

# The Quarter Close

A look at this quarter's financial reporting issues  
PricewaterhouseCoopers



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## What you need to know—Q2–2010

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

As we head into the summer months, we find standard setting heating up and making headlines. A recent announcement from the FASB and the IASB on their convergence agenda, along with new exposure drafts on financial instruments and the statement of comprehensive income, are just some of the leading indicators of significant developments on the horizon for financial reporting. In our *Accounting hot topics* section, we take a look at how the new health care legislation and proposed tax legislation may impact second quarter reporting, and offer some insights on navigating the new guidance on transferring financial assets. And coming soon...the next edition of our publication *Setting the Standard* will help you stay current on the joint standard-setting activities of the FASB and IASB by taking a deeper dive into some of the key issues that may impact your company.

## Hot off the press

### FASB and IASB agree to modify convergence strategy

In the midst of growing concern about the pace and volume of proposed changes in financial reporting, the FASB and IASB recently announced a modified strategy and timing for completing their joint convergence agenda. The original plan, as updated in November 2009, called for the Boards to release a significant number of exposure drafts by mid-2010, including projects on financial instruments, revenue recognition, lease accounting, liabilities and equity, and financial statement presentation, among others. The expected release of a large number of proposals within a condensed timeframe raised constituent concerns about their ability to provide meaningful feedback to the Boards. As a result, the FASB and IASB are considering how to best prioritize their convergence projects and plan to limit the number of exposure drafts released to no more than four per quarter. The Boards believe that staggering exposure drafts will allow organizations more time to evaluate each proposal and participate in the comment letter process.

The Boards expect the modified timetable will still allow for the finalization of their higher priority projects by mid-2011 as originally planned. Other projects will extend into the second half of 2011. In addition, the new strategy calls for the Boards to seek input on effective dates and transition methodologies for these potential new standards.

Even with these changes, the timetable remains aggressive. The Boards are currently finalizing their modified work plan and will provide more details on the projected timetable in the coming days. For more information, refer to:

- [In Brief 2010-06, FASB and IASB to Modify Convergence Strategy](#)
- [Joint Statement](#) by the IASB and the FASB
- [Setting the Standard, A spotlight on the FASB and IASB's joint projects](#)

### FASB cranks up the press and issues two exposure drafts

The big news on the standard-setting front this quarter is the release of the financial instruments exposure draft. The release of this proposal marks the culmination of months of intense deliberations, addressing many issues that stem, in large part, from the financial crisis. Concurrent with that proposal, the FASB and IASB also released their exposure drafts on the statement of comprehensive income.

#### Financial instruments—Will there be a converged solution?

On May 26, 2010, the FASB issued its highly anticipated exposure draft on the accounting for financial instruments and hedging activities, which some view as one of the most significant projects undertaken by the Board. This exposure draft proposes to replace much of the existing guidance related to financial instrument classification, measurement, and impairment, and make significant amendments to the current hedge accounting guidance. Some landmark changes proposed in the exposure draft include:

- Most financial instruments would be measured at fair value with the exception of core deposit liabilities, which would be valued using a new present value measurement methodology.
- All changes in fair value would be recognized in net income unless an instrument qualifies, and the entity elects, to recognize those fair value changes in other comprehensive income. To elect to recognize the fair value changes for certain instruments in other comprehensive income, the company must have a business

strategy to hold the financial instrument for collection or payment of contractual cash flows and the instrument itself must have certain characteristics.

- Financial assets for which other comprehensive income treatment or amortized cost measurement is elected would be subject to a single credit impairment model. The single credit impairment model could enable the earlier recognition of losses since it removes the current model's probability threshold and is based on the assessment of expected losses over the life of the instrument.

As it relates to hedge accounting, the FASB's proposal carries forward many of its ideas contained in its 2008 exposure draft on hedge accounting. There are some differences, though, including the continuation of the bifurcation by risk approach. However, since many financial instruments will be measured and classified at fair value, allowing fair value hedge accounting will not affect the balance sheet except for those financial liabilities recognized at amortized cost. In addition, under the proposal, the current model to quantitatively assess hedge effectiveness each quarter will be replaced by a qualitative assessment at inception with a limited need to subsequently reassess. It will be easier to qualify for hedge accounting because a hedging relationship would only need to be 'reasonably effective,' not 'highly effective' as is currently required.

While this project started out as a joint initiative, the FASB and IASB have been working on different timetables because of differing political pressures in Europe and in the U.S. For example, the IASB has managed the project in three separate phases (recognition and measurement, impairment, and hedging). The FASB, on the other hand, decided to address these issues comprehensively in the exposure draft that was just released.

Aside from the different approaches to tackling the project, the IASB and FASB have also expressed fundamentally different viewpoints. The FASB's proposal would measure more financial instruments at fair value as compared to the IASB's standard. This is most notable in the accounting for bank loan portfolios and core deposit liabilities where the FASB's decision would allow most bank loans and core deposits to be remeasured each period with remeasurement changes recorded in other comprehensive income, whereas the IASB approach generally retains an amortized cost approach. Whether the FASB will revise its approach in redeliberations in order to be more aligned with the IASB or vice versa remains to be seen.

Companies will have the opportunity to provide feedback to the FASB during the public comment letter period which ends on September 30, 2010. A final standard is targeted to be issued in the first half of 2011. Refer to the following publications for additional information related to the proposals:

- [DataLine 2010-25](#), *FASB Proposes Changes to Financial Instruments Accounting*
- [In Brief 2010-05](#), *FASB Proposes Changes to Financial Instruments Accounting*
- [What investment professionals say about financial instrument reporting](#)
- [Exposure Draft](#), *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

## Statement of comprehensive income—More prominence for other comprehensive income

The FASB has proposed to replace the existing income statement with a new primary financial statement, referred to as the statement of comprehensive income. Under the proposal, net income and other comprehensive income would be displayed with equal prominence in one continuous statement. However, the proposal would not change the components of net income, other comprehensive income or earnings-per-share. The IASB

has issued a similar proposal that calls for a single statement of profit or loss and other comprehensive income.

While the proposals provide a consistent framework for presenting the new statement of comprehensive income, the proposals will not converge the recognition of the amounts within net income and other comprehensive income. Companies are encouraged to provide their views on the proposals during the public comment period which ends September 30, 2010. Following redeliberations, the IASB's final guidance is expected in the second half of 2010 while the FASB plans to issue its final guidance in the first half of 2011. Refer to the following publications for additional information on the proposals:

- [DataLine 2010-26](#), *Statement of Comprehensive Income — The FASB has proposed to require a new primary financial statement*
- [In Brief 2010-04](#), *FASB and IASB Issue Proposals for Single Statement of Comprehensive Income*
- [Exposure Draft](#), *Comprehensive Income*

## Accounting hot topics

### Loss Contingencies—Round two

Nearly two years after issuing its original proposal to enhance loss contingency disclosures, the FASB plans to release a revised exposure draft by the end of June, with hopes of issuing a final standard later this year. The Board's first attempt to modify the contingency disclosures proved to be quite controversial, particularly given the predictive nature of certain proposed disclosures and concerns that some disclosures would be prejudicial to a company and its legal strategies.

The new proposal would require companies to disclose information on loss contingencies based on publicly available, factual information and allows for aggregated disclosure of similar contingencies. Based upon the Board's redeliberations, companies would need to include certain quantitative and qualitative disclosures such as:

- Amounts that have been accrued,
- A tabular roll-forward schedule that presents the changes in accrued amounts during the period,
- Information on possible insurance recoveries when the information has been provided to, or is discoverable by, the other party to the claim, and
- Certain contingencies that are judged to have a remote likelihood of loss if there is a potential severe impact to the business.

The Board hopes that this proposal will alleviate some of the concerns raised in the earlier exposure draft, while at the same time provide users with more information on the nature of a company's contingencies. Time will tell if the Board is able to accomplish such a delicate balancing act.

The exposure draft is expected to have a 30-day comment period, with a proposed effective date in the fourth quarter of 2010 for calendar year-end public companies. However, it is also expected that a one-year deferral will be proposed for non-public companies. A DataLine will be forthcoming once the exposure draft has been issued. In the meantime, check out [DataLine 2010-22](#), *Disclosure of Certain Loss Contingencies*, for insight on the Board's latest deliberations on this topic.

## Trade receivables—Transfers remain a challenge

In our last edition of *The Quarter Close*, we provided a refresher on how to evaluate the partial transfer of trade receivables and the challenges in achieving sale accounting under the recent amendments to the transfers and servicing guidance. We also highlighted several implications for the statement of cash flow that may have been a surprise, particularly in those situations where the factoring of receivables qualified as a secured borrowing following implementation of the new guidance.

This quarter, many companies are continuing to experience challenges related to trade receivable transfers as they re-evaluate those structures that are either maturing or are terminated. Companies should be particularly mindful of not only the balance sheet impact, but also the statement of cash flow presentation when transfers involve cash and a deferred purchase price. Given the complexity of these trade receivable transfers, we recently issued a DataLine that provides an overview of common structures and the implications for the statement of cash flow, including insights on the SEC's most recent views on the cash flow presentation. Refer to [DataLine 2010-27, Impact of ASU 2009-16 and 2009-17 on Transfers of Trade Receivables — On vs. Off Balance Sheet Treatment](#), for more details.

Other 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* - updated to address the amendments to ASC 860 which codified FAS 166

## Refinancing debt?—Some timely reminders

Now that the credit markets are loosening up, many companies are considering whether to restructure their existing debt or credit facilities. While the reasons for the restructuring vary, the accounting analysis remains the same.

When debt or credit facilities are modified or debt is exchanged, companies should first consider whether the modification represents a troubled debt restructuring - a step that is often overlooked. If the criteria for a troubled debt restructuring are met, then the borrower may recognize a gain or loss on extinguishment. If the modification is not accounted for as a troubled debt restructuring, then it would be evaluated under other accounting guidance for debt modifications or extinguishments to determine whether a gain or loss should be recognized.

Debt covenants have also been a continuing area of focus for many companies. As a reminder, non-compliance with debt covenants can impact the classification of debt on the balance sheet. For example, debt with maturities beyond one year that is callable by the creditor upon a covenant violation that would normally be classified as long-term could require a change to short-term classification once a covenant violation has occurred. The timing of the violation and whether the violation has been "cured" will have an impact on how the debt should be classified in the financial statements.

Debt covenant violations may also trigger cross-default provisions in other borrowing arrangements and commercial agreements. Those default provisions could have additional financial statement consequences. For example, a breach of a lease covenant could alter the classification of a lease.

The ability to demonstrate that short-term obligations can be refinanced on a long-term basis may be challenging, particularly if companies have not recently issued long-term debt or entered into any alternative financing after the balance sheet date. The following PwC

resources continue to provide useful guidance when a company is restructuring its debt or is evaluating its compliance with debt covenants:

- [DataLine 2009-52](#), *2009 Year-end Accounting and Reporting Considerations*
- [DataLine 2009-17](#), *Impact of the Global Economic Slowdown — Accounting and Reporting Considerations*

## Venezuela—Rates in question...again

For many companies with operations in Venezuela, the exchange rate that a company should use to remeasure bolivar denominated monetary assets and liabilities into their U.S. dollar functional currency continues to be a hot topic. It was only last quarter that the SEC provided interim accounting and disclosure guidance relating to Venezuelan exchange rate issues through a staff announcement at an EITF meeting.

Recent events have added to the complexity surrounding the appropriate rate to use for remeasurement of bolivar denominated monetary assets. In late May, the Venezuelan government took control over the previously freely-traded parallel market. Trading in the parallel market was suspended for several weeks in May and June and reopened as a regulated market on June 9, 2010. Questions continue to surface about the depth of this new government regulated market and whether it should be used to remeasure bolivar denominated monetary assets. The initial indications are that trading in this new regulated parallel market is relatively thin. We will continue to monitor this situation over the next several weeks and will provide additional guidance when it becomes available. In the meantime, refer to [DataLine 2010-18](#), *Venezuela Highly Inflationary Accounting — An Accounting and Disclosure Update*.

## Employee stock compensation trends—'Clawbacks'

Market forces and governmental pressure have led many companies to rethink the way they compensate employees. One approach that has received some interest recently is the use of 'clawbacks', where an employer can reclaim prior compensation based on the discretion of management or the board of directors. An important consideration for companies is whether the clawback provision is subjective, as this could result in volatility in the income statement. For example, if an award is subject to a clawback at the discretion of the Company's board or compensation committee, there would not be a mutual understanding between the employer and employee on the terms of the award. Therefore, the award would be considered a variable award. These features are different than traditional clawbacks, such as those triggered by noncompetes, nonsolicitation or fraudulent behavior, which would not prevent an award from being fixed. When considering whether to include a clawback feature in stock compensation awards, companies need to evaluate the possible implications of including the clawback. For other highlights on compensation considerations, including pay-for-performance, refer to PwC's [10Minutes on Compensation](#).

## Healthcare reform—Will it impact the bottom line?

While the debate over healthcare reform may have moved off center stage, the recently enacted health care reform legislation<sup>1</sup> remains an important consideration for financial reporting. The new legislation could have financial reporting implications for many companies even though some of its provisions do not take effect immediately. Why? Though most of the provisions of the legislation do not take effect for years into the future, postretirement benefit plan accounting rules require the expected impact on benefit plan

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<sup>1</sup> The Patient Protection and Affordable Care Act (the PPACA) and the Health Care and Education Reconciliation Act of 2010 (HCERA) was enacted March 2010.

obligations to be reflected in current reporting periods. This will require companies and their actuaries to make judgmental and complex estimates of the expected impact. Companies also need to consider whether an interim-year remeasurement of the plan benefit obligation is required as a result of the legislation, which is based primarily on how significant the impact is expected to be. If no interim remeasurement is necessary, the estimated impact should be incorporated in the next annual measurement.

The health care legislation also includes a number of tax implications. The most significant of these was the elimination of tax deductibility of health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D coverage. Under income tax accounting rules, the impact of this change in tax law is charged against net income in the period of enactment of the legislation. Thus, this effect was recognized by a number of impacted companies in the first quarter.

For further information on the financial reporting implications of the healthcare legislation, refer to the following:

- [DataLine 2010-21](#), *Financial Reporting Implications of Healthcare Legislation — A Summary of the Legislation and Potential Impact*
- [DataLine 2010-19](#), *Elimination of Tax Deduction Related to Medicare Part D Subsidy — Accounting for the Impact*
- Tax Accounting Services (TAS) [NewsAlert](#), *Tax accounting implications of the March 2010 comprehensive health care reform.*

## Uncertain tax positions—IRS mailbox overflows

In the last edition of *The Quarter Close*, we discussed a proposal by the IRS that would require companies that have uncertain tax positions (that meet certain minimum thresholds) to provide disclosures as part of their annual federal tax filing beginning in 2010.

Those affected by the proposal would be required to provide a description of each uncertain tax position, including the rationale for the position and why it is uncertain, and the maximum amount of tax liability that would result if the position is 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.

The public comment letter period for the proposal ended on June 1, 2010, and the IRS received many comments from a wide variety of organizations. Some responders believed that the proposal (1) diminishes the long-standing "policy of restraint" of the IRS with respect to requesting tax accrual workpapers, (2) does not promote mutual transparency, (3) could negatively impact financial reporting and the relationship between taxpayers and independent auditors, and (4) raises privilege and work product doctrine issues. Next steps are that the IRS will consider the comments received and will likely issue the final guidance by the end of the year.

Stay tuned for more information. In the meantime, refer to the following:

- Washington National Tax Services (WNTS) Insight, [IRS releases draft schedule and instructions for uncertain tax positions](#)
- Washington National Tax Services (WNTS) Insight, [IRS proposes new tax return disclosure requirements for uncertain tax positions](#)

## Proposed tax legislation—Potential Q2 implications

On May 20, 2010, the "American Jobs and Closing Tax Loopholes Act" (the bill) was proposed in Congress and includes tax and spending components designed to raise almost \$200 billion in additional revenue through tax extenders, additional tax provisions, revenue-raising proposals and spending measures. The bill is expected to have widespread implications. The bill includes the following:

- Provisions extending, through the end of 2010, certain individual tax provisions, including the research credit, controlled foreign corporation (CFC) look-through, subpart F active financing income, and 15-year depreciation for leasehold, restaurant, and retail improvements. Until President Obama signs legislation extending the expired provisions, companies should not include the impact of the expired provisions when measuring deferred taxes or when estimating the annual effective tax rate for 2010.
- A technical correction to the Hiring Incentives to Restore Employment (HIRE) Act to clarify when the statute of limitations is tolled for corporations that fail to provide certain information on cross-border transactions or foreign assets. The HIRE Act, enacted on March 18, 2010, amended certain rules to provide an extension to the statute of limitations for the entire tax return if a company fails to provide complete information regarding certain foreign transactions. Previously, it was generally understood that the extension applied only to a tax deficiency related to the specific foreign information that was not properly reported. Accordingly, until the amendment to the HIRE Act is enacted, companies need to assess whether the extension applies and, if so, the impact the extension may have on recorded tax reserves.
- Significant revenue-raising tax provisions, including several provisions reducing foreign tax credit benefits, increasing the taxation of certain corporate spin-offs, and restructuring transactions. These and other proposals that are part of the bill could have broad impact, including the measurement of deferred taxes upon enactment and on a go-forward basis. The legislation also includes an increase in the oil spill liability trust fund tax and the phased-in treatment of investment services partnership net profits and gains (so-called carried interests) as ordinary income.

Under current income tax guidance, deferred tax accounts are required to be adjusted for the effect of a change in tax laws. The effect should be included in continuing operations for the period that includes the enactment date. As of the date of this publication, a version of the bill has been passed by the House, but is pending Senate approval. If the Senate passes a revised version of the bill, which many believe could occur, the House would have to consider any amendments adopted by the Senate. However, it remains to be seen whether the proposed bill will be finalized before the end of June. For more detailed information on the IRS proposal, refer to the following:

- Washington National Tax Services (WNTS) Insight, [\*Revenue-raising proposals in revised extenders bill would have broad impacts\*](#)
- Washington National Tax Services (WNTS) Insight, [\*House approves tax extender legislation with significant international tax revenue-raising proposals; Senate action delayed\*](#)
- Washington National Tax Services (WNTS) Insight, [\*Senate Finance Chairman Baucus proposes substitute to House-approved tax extenders bill\*](#)

## UK bankers' bonuses—Stamp of approval

Last quarter we highlighted proposed legislation from the UK government that would levy 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. On April 8, 2010, the UK's

Finance Bill of 2010 was approved, which included this provision. Companies should be mindful that while the bonus itself was accrued in an earlier period, any tax that is owed on bonuses above the £25,000 threshold would be recorded during the second quarter when the law was considered enacted.

## Benefit plan financial statements—What's new this year?

This is the time of the year when many companies turn their attention to preparing their 2009 benefit plan financial statements. For some, these financial statements are complex and require a significant amount of effort and coordination in order to obtain information necessary to comply with increasing disclosure requirements.

For 2009 benefit plan financial statements, there are several new accounting and disclosure amendments that apply. Those amendments may present some implementation challenges - not to mention close coordination between companies and their service providers.

### Measuring the fair value of alternative investments

New guidance was issued in September, 2009 that amended, the fair value measurements and disclosure guidance, to provide a practical expedient allowing the use of net asset value (NAV), without further adjustments, for estimating the fair value of investments in certain entities that don't have a readily determinable value or alternative investments (i.e., hedge funds, real estate funds, private equity funds, venture capital funds) with some caveats. Many new disclosures are now required, whether or not the practical expedient is used. Refer to [DataLine 2009-46](#), *Measuring the Fair Value of Alternative Investments Using NAV — A Summary of Accounting Standards Update 2009-12*, for more information on the new guidance.

### Determining fair value when volume and level of activity have significantly decreased

Amendments to the fair value measurement guidance, issued in April 2009, clarified how companies should determine fair value measurements when the level of market activity for an asset or liability has significantly decreased. The amended guidance addressed concerns that measurements of securities that have become inactive are often based on stale, distressed, or one-time transactions that may not be representative of fair value. The amendments provided guidance on the measurement of these transactions and provided for the consideration and weighting of a broad range of inputs to supplement market inputs when these conditions exist. Did the amended guidance change the objective of fair value measurement in the fair value measurement guidance? The answer is no. The amended guidance remains consistent to the principles of the fair value measurement and disclosure guidance, retaining the existing "exit price" concept even when there has been a significant decrease in market activity. It's no surprise, then, that the amended guidance emphasizes the need for a significant degree of judgment when assessing the fair value of securities in markets where volume has declined significantly. Extensive new disclosures are also required. Refer to [DataLine 2009-19](#), *FASB's New Guidance for Fair Value Measurement and Disclosures*, for information on these new requirements.

### Disclosures about derivative instruments and hedging activities

Guidance on derivatives and hedging became effective in 2009 amending and significantly expanding the required disclosures, including (1) how and why an entity uses derivatives instruments, (2) how derivative instruments and related hedged items are accounted for, and (3) how derivative instruments affect an entity's financial position. Benefit plans with material derivative instruments as part of their portfolio will see increasing disclosures

related to these investment strategies. The following DataLines provide more information and examples of these expanded disclosures:

- [DataLine 2008-07](#), *Disclosure about Derivative Instruments and Hedging Activities*
- [DataLine 2008-25](#), *FASB Issues Guidance on Credit Derivatives Disclosures and Certain Guarantees and Clarifies the Effective Date of FAS 161*

## SEC matters

### Non-GAAP disclosures remain an SEC focus

In January 2010, the SEC updated its interpretative guidance relating to non-GAAP measures. The question regarding whether to include non-GAAP measures in SEC filings has long been the subject of debate among preparers, the SEC, a company's legal counsel, and a company's auditors.

As we discussed in our last edition of *The Quarter Close*, the updated guidance encourages companies to be consistent in their communications (such as in earnings releases and in Management's Discussion and Analysis) about how they portray their businesses and to include important information in their SEC filings. The updated guidance removes certain constraints that many viewed as discouraging companies from disclosing certain important non-GAAP measures in their SEC filings (particularly measures that exclude certain recurring items).

The SEC staff is spending more time reviewing websites, listening to analyst calls, reviewing press releases and analyst presentations, and considering how companies portray their businesses to the public outside of the official SEC filings. When the SEC staff identifies significant differences between information conveyed through those venues versus the related SEC filings, they may, through the comment letter process, inquire why those differences exist.

Companies should continue to evaluate whether to discuss non-GAAP measures, which measures to disclose, and how to present them. For more information, refer to PwC's [DataLine 2010-03](#), *Non-GAAP Measures — Updated Guidance to Enhance a Company's Ability to Communicate Important Information to Investors*.

### XBRL—Keep on tagging

In our last edition of *The Quarter Close*, we discussed how the largest public companies were getting ready to comply with the more difficult task of completing the detailed tagging requirements for their second year of XBRL reporting and how other companies were preparing for their first year of XBRL reporting. Since then, the SEC held a public seminar on March 23, 2010 to help preparers comply with the interactive data rules. There, the SEC staff helped companies understand the expectations for complying with the rules, clarified the phase-in schedule and answered frequently asked questions (FAQs) on various tagging matters (e.g., complexities associated with the four levels of tagging required, use of naming conventions, use of dimensional tables and tagging of elements within tables).

Refer to [DataLine 2010-24](#), *XBRL — SEC Compliance Updates and Consideration of Upcoming Phase-In Requirements*, for more detail on the SEC compliance updates, reminders for companies preparing for their first year of XBRL reporting, considerations for companies getting ready for detailed tagging requirements in their second year of interactive submissions, and various other XBRL-related matters.

# IFRS

## IFRS developments

Last quarter, we discussed the SEC's published statement on their continued support for a single set of high-quality global standards. The statement conveyed that upon completion of the FASB and IASB convergence agenda and the analysis of the results of a SEC staff work plan, the SEC expects to be in a position in 2011 to decide whether, when, and how to further incorporate IFRS into the financial reporting system for U.S. domestic issuers.

In order to move forward on IFRS, many interpreted the SEC statement to require full completion of the FASB and IASB's convergence agenda by 2011. However, recent comments from the SEC indicate greater concern on the pace, volume and quality of accounting changes and less concern on sticking to the timeline. The FASB and IASB recently issued a press release announcing the modification of their convergence strategy and timeline. In conjunction with that release, the SEC Chairman, Mary Schapiro, issued a statement that the revised timing will not impact the SEC's ability to make a determination in 2011 about whether to incorporate IFRS into the U.S. domestic reporting system. Both the chairman and chief accountant have also confirmed that the Commission does not believe that convergence needs to be fully completed before the SEC can make a decision on IFRS.

For more information, 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.

## IASB proposes significant changes to pension accounting....Is the FASB next?

On April 29, 2010, the IASB issued an exposure draft to amend its current standard on the accounting for pensions and other postretirement benefits that would significantly change an employer's recognition of its defined benefit obligations and costs. Some of the more significant changes proposed by the IASB include:

- Service costs and benefit changes (prior service cost and curtailments) would be immediately recognized as an operating expense
- Recognition of changes arising from actuarial gains and losses would be immediately recognized in other comprehensive income (OCI)
- Prohibition on 'recycling' (that is, amounts in other comprehensive income would not be subsequently amortized and included in future net income)
- New enhanced disclosures that are generally consistent with disclosures already required under U.S. GAAP

While this exposure draft represents the culmination of the IASB's deliberations on this project, the FASB also has a project on its agenda to reconsider employers' accounting for pensions and other postemployment benefits. Thus, the FASB is closely monitoring the outcome of the IASB's deliberations. As a result, U.S. companies may want to assess the proposal and consider commenting on the IASB's exposure draft by the September 6 deadline in order to make their views known to both Boards.

For more information, refer to:

- [DataLine 2010-23](#), *Pension/OPEB Accounting — An Analysis of the IASB's Exposure Draft*
- [In Brief 2010-01](#), *IASB Issues Exposure Draft Proposing Major Changes to Pension/OPEB Accounting*

## Other useful IFRS resources

Although the SEC's decision on IFRS is more than a year away, in addition to the impact of accounting convergence between U.S. GAAP and IFRS, U.S. companies continue to be influenced by IFRS primarily through the continued adoption of IFRS for statutory purposes by non-U.S. subsidiaries. There are a number of resources available to keep you up to date on IFRS and related developments. Recent releases include a summary publication [\*IFRS in the U.S.: Current situation and next steps\*](#) and our updated interactive IFRS adoption by country [map](#). In addition, as part of our ongoing webcast series on IFRS, we recently hosted a [webcast](#) on global adoption and next steps for international subsidiaries. Also, on July 1, we will kick off a new webcast series on U.S. GAAP and IFRS convergence. Our first webcast in this series will include an overview on convergence with a focus on the FASB's project on financial instruments. For a complete listing of our available resources, visit PwC's [IFRS home page](#) or ask your PwC engagement team for further assistance.

## Corporate governance

### *To the Point*

The June edition of *To the Point*, PwC's quarterly newsletter for directors, will be released shortly. This edition will cut through the clutter of the healthcare legislation to help directors focus on high-level implications, take a look at RiskMetrics' new scoring system called GRId (Governance Risk Indicators), and finally, explore the perils of ignoring social media. When issued, this edition of *To the Point* will be available at our [Corporate Governance website](#) along with all previous editions of the publication.

### PwC announces: *BoardroomDirect*

Beginning in July 2010, PwC will launch a new electronic publication for directors titled *BoardroomDirect*. This new publication will be distributed quarterly and offer a comprehensive look at a single topic that should be on every director's mind. In addition, the publication will provide useful supplementary links to additional resource materials. Once available, this publication will be accessible at our [Corporate Governance website](#).

### PwC analysis of the new SEC mandated proxy disclosures

In December 2009, the SEC mandated new proxy disclosures for proxies filed on or after February 28, 2010. For example, some of the new disclosures focus on how the board monitors risk and whether compensation plans promote excessive risk-taking. PwC analyzed these and the other new proxy disclosures and published a [Point of View](#) article titled *New SEC Rule Prompts Companies to Disclose How Their Boards Oversee Risk*.

### *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. Some recent webcasts include topics such as a review of the new proxy disclosures, governance issues in the financial reform bill, executive compensation, board chair challenges, the board's role in mergers and acquisitions, and dealing with SEC comment letters.

## On the horizon

### EITF deliberations moved to July

The June meeting of the FASB's Emerging Issues Task Force (EITF) has been moved to July 29th in order to accommodate the FASB and IASB's joint board meetings. At the July 29th EITF meeting, the task force is expected to finalize proposed new guidance on:

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

Several new issues will also be discussed including:

- 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
- The accounting for certain fees associated with the recently enacted health care legislation

Stay tuned for our next edition of the *EITF Observer*, which will be issued in July following the EITF meeting and will highlight the decisions reached. In the meantime, refer to the [EITF Agenda Committee Report](#) for more information on the new issues that will be deliberated.

### Several issues finalized at March meeting

At the March EITF meeting the Task Force reached a final consensus on several issues, including:

- Recognizing revenue under the milestone method of accounting
- How investments held through separate accounts affect an insurer's consolidation analysis of those investments
- The recognition of casino base jackpot liabilities
- The effect of a loan modification when the loan is part of a pool that is accounted for as a single asset
- The effect of denominating the exercise price of a share-based payment award in the currency of the market in which the underlying equity security trades

Check out the March edition of our *EITF Observer* for a summary of each of the issues and more information on how they may impact your company.

### Disclosure of receivables and allowance for credit losses—Final standard imminent

The FASB is expected to shortly release its new standard on disclosures of receivables and the allowance for credit losses. Fueled by the economic downturn, the FASB is developing new guidance that is intended to provide more transparency about credit losses in a company's lending arrangements. While some of the more controversial disclosures are expected to be eliminated from what was originally exposed (discussed in the last edition of *The Quarter Close*), the new guidance is expected to require significantly more disclosures about loans, other finance receivables, and their related allowance for credit losses. While this new standard did not appear to be on the fast track, public companies will need to be ready to implement certain parts of the new guidance by the fourth quarter. The FASB is

giving some relief on the disclosures requiring period activity information, such as the allowance rollforward, as they will be effective in Q1 2011.

The FASB recently clarified that lease contracts will be subject to the modification disclosure requirements. This will be a shift in practice since leases have historically been scoped out of modification rules and related disclosures. The new disclosure requirements are designed to provide transparency that would allow financial statement users to understand:

- The nature of credit risk inherent in a company's portfolio of financing receivables
- How credit risk is analyzed and assessed in determining the allowance for credit losses
- Any changes (including reasons for those changes) in the allowance for credit losses

On the surface, the new disclosures may seem to be relatively straight forward. However, companies should not underestimate the amount of effort, even though the FASB will be delaying some of the disclosures to 2011. For example, companies will need to assess whether systems, processes, and internal control policies and procedures will need to be modified to prepare for the implementation of this new guidance.

A DataLine is coming soon and will provide useful information on the details of the new guidance.

## Financial regulatory reform—Expected to pass in July

After months of intense debate in Washington, the controversial financial regulatory reform bill is expected to be passed by the both the House in the Senate and ready for President Obama's signature in early July. The reform bill is expected to include some decisions that may provide greater regulatory oversight over banks and other large financial institutions, including:

- A provision to consolidate the consumer protection authorities into a new Consumer Financial Protection Bureau (Bureau). The Bureau would have the authority to write consumer protection rules for banks and non-bank financial firms offering consumer financial services or products.
- New powers by the government to regulate the derivative markets. Proprietary derivatives trading would be eliminated. Most derivative trades would be required to be exchange-traded and for those that are not, more stringent capital and margin requirements would be imposed.
- Establishing a council to monitor and address "systemic risk." The council will make recommendations for heightened regulatory requirements as a company grows in size and complexity to address the issue of companies becoming "too big to fail."

The key step that remains is to reconcile the different versions that were approved by the House and Senate. Some of the most significant differences relate to derivatives (and whether large financial institutions will be forced to spin off their swaps divisions), credit card interchange fees, the construct of the consumer protection agency, proposed bank capital requirement changes, and the specifics of corporate governance reform.

While it is expected that some form of the regulatory reform bill will be passed, many opponents remain concerned that the bill will restrict the flow of capital in the United States and negatively impact global competitiveness. However, the passage of this bill represents the first step in a long process that could significantly alter the regulatory architecture of the capital markets and increase regulatory oversight. For a more detailed summary of the recently passed Senate bill refer to the [summary](#) on the U.S. Senate Banking, Housing, & Urban Affairs website.

## 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 through issuance date of conduit debt obligors is deferred until interim or annual periods ending after June 15, 2010)*

### Effective as of March 18, 2010

- ASU 2010-19, *Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates (An announcement made by the staff of the SEC)*

### 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)*

## Appendix

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

- ASU 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*

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

- ASU 2010-17, *Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition (A consensus of the FASB Emerging Issues Task Force)*

### Effective for interim or annual periods ending on or after July 15, 2010

- ASU 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (A consensus of the FASB Emerging Issues Task Force)*

### Effective for interim and fiscal years beginning on or after December 15, 2010

- ASU 2010-13, *Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades (A consensus of the FASB Emerging Issues Task Force)*
- ASU 2010-16, *Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities (A consensus of the FASB Emerging Issues Task Force)*

### Effective for interim and fiscal years beginning after December 15, 2010

- ASU 2010-15, *Financial Services—Insurance (Topic 944): How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments (A consensus of the FASB Emerging Issues Task Force)*

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