

PricewaterhouseCoopers

Current Accounting and Reporting
Developments webcast series – Q3

September 14, 2010

Current Accounting and Reporting Developments Webcast

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Corporate Governance Hot Topics

Catherine Bromilow
Partner

Dodd-Frank Act

Significant governance and executive compensation related provisions:

- Proxy access rules
- Executive compensation
- New whistleblower incentive program

Proxy Access

- The right of shareholders to place their director nominees – in opposition to the company’s nominees – in the company’s proxy statement
- To nominate director(s), a shareholder or group must hold at least 3% of shares for at least 3 years
 - Ownership must continue through the date of the meeting
- Shareholders cannot be holding securities with the intent of effecting a change in control under these rules
- Notice must be given between four and five months in advance of proxy issuance
- Shareholders may nominate up to 25% of the existing board
- Smaller companies have a three-year deferral

Executive Compensation

- Compensation committees
 - Increased independence standards
 - Authority to retain, compensate and oversee consultants and advisors
- Expands executive compensation disclosures
 - Relationship between executive compensation paid and company performance
 - Ratio of median employee pay to CEO pay
- Requires disclosure of hedging by employees and directors of equity securities granted by the company as part of compensation
- Mandates companies adopt a clawback policy
- Requires say on pay

Say on pay

- Requires advisory (i.e., nonbinding) say on pay votes for executive compensation either annually, biannually or triennially
 - Requires advisory vote on golden parachutes in the event of an M&A transaction
- Also requires an advisory vote at least every 6 years on how often to hold the say on pay vote

Polling Question #1

Which of the governance aspects of the Dodd Frank act causes you the most concern?

- A. Say on pay
- B. Proxy access
- C. Clawback policy
- D. Whistleblower incentives

Polling Question #2

What fiscal year do you think the SEC will require a mandatory adoption of IFRS for U.S. issuers?

- A. 2014
- B. 2015
- C. 2016
- D. Never

SEC Update

Chris Pierce
Partner

Dodd-Frank Act Impact upon the SEC

- Legislation includes provisions that require the SEC to undertake various initiatives, including rulemaking and studies touching on many areas of financial regulation
- SEC has created a Website for all stakeholders to provide input and comments to the rulemaking process, as it relates to the numerous aspects of the Dodd-Frank act:

<http://www.sec.gov/spotlight/regreformcomments.shtml>

SEC Organizational Structure

Listening and Responding

- Enforcement
 - Streamlined management and internal processes
 - Creation of 5 highly specialized investigation units
 - Increased level of activity including high profile charges and settlements
 - Use of claw back provisions of SOX
- Corporation Finance
 - Creation of three new specialized offices
- Risk, Strategy and Financial Innovation
 - First new division created in 37 years

Comment Letter Trends Recent and Recurring Activity

- Goodwill impairments
- Loss contingencies
- Segment reporting
- Proxy disclosures
- MD&A, including liquidity and cash flow measures
- Venezuela and high inflationary accounting
- Revenue recognition
- Income taxes
- Non-GAAP measures

SEC seeks comments

- SEC issued two separate notices (Release No. 33-9134 and 33-9133) soliciting comments from investors and preparers on six topics related to its ongoing consideration of incorporating IFRS into the financial reporting system for U.S. issuers.
- The comment letter deadline is October 18, 2010.
- Next steps

Polling Question #3

Will you or your organization be commenting on the FASB exposure draft on Disclosure of Certain Loss Contingencies?

A. Yes

B. No

Polling Question #4

What do you think about the pace of the recent standard setting activity?

- A. Too fast
- B. Too slow
- C. Just right

Accounting Hot Topics Update

Jan Hauser
Partner

Chip Currie
Partner

Disclosures of Certain Loss Contingencies – FASB comments now due September 20, 2010

- Approximately 110 comment letters submitted to date, including PwC
 - Majority of the letters are not supportive of the proposal
 - Criticisms commonly cited in the letters
 - Prejudicial concerns
 - Remote contingencies
 - Effective date
- Key Provisions
 - Disclose nature, timing and magnitude of loss contingency
 - Disclose publicly available quantitative information
 - Disclose possible range of loss and amount accrued
 - Roll-forward of contingency accruals
 - Disclosure of asserted remote contingencies with potential “severe impact”

Revenue Recognition – FASB and IASB comments due October 22, 2010

- Asset/liability approach (control transfer model)
- New challenges
 - Performance obligations
 - Measuring and allocating transaction price
 - Variable consideration
 - Contract modifications
 - Onerous contracts
- Transition – retrospective application
- Impact to various sectors
 - Widely-varying impacts
 - Refer to PwC DataLine 2010-28 and related supplements

Revenue Recognition - Potential F/S Impact* on Sectors

Sector	High	Medium	Low
Aerospace & Defense	High		
Automotive	High		
Banking & Capital Markets		Medium	
Chemicals		Medium	
Communications	High		
Consumer Finance		Medium	
Utilities		Medium	
Oil & Gas		Medium	
Metals		Medium	
Mining		Medium	
Engineering & Construction	High		
Entertainment & Media	High		
Financial Services		Medium	
Healthcare		Medium	
Hospitality, Leisure & Real Estate		Medium	
Industrial Products/Manufacturing		Medium	
Insurance**			Low
Pharmaceuticals & Life Sciences	High		
Retail & Consumer		Medium	
Technology	High		
Transportation & Logistics		Medium	

*Operational impacts may be equally or more challenging

** Insurance contracts are excluded from the scope of the proposed standard

Financial Statement Presentation – FASB and IASB – Staff draft published on July 1, 2010

- Principles of cohesiveness and disaggregation
- Controversial aspects of the staff draft include:
 - Direct method cash flow statement
 - Roll-forward analysis of significant line items in the statement of financial position
 - Expanded segment disclosures
 - New footnote disclosures for remeasurements
- Staff draft
 - Cost versus benefit of proposal
 - Input from financial services companies

Leases – FASB and IASB – Comments due December 15, 2010

- Lessee: “Right of use” model proposed – all leases recognized in the balance sheet
- Lessor: Dual model proposed
 - Performance obligation approach, or
 - Derecognition approach
- Reassessment of estimates required
- Transition
 - Simplified retrospective
 - No “grandfathering” of existing leases

Financial Instruments/Revisions to Derivative Instruments and Hedging Activities – comments due September 30, 2010

Classification and Measurement

- Broad agreement on a mixed attribute model (FV, amortized cost)
- Concern around moving instruments to fair value

Impairment and interest income measurement

- General agreement over “too little too late” and a single model
- Disparate views on best model
- User concern over mixing impairment and interest income

Financial Instruments/Revisions to Derivative Instruments and Hedging Activities – comments due September 30, 2010 (continued)

Hedge Accounting

- Agree with simplification efforts
- Disagreement with prohibitions on de-designation
- A variety of additional requests

Fair Value Measurements and Disclosure exposure draft – comments were due September 7, 2010

- Designed to converge definition of fair value and disclosure requirements
- New Disclosure: Measurement Uncertainty Analysis
 - Impact on fair value of changing one or more “Level 3” inputs
 - Based on reasonable alternative assumptions
 - A similar requirement currently exists in IFRS
- Provide guidance relating to the application of blockage factors and other premiums and discounts

Fair Value Measurements and Disclosure exposure draft – comments were due September 7, 2010 (continued)

- Generally prohibits valuation of financial assets as a group
- Provides for valuing financial assets and liabilities as a group if they are managed on the basis of net exposure to market risk(s) or credit risk
- Fair value of instruments classified in stockholders' equity should be based on the perspective of a market participant who holds the instrument

Venezuela Post-Highly Inflationary Accounting

- SEC has publicly commented that disclosure needs improvement
- EITF has formed a Working Group to study the issues
- Will be deliberated at next EITF meeting

Stock Compensation “Clawback” Provisions

- Accounting considerations for traditional clawbacks
 - Noncompete, nonsolicitation or fraudulent behavior
 - Accounted for if and when the contingent event occurs
 - Awards reclaimed based on performance
 - Accounted for as performance conditions
 - Provisions which lack specificity or are discretionary result in variable accounting

Stock Compensation “Clawback” Provisions

- Impact of Dodd-Frank clawback provision
 - Clawback provisions required for all public companies in incentive compensation arrangements for executive officers
 - Clawback provisions triggered upon accounting restatements and require companies to recover excess compensation resulting from the misstated financial results

Disclosures About Credit Quality of Finance Receivables and the Allowance for Credit Losses

- The guidance requires that entities disclose information at disaggregated levels: "portfolio segments" and "classes"
- Several new disclosures are required
 - roll-forward schedules of the allowance
 - information regarding the credit quality of receivables (including their aging)
 - troubled debt restructure modifications that have re-defaulted

Guidance is likely to also impact many non-financial services companies

Disclosures About Credit Quality of Finance Receivables and the Allowance for Credit Losses (continued)

- The new disclosures are required
 - for interim and annual periods **ending** after December 15, 2010 for public companies
 - for interim and annual periods **ending** after December 15, 2011 for nonpublic companies.
- However, the allowance roll-forward and modified receivables disclosures will be effective for public companies for interim and annual periods **beginning** after December 15, 2010

Disclosures About Credit Quality of Finance Receivables and the Allowance for Credit Losses (continued)

- Many preparers are drafting a template for the disclosure
- Focus is being placed on ensuring “portfolio segments” are consistent with components of allowance methodology
- Preparers are reconciling proposed “classes” with what is currently disclosed in financial statements and MD&A
- Others are having discussions about whether to use multiple credit quality indicators in disclosures

Revenue Recognition – Multiple Element Arrangements - EITF - Required adoption 2011 for calendar year companies

- Requires use of 'best estimate of selling price when vendor-specific objective evidence and third-party evidence cannot be determined; residual method eliminated.
- Effective for arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010

Impact

- Establish inventory of elements to be evaluated and valued
- Estimate selling price for elements never before valued
- Eliminate the residual method

Revenue Recognition – Multiple Element Arrangements - EITF - Required adoption 2011 for calendar year companies (continued)

Steps for adoption

- Identify the arrangements that are most likely to be impacted
- Determine the methodologies and documentation standards to be used to determine selling price for those products/services for which VSOE/TPE do not exist
- Assess whether process changes will be needed to accumulate and maintain appropriate data to support the chosen methodology
- Determine the necessary system changes to address change in allocation method

Emerging Issues Task Force – Upcoming September Meeting

Issues expected to be finalized:

- The accounting for costs associated with acquiring or renewing insurance contracts
- Reporting loans to participants in employee benefit plan financial statements

Other issues to be discussed:

- Accounting for multiple foreign exchange rates
- Healthcare care entities: Revenue recognition
- Determining the carrying amount of a reporting unit when testing goodwill for impairment
- Disclosure of supplementary pro forma information for business combinations
- Accounting for deconsolidation of a subsidiary that is in-substance real estate

Polling Question #5

What do you believe the impact of the new lease standard will be on your financial statements?

- A. Significant
- B. Some
- C. None
- D. Not sure

Polling Question #6

What topic would you most like to see covered on our Q4 webcast?

- A. Accounting hot topics
- B. SEC update
- C. Washington developments
- D. Tax update

Q&A Session


Paul Kepple
Chief Accountant

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