

PricewaterhouseCoopers'
Current Accounting and Reporting
Developments Webcast – Q1 2010
March 18, 2010

Current Accounting and Reporting Developments Webcast

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National Professional Services Group Leader

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

What type of Company are you associated with?

- A. Public company
- B. Private company
- C. Public accounting firm (other than PwC)
- D. PwC
- E. Other / Not applicable

Polling Question # 2

How has your company's outlook on 2010 results changed from last quarter?

- A. Improved
- B. Declined
- C. No change
- D. Still evaluating
- E. Not applicable

Standard Setting Update

Greg McGahan
Partner

New Standards Adopted in Q1 2010

ASU 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets

Key Changes

- QSPE scope exception eliminated (subject to ASC 810)
- Redefines and limits transfers of “portions” that can be subject to sale accounting
 - Participating Interests: pro-rata, proportionate, same priority, equal transferability rights

Impact

- Applicable to all entities, not only to financial institutions
- A/R undivided interest securitizations significantly impacted
- Potential implications to the Statement of Cash Flows

New Standards Adopted in Q1 2010

ASU 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.

Key Changes

- Controlling financial interest vs. risks and rewards
 - New criteria for consolidation based on power to direct and obligation to absorb losses / right to receive benefits
- No grandfathering of existing structures
- Deferred for certain investment management companies

Impact

- Consolidation / Deconsolidation conclusion is only the start

New Standards Adopted in Q1 2010

ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.

Key Changes

- New incremental disclosure requirements:
 - transfers in and out of Level 1 and 2 measurements (effective for reporting periods beginning after 12/15/2009)
 - gross presentation of activity within the Level 3 roll forward (effective for annual periods beginning after 12/15/2010)
- Excludes the sensitivity analysis included in the exposure draft
- Clarification on existing disclosures for level of disaggregation and inputs and valuation techniques

Impact

- Information required for level of disaggregation

New Standards Adopted in Q1 2010

ASU 2009-13, Revenue Recognition (Topic 605-25): Multiple Element Arrangements

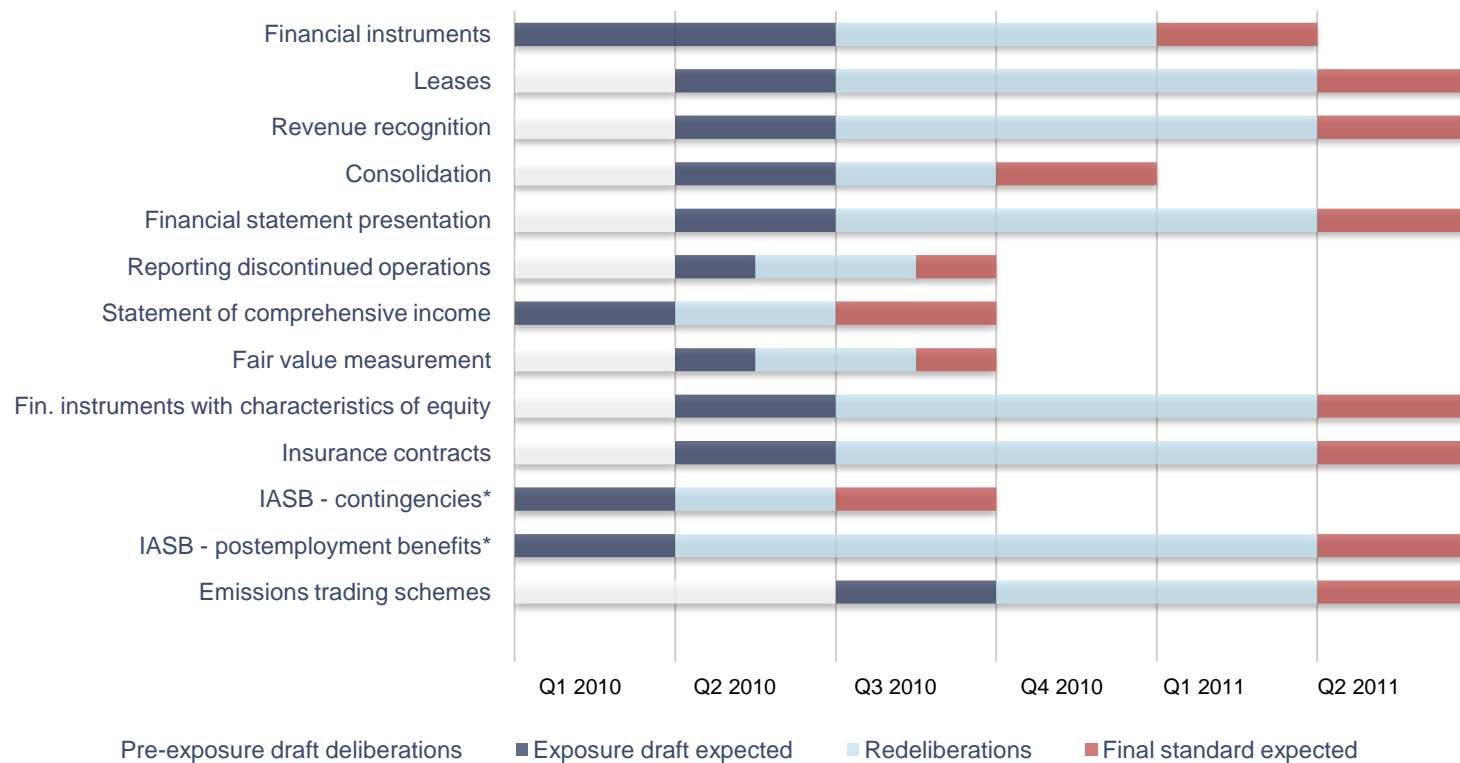
Key Changes

- Requires use of 'best estimate of selling price' when VSOE and TPE cannot be determined; residual method eliminated.
- Effective for arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, can be early adopted.

Impact

- Establishing inventory of elements to be evaluated and valued
- Estimating selling price for elements never before valued
- Elimination of the residual method

Major Projects on the Horizon Timeline



* These projects are IASB projects that have the potential to impact the views of the FASB as it evaluates existing U.S. GAAP in these areas.

Major Projects on the Horizon Leases

Objective: To eliminate prescriptive guidance (i.e. bright lines) and adopt a comprehensive, more principles-based standard.

- DP focused on lessee accounting released in 2009
 - Exposure draft expected in Q2 2010
 - Final standard in 2011
-
- Eliminates off-balance sheet accounting for lessee
 - Gross up on lessor's balance sheet for receivable and performance obligation
 - Short-term leases are included in the scope
 - Intangibles excluded from the scope

Major Projects on the Horizon

Revenue Recognition

Objective: developing a single, comprehensive revenue recognition model

- The new revenue recognition model is a single, contract-based, asset and liability model.
- Replaces all existing US GAAP and IFRS revenue recognition literature (including all industry-specific guidance).
 - The scope of the model is focused on contracts with customers across all industries.
 - Scope exceptions include: leases, insurance, financial instruments and certain guarantee contracts.
- ED expected in mid-2010 and a final standard in 2011.

Major Projects on the Horizon Financial Statements

Objective: Comprehensively address the complexity and need for clarity and transparency in the financial statements.

- ED expected in April 2010, final standard in 2011
 - Non public companies will not be scoped out
 - Transition will be a full retroactive application

Statement of Comprehensive Income

- Finalized deliberations that will require companies to present a single statement of comprehensive income
 - Net income and other comprehensive income (OCI) will be reflected with equal prominence on one statement.

Major Projects on the Horizon Financial Statements (continued)

Statement of Cash Flows

- Required use of direct method
- Indirect information presented in notes

Reporting Discontinued Operations

- Definition of a 'discontinued operation' agreed to by Boards
 - Expected to be fewer discontinued operations
 - Disclosure requirements similar to current US GAAP.
- FASB to re-expose updated ED in 2Q 2010. Final Standard is expected 3Q 2010

Major Projects on the Horizon

Financial Instruments with Characteristics of Equity

Objective: a principle-based model to distinguish between financial liabilities and equity that matched the underlying economics.

- Current IFRS model as starting point with acknowledgment that certain amendments required to address known practice issues
- Determined preferred classification model for a number of specific instruments
- Working to build principle for classification model
- The classification decisions made will result in significant changes to the US GAAP accounting.
- ED issued Q2 2010, final standard in first half of 2011

Major Projects on the Horizon Financial Instruments

Objective: Simplify and improve the decision usefulness of financial instrument reporting and convergence with IFRS

Status

- IFRS 9 (financial assets) and the IASB's proposed impairment model released in late 2009.
- FASB to issue comprehensive ED in coming weeks
 - ED will include classification, measurement, impairment, and hedging.

Classification and measurement

- The key difference is fair value. FASB favors fair value for all financial instruments.
- The IASB has concluded that certain instruments, such as bank loans should be at amortized cost.

Major Projects on the Horizon Financial Instruments (continued)

Impairment for financial instruments measured at FV through OCI (FASB) or at amortized cost (IASB)

- FASB: referred to as the “modified” incurred loss model
 - Recognition of impairment losses earlier
- IASB: expected loss model
 - Based on the expected losses over the life of the instrument
- Interest income recognition impacted by these models

Major Projects on the Horizon Financial Instruments (continued)

Hedging

- Both FASB and IASB are still currently debating
 - FASB
 - Bifurcation-by-risk
 - Lower threshold to qualify.
 - Effectiveness testing requirements simplified
 - IASB
 - Hedge accounting for risk components
 - Considering allowing hedge accounting for components of nonfinancial assets.

Polling Question # 3

Which new accounting standard effective in Q1 2010 will most significantly impact your company?

- A. Transfers of financial assets (ASU 2009-16)
- B. Consolidation of variable interest entities (ASU 2009-17)
- C. Revenue recognition (ASU 2009-13)
- D. Fair value disclosures (ASU 2010-06)
- E. Other / Not applicable

Emerging Issues

Tom Barbieri
Partner

Venezuela Post-Highly Inflationary Accounting

Transition to highly-inflationary accounting likely complete

- Venezuelan entities now likely U.S. dollar functional
- US\$ denominated balance anomaly – SEC to issue guidance
- Post-devaluation: Three exchange rates exist

Rate to be used to record/re-measure Bolivar transactions

- Each transaction at a different rate
- Blended rate as an accommodation
- Predominant rate

SEC has publicly commented that disclosure needs improvement

Evaluating single-lessee entities under the new Variable Interest Entity (VIE) model

Significant assets (e.g. airplanes, ships, real estate) are often leased from single-asset special purpose entities

Operating leases that contain any of the following features may result in the lessee consolidating the entity:

- Purchase options
- Residual value guarantees
- Fixed price renewal options

Consolidation conclusion will often rest on weighing the powers that the lessee holds in comparison to others in the entity

Representation and Warranty Loan Repurchases

Sellers are often obligated to repurchase loans sold due to items such as underwriting deficiencies, missing documentation, fraud, etc.

Repurchase claims have dramatically risen at a time where credit losses have also increased

Reserves established for such claims can be difficult to estimate and related losses may be becoming increasingly material

- Revisit assumptions used in loss reserves
- Assess adequacy of disclosure including disclosure of critical accounting estimates

Stock Compensation Clawback Provisions

Pressure to overhaul pay culture has led employers to seek provisions to reclaim compensation (i.e., clawback provisions)

- Performance conditions based on operations of the employer
- Performance conditions based on employee's individual performance

Grant date not established if there is no mutual understanding of key terms

Clawback provisions that lack specificity or which are not reasonably objective may result in fair value accounting

Tax Matters

Ed Abahoonie
Partner

Income Tax Uncertainties - IRS Developments

Tax accrual workpapers: Policy of Restraint

Litigation activity

Observing FIN 48

Tax governance message to directors

Proposal for tax return disclosure

IRS Disclosure Proposal

All businesses, effective for 2010 returns

All reserved positions (plus two additional, limited circumstances)

Disclose the position and maximum amount

Any GAAP or IFRS

Specific tax form Schedule TBD

Comment period

Expired or Expiring Tax Laws

Research credit, unremitted foreign earnings

Current year effective rate

Deferred taxes

Valuation Allowance Assessment Disclosure

SEC comment letters

Weighting of evidence

Early warning

Polling Question # 4

What is your view on the IRS proposal to require disclosures of uncertain tax positions on tax returns?

- A. In favor of the proposal
- B. Indifferent to the proposal
- C. Not in favor of the proposal
- D. Strongly opposed to the proposal
- E. No view / not applicable to my organization

SEC Update

Beth Paul
Partner

Goodwill

We note that in estimating the fair value of reporting units, you assumed improved operating margins based on assumed improved operating efficiencies based on long-term expectations. You indicate that if actual results are not consistent with your assumptions, you may be required to perform the second step of the impairment testing. Please revise your goodwill critical accounting estimate disclosure in future filings to discuss whether any of your reporting units were at risk of failing step one of the impairment test and if so, include the following disclosures for each reporting unit that is at risk of failing step one:

- Percentage by which fair value exceeded carrying value;
- Amount of goodwill allocated to the reporting unit;
- Description of the methods and key assumptions used and how the key assumptions were determined;
- Discussion of the degree of uncertainty associated with the key assumptions; and
- Description of potential events and/or changes in circumstances that could reasonably be expected to negatively affect the key assumptions.

If you do not believe material goodwill exists at any of your reporting unit is at risk of failing step one or that no reporting units are at risk, please specifically state so.

Updated Staff Guidance on Non-GAAP Measures

- Issued on January 11, 2010 (Effective immediately)
 - 32 Compliance and Disclosure Interpretations
 - Replaced 2003 staff FAQ document
 - Consistent with expectations
 - Updated January 15, 2010
- SEC rules did not change
 - Measures can't be misleading
 - Reconcile to most directly comparable GAAP measure
 - Other disclosures
- Most interpretive positions did not change
 - Debt covenants
 - Segments
 - Geographic/product revenues
 - Free Cash Flow
 - Alternative per share measures

Updated Staff Guidance on Non-GAAP Measures

- Reduced constraints on using measures that exclude recurring items
 - Removed prior bias against smoothing
 - Remove significant disclosure requirements
 - Removed presumption when item is expected to continue to recur
 - Clarified that management doesn't have to "use" the measure to run the business
- Investor protection mandate
 - Enhanced consistency/completeness of disclosure
 - Provide greater context to the measure
 - Additional protections under the securities laws
 - Rigor/transparency of preparation/presentation
 - Staff review
- Continue to approach with caution
 - November 2009 enforcement action

Subsequent Events

Amended February 2010

- Eliminate the requirement for SEC filers to disclose the date through which it has evaluated subsequent events,
- Clarify the period through which conduit bond obligors must evaluate subsequent events, and
- Refine the scope of the disclosure requirements for reissued financial statements.

Proxy Disclosures

- Relationship between compensation and risk across the entire business
- Changes in compensation and equity tables
- Directors' and nominees experience and qualifications
- Board Leadership structure
- Board role in risk oversight
- Compensation consultant fees
- Diversity considerations

IFRS Update

John Barry
Partner

SEC Statement

On February 24, 2010, the SEC unanimously agreed to publish a statement which expressed a view that:

- They continue to support a single set of high-quality global accounting standards
- Acknowledges that IFRS is best positioned to be the global standard
- Recognizes importance of completing the ongoing FASB/IASB convergence process
- Still targets a 2011 decision date with a potential conversion date of 2015 or 2016

The SEC also issued a work plan that addresses areas that need to be addressed to enable the Commission in 2011 to decide on whether and when to incorporate IFRS in the US reporting structure.

SEC IFRS Work Plan Details

The Work Plan is designed to consider:

- The sufficiency of development and application of IFRS for the U.S. system, including:
 - Comprehensiveness
 - Auditability and enforceability
 - Consistent and high-quality application
- The independence of standard setting for the benefit of investors
- Investor understanding and education regarding IFRS
- Examination of the U.S. regulatory environment affected by the change
- The impact on large and small issuers including the effect on systems, contractual arrangements, and corporate governance
- Human capital readiness

The first two areas consider *whether* IFRS should be further incorporated. The remaining four areas relate to transitional considerations to better evaluate *when* and *how* to effectively incorporate IFRS.

What Should Companies Do Now?

Awareness and preparedness are essential. Given the timeline, companies should be thoughtful and measured in their approach as they consider this complex challenge. Below are our suggestions on what companies should be doing now:

- **Perform an assessment.**
 - Keep it high-level and strategic
 - Consider the implications on accounting, business, tax, financing, long-term contracts, stakeholders, compensation programs, systems, processes and controls
 - Anticipate the impacted behaviors of non-US customers and vendors using IFRS already
- **Focus on the challenge.** The next several years will bring major changes to US financial reporting. Whether changes arrive through convergence, an SEC-mandated move to IFRS, or continued IFRS adoption by subsidiaries and counterparties, the effect on U.S. businesses will be considerable. Use scenario planning to incorporate likely convergence and IFRS adoption expectations into your strategic thinking and business planning. Closely follow SEC actions, new FASB and IASB standards, and the increasing international acceptance of IFRS and IFRS for SMEs for statutory purposes.
- **Maintain corporate oversight.** Influence transition timing, strategies, and policy decisions of non-US subsidiaries who are increasingly likely to be on IFRS or IFRS for SMEs in the foreseeable future. IFRS adoption for statutory reporting continues in many territories. The UK is one example with a proposal to adopt IFRS for statutory purposes in 2012.
- **Identify what can be done now.** Being mindful of the specific aspects of convergence and conversion that will take the longest and consider smaller controlled one-off projects and “easy wins” where desirable.

By following these recommendations, companies will be better prepared for what comes next.

Our Point of View

- We continue to support the goal of moving toward a single set of high quality global accounting standards. We believe that IFRS is in the best interest of stakeholders, including investors both in the U.S. and globally.
- We support ongoing FASB/IASB convergence efforts. We do not believe that convergence alone will ultimately result in a single set of high-quality accounting standards. The only way to accomplish a single set is through adoption of IFRS.
- Regardless of the final adoption date, we see continued convergence between US GAAP and IFRS in the near-term, with the potential for ultimate conversion. The complexity and significance of these sweeping changes greatly exceeds that of traditional revisions to existing US GAAP.
- Continued global adoption impacts US businesses today as countries adopt IFRS for statutory reporting purposes.
- While we believe that the issues in the Work Plan can be successfully addressed, there continues to be uncertainty:
 - Concerns in Europe that the SEC's methodical pace is too slow
 - Influences that are questioning why the US should continue to participate on the IASB and its oversight groups
 - Concern that the FASB/IASB convergence agenda is too ambitious. It is unclear how much latitude the SEC may allow if the agenda is not 100% completed or how they will measure its success when making the 2011 decision

Polling Question # 5

Have the SEC's most recent remarks on global accounting standards altered your company's strategic planning?

- A. Greatly
- B. Somewhat
- C. Very little
- D. Not at all
- E. Not applicable to my organization

Polling Question # 6

What topic would you most like to see covered on our June webcast?

- A. Accounting hot topics update
- B. SEC comment letter trends
- C. Washington developments
- D. More detail on the major FASB/IASB joint projects
- E. Tax update

Q&A Session

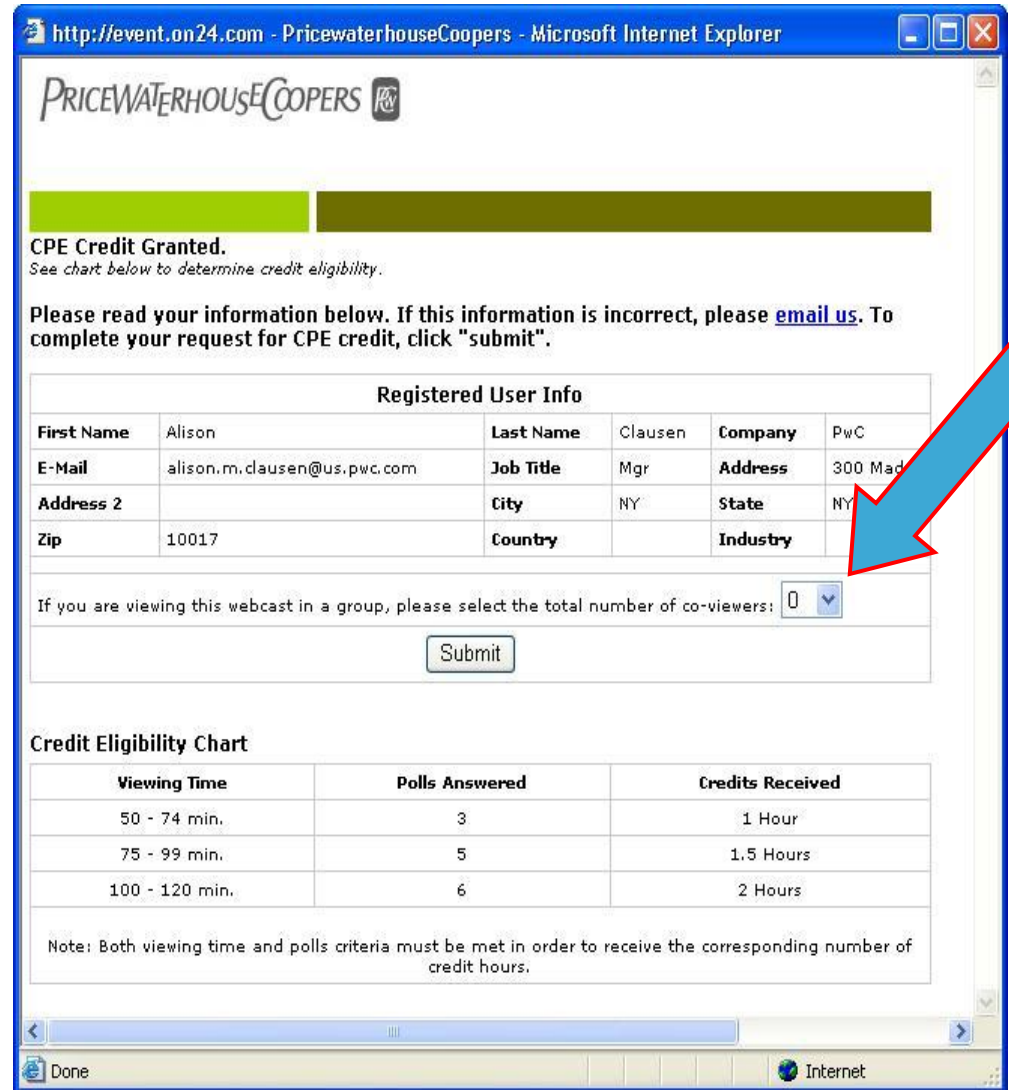
Mike Gallagher
National Professional Services Group Leader

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