

PricewaterhouseCoopers'
Current Accounting and Reporting
Developments webcast series – Q2
June 2010

Current Accounting and Reporting Developments Webcast

Steve Meisel
SEC Services 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.

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

Polling Question #1

Which area of legislation have you been following most closely?

- A. Financial regulatory reform
- B. Healthcare reform
- C. Energy/climate change legislation
- D. Other

Washington Update

Laura Cox Kaplan
Government, Regulatory Affairs, and Public Policy
Leader

Environment in Washington

- Political analyst Charlie Cook: “...every incumbent is at least a bit endangered”....but those in power are likely the most endangered.
- Historic analyses of midterm elections predict:
 - a 30-40 seat loss of Democratic seats in the House;
 - 4-6 seat loss in the Senate
- Would impact the Administration’s ability to move legislation without significant bipartisan support
- Impact of looming election on public policy agenda
 - Democrats “jobs, jobs, jobs”
 - Republicans “size/scope of government/spending”

Public Policy Activity from now to November...

- Gulf Disaster Impact on Energy Climate Change Legislation
- Selling the Benefits of Health Care Reform Law
 - Countered by Republicans and Tea Partiers calling for repeal
- Legislation Focused on
 - FS reform (derivatives; Volker rule, interchange fees)
 - Tax/Spending Bills (extenders, carried interest...)
 - Confirmation of Supreme Court Nominee

Key Challenges / Opportunities

- Continued fall out & response to financial crisis
 - Regulatory response, continued investigations, other
- PCAOB
 - Outcome of Free Enterprise Fund v. PCAOB
 - Appointment of New Board Members
 - Global Inspection Challenges
 - Treasury Advisory Committee Recommendations
- Anti-Business Special Interests
 - Specter Aiding & Abetting legislation
 - Union influence in Arkansas
- Global Regulatory Challenges / Imported & Exported
- Tax Policy Impacted by Deficits & Budgetary Constraints

Polling Question #2

Have you or your organization considered and evaluated the impact and implications of the recent healthcare reform?

- A. Yes. Evaluation is completed.
- B. Evaluation is in process.
- C. No. We have not yet considered it.

Accounting Hot Topics

Susan Cospers
Partner

Brett Cohen
Partner

Broad Implications of Healthcare Reform - Overview

- Many provisions have current and future accounting implications
- Postretirement benefits accounting requires benefit obligation include an estimate of the effects on future benefit levels of presently enacted law changes
- Measurements should be based on facts and circumstances that exist at the measurement date.
- Measurements after March 23, 2010 should include the expected impact of the legislation
- Defer accounting when cannot determine whether certain provisions in the legislation apply
- Disclose impact, significant changes to assumptions, and significant uncertainties

Broad Implications of Healthcare Reform – Timing of Recognition

- Interim measurement of plan assets and the benefit obligation is required when a significant event affecting the plan occurs at an interim date
- Otherwise, the effect is reflected in the benefit obligation as part of the next measurement of the plan
- “Significant” is not defined in accounting literature and is a highly judgmental determination
- Employers should consider the specific facts and circumstances surrounding the event and their past practice of defining significance for previous events.

Broad Implications of Healthcare Reform – Future Impacts

- Some employers may consider making changes to the terms of their benefit plans as a way of mitigating the impact of the legislation
- These changes should not be anticipated or accounted for prior to their adoption.
- Plan changes, once adopted, should be accounted for as plan amendments with the effect on the APBO accounted for as prior service cost/credit.

Transfers of Trade Receivables (*Transfers and Servicing*)

Recognition: on- or off-balance sheet treatment?

- Has a portion of the receivable been transferred?
 - Consider participating interest rules
- Transfer when consideration includes a deferred purchase price (DPP)
- DPP needs to be subsequently accounted under Investments-Debt and Equity securities guidance
 - Available-for-sale classification - evaluate potential embedded derivatives
 - Fair value option may be elected

Transfers of Trade Receivables (*Transfers and Servicing*) – continued

Statement of Cash Flow – Operating or Investing?

- Receivable sold in entirety for cash and DPP
- SEC staff views: may be classified as operating subject to an accounting policy election, if
 - No previous policy existed requiring investing classification
 - Separate presentation of DPP in SCF, adequate disclosure of policy election, and its basis
 - No significant interest rate risk exists
 - DPP is not a legal security (i.e., certificated)

Venezuela

Post-Highly Inflationary Accounting

Transition to highly-inflationary accounting

- Venezuelan entities now likely U.S. dollar functional
- SEC staff announcement

Recent Events

- Venezuelan government took control of parallel market
- Reopened as a regulated market June 9
- Initial trading volumes relatively thin
- Continue to monitor developments

Emerging Issues Task Force – Upcoming July Meeting

Issues expected to be finalized:

- The accounting for costs associated with acquiring or renewing insurance contracts
- Healthcare industry issues (recognition, measuring charity care, and presenting insurance claims and other recoveries).

New issues to be discussed:

- Accounting for multiple foreign currency exchange rates
- Determining the carrying amount of a reporting unit when testing goodwill for impairment
- Reporting participant loans in employee benefit plan financial statements
- Accounting for certain fees associated with the recently enacted health care legislation

Tax Update

IRS proposal on tax return disclosure of uncertain tax positions (UTP):

- Comment period closed on June 1, 2010
- Next steps

American Jobs and Closing Tax Loopholes Act

- Features provisions extending certain expired business tax provisions
- Includes significant revenue-raising tax provisions
- Makes a technical correction to the HIRE Act to clarify when the statute of limitations is tolled

Convergence Update

Susan Cospers
Partner

Modified Strategy and Timing

FASB and IASB recently announced modified strategy and timing for completing their joint convergence agenda

FASB and IASB prioritized their project list and will limit the number of exposure draft releases to no more than four per quarter

Modified timetable will still allow for the finalization of their higher priority projects by mid-2011

Other projects will be finalized by the end of 2011

New strategy calls for boards to seek input on effective dates and transition methodologies for these new projects

FASB/IASB Modified Strategy on the Priority Projects

Priority Projects	FASB		IASB	
	Exposure Draft	Final Standard	Exposure Draft	Final Standard
Financial Instruments - Recognition & Measurement •Asset •Liability - Impairment - Hedging	Q2 2010 ^a	Q2 2011	2009 ^a Q2 2010 ^a Q4 2009 ^a Q3 2010	2009 ^a Q2 2011 Q2 2011 Q2 2011
Revenue Recognition	Q2 2010 ^a	Q2 2011	Q2 2010 ^a	Q2 2011
Leases	Q3 2010	Q2 2011	Q3 2010	Q2 2011
Statement of Comprehensive Income	Q2 2010 ^a	Q4 2010	Q2 2010 ^a	Q4 2010
Fair Value Measurement	Q2 2010	Q1 2011	Q2 2010	Q1 2011
Balance Sheet - Netting	Q4 2010	Q2 2011	Q4 2010	Q2 2011

^a Issued

June 2010

FASB/IASB Modified Strategy for the Other Convergence Projects

Other Projects	FASB		IASB	
	Exposure Draft	Final Standard	Exposure Draft	Final Standard
Derecognition - Disclosure	TBD	TBD	2009 ^a	3Q 2010
Consolidation - General - Investment Companies	TBD Q4 2010	TBD Q2 2011	2008 ^a Q4 2010	Q4 2010 Q2 2011
Post Employment Benefits	TBD	TBD	Q2 2010	Q1 2011
Financial Statement Presentation	Q1 2011	Q4 2011	Q1 2011	Q4 2011
Discontinued Operations	Q1 2011	Q4 2011	Q1 2011	Q4 2011
Financial Instruments with Characteristics of Equity	Q1 2011	Q4 2011	Q1 2011	Q4 2011
Insurance Contracts	Q3 2010 ^b	TBD	Q3 2010	TBD
Emission Trading Schemes	Q3 2011	2012	Q3 2011	2012

^a Issued

^b Discussion Paper or Exposure Draft

TBD – To be determined

Polling Question #3

Will you or your organization be commenting on the FASB exposure draft on Financial Instruments?

A. Yes

B. No

Standard Setting Update

Marie Kling
Partner

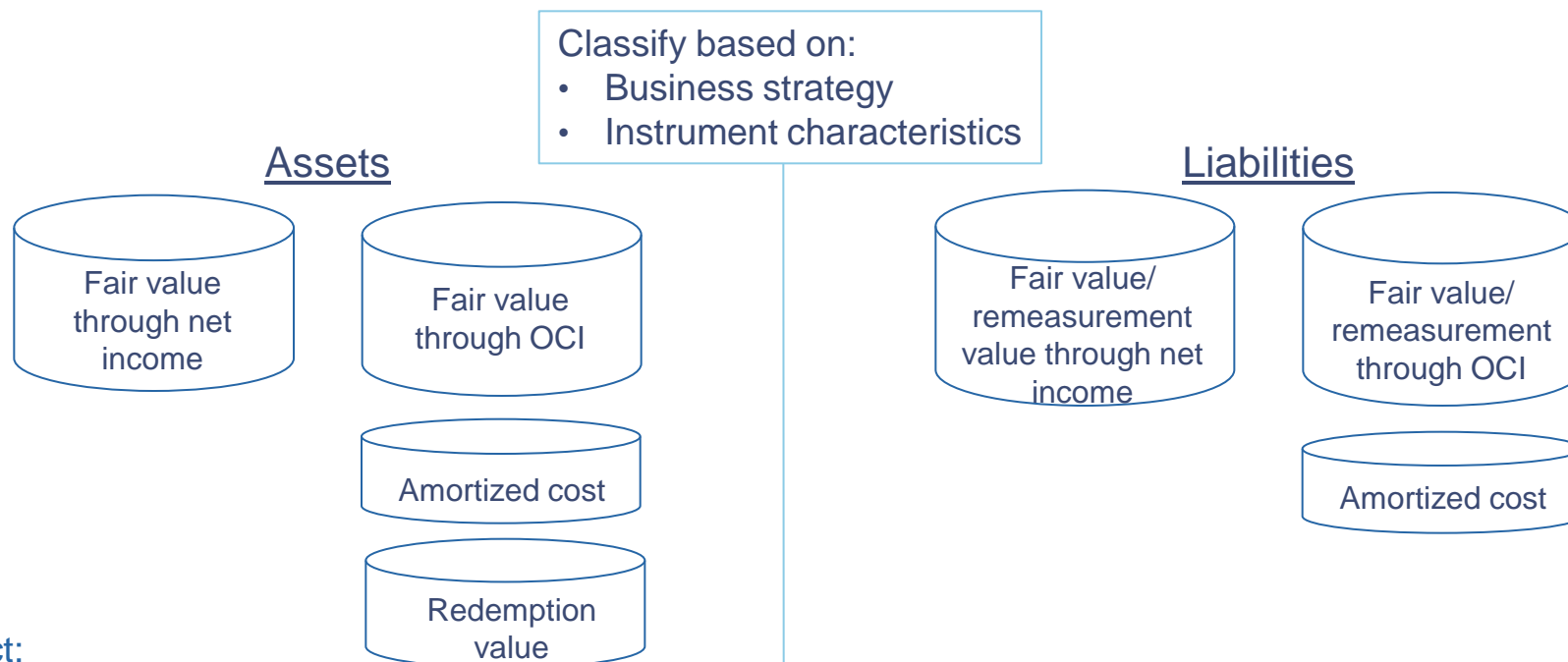
Brett Cohen
Partner

Financial Instruments Background

- Joint FASB and IASB project to revisit all aspects of financial instruments accounting
- However, the Boards are working to different timetables
 - FASB released its exposure draft at end of May 2010 on all aspects of financial instrument accounting – comments due September 30th
 - Transition/ effective date: Cumulative effect; no earlier than 2012, but more likely 2013
 - IASB has already finalized classification and measurement of financial assets (IFRS 9), and issued impairment and financial liabilities classification and measurement proposals

Financial Instruments

FASB model - classification and measurement



Impact:

- More fair value measurement, fair value drives total assets, total liabilities, and net equity
- Both fair value and amortized cost are presented on the balance sheet
- Earnings and OCI volatility may increase
 - All equity investments at fair value through net income (no cost-method, less equity-method)
 - Many hybrid instruments at fair value through net income
 - Most loans and core deposits remeasurement changes through OCI

Financial Instruments

FASB model - impairment

Recognize credit impairment in net income for a financial asset when an entity does not expect to collect all amounts due according to the contractual terms of the financial asset.

- Both contractual interest and principal (for originated assets and assets acquired at a discount that does not relate to credit quality)

- No probability threshold
- Based on past events and present conditions and their implications on future collectibility
- Historical loss experience for similar assets are considered past events
- Future scenarios not considered

Impact:

- Potentially earlier recognition of losses
- Potentially larger impairment
- Lower interest income may result
- No more impairment of equities

Financial Instruments

FASB model – hedge accounting



Impact:

- Easier to qualify for hedge accounting (reasonably effective)
- Less onerous hedge effectiveness assessment requirements
- However, no shortcut or critical terms match methods
- Dynamic hedging strategies may not qualify

IASB proposes to change Pension Accounting

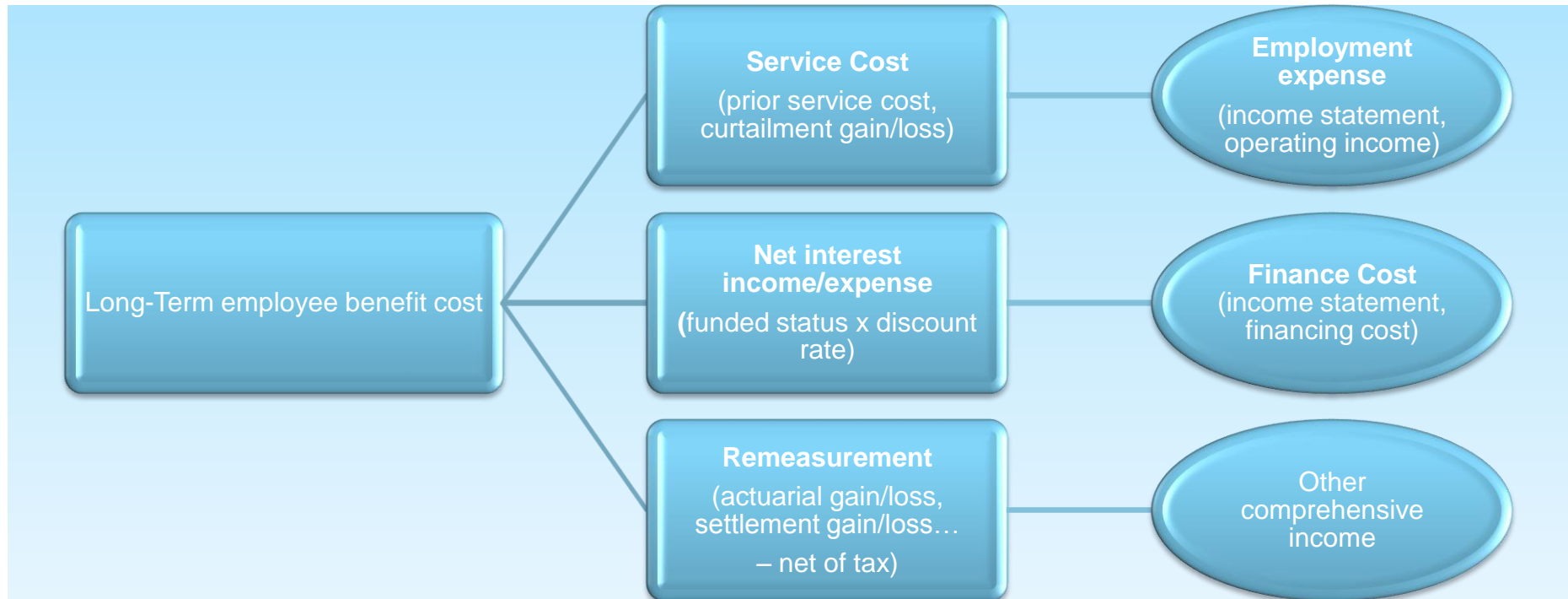
Background and objectives:

- Project aims at increasing comparability
- Strict rules-based guidance is difficult to understand and apply
- Information is difficult to interpret and correlate to the economics of benefit arrangements (smoothing mechanism)

Transition and effective date

- Comment letter due September 6, 2010
- Final standard expected mid 2011
- Likely effective date January 1, 2013
- Apply retrospectively to all years presented

IASB proposes to change Pension Accounting



Impact:

- No recycling of items included in other comprehensive income
- Additional volatility in other comprehensive income
- All prior service costs immediately recognized

Statement of Comprehensive Income

New primary statement: an overview

- Joint FASB and IASB project intended to achieve greater consistency in how net income and OCI are presented – greater importance due to potential for increased use of OCI under:
 - FASB's financial instruments proposal
 - IASB's pensions proposal
- New statement will replace the income statement
- Net income, OCI, and comprehensive income will be reflected with equal prominence in one continuous statement
- No changes to components recognized in net income or OCI, and when to reclassify items in OCI to net income
- Earnings-per-share continues to be based on net income
- Effective date in US GAAP: likely when FASB financial instrument proposal becomes effective; however, early adoption will be allowed

Disclosures of Certain Loss Contingencies

Exposure Draft expected in July 2010 with significant changes from the original ED issued in June 2008

Objective and principles for disclosure:

- Disclose information on the nature, timing and magnitude of a loss contingency
- More extensive disclosures as the life cycle of a case progresses
- Disclosures around similar contingencies may be aggregated

Disclosures of Certain Loss Contingencies Continued

Disclosures are not expected to affect the outcome of the contingency; accordingly, no prejudicial exemption is provided in the Exposure Draft

Threshold for disclosure

- Maintain existing disclosure thresholds (at least “reasonably possible”)
- However, disclosure would also be required for remote contingencies that could have a “severe impact”
- Ignore possibilities of recoveries when assessing whether threshold is met

Disclosures of Certain Loss Contingencies Continued

Disclosure requirements include:

- Publicly-available quantitative information, such as the amount claimed by plaintiff or the amount of damages indicated by expert witness testimony
- The contentions of the parties, including the basis for defense if determined
- Estimate of the possible loss or range of loss (or if no estimate can be made, state that fact and explain why)
- Any amounts accrued for the contingency
- For individually material contingencies, where to obtain additional information
- Information about possible recoveries from insurance and other sources
- Roll-forward of all recognized contingency accruals

Disclosure of settlement negotiations is not required

Disclosures of Certain Loss Contingencies Continued

Next steps

- Exposure draft expected to have only a 30-day comment period
- Final standard expected in Q3 or Q4 2010
- Effective date would be 12/31/10 for calendar year-end public companies (one-year deferral for nonpublic companies)

Major Projects on the Horizon Revenue Recognition

Objective: developing a single, comprehensive revenue recognition model

- Single contract based model for all transactions
- Replaces all existing US GAAP and IFRS revenue recognition literature (including all industry-specific guidance)
- Revenue is recognized upon satisfaction of performance obligation
- Revenue is measured based on the transaction price
- ED issued June 24, with a final standard expected in 2011

Major Projects on the Horizon Revenue Recognition (continued)

Transition

- Full retrospective application

More detailed disclosure

- Qualitative and quantitative
- Significant judgment

Contract costs guidance

- Costs of obtaining a contract
- Costs of fulfilling a contract

Major Projects on the Horizon Leases

Objective: To ensure assets and liabilities arising from lease contracts are recognized in the balance sheet.

- Exposure draft expected in Q3 2010
 - Final standard in 2011
-
- All leases will be recognized in the balance sheet, including short-term leases. Leases of intangibles excluded from the scope
 - Expense recognition pattern will change and become front-end loaded
 - Asset and obligation will include estimates of renewal options and contingent payments
 - Hybrid approach to lessor accounting

Polling Question #4

What best describes your organization's XBRL readiness to comply with the SEC's XBRL Mandate?

- A. Fully implemented
- B. Substantive implementation in progress
- C. Adoption approach has not been decided
- D. N/A – My organization does not file with the SEC

XBRL Update

Dave Sharpe
Partner

Implications for Companies entering Year 1 and Year 2 of XBRL Mandate

Phase-in of SEC's XBRL Mandate

Readiness of companies:

- Entering the initial year
- Entering the second year

Key Takeaways – What does this mean?

Accelerate readiness efforts

Set expectations with outsourcing partners

Put in place sound preparation and review process/controls

Financial reporting process implications

- Sufficient time for period-end reporting preparation and review

Get in front of the detailed tagging requirements

Where to go for more information

May 20 external XBRL webcast

- <http://www.cfodirect.pwc.com/CFODirectWeb/Controller.jspf?ContentCode=MSRA-84JSV2&ContentType=Webcast>

PwC DataLine 2010-24 – *SEC compliance updates and consideration of upcoming phase-in requirements*

How PwC can help - contact

- Your engagement partner or PwC contact
- Mike Willis (813-348-7807)
- Chuck Harris (973-236-5340)
- Dave Sharpe (973-236-4208)

Polling Question #5

How closely do you follow SEC and standard setting activities?

- A. Very closely
- B. Closely
- C. Not very closely
- D. I rely on these webcasts to keep me informed

Polling Question #6

What topic would you most like to see covered on our September 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


Steve Meisel
SEC Services Leader

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June 30, 2010