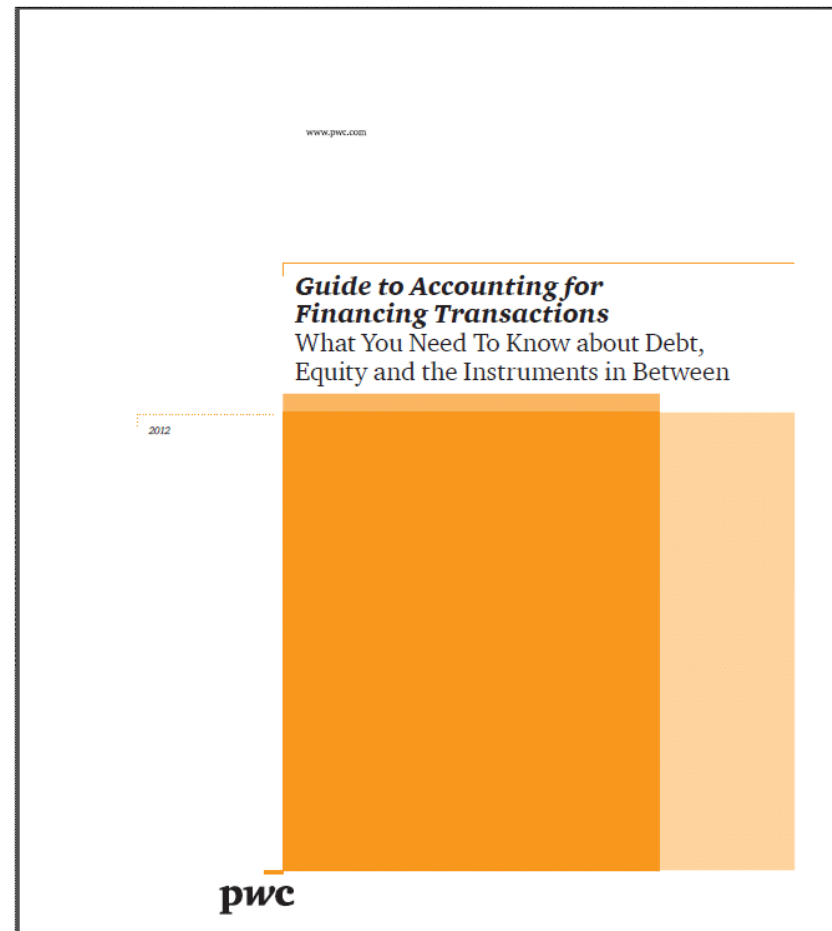
- 10% test should be done on a lender by lender basis
- Don't assume a change in principal balance automatically means cash flows are "substantially different"

Current accounting developments

Debt restructuring

Would you like more information?

Upcoming publication, *Guide to Accounting for Financing Transactions: What You Need to Know about Debt, Equity and the Instruments in Between*



Current accounting developments

Balance sheet offsetting disclosure requirements

- ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, requires new disclosures to help reconcile differences in the offsetting requirements under US GAAP and IFRS
- Disclosure of gross and net information about transactions eligible for offset in the balance sheet, as well as transactions subject to a master netting arrangement or similar agreement, are required
- The focus of the standard was on derivatives and repurchase agreements but a broad range of agreements could fall within its scope
- Any arrangement between two parties with the right of offset could be in the scope of the standard
- All industries, not just Financial Services, could be impacted

***New
disclosure
requirements
are effective
in the first
quarter of
2013 for
calendar
year-end
companies***

Polling question #3

Has your organization undertaken a recent debt restructuring?

- A. Yes, within the past year
- B. Yes, within the past two to five years
- C. No, not within the past five years

Current accounting developments

Leasing project

- Incorporation of the “single lease expense” (straight-line) approach has been well received
 - Many are asking whether “insignificant” is the right line for equipment leases
- The proposal does not address a number of potential questions. Some of the more significant may be:
 - Will “property” include “integral equipment” such as cell towers?
 - Will “fragmentation” between property and non-property items included within the same arrangement be required?
 - Is it appropriate for long dated property leases (e.g., land) to apply the interest and amortization model?

Current accounting developments

Leasing project

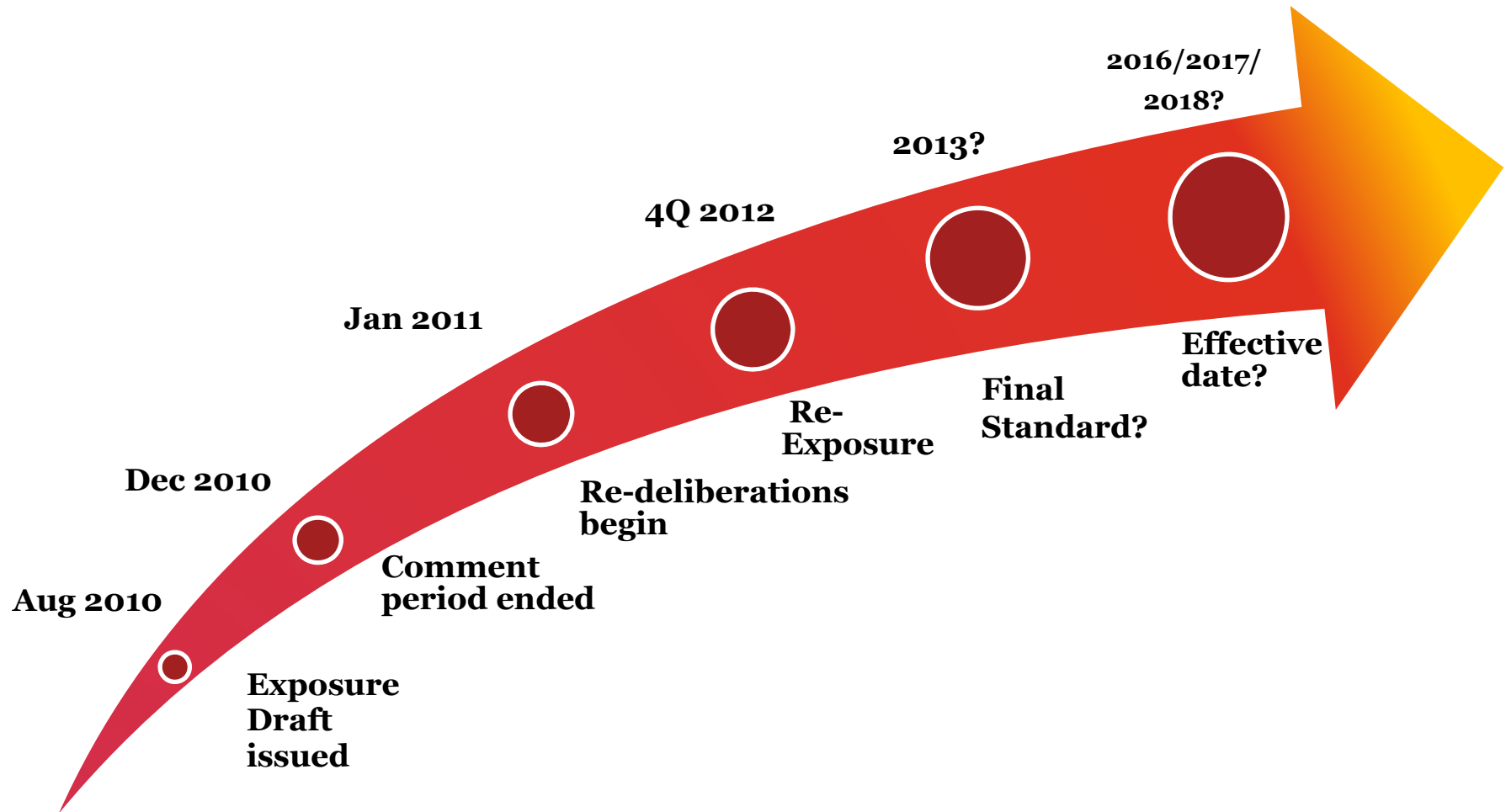
The current proposal is substantially different from the August 2010 Exposure Draft

Financial measure	Initial ED	Single lease expense	Interest and amortization
Assets	↑	↑	↑
Liabilities	↑	↑	↑
Lease expense	↓	=	↓
Amortization	↑	=	↑
Interest expense	↑	=	↑
EBIT	↑	=	↑
EBITDA	↑	=	↑
EPS	↕	=	↕
Cash from operations	↑	=	↑
Cash from financing	↓	=	↓

Note the lighter arrows indicate less of a change

Current accounting developments

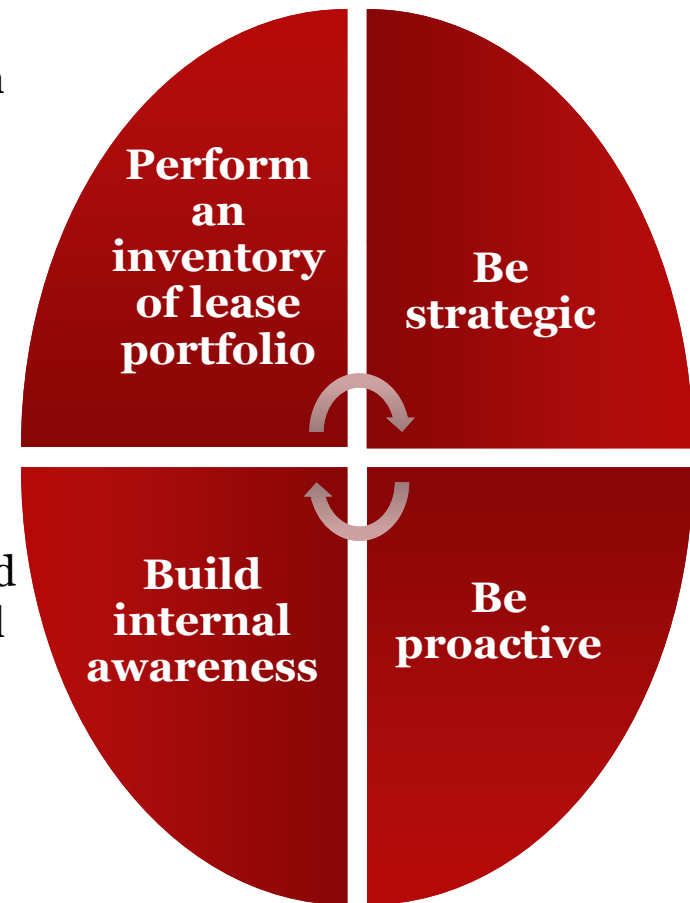
Leasing project



Current accounting developments

Leasing project

- Monitor developments
- Identify the key stakeholders and educate them on the new guidance and timing of changes
- Identify and catalog all existing leases and determine what data gaps exist
- Estimate the financial statement impact of the transition and determine effect on debt covenants and other operating metrics
- Consider embedded leases and government contracts with reimbursement mechanisms
- Summarize existing systems, control processes and gaps and determine what level of modification will be needed
- Analyze potential income and other tax considerations
- Consider potential changes in leasing strategy



Current accounting developments

Financial instruments: classification & measurement

Key decisions

- Debt investments to be classified as (1) amortized cost, (2) fair value through OCI, (3) fair value through net income
- No bifurcation of embedded derivatives in hybrid financial assets (still required for financial liabilities)
- Reclassification between categories permitted however should be “very infrequent”

Convergence issues?

- Accounting for equity investments
- Practicability exception from the fair value measurement requirement for non-marketable equity securities
- Presentation of a secondary measurement on the face of the balance sheet
- Financial liabilities: remain to be discussed

What's next?

- FASB is expected to re-expose in Q4 of 2012

Current accounting developments

Financial instruments: impairment

Key decisions

- Based on constituent feedback, the FASB decided not to move forward with the 'three bucket' impairment model
- FASB has instead moved to a new model referred to as the Current Expected Credit Loss ("CECL") model
- Under the CECL model, entities would be required to record credit reserves to reflect a full lifetime expected credit losses
- No 'threshold' to meet to record a credit impairment
- Assets carried at FV-OCI allowed a practical expedient

Convergence issues?

- The IASB has not publicly discussed the FASB's revised CECL model
- The IASB will likely move forward with an exposure draft on the 'three bucket' model previously discussed

What's next?

- Both FASB and IASB expected to expose in Q4 of 2012

Current accounting developments

Revenue recognition

What is the latest?

- Revised exposure draft issued November 2011
- Comment period ended March 13, 2012
- Approximately 360 comment letters received
- Redeliberations to take place through 2012
- Final standard is expected in the first half of 2013

Current accounting developments

Revenue recognition

Identifying separate performance obligations:

The promised good or service is capable of being distinct

when

The customer can benefit from the good or service either on its own or together with other resources readily available to the customer

The promised good or service is distinct in the context of the contract

when

It is not highly dependent on or interrelated with other promised goods or services in the contract

Current accounting developments

Revenue recognition

How does an entity satisfy a performance condition over time?

1. The customer is receiving and consuming the benefits of the entity's performance as the entity performs;
2. The entity's performance creates or enhances an asset (a work in progress) that the customer controls as the asset is created or enhanced;
or
3. The entity's performance does not create an asset with an alternative use to the entity and the customer does not have control over the asset created, the entity has a right to payment for performance completed to date, and it expects to fulfill the contract.

Polling question #4

Which accounting standard that is on the horizon do you anticipate having the most significant impact on your organization's financial reporting?

- A. Leasing
- B. Financial instruments
- C. Revenue recognition
- D. All will have a significant impact on my organization
- E. None are expected to have a significant impact

Current accounting developments

Indefinite-lived intangible asset impairment

What is the latest?

- In July 2012, the FASB issued final guidance intended to ‘simplify’ the impairment test, effective for fiscal years beginning after September 15, 2012, with early adoption permitted
- Option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test
- Not required to calculate the fair value of indefinite-lived intangibles unless more likely than not (i.e., greater than 50% likelihood) that the asset is impaired
- Includes examples of events and circumstances to consider when performing the qualitative assessment that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset

Current accounting developments

Disclosure framework

What is the latest?

- In July 2012, the FASB issued a Discussion Paper seeking stakeholder feedback designed to make financial statement footnote disclosures more effective by focusing on information that is most important
- Proposals are not intended to address disclosures outside the financial statements (e.g., MD&A)
- The Board believes a focus on what is most important will also reduce the volume of disclosures, although reduction of disclosures is not the primary intent of the standard
- Comment period ends on November 16, 2012

Current accounting developments

Private company decision-making framework

What is the latest?

- In July 2012, the FASB issued an Invitation to Comment, which contains recommendations for criteria to determine whether and when to modify US GAAP for private companies
- Identifies areas where financial accounting and reporting guidance might differ between public and private companies
- Includes the tentative decision made by the FASB on the definition of a nonpublic entity
- Comment period ends on October 31, 2012

Current accounting developments

Other comprehensive income presentation

What is the latest?

- In June 2011 the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income*
- In August 2012, the requirement to measure and present by income statement line item the effect of reclassifications from accumulated other comprehensive income to net income was indefinitely deferred
- On August 16, 2012 the Board issued an exposure draft requiring, among other items, tabular disclosure of the effect on income statement line items of reclassifications between accumulated comprehensive income and net income in a single footnote (i.e., all in one place)
- Comment period ends on October 15, 2012; no effective date has been proposed

Current accounting developments

Liquidation basis of accounting

What is the latest?

- In July 2012, the FASB issued an Exposure Draft on liquidation basis of accounting
- Would require an entity to prepare its financial statements when liquidation is imminent
- Comment period ends on October 1, 2012

Current accounting developments

Other projects

Loss contingencies

- Intended to address constituents concerns that disclosures are not adequate or timely
- In July 2012, the FASB staff summarized its outreach and voted 5-2 to remove the project from its agenda

Investment property project decisions

- Objective is to consider whether certain entities should be required to measure investment properties at fair value through earnings
- In the August 2012 meeting, the board deferred a decision on how to move forward with the project

Polling question #5

Do you believe the new private company decision making framework will impact your organization?

- A. Yes, and it will simplify my organization's financial reporting
- B. Yes, although it will be more difficult to track two sets of accounting frameworks
- C. No, it does not impact me

Current accounting developments

Goodwill “step zero” reminders

What are some of the key matters that companies should be considering when performing the goodwill “step zero” test?

Optional qualitative test

Examination of cushion

Robust processes and controls

Current accounting developments

Segment reminders

What should companies be considering as they update their year-end segment disclosures?

The evaluation of segments includes all information regularly utilized by the CODM to make operating decisions and assess performance.

Revenues from external customers for each group of products and services or each group of similar products and services must be disclosed.

Polling question #6

Does your organization plan on using the goodwill “step zero” model for its current year goodwill impairment test?

- A. Yes
- B. No
- C. Not sure

Income Tax Accounting Reminders

Jennifer Spang, Partner

Income tax accounting reminders

Valuation allowance assessments

- Evaluating the need for and amount of a valuation allowance for deferred tax assets often requires significant judgment
 - Valuation allowance assessments require the weighting of all available evidence
 - The importance of timely disclosure regarding valuation allowance assessments cannot be overemphasized
- Cumulative losses are a significant piece of negative evidence
 - Trend in book income in the past year is typically the most objective indicator available for projecting future earnings
 - Liabilities for unrecognized tax benefits may represent a source of taxable income

Income tax accounting reminders

Indefinite reversal “exception”

Specific plans for indefinite reinvestment assertions must be documented and maintained by management

- In evaluating specific plans, consider the following:
 - Forecasts and budgets of parent and subsidiary
 - Financial requirements of both parent and subsidiary
 - Past history of dividend actions
 - Planned acquisitions
 - Tax consequences of a decision to remit or reinvest
 - Remittance restrictions in a loan agreement or imposed by foreign governments that result in forced reinvestment in the country
 - Any U.S. government programs designed to influence remittances

Income tax accounting reminders

Indefinite reversal “exception”

The current economic environment may impact a company’s ability to continue to assert indefinite reinvestment

Are significant payments due in the near-term, such as debt or pension funding?

Have there been any recent remittances?

Will a U.S. investment or acquisition necessitate financing by redeployment of foreign subsidiary funds?

Have there been any defaults or debt covenant violations?

Is there substantial doubt about the ability to continue as a going concern?

Income tax accounting reminders

Uncertain tax positions – effectively settled

An entity shall recognize the benefit of the tax position in the **first interim period** that meets any one of the following conditions:

- The more-likely-than-not recognition threshold is met by the reporting date
- The tax position is effectively settled through examination, negotiation or litigation
- The statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired

Income tax accounting reminders

Uncertain tax positions – effectively settled

- Taxing authority has completed examination procedures, including appeals and administrative reviews required
- Taxpayer does not intend to appeal or litigate any aspect of the tax position included in the completed examination
- Based upon the taxing authorities policies and procedures, it is remote that the taxing authority would examine/reexamine any aspect of a tax position

- All three conditions must be met when determining effective settlement
- A tax position does not need to be specifically reviewed or examined to be considered effectively settled through examination
- Application of effective settlement is not optional

Q&A Session

Polling question #7

Which topic in today's webcast have you found the most interesting?

- A. Current accounting developments
- B. SEC hot topics
- C. Income tax accounting reminders

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