

# The Quarter Close

A look at this quarter's financial reporting issues  
PricewaterhouseCoopers



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## What you need to know—Q1–2010

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

Spring is in the air—marking the start of a new financial year. In this edition of *The Quarter Close*, we take a fresh look at a number of issues that could impact your company. We highlight some "lessons learned" on applying the new consolidation guidance for variable interest entities, and provide a brief refresher on applying the new guidance related to transfers of financial assets.

We are also pleased to announce a new publication for our readers, *Setting the Standard*. As noted in prior editions of *The Quarter Close*, standard setting activities continue at a fever pitch. Through *Setting the Standard*, we will bring you updated information and highlights on the major joint FASB/IASB projects so you can stay ahead of the curve.

## Accounting hot topics

### Time's up—New VIE consolidation model is effective

The time has finally arrived for calendar year-end companies to implement the new variable interest entity (VIE) model (FAS 167<sup>1</sup>), effective this quarter. Application of the new guidance requires significant judgment in determining who consolidates (or deconsolidates) VIEs, including a robust analysis of the key decision-making powers and their impact on the VIE's economic performance. Remember, there is no grandfathering of existing structures under the new guidance, which means that all prior analyses will need to be revisited.

What are the lessons learned so far from the implementation process? For starters, many companies have had a change to the previous consolidation conclusion in structures such as QSPEs (qualifying special purpose entities), joint ventures, equity method investments and leasing arrangements, to name a few. But what companies are also finding is that reaching the "consolidation" conclusion is only the first step. There are a number of significant consequences triggered by the conclusion to consolidate (or deconsolidate). Management should consider, for example, the following:

- Valuation issues relating to establishing "purchase price" adjustments upon consolidation.
- The impact on segment reporting and reporting units for goodwill impairment.
- Changes to internal controls over financial reporting.
- Financial impact, such as the impact on hedging strategies, the recognition of embedded derivatives, and covenant implications.

PwC recently issued *Mergers & Acquisitions - A snapshot: The Consolidation Standard*, which discusses issues companies will need to consider when consolidating (or deconsolidating) an entity as a result of applying the new guidance. In addition, several PwC publications and resources continue to provide useful insights, including:

- [PwC's Guide to Accounting for Variable Interest Entities](#) - newly updated for FAS 167's guidance
- [DataLine 2009-30, FAS 167—New Consolidation Guidance for Variable Interest Entities](#)
- [PwC Paper: FAS 167 Company Action Plan - Consolidation of Variable Interest Entities](#)
- [Archived Webcast—Consolidation of VIEs](#)

### Asset management industry breathes sigh of relief...for now

The FASB finalized its deferral of the application of the new VIE consolidation guidance for certain investment entities. The deferral allows asset managers that have the attributes of an investment company (with no obligation to fund potentially significant losses of an investment entity) to continue to apply the accounting under the previous consolidation guidance. Many mutual funds, hedge funds, private equity funds, venture capital funds, certain mortgage REITS and money market funds will be eligible for the deferral, provided they meet certain requirements. However, QSPEs, collateralized debt obligations, and securitization and asset-backed financing vehicles will not be eligible, since the Board did not intend for these types of structures to qualify for the deferral.

How long the deferral will last is uncertain. It is intended to allow time for the FASB, with the IASB, to consider the relationship between asset managers and the investment structures they manage as part of developing alternative models for their broader joint consolidations project, due to be finalized by the end of the year. PwC recently issued [DataLine 2010-06](#),

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<sup>1</sup> FAS 167 has been incorporated into Topic 810 of the FASB Accounting Standards Codification.

*FASB Finalizes Deferral of FAS 167 for Certain Investment Funds and Other FAS 167 Amendments*, which provides some insights on assessing eligibility for the deferral.

## Refresher on transfers of financial assets—Guidance now effective

While FAS 167 has garnered most of the attention revolving around the FASB's efforts to improve the transparency of off-balance sheet structures, don't overlook transfers of financial assets (FAS 166<sup>2</sup>), which will impact many companies (not just financial institutions) that transfer financial assets. In fact, many transactions that qualified as "sales" under the old guidance will now be "borrowings" under the new guidance, which may significantly impact key metrics. As a refresher, the new guidance:

- Eliminated the QSPE scope exception. Now, every transfer must be to an unconsolidated entity. (Don't forget the new VIE guidance in making this assessment.)
- Clarified the legal isolation test. When a transferor or any of its consolidated affiliates retains some continuing involvement in the transferred assets, obtaining a "true" sale opinion will be critical. Also, all agreements entered into in contemplation of the transfer must be considered as part of the analysis.
- Changed the amount of a gain or loss recognized on a sale that qualifies as a transfer. Under the new guidance, beneficial interests in transferred financial assets are recognized at fair value rather than at an allocated carrying amount.
- Revised the participating interest definition. Partial derecognition is prohibited for portions of financial assets unless the portion meets not only the "sale" criteria, but also the new participating interest rules. For example, an entire financial asset cannot be divided into components before a transfer unless all of the components meet the definition of a participating interest.

### Transfers of trade receivables deserve special attention

Companies that have traditionally sold undivided interests in their trade receivables to bank-sponsored commercial paper conduits as a cost effective source of financing may be surprised to find out that after the effective date, these transfers will generally be recognized as debt (i.e., secured borrowings) rather than sales. Why? As part of the changes introduced by FAS 166, it is difficult for the sale of a "portion" of a financial asset (e.g., an undivided interest in accounts receivable) to achieve sale treatment unless it complies with not only the sale criteria, but also the new participating interest rules. The FASB set a "high hurdle" for transfers to meet the new requirement unless the portion of the financial asset sold and the portion kept are "identical." In many transactions, the transferor typically subordinates its retained interest in the receivables as a credit enhancement to the purchaser; therefore, the portion retained would not meet the definition of a participating interest and would not qualify as a sale.

Many companies have been focused on the balance sheet changes that will occur when a transfer no longer qualifies as a sale. However, the new guidance may also have an impact on operating cash flows in the first quarter of adoption. Previously, when a transfer was recognized as a sale, the cash flows collected from the commercial paper conduit were shown immediately as an operating cash flow. Now that these transfers will be recognized as a borrowing, the cash collected from the commercial paper conduit will be a financing activity. The operating cash flow does not arise until the cash is actually received from the customer. In many instances, receivables transferred in the first quarter may not be

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<sup>2</sup> FAS 166 has been incorporated into Topic 860 of the FASB Accounting Standards Codification.

collected from the customer by end of the quarter, which may result in negative operating cash flow trends.

PwC has resources that may be helpful in considering the impact of the new guidance:

- [DataLine 2009-29](#), *FAS 166—New Guidance for Transfers of Financial Assets*
- Coming Soon - PwC Guide - *Transfers and Servicing of Financial Assets* - newly updated for FAS 166

## Contract renegotiations—Revenue at risk

Over the last 18 months the unstable economic environment has, in some instances, reduced the demand or changed the market pricing for certain products or services so drastically that existing long term supply arrangements, such as take or pay arrangements or fixed price contracts, may now be significantly unfavorable to one or both parties.

Some companies have been able to renegotiate these contracts - which can trigger a variety of revenue recognition questions. For example, renegotiated arrangements often include a one-time payment to modify current contract terms or to terminate the previous arrangement. If the cash payment was not contractually due under the terms of the original contract, then generally this one-time payment would be recognized over the term of the new or modified contract (i.e., treated as an upfront fee related to the new arrangement as opposed to a termination payment for the old arrangement).

Alternatively, other arrangements may have a lump-sum cash payment at the initiation of the arrangement that is currently being recognized over the length of the arrangement or customer relationship period depending on the facts and circumstances (i.e., being recognized over the period of the customer's expected benefit received from that payment). If that arrangement is subsequently terminated and a new arrangement entered into (presumably with different terms), that benefit to the customer may extend through the renegotiated contract period, and therefore the unrecognized revenue associated with that initial up-front payment should be recognized over the life of the new contract.

## Venezuela—Remeasurement rates in question

In the last edition of *The Quarter Close*, we discussed whether Venezuela was considered to be a highly inflationary economy and the rate a company should use (official rate or parallel) to translate Venezuelan Bolivar denominated financial statements into their reporting currency. By now, most companies have made these decisions. However, now that the economy is considered highly inflationary, and the government has announced a devaluation of the official rate to a dual-rate system (general and preferential rates), questions have arisen about which rate companies should use to remeasure their Venezuelan Bolivar denominated transactions into functional currency.

In Venezuela, a company must determine which of the three rates available (the general and preferential official rates and a parallel rate) should be used to record a transaction. The official rates are the rates at which foreign currency can be obtained through the central bank. The parallel rate is a rate obtained through brokers. Many companies believe that they will be able to convert Bolivars at both of the general and preferential rates. As a reminder, U.S. GAAP requires that a foreign currency transaction be recognized at the exchange rate at which a particular transaction could be settled on the transaction date. Regardless of which rate is utilized, companies should disclose the rate used to remeasure Bolivar denominated transactions into their functional currency, and clearly disclose any material transaction gains and losses. For additional insights and observations concerning

this issue, refer to [DataLine 2010-04](#), *Venezuela Economy Determined to Be Hyperinflationary*.

## Consolidations—Scope changes now final

Although the guidance on consolidation and noncontrolling interests (previously FAS 160) has been effective for a year now, the FASB just completed several scope clarifications. In early January, the FASB issued new guidance to bring greater consistency to the treatment of partial sales and deconsolidation events (i.e., change in control) by clarifying the scope of the noncontrolling interest standard.

The FASB broadened the scope of the new guidance to now include groups of assets that are businesses or are nonprofit activities. The new guidance also applies to transfers of a business to a joint venture or to an equity method investee even when the transfer is an exchange for an interest in those entities. Practically speaking, under these amendments, more disposal transactions will now be subject to the full gain and loss recognition requirements in the consolidation guidance. There are two notable exceptions, however, for transactions addressed by other accounting literature - partial sales of in-substance real estate and the conveyance of oil and mineral rights. Additional disclosures are also required.

The new guidance, which was effective upon issuance, should be retroactively applied to the original effective date for the noncontrolling interest standard (January 1, 2009 for calendar year-end companies). Companies will need to assess whether transactions that may have occurred throughout 2009 will be impacted by this change. For additional information, refer to [DataLine 2010-01](#), *Accounting for and Reporting Decreases in Ownership of a Subsidiary: A Scope Clarification*.

## Contingent consideration—"Earnouts" could be earnings surprise

In many M&A transactions, when the buyer and seller cannot agree on the total purchase price, the two parties agree to an additional payment, or contingent consideration, based on the outcome of future events. These payments are commonly referred to as earnouts and are typically based on revenue or earnings targets that the acquired company must meet after the acquisition date. The accounting for these arrangements changed significantly with the issuance of FAS 141(R)<sup>3</sup>. PwC recently issued *Mergers & Acquisitions - A snapshot: Accounting for contingent consideration* which discusses the accounting for earnouts from a buyer's perspective, and how the accounting guidance may impact the buyer's acquisition accounting and introduce a level of volatility in the buyer's earnings in post-acquisition periods.

## Own-share lending arrangements—Now effective (with retrospective application)

Companies with smaller public floats will frequently lend their own shares to an investment bank under a share lending arrangement in conjunction with the issuance of convertible debt. This arrangement allows those that invest in the convertible debt of these companies to also borrow the underlying shares and therefore hedge the conversion option in the debt.

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<sup>3</sup> FAS 141 (R) has been incorporated into Topic 805 of the FASB Accounting Standards Codification.

These arrangements, which accompany many convertible debt deals, now require separate accounting under new guidance effective this quarter for calendar year-end companies. The guidance requires that the convertible debt issuer recognize such lending arrangements as debt issuance costs at fair value with a corresponding credit to either liabilities or equity (depending on whether the arrangement qualifies for equity treatment).

Under the transition provisions, the new guidance must be applied to all own-share lending arrangements outstanding at adoption. That is, companies will need to determine the fair value of existing arrangements as of their original issuance date in order to determine the transition date unamortized discount, prior interest costs and possibly changes in fair value of the agreement (if it is recognized as a liability). Additionally, this guidance could also affect previously reported interest ratios and metrics. Determining the fair value of these arrangements is complex and may be further complicated by the lack of comparable observable market data. Getting started early on this analysis will be important, as it will likely require significant judgment. A more detailed discussion about the potential impact of these issues and more can be found in PwC's June [EITF Observer](#).

## Uncertain tax positions—The IRS says "show me"

The IRS has proposed new tax requirements for companies with more than \$10 million of assets to disclose uncertain tax positions as part of their federal tax return. While the proposed effective date would potentially include 2009 calendar-year filings, we believe the IRS will postpone the effective date until 2010.

Under this controversial proposal, companies would be required to describe each uncertain tax position, the reason for the uncertainty, and the maximum amount of tax liability that would result if the position was not sustained. The proposal would apply to all uncertain tax positions for which a reserve is recorded and certain positions for which no reserve is recorded. However, the proposal would not require management to provide an assessment of the position or the amount of the "booked" reserves.

Not surprisingly, the proposed disclosure requirement is receiving significant publicity. Comment letters are due by June 1, 2010 and it is expected that many companies will weigh in on the proposals. Stay tuned for more information. Refer to [Washington National Tax Services](#) (WNTS) Insight *IRS proposes new tax return disclosure requirements for uncertain tax positions* for more information on the IRS proposal.

## Effective tax rate reminders

As calendar year companies estimate their effective tax rate (ETR) for the upcoming year, we thought that a few reminders would be helpful in developing these important estimates:

- Exercise care when determining whether an item is unusual or infrequent (items excluded from the ETR). Consider, for example, whether an item that previously would have been considered infrequent or unusual now occurs more frequently (e.g., due to, the current economic climate).
- Assess whether changes in management's indefinite reinvestment assertions impact the ETR. For example, if distributions are expected from a foreign subsidiary's current period earnings, the anticipated tax effect should be included in the ETR.
- Determine whether certain tax expense or benefits are required to be recognized entirely in the current period. The effect of a change in tax rates, certain changes in valuation allowances, changes in judgment about indefinite reinvestment assertions and changes in judgment about uncertain tax positions that arose in prior periods are all examples of items that should be recognized discretely.

## Taxing matters—Certain benefits expire...for now

On December 31, 2009, several notable U.S. tax provisions expired, including the research credit, the controlled foreign corporation (CFC) "look-thru" rule, and exceptions for certain active financing income. While many are familiar with the research credit, the CFC look-through rule allowed dividends, interest, rents, and royalties to be paid between affiliated foreign subsidiaries without triggering a current tax. The active financing exception allowed certain income earned by CFCs of active banking, finance, or insurance businesses to be deferred for tax purposes.

While legislation is pending to extend the expired provisions, such legislation has not yet been enacted. Until President Obama approves legislation to extend the expired provisions, companies should consider the impact of the expired provisions on their deferred taxes and as they estimate their ETR for 2010.

## UK bankers' bonuses—A costly (dis)incentive?

The UK government has proposed a 50% payroll tax on UK banks that award discretionary bonuses of more than £25,000 to employees between December 9, 2009 and April 5, 2010. The provision is part of the UK's Finance Bill of 2010 that is expected to be approved in the second quarter of 2010. Companies are reminded that any tax that would be owed on bonuses above the £25,000 threshold, should only be recorded once the law is enacted - - even though the bonus itself was accrued in an earlier period.

Hot off the  
press

## Embedded credit derivatives—A "mini" step towards (more) fair value accounting

In March, the FASB issued new guidance on the accounting for credit derivatives that are embedded in beneficial interests in securitized financial assets. Examples of beneficial interests in securitized financial assets include asset-backed securities, credit-linked notes, collateralized loan obligations and collateralized debt obligations. Currently, certain credit derivative features embedded in beneficial interests in securitized financial assets are not accounted for as derivatives due to scope exceptions within the derivative guidance. The new guidance eliminates the scope exception for embedded credit derivatives (except for those that are created solely by subordination) and provides new guidance on the evaluation to be performed. Bifurcation and separate recognition may be required for certain beneficial interests that are currently not accounted for at fair value through earnings, including unfunded tranches and synthetic collateralized debt obligations.

The amendments are effective in the third quarter for calendar year-end companies. At adoption, a company may make a one-time election to apply the fair value option on an instrument-by-instrument basis for any beneficial interest in securitized financial assets. PwC recently issued [DataLine 2010-13, FASB Amends Exception for Credit Derivatives Embedded in Securitized Financial Assets](#), which provides practical insight and observations about the new guidance.

## Fair Value disclosures—New disclosures effective Q1

In our last edition of [The Quarter Close](#) we highlighted that new guidance was imminent on supplemental fair value disclosures. In January 2010, the final guidance was issued. The good news for preparers is that the FASB decided to defer their consideration of the Level 3 sensitivity disclosures.

Two new disclosures will be required: (1) a "gross" presentation of activities (purchases, sales, and settlements) within the Level 3 roll forward reconciliation, which will replace the "net" presentation format, and (2) detailed disclosures about the transfers between Level 1 and 2 measurements. The guidance also provides several clarifications regarding the level of disaggregation and disclosures about inputs and valuation techniques.

The new disclosures are effective this quarter for calendar year-end companies, except for the Level 3 "gross" activity disclosures, which will be deferred until the first quarter of 2011. Stay tuned on the FASB's continued interest in fair value disclosures, as the Level 3 sensitivity disclosures may not be completely off the table and could resurface during the joint FASB and IASB project on Fair Value Measurement. Refer to [DataLine 2010-05](#), *Additional Disclosures about Fair Value Measurements Required Beginning in 2010*, for more information on the new guidance.

## Subsequent events clarification—To date or not to date

In the second quarter of 2009, the FASB issued new guidance that had the practical effect of incorporating the subsequent event guidance from the auditing literature into the accounting literature, with some terminology changes. The final guidance issued by the FASB in June 2009, however, included a requirement to disclose the date through which subsequent events were evaluated -- a seemingly benign disclosure. However, this disclosure created potential conflicts for many SEC registrants.

As a result, in February 2010, the FASB amended its guidance on subsequent events. Some key points to note are:

- SEC filers are not required to disclose the date through which an entity has evaluated subsequent events.
- An entity that is a conduit bond obligor for conduit debt securities traded in a public market (i.e. over-the-counter market) must evaluate subsequent events through the date of issuance of its financial statements and must disclose such date.
- All other entities will continue to be required to evaluate subsequent events through the date the financial statements are available to be issued and disclose that date.

The amended guidance was effective upon issuance for all entities except conduit bond obligors. Conduit bond obligors will be required to apply the new guidance in fiscal periods ending after June 15, 2010.

For more information, refer to [DataLine 2010-07](#), *Subsequent Events*.

## SEC matters

### Non-GAAP disclosures—Improved consistency

As announced at the 2009 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff updated its interpretive guidance relating to non-GAAP financial measures in financial statements and other documents filed with the SEC, effective upon issuance. The updated guidance encourages companies to be consistent in all of their communications about how they portray their businesses to investors, and to include important information used in such communications in their SEC filings. The update removes certain constraints that many viewed as discouraging companies from disclosing certain important non-GAAP measures in their SEC filings (particularly measures that exclude recurring items).

Companies should continue to exercise caution when evaluating whether to disclose non-GAAP measures, which measures to disclose, and how to present them.

PwC's [DataLine 2010-03, Non-GAAP Measures](#), highlights the most significant changes resulting from the updated guidance and offers PwC's observations and insight as to how to evaluate the interpretations. In addition, refer to the SEC's interpretive guidance related to non-GAAP measures: <http://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm>.

## Climate change—SEC "warming" up to new disclosures

Many companies provide greenhouse gas and climate change disclosures through forums such as websites and corporate responsibility reports. In February 2010, the SEC issued interpretive guidance to assist public companies in applying existing SEC disclosure requirements when discussing the implications of climate change. Through this interpretive release, the SEC reminds registrants to be mindful that some of the information on climate change may also be required under existing disclosure requirements, or triggered by new or pending legislation or regulation.

For example, as a company assesses the implications of climate change, it may want to consider whether any domestically or internationally enacted (or pending) legislation or regulation is reasonably likely to have a material effect on the company's financial condition or results of operations. Companies may also want to consider whether legal, technological, political, or scientific developments related to climate change could have an impact on the demand for a product (for example, will consumers opt for a "greener" option, or will increased competition to create greener products hurt demand for your products?). Additionally, companies may want to consider whether climate change could result in significant physical effects (for example, damage to physical plants and facilities located close to the coast line) that could also result in a material effect on the company's financial condition or results of operations.

The message is clear; climate change has become a focal point and is generating the need for disclosures. The SEC is focused on this matter and intends to monitor the impact of this release on company filings as part of the SEC's disclosure review program. The SEC is planning to hold a public roundtable on disclosure regarding climate change matters in the spring of 2010. Companies should stay tuned for further developments. For further information, refer to the SEC's [press release](#) and the interpretive release (<http://sec.gov/rules/interp/2010/33-9106fr.pdf>).

## Proxy disclosure amendments—Effective for 2010 filings

In December 2009, the SEC amended certain SEC rules intended to encourage additional disclosures regarding risk, compensation, and various other corporate governance matters. Significant changes included enhanced disclosure of:

- The relationship of a company's compensation policies and practices to risk,
- The background and qualifications of directors and director-nominees,
- How the board (or its nominating committee) considers, and defines, diversity when identifying director candidates,
- Board leadership structure (e.g., whether the same person serves as both the Chair of the Board and the CEO or whether those roles are split),
- The board's role in risk oversight,
- Revised reporting of the value of stock and option awards to company executives and directors in the Summary Compensation Table, and
- Potential conflicts of interests of compensation consultants.

- The amended rules also require the reporting of voting results by filing a Form 8-K within four business days after the end of the shareholder meeting at which the vote was held. This requirement is effective for any meeting that takes place on or after February 28, 2010.

Calendar year-end companies should provide the enhanced disclosures starting February 28, 2010, either in their Form 10-K, Part III information (disclosures surrounding directors, executive officers and corporate governance) or by incorporating the information by reference from their annual proxy filing.

For more information refer to:

- [\*Practical Tip 2010-03, Companies May Need to Enhance Their Disclosures Relating to Directors, Executive Compensation and Corporate Governance in Their Form 10-K and/or Proxy Statement\*](#)
- Proxy Disclosure Enhancements — Final Rule  
<http://www.sec.gov/rules/final/2009/33-9089.pdf>
- Proxy Disclosure Enhancements Transition  
<http://sec.gov/divisions/corpfin/guidance/pdetinterp.htm>

## SEC reports on trends and themes for smaller public companies

In December 2009, at the Forum on Auditing in the Small Business Environment hosted by the PCAOB, the staff of the SEC's Division of Corporation Finance presented a summary of common reporting and compliance issues it often encounters when reviewing filings of smaller public companies. The presentation served as a reminder of a variety of common reporting and SEC compliance matters, such as:

- The impact of the financial crisis on financial statements,
- Best practices to consider when preparing Management's Discussion & Analysis,
- Financial reporting requirements of an acquired business,
- Complex equity structures and accounting for embedded features, and
- Internal Control over Financial Reporting

In addition to highlighting common issues, the SEC staff provided detailed discussion notes along with the presentation, which provides valuable insight into how SEC staff interpret the rules and regulations. Although the presentation was based on the results from the SEC's review of smaller public companies, many of the topics highlighted are also applicable to large companies and those companies considering an initial public offering.

For more information, refer to the SEC's presentation:

<http://www.sec.gov/news/speech/2009/slides1209wc.pdf> .

## XBRL reporting—Tag you're it!

Now that the SEC's interactive data rules have been in effect for nearly a year, the largest public companies are getting ready for the more difficult task of completing the detailed tagging required in their second year of submissions. Those companies that were required to submit XBRL-formatted financial information in 2009 will be subject to additional requirements for their second year of submissions in 2010, including the detailed tagging of the financial statement footnotes. You may have thought the first year of submission was

challenging, but to put it in perspective, a company may need to tag over 3,000 disclosure elements in the second year, compared to only 300 in the first year.

Other companies are gearing up for their first year of XBRL reporting. Large accelerated filers that were not subject to the 2009 first year phase-in requirements will be required to make their first submissions of XBRL-formatted financial information in 2010.

Refer to [DataLine 2009-55](#), *XBRL - Looking Ahead to 2010 Compliance and Back at 2009 Lessons Learned*, for a summary of the SEC's observations on initial submissions, lessons learned to-date, and considerations for those submitting XBRL-formatted financial statements for the second year.

## Joint FASB/IASB projects

### *Setting the Standard*—PwC launches new publication

With the renewed commitment by the FASB and the IASB to complete the current slate of joint projects and the SEC's recent public announcement affirming its continued support for a single set of high-quality global accounting standards, companies will want to begin gearing up for the changes that are on the horizon. To help you stay current with these joint standard setting activities, PwC has launched a new publication, *Setting the Standard*. This publication will provide not only a high-level overview of the joint projects, it will also allow you to take a deeper dive into some of the key issues that may affect your company.

## IFRS

### IFRS developments—The SEC's path forward

In February, IFRS made the business headlines when the SEC published a statement of the SEC's continuing support for a single set of high-quality global standards. In the statement, the SEC acknowledged that IFRS is best positioned to serve as the global standard. The statement also contained details of a "work plan" to analyze whether and how IFRS can be incorporated into the U.S. financial reporting system.

The SEC staff will execute the work plan and provide regular updates to the public on their progress beginning in October 2010. In 2011, upon completion of the FASB and IASB convergence agenda and the analysis of the results of the work plan, the SEC expects to be in a position to decide whether, when, and how to further incorporate IFRS into the financial reporting system for U.S. issuers. Should it decide to move forward, the SEC intends to allow adequate time for an orderly and high-quality changeover. Required conversions would not begin until 2015 or 2016 at the earliest.

Refer to [DataLine 2010-12](#), *SEC Reaffirms Support for Single Set of High-Quality Global Accounting Standards*, which takes a closer look at the SEC's statement and work plan.

### Other useful IFRS resources

Although the SEC's decision on IFRS is more than a year away, U.S. companies continue to be influenced by IFRS and not just through non-U.S. subsidiaries. IFRS adoption by counterparties (customers and vendors) is already impacting business decisions of U.S. GAAP reporting companies. There are a number of resources available to keep you up to date on developments in the world of IFRS. These resources include our newly released executive survey on IFRS, the 2009 edition of *IFRS and US GAAP Similarities and Differences*, our ongoing webcast series on IFRS, guides on system implications, and information on IFRS for Small and Medium Size Entities (SMEs). There is also a newly issued guide to assist companies in understanding the potential tax issues of intercompany loans under IFRS or IFRS for SMEs. For a complete listing of our available publications visit the PwC IFRS homepage at [www.pwc.com/usifrs](http://www.pwc.com/usifrs) or ask your PwC engagement team for further assistance.

## Corporate governance

### *To the Point*

The March edition of *To the Point*, PwC's quarterly newsletter for directors, has been released. This edition provides an update on federal tax policy, discusses management succession planning, and covers the implications of clawback features in executive compensation programs. This month's edition of *To the Point*, and all previous editions are available at <http://www.pwc.com/us/en/corporate-governance/publications/board-directors-issues.jhtml>.

### *Shareholder Questions for Management*

The 2010 edition of *Questions That Shareholders May Ask at Annual Meetings* will be issued soon. The purpose of this publication is to assist management in preparing for the annual meeting of shareholders. It contains examples of shareholder questions that might be asked as a result of current and past events.

### *This Week in the Boardroom*

PwC continues its participation in an on-demand webcast series called *This Week in the Boardroom*, hosted by Corporate Board Member magazine. The webcasts are designed to educate board members and C-suite executives on various topics and issues that impact their strategic and operational decisions. Current and past issues of *This Week in the Boardroom* are available at [www.pwc.com/uscorporategovernance](http://www.pwc.com/uscorporategovernance) and [www.boardmember.com](http://www.boardmember.com).

## Coming soon—PwC's new corporate governance website

PwC's corporate governance website delivers insights on governance issues and trends that are relevant to board members. Now, our newly updated site features the latest thinking on topics such as executive compensation, risk management, proxy access, a library of our latest thought leadership, and our in-depth director education offerings. The site will be available beginning March 15. Please visit the Corporate Governance Home Page at: [www.pwc.com/uscorporategovernance](http://www.pwc.com/uscorporategovernance)

## On the horizon

### EITF will deliberate several new (and old) issues at their March meeting

At the March 18 EITF meeting, the task force is expected to finalize proposed new guidance on a number of topics: milestone method of revenue recognition, casino base jackpot liabilities, stock options denominated in a trading currency, loan modifications for pooled loans, insurers accounting for majority-owned investments through a separate account and deferred acquisition costs (DAC) of insurance entities. Several new issues related to healthcare organizations will also be discussed. Stay tuned for our next edition of the *EITF Observer* which will be issued on March 19 and will highlight the decisions reached at this meeting.

### Discontinued operations—Less is more

The FASB and IASB have a joint project underway to converge the definition of discontinued operations and related disclosure requirements within IFRS and U.S. GAAP.

While the FASB is still finalizing its exposure draft, we expect that under the new definition, companies will see a reduction in the frequency of disposals that qualify as discontinued operations. The proposed definition will require that a discontinued operation represent either the disposal of (1) a major line of business or a major geographical area, or (2) a business held for sale upon acquisition. The current concept of assessing continuing involvement and continuing cash flows in determining whether a disposal qualifies as a discontinued operation will be removed. This might seem like déjà vu, since the proposed definition will be very similar to the old definition under U.S. GAAP, originally superseded by FAS 144, *Accounting for the Impairment of Disposal of Long-Lived Assets* (codified in Topic 360).

Although the frequency of disposals recognized as a discontinued operation will be reduced, those that do qualify will be required to include expanded disclosure. In addition, for disposals that do not qualify, a new requirement for robust disclosure around disposed components (that aren't discontinued operations) will mean that users will receive much of the same information as would have been available under the current guidance.

An exposure draft is expected to be released in the second quarter of 2010, with a 60-day comment period. The new guidance will likely be effective for prospective transactions beginning in January 2011 for calendar year-end companies. Look for a DataLine that will discuss the impact of the new guidance once the exposure draft has been released.

## Loans and credit losses—New disclosures

Does your company have receivables (including lease receivables) with maturities greater than one year? If so, get ready for more disclosures. The FASB's current proposal will greatly expand existing disclosures for the allowance for credit losses and certain receivables. Finalization of the new disclosure guidance is anticipated in the next couple of weeks and is expected to be effective for interim and annual periods ending after December 15, 2010. Finalizing this project ahead of the broader project on accounting for financial instruments is a clear reflection that the FASB believes there is an immediate need for greater transparency into a company's exposure to credit losses from "lending" arrangements.

The FASB has made several key changes based on their consideration of issues raised in the comment letters, that will be included in the final guidance, including:

- There will not be a requirement to report the fair value of finance receivables at the portfolio segment level.
- Receivables carried at fair value and unconditional promises to give (i.e., promises to give to a not-for-profit entity) are now excluded from the scope of this guidance.
- There will not be a requirement to disclose a roll forward of finance receivables on a disaggregated basis.
- Separate disclosure of the carrying amount, purchases and sales of finance receivables by portfolio segment will be required.
- Guidance on required qualitative and quantitative information about finance receivables modified during the current period will be clarified.

In anticipation of the pending changes, companies should consider whether systems, processes, and internal control policies and procedures need to be modified to prepare for implementation of the new guidance. Watch for a DataLine that will be issued once the guidance has been finalized.

## Effective dates for recently issued standards

### Effective for fiscal years beginning after November 15, 2009

- ASU 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*
- ASU 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*

### Effective for interim or annual periods ending after December 15, 2009

- ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*
- ASU 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force)*
- ASU 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*
- ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements is deferred until fiscal years beginning after December 15, 2010)

### Effective for fiscal years ending after December 15, 2009

- Amendments to ASC 715 (formerly FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*)

### Effective for fiscal years beginning on or after December 15, 2009

- ASU 2010-07, *Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions*
- ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*

### Effective for annual reporting periods ending on or after December 31, 2009

- ASU 2010-03, *Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures*

### Effective as of February 24, 2010

- ASU 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirement* (the recognition of subsequent events thru issuance date of conduit debt obligors is deferred until interim or annual periods ending after June 15, 2010)

### Effective for fiscal years beginning after June 15, 2010

- ASU 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force*
- ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*

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