

The Quarter Close

A look at this quarter's financial reporting issues
PricewaterhouseCoopers



What's inside

Accounting hot topics	2
AICPA conference highlights	8
SEC matters	8
Update on selected major projects	9
IFRS	12
Corporate governance	13
On the horizon	14

What you need to know—Q4—2009

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

'Tis the season for holiday celebrations and good cheer -- and for the kick-off of the annual reporting season. In this edition of *The Quarter Close*, we bring you information and insights to navigate the year-end close. Highlights include valuable reminders of important year-end reporting considerations and fresh insights on a number of accounting hot topics. The FASB's proposed deferral of the new consolidation guidance for certain investment funds is a featured accounting hot topic, along with insights on the adoption of the new revenue recognition guidance for multiple deliverable arrangements. And, we offer highlights from the 2009 AICPA National Conference on Current SEC and PCAOB Developments that you won't want to miss.

Accounting hot topics

Variable interest entities—Clock is ticking...for some

Effective dates for new standards have a way of sneaking up on us. That certainly seems to be true for the new guidance on the consolidation of variable interest entities (FAS 167¹), which takes effect for calendar year-end companies on January 1, 2010. Below we highlight recent events surrounding a proposed deferral of the standard (but only for some) and give some timely reminders about implementing the new consolidation guidance.

In the "nick of time," FASB proposes a deferral

Reacting to concerns raised by the asset management industry, the FASB released in December a proposed deferral of the consolidation requirements in FAS 167 that would apply to certain investment funds. To qualify, the investment fund would need to have certain attributes of an investment company, and the reporting entity would be required to meet certain other requirements with regard to its obligations to these funds. It's likely that many mutual funds, hedge funds, private equity funds, venture capital funds, certain mortgage REITS and money market funds would be eligible for the deferral. However, qualifying special purpose entities (QSPEs), collateralized debt obligations, and securitization and asset-backed financing vehicles will likely not be eligible, as the Board did not intend for these types of structures to qualify for the deferral.

Why now? The deferral will give the FASB time to consider jointly with the IASB the unique relationship between asset managers and the investment structures they manage as part of developing alternative models for their broader consolidations project.

While the recognition and measurement guidance of the new standard would be deferred for these entities under the proposed change, the required disclosures would not be deferred. Also, as the proposal provides some clarifying guidance on determining a variable interest, we suggest all companies take a look at the exposure draft to understand how it may impact their assessments. We anticipate the FASB will finalize the guidance in early January, with an effective date that coincides with the effective date of FAS 167.

Implementing the VIE guidance

The new guidance significantly changes the consolidation rules for VIEs, with broad applicability across all industries. For many companies, the result of applying the new guidance may be the consolidation of new entities. But this is only the beginning of the journey. For example, a company will need to assess "how" to consolidate the entity. This includes gathering data to apply the business combinations guidance as though the entity was originally consolidated. Don't forget that consolidating (or deconsolidating) a new entity may potentially impact debt covenants, financial ratios, compensation, and stakeholder communications. At the 2009 AICPA National Conference on Current SEC and PCAOB Developments (AICPA SEC conference) in Washington, the SEC specifically commented on its expectations for meaningful SAB 74 disclosures for the new consolidation guidance in registrants' 2009 financial statements.

¹ As of the date of this publication, the FASB had not yet incorporated FAS 167 in the Accounting Standards Codification (the Codification). We expect that the FASB will issue an Accounting Standards Update in the near future announcing that the guidance has been added to the Codification. When codified, the guidance will be included in ASC 810, *Consolidation*.

Coming attraction—Variable Interest Entity Guide

Coming soon is an updated version of PwC's Guide on variable interest entities (the Guide) to help you navigate the new standard. The Guide incorporates the latest thinking and guidance on FAS 167, including how to identify a variable interest and a VIE, how to identify the primary beneficiary of a VIE, and how to apply the new disclosure requirements and transition considerations. In addition to the Guide, there are a number of useful publications available to assist companies in preparing for the implementation of this new standard:

- [DataLine 2009-53](#) , *FASB Proposes Amendments to FAS 167, and a Deferral for Certain Investment Funds*
- Exposure Draft - [Accounting Standards Update—Consolidation \(Topic 810\): Amendments to Statement 167 for Certain Investment Funds](#)
- *PwC Paper: FAS 167 Company Action Plan - Consolidation of Variable Interest Entities*
- [DataLine 2009-30](#), *FAS 167—New Consolidation Guidance for Variable Interest Entities*
- [Archived Webcast—Consolidation of VIEs](#)
- *Coming Soon -Update to PwC's Guide to Accounting for Variable Interest Entities*

New revenue guidance—Early adopters see the challenges ahead

The much heralded new revenue recognition guidance for multiple deliverable transactions and software-enabled products was finalized at the September EITF meeting. This new model provides another alternative for establishing fair value for a deliverable, allowing for a more economic reflection of a multiple deliverable transaction. In many cases, it will enable companies to recognize revenue earlier by aligning the accounting with the economics of the transaction. In addition, the residual method of allocating arrangement consideration is no longer permitted.

The EITF heeded the request by preparers to allow for early adoption -- and many are taking advantage of this option. The new guidance is not required to be adopted until January 2011 for calendar year-end companies, but many companies are working diligently to adopt earlier. We expect many companies to adopt effective January 1, 2010.

As companies are beginning to digest and apply the new guidance, implementation issues are surfacing. Not surprisingly, the judgments surrounding "best estimate of selling price" top the list of frequently asked questions. Companies are also evaluating which revenue transactions will qualify. As the guidance is prospective for new or modified contracts, questions have been raised about when a contract is considered to be modified. In addition, the scope modifications to the software revenue recognition guidance allow certain software-enabled products to reap the accounting benefits of the new model -- highlighting the need to re-determine "what's in" and "what's out" of the software guidance. And, of course, the new disclosure requirements are proving to be quite challenging. Many of these issues are explored in [DataLine 2009-54](#), *New Revenue Recognition Guidance -- A More Economic Approach to Accounting for Arrangements with Multiple Deliverables*. Those considering early adoption will benefit from the insights provided in the frequently asked questions section of the DataLine.

Consolidations—Scope clarifications expected for 2009

The FASB is expected to issue new guidance to clarify the scope of the noncontrolling interest standard, intended to bring more consistency to the treatment of partial sales and deconsolidation events (i.e., change in control), and increase comparability of a company's financial statements.

What's changed? The scope of the noncontrolling interest standard has been expanded to include subsidiaries and groups of assets that are businesses or are nonprofit activities. Originally, the noncontrolling interest standard only scoped in "consolidated subsidiaries." Under this amendment, more disposal transactions will now be subject to the full gain and loss recognition requirements in the consolidation guidance. The final guidance, however, includes a notable exception for transactions that qualify as a partial sale of in-substance real estate, as these transactions are covered under other accounting literature. Additional disclosures are also required.

Since the proposed effective date aligns with 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 2009-36](#), *Accounting for and Reporting Decreases in Ownership of a Subsidiary: A Proposed Scope Clarification*, which will be updated once the new guidance has been released.

Uncertain tax positions—The deferral is over for nonpublic companies

The guidance on uncertain tax positions is now effective for non-public companies and not-for-profit entities. The effective date of the guidance was deferred twice to give companies more time to prepare for adoption. Calendar year-end non-public companies and not-for-profit entities that took advantage of the deferrals are now required to apply the guidance in their 2009 annual financial statements. Adoption will likely be challenging, as many companies may need to make significant changes to their accounting policies, data-gathering processes, and internal controls as a result. This may be complex—especially for multinational or multi-state enterprises.

Are there any lessons to be learned from the companies that previously adopted the requirements? We think so and have captured a number of them in [DataLine 2009-38](#), *FASB Provides Guidance on Accounting for Uncertainty in Income Taxes and Eliminates Certain Disclosures for Non-public Entities*, which includes a Client Action Plan that companies may find useful in developing their own plans. In addition, companies may also find PwC's recent [webcast](#) (available on replay), a useful resource as it discusses a detailed plan to facilitate successful implementation and practical experiences from those that have already implemented the standard.

Venezuela—Highly inflationary? The tale of two indices

Venezuela is suffering from high inflation rates, and the question is whether its economy is considered to be highly inflationary (cumulative inflation of approximately 100% or more over a 3-year period). Venezuela has two indices available to determine the cumulative inflation rate. One index (NCPI) covers the entire country and only has limited data, while the other index (CPI) only covers certain cities in Venezuela, but has extensive historical data. To date, the SEC staff has not objected to the use of either the CPI or a blended CPI/NCPI to compute the highly inflationary status of Venezuela's economy as long as companies with significant operations disclose which was used to determine whether the

country's economy is highly inflationary. However, that may change going forward. At the AICPA SEC conference the SEC staff commented that companies should plan for Venezuela to be a highly inflationary economy beginning January 1, 2010.

Official or Parallel Rate: Foreign currency translation

To add a little more complexity to this topic, US 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. In Venezuela, a company must determine which of the two rates available (the official rate or the parallel rate) should be used to record a transaction. The official rate is the rate at which foreign currency can be obtained through "official" government sanctioned means. The parallel rate is a rate obtained through brokers and other networks. At the AICPA SEC conference, the SEC staff stated that given certain facts and circumstances, it may be appropriate for registrants to translate their financial statements at the parallel rate. Coming soon is a DataLine that will discuss this issue as well as other implementation issues associated with highly inflationary economies.

Taxing authorities have been busy proposing change

Several governments around the world have enacted, or are expected to enact, tax law changes that may impact companies' tax accounting and reporting in the current quarter. Any impact on current and deferred taxes resulting from the changes would need to be accounted for in the period of enactment.

In the US, the unemployment benefit legislation enacted in November included a provision to increase the carryback period for net operating losses (NOL) incurred in 2008 or 2009 from two to five years. This provision may have a cash impact for companies that incurred recent losses as well as an impact on valuation allowance assessments. Refer to [Washington National Tax Services \(WNTS\) Insight](#) *Senate approves proposal to increase NOL carryback period* for more information.

On Monday, December 7th, tax law changes in Mexico were enacted. These changes may be material for companies with consolidated groups in Mexico. In summary, the Mexican corporate tax rate will increase from 28% to 30% for the period January 1, 2010 to December 31, 2012. The rate will then scale back to 29% in 2013 and 28% in 2014 and future years. The changes include modifying tax consolidation rules, which may trigger the taxation of previously deferred benefits. Refer to [International Tax Services \(ITS\) NewsAlert](#) *Mexican House of Representatives Passes Version of 2010 Tax Reform Bill* for more information. In addition, companies may find our [webcast](#) on December 7th helpful in understanding these tax law changes. See the recently released Tax Accounting Services [NewsAlert](#), *Tax Accounting Implications of the 2010 Mexican Tax Reform Law* that discusses the tax accounting considerations of this significant change.

In France, proposed changes are expected to be enacted by the end of the calendar year. These changes would replace the current business tax with a new tax structure including two components. The first component is a non-income based tax that is largely similar to the current business tax based on the rental value of certain properties. The second component is an income-based tax computed on a measure of revenue less certain expenses.

"Tax" credits that really aren't tax credits?

Legislation around the globe has introduced a number of new programs to spur economic growth and investment in new technologies. These programs have taken many forms, but generally provide participating companies with tax incentives and credits for amounts spent

on qualifying activities. Recently, many of these programs have begun providing for the transferability or refundability of certain incentives and credits.

For example, earlier this year, Ireland and France enacted tax law changes to incentivize companies to continue local research and development activities. In the US, the American Recovery and Reinvestment Act of 2009 provided various tax incentives primarily related to renewable energy and infrastructure spending. In exchange, companies receive tax credits that may appear to be "normal" income tax benefits, but in many cases, contain attributes that make them more similar to a government grant or subsidy. Among other possible differences, tax credits that are accounted for as part of reported income taxes are generally included in the income tax line in the income statement whereas credits that are in substance government grants are included in a pre-tax measure. Determining which model to follow requires judgment and is largely impacted by how the benefit is received and whether there is any dependency on the existence of taxable income.

These programs may impact many industries including manufacturing, utilities and energy, technology, and financial services. PwC is preparing an article to provide background on the incentives and relevant accounting considerations. This article will be available shortly on www.cfodirect.pwc.com. Companies may also access our recent [webcast](#) where we discussed the unique financial reporting implications of these incentives.

Alternative investments—Alternative approach to measuring fair value

In our last edition of *The Quarter Close* we highlighted that new guidance was imminent on determining the fair value of certain alternative investments (i.e., hedge funds, real estate funds, venture capital funds). This guidance is now issued and effective in the fourth quarter for calendar year-end companies and allows as a practical expedient the use of net asset value (NAV), without further adjustment, for estimating the fair value of investments in certain entities that don't have a readily determinable fair value - with some caveats. Remember that many new disclosures are also now required, whether or not the practical expedient is applied. 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.

Oil and gas—New disclosures to be effective for 2009

After completing its project to align the oil and gas accounting and disclosures guidance in the codification with the SEC's project, *Modernization of Oil and Gas Reporting* (the "Final Rule"), the FASB is expected to release final guidance in December that will be effective this quarter for calendar year-end companies. The SEC's Final Rule and the FASB's new guidance will significantly revise and modernize oil and gas reporting requirements and will help investors assess the value of their investments in oil and gas companies.

Several changes from the exposure draft have been incorporated into the FASB's final guidance, including how the new guidance applies to equity method investments and how to determine significant reserves by geographic area. The FASB's guidance is substantially aligned with the SEC's Final Rule, including the amendments to the definition of oil and gas producing activities, oil and gas reserves, and the 12-month-average pricing convention used to estimate reserves.

[DataLine 2009-03](#), *SEC Final Rule on Modernization of Oil and Gas Reporting*, provides additional information and observations about the SEC's Final Rule and will be updated upon the issuance of the FASB's final amendments.

New disclosures for postretirement benefit plan assets— Effective for 2009

The significantly expanded disclosure requirements for pension and OPEB plan assets are now effective for calendar year-end companies. We hope our early warnings spurred action on your part to get ahead of the curve. Companies are discovering that a substantial amount of effort is required to accumulate the information to comply with the new requirements and, in some cases, are having difficulties obtaining the necessary data from the custodians of the plan's assets. Refer to [DataLine 2009-13](#), *New Disclosures Required in Employers Financial Statements about Pension/OPEB Plan Assets*, for a summary of the requirements of the new guidance.

Pension and OPEB plan modifications may impact the accounting

With cost containment a focus for many companies, some companies are considering changes to their pension and OPEB plans that may have an accounting impact. Whether it's the actions employers are taking to reduce benefit costs (such as reductions-in-force and plan freezes), increases in required plan contributions, or the difficulties in estimating the fair value of certain plan assets, the challenging economic conditions continue to have an impact on employers' plan accounting for these benefits. Coming soon is a DataLine that will discuss year-end reporting considerations for pension & OPEB plans. In the mean time refer to [DataLine 2009-24](#), *Pension/OPEB Plans - Accounting for Certain Employer Actions Taken in Response to the Current Environment*, for further information.

Important year-end reminders

Although the economy appears to be stabilizing, it has left companies with many accounting and reporting matters to consider as they prepare their annual financial statements. PwC recently issued [DataLine 2009-52](#), *2009 Year-end Accounting and Reporting Considerations*, which is intended to provide timely reminders on a number of year-end reporting considerations. This DataLine highlights current accounting and financial reporting topics, areas of focus by the SEC staff, and recently issued guidance from the accounting standard-setters to consider for year-end financial reporting. It also covers many topics, including impairment considerations associated with investments, goodwill, and other long-lived assets, as well as debt modifications, derivatives, and hedging activities.

In addition, PwC will soon issue a comprehensive DataLine highlighting the key messages from the AICPA SEC conference. That DataLine will summarize financial reporting matters and highlight specific technical accounting matters that were discussed at the conference.

Tax reporting considerations

Income tax accounting continues to be an area of focus by the SEC and the PCAOB, particularly in the areas of valuation allowance and indefinite reinvestment assertions. It has also attracted the attention of audit committees, investment analysts, the news media, and other capital market stakeholders. Matters involving income taxes are often material to the financial statements of companies and typically require significant judgment. These points reinforce the need for companies to pay special attention to their accounting for income taxes. For example, did you know that income taxes could have a significant impact on determining whether goodwill impairment exists and if so, the resultant amount? Check

out [DataLine 2009-51](#), *Accounting for Income Taxes - 2009 Year-end Hot Topics*, which identifies a number of areas we believe continue to challenge companies when accounting for income taxes. The DataLine provides further insight into a number of topics including the tax impacts of the new business combination standards, complexities encountered when dealing with foreign currency and tax considerations related to stock-based compensation.

AICPA conference highlights

Highlights from the AICPA SEC conference

The AICPA SEC conference was held this week in Washington, D.C. Several common themes emerged from this year's conference. First, there will be a continued focus by the standard setters and regulators on the needs of investors, with an emphasis on transparent and understandable disclosures. Another key theme was the importance of maintaining the independence of the standard setting process, emphasizing the critical role that it plays in the financial stability of the capital markets. And, of course, many commented on the drive towards converged global standards and the SEC's view on the adoption of IFRS. Winning the prize for the most frequently asked question (FAQ) at the conference: Has the SEC yet determined a date when IFRS will be required? A sneak preview -- the answer is "no." But it was clear that a lot of time and energy is being focused on both the development of converged standards along with the IFRS Roadmap.

Staff members in the Office of the Chief Accountant provided insights into a number of areas. Highlights included their views on certain structured transactions that are beginning to emerge as companies consider the new consolidation guidance. The staff also commented on redeemable equity instruments and the acceptability of short-cut hedging. A few "new basis" comments were thrown in for good measure, including comments about the basis of newly formed joint ventures and the impact of a "newco" on various transactions. While we don't want to spoil the enjoyment of reading our upcoming AICPA SEC conference DataLine, it's safe to say that there was no ground-breaking news on this front -- but we think you'll be interested in learning about potentially evolving staff views.

Staff members in the Division of Corporation Finance provided views on a variety of topics, ranging from detailed application guidance to higher level policy issues. The staff highlighted its views on the need to provide more clear and meaningful disclosures about goodwill impairment assessments and valuation considerations -- including considerations of "near misses" on Step 1 of the impairment test. The staff demonstrated its continuing interest in segment disclosures and commented that efforts in this regard are yielding enhanced disclosures -- some that resulted in restatements. Relative to income taxes, the staff highlighted its interest in the effective rate reconciliation and how it plans to evaluate these disclosures. And, in a move to enhance disclosures for investors, the staff announced that it is re-examining the staff FAQs on non-GAAP disclosures, with the intent of ensuring that their interpretive guidance isn't causing companies to exclude material information from SEC filings. The staff commented that this effort is a high priority and the revised FAQs should be available for the upcoming year-end reporting season.

Coming soon is a DataLine that will provide AICPA SEC conference highlights and PwC's insight on a number of important matters discussed at the conference.

SEC matters

Goodwill impairment remains an SEC focus

The economic slowdown has highlighted the need for investors to have greater insight into management's impairment assessment process. At this year's AICPA SEC Conference, the SEC staff discussed concerns around goodwill impairment testing and continued the dialogue from last year's conference on improving goodwill impairment disclosures to give investors more insight into the likelihood of a future material impairment.

The SEC staff continues to expect companies to focus on providing disclosure about the reporting units that have a reasonable likelihood of a material goodwill impairment. In those cases, management should disclose the amount of goodwill assigned to the reporting unit and indicate the relationship between the reporting unit's fair value and carrying value (e.g., the percentage by which the reporting unit's fair value exceeds its carrying value). A company should also include a qualitative discussion of the key assumptions used in the valuation estimates, the significant uncertainties inherent in those assumptions, and any events that could have a negative effect on the reporting unit's fair value.

Additionally, if a company records a material goodwill impairment, management should consider expanded disclosure on how the impairment affects the business (rather than focusing on the non-cash nature of the charge).

New accounting guidance—Future impact?

Do you expect that your company may be materially impacted when applying the new guidance in FAS 166², *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140* or FAS 167? When your company prepares to issue this year's financial statements, consider whether you have complied with SEC disclosure requirements for those standards that have been issued but are not yet effective, as discussed in SAB 74. At this year's AICPA SEC Conference, the SEC staff commented on the need to improve the quality of those disclosures and emphasized that registrants should avoid "boilerplate" disclosures. Since there are several new accounting standards that will be effective on January 1, 2010 (for calendar year-end companies) that might have material implications for some companies, don't forget to evaluate whether you have complied with SAB 74.

Goodwill rollforward disclosures—Have you complied with the requirements?

You may be surprised to learn that when the FASB revised the business combinations accounting model, it also amended the disclosures of the goodwill rollforward schedule. Under the guidance that became effective January 1, 2009 for calendar year-end companies, goodwill should be disclosed at its gross amount with a separate disclosure for the amount of the related accumulated impairment losses, even if that impairment was recognized in a prior period. This change has often been overlooked by many companies.

Refer to the guidance below to determine whether changes are needed to your goodwill rollforward disclosures. For more information, refer to:

- [Practical Tip 2009-07](#) *The Rollforward of Goodwill May Need to be Revised due to Changes in the Accounting Guidance for Business Combinations*

Update on selected major projects

FASB and IASB reaffirm commitment to MoU

In early November, the FASB and the IASB reaffirmed their commitment to the Memorandum of Understanding (MoU), which outlines the boards' plan to complete their more significant joint projects. Specifically, the boards have committed to complete the eight joint projects by June 2011. Going forward, the boards will meet more frequently and are committed to provide more regular communications on the overall status of the MoU.

² As of the date of this publication, the FASB had not yet incorporated FAS 166 in the Accounting Standards Codification (the Codification). We expect that the FASB will issue an Accounting Standards Update in the near future announcing that the guidance has been added to the Codification. When codified, the guidance will be included in ASC 860, *Transfers and Servicing*.

The AICPA SEC conference certainly put a spotlight on the joint efforts of the boards. The intensity and focus by both boards to tackle these major projects was clear from their remarks. Buckle up -- the ride should be interesting.

Financial instruments—Will the standards converge?

Around the globe, legislators, regulators, standard setters, investors, and other stakeholders remain engaged in a passionate debate over financial instrument accounting. The stakes are high, and inevitably, some parties will be disappointed with the changes that are on the horizon. In some ways this dispute is less about accounting theory than about the practical implications of applying potentially new recognition and measurement guidance.

Part of the challenge is that there is no single method for measuring and reporting financial instruments. While both fair value and amortized cost provide useful information, neither method meets the needs of all financial statement users. Therefore, much of the debate centers on what measurement methods should take center stage on the face of the financial statements versus what should appear in the notes to the financial statements.

While this started out as a joint initiative, the IASB and FASB are working on different timetables because of differing political pressures in Europe and in the U.S. The IASB is working through the issues in three separate phases (recognition and measurement, impairment, and hedging), and is issuing exposure drafts following each significant phase. The FASB intends to issue one comprehensive exposure draft in early 2010. The IASB has already finalized its standard for the recognition and measurement of financial assets and recently issued an exposure draft on impairment. Recently, the European Commission announced that it will not accelerate its normal approval process of the standard once finalized by the IASB and instead will carry out an in-depth analysis of the standard's implications before final approval.

Beside the political pressures, the IASB and FASB have also expressed fundamentally different viewpoints. The FASB is leaning toward measuring more financial instruments at fair value as compared to the IASB. This is most noticeable in the accounting for bank loan portfolios where the FASB's tentative decision would require most bank loans to be reported at fair value with changes recorded in other comprehensive income, whereas the IASB generally retains amortized cost measurement. Whether the FASB revises its approach to be more aligned with the IASB or vice versa remains to be seen.

Some tentative decisions have already been made, but there are many more issues still to debate. Despite these challenges, the FASB is anticipating that it will issue its proposal in early 2010. To help you stay engaged in the debate and better understand the FASB's tentative decisions, refer to [DataLine 2009-49](#), *Changes Being Considered to Financial Instrument Accounting*.

Revenue recognition—Boards intensify efforts

The FASB and IASB continue to charge forward on redeliberations of the revenue recognition discussion paper issued in December 2008. That discussion paper proposed a converged, contract-based revenue recognition model aimed at creating one model that ensures that similar transactions result in similar accounting. The model introduces potentially significant changes to current practice. As mentioned in the last edition of *The Quarter Close*, some of the more significant changes will be in how performance obligations are defined and identified for accounting purposes, how to determine the timing of revenue recognition (based on transfer of control, not risks and rewards or the activities of an entity), how to recognize contract related costs, and when to recognize contract losses.

With the boards' recent statement that they will "intensify" their efforts to complete major joint projects by 2011, the proposed revenue recognition model continues to evolve. The boards have reached a number of tentative conclusions subsequent to the issuance of the discussion paper and are working to provide clarifications as a result of comment letters received. Next steps for the FASB and IASB will be to host global roundtables to assess the proposed model and explore identified issues. An exposure draft is expected in mid-2010. While a final standard is not expected until 2011, companies should continue to follow the debate and provide input to the standard setters.

The following DataLines provide information on the originally proposed model, public reaction to the discussion paper, and the recent deliberations.

- [DataLine 2009-41](#), *FASB/IASB Revenue Recognition Project—Progress Toward Completion*
- [DataLine 2009-07](#), *The Future of Revenue Recognition—A Preliminary Peek*

Leases—Redeliberations in full swing

A new leasing standard currently in discussion at the FASB and IASB is gathering momentum as it moves toward an exposure draft. As a reminder, the FASB and IASB issued a joint discussion paper in March 2009 that proposed a converged standard that would bring all leases on the balance sheet, effectively eliminating the concept of an operating lease. The boards also suggested that no existing leases will be grandfathered.

So, what's happening in this project? The boards have begun redeliberations on lessee accounting based on the comment letters received and other input. There have been no significant changes from the preliminary views included in the discussion paper to date and the boards continue to support the right-of-use approach, which requires the reporting of all leases on the balance sheet.

Currently, lessor accounting is getting a fair bit of attention as the boards have preliminarily decided to use a "performance obligation" approach, which would keep the leased asset on the lessor's balance sheet. A receivable would be recorded for the rental payments that will be received over the lease term, with a corresponding performance obligation associated with lessor's obligation to provide use of a leased asset. This approach has caused concern for those companies that have historically applied a "sales-type" leasing model. The boards are currently considering whether some leases should be excluded from the scope of the new lease standard when the arrangement is effectively a sale of the leased asset.

Over the next few months, Board deliberations will continue to move the standard further down the tracks. Although an exposure draft is not expected until mid-2010, companies should begin to understand the financial reporting, systems and controls, and business implications of the changes being considered and prepare to offer the boards their opinions during the public comment period. For more information, refer to the following:

- [Point of View](#), *The Future of Leasing*
- [DataLine 2009-42](#), *FASB/IASB Leases Project—Progress Towards Completion*
- [DataLine 2009-14](#), *The Future of Lease Accounting*
- [DataLine 2009-10](#), *Leases—A Preview of What's to Come*

Financial statement presentation—Direct method of cash flow not embraced by preparers

Almost eight years ago, the FASB and the IASB began the journey to improve the display of information in financial statements through the financial statement presentation project. Where does the project stand today? The boards are currently redeliberating the views set forth in their October 2008 discussion paper. The most controversial of changes proposed in the discussion paper are related to the cash flow statement, including the change to requiring the “direct method” and a line-by-line reconciliation between the cash flow statement and the statement of comprehensive income.

The boards received more than 200 responses (mainly from preparers). Most agree that a project is needed to improve financial statement presentation. However, many preparers are strongly opposed to the direct method of presenting cash flows and the line-by-line reconciliation. Users, on the other hand, generally were supportive of the changes to the cash flow statement because the quality of a company's earnings would be more transparent.

Recently, following the boards' consideration of the comment letters, the boards decided to: (1) require the cash flow statement to be presented using the direct method with certain indirect information in the notes, and (2) replace the line-by-line reconciliation schedule with a "roll forward" presentation, in the notes, of significant statement of financial position line items.

Next steps for the boards are to issue an exposure draft in the first half of 2010. While a final standard is not expected until 2011, companies should stay engaged and express their opinions to the boards during the public comment letter process. It is expected that some companies may incur substantial implementation costs to conform to the proposed changes. Refer to [DataLine 2009-48](#), *Financial Statement Presentation - A Project Update*, which takes a comprehensive look at the project. This DataLine provides valuable insight on the discussion paper, comment letter responses, subsequent implications, and the implications this proposed guidance may have on companies.

IFRS

IFRS may replace UK GAAP for statutory reporting

Many subsidiaries of multinational companies domiciled in the United Kingdom and Ireland may be required to adopt IFRS or IFRS for Small and Medium-sized Entities (SMEs) for statutory reporting purposes starting in 2012 under a proposal issued by the local standard setter. One prior year of comparative information would be required, which means companies may need to begin accumulating IFRS information as early as January 1, 2011 - just one year away. This increases the importance of analyzing these potential changes now. A publication that takes a closer look at these developments and the implications the proposal has on US companies is available at www.pwc.com/usifrs.

IFRS developments and useful resources

Consistent with our expectations, the SEC staff did not announce the establishment of any mandatory dates for the change to IFRS in the US at the AICPA SEC conference this week. That said, financial reporting in the United States continues to be influenced by IFRS and not simply through non-US subsidiaries. IFRS adoption by counterparties (customers and vendors) is already impacting business decisions of US GAAP reporting companies. To keep you up to date on all of the developments in the world of IFRS, there are many resources available. These resources include our 2009 edition of the IFRS and US GAAP

Similarities and Differences guide, our ongoing webcast series on IFRS, Oracle system preparation guide, tax guides and other publications. For a complete listing of our available resources, visit the PwC IFRS homepage at www.pwc.com/usifrs or ask your PwC engagement team for further assistance.

Proposed amendments to proxy disclosures

Next week, the SEC is holding an open meeting to discuss the proposed amendments to SEC rules that are intended to enhance proxy disclosures about management compensation and other corporate governance matters, including directors' experience and skills, the board's role in overseeing risk management, and how company leadership is structured (i.e., whether the roles of CEO and Board Chair are combined or separate). Companies should be aware that there is a possibility that these disclosures may be effective for the 2010 proxy season and if so, may present challenges to implement in a condensed timeframe. Stay tuned for more information once the new rules have been finalized.

To the Point

The next edition of *To the Point*, PwC's quarterly newsletter for directors, will be released in early January. This edition will discuss director elections, the need to focus on management as part of succession planning, segment reporting, and goodwill impairments. This 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>.

Current Developments for Directors—Now available

The 2010 edition of *Current Developments for Directors* is now available for distribution. This year's publication includes commentary on various topics, such as how directors assess the impact of economic conditions on a company, proposed governance changes, global tax trends, and a special focus on government involvement in business. In addition, the publication will include regularly featured articles on financial reporting and regulatory developments.

What Directors' Think 2009

Highlights of the 8th annual *What Directors Think* survey are featured in the fourth quarter issue of *Corporate Board Member* magazine. A *What Directors' Think* special supplement with results and analysis will be distributed in mid-December.

The survey captures directors' views on such issues as the economic downturn and the tightening of credit markets, risk management, executive compensation, shareholder communications with Board members, the use of boardroom time, satisfaction with succession planning, strategic planning, and director qualifications. Additional survey results are available at www.boardmember.com.

Year-end Questions for Audit Committees

Coming in January 2010, *Year-end Questions for Audit Committees*, a publication that provides Audit Committees questions they need to focus on to prepare them to approve the financial statements for public release. When available, this document will be broadly

distributed in an electronic version, and in hard copy to directors on the firm's director mailing list.

Board Governance Series—Volume 14

PwC continues to be a partner in Corporate Board Member's Board Governance Series, which highlights content from webcasts involving discussions of critical governance issues by some of today's most highly respected advisors to boards of directors. This edition also focuses on the preparation for adopting IFRS, executive compensation, and the challenges relating to political contributions. It can be obtained (in Adobe Acrobat form) at www.pwc.com/uscorporategovernance.

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 include a discussion of various topics, such as management succession, director elections, and risk oversight. View current and past issues of *This Week in the Boardroom* at www.pwc.com/uscorporategovernance and www.boardmember.com.

On the horizon

Your guide to selected issues affecting future quarters

Fair value disclosures—FASB sensitive to constituent concerns and delays effective dates

Earlier this year, the FASB added a project to its agenda related to fair value disclosures and issued an exposure draft in August 2009. Some of the more significant proposed amendments included (1) the addition of a sensitivity analysis for Level 3 measurement, (2) detailed disclosures about the transfers to and from Level 1 and 2 measurements, and (3) presenting "gross" the activity (purchases, sales, settlements) within the Level 3 reconciliation (previously a "net" presentation).

Many of the comment letters focused on the operational difficulties and cost associated with developing the proposed sensitivity disclosures as well as the ambitious effective date for the remaining fair value disclosures (originally proposed for the fourth quarter of 2009 for calendar year-end companies).

Reacting to constituent concerns about the complexity and time needed to implement the new disclosures, the FASB decided to defer the consideration of the Level 3 sensitivity disclosures for now, but proceed with all of the remaining requirements substantially as proposed. All of the new disclosures will need to be made in the first quarter of 2010 for calendar year-end companies, except the Level 3 "gross" activity disclosures, which will be deferred until the first quarter of 2011 for calendar year-end companies.

Disclosures for loans and certain other receivables—Not ready for year-end reporting

"The effective date is too aggressive" was a common sentiment expressed by many constituents who provided comments to the FASB on the effective date of the proposal to enhance the disclosures of a company's credit risk exposure for loans and certain other

receivables. In October, the FASB received more than 70 comment letters on the proposed disclosures, which highlighted three overall themes. The first was the concern about the effective date; the proposal would have been applicable in the fourth quarter for calendar year-end companies. The second was the concern that the disclosures were too prescriptive and burdensome, which could lead to "disclosure overload" and less meaningful disclosures for the users of the financial statements. The third was an overall lack of support for the requirement to disclose the fair value of instruments within the scope of the proposed guidance on a disaggregated basis.

The FASB will continue to debate the issues raised in the comment letters at future meetings. Companies should continue to follow the debate with the expectation that a standard will be issued in 2010.

Selected EITF issues

Now that the EITF has completed its work on multiple deliverable arrangements, it has been busy addressing a number of other topics that impact a variety of industries. At the November meeting, the EITF finalized its guidance on the accounting for distributions to shareholders with components of stock and cash. In addition, the EITF proposed new guidance for casinos, stock options denominated in a trading currency, loan modifications for pooled loans, and deferred acquisition costs of insurance entities. The EITF also decided to drop a controversial proposal that would have required the capitalization of research and development in and asset acquisition. The EITF instead recommended that the FASB consider more broadly a comprehensive project on research and development assets.

Included below is a discussion of selected EITF issues that will be released for public comment next week. A more detailed discussion about the potential impact of these issues and more can be found in PwC's [November EITF Observer](#).

EITF addresses loan modifications for pooled loans

The current economic environment has raised a number of issues involving the accounting for purchased loans that are individually credit impaired. Many financial institutions have purchased loans that are credit impaired and account for these loans on a pooled basis (single unit of account) if the purchased credit-impaired loan met certain requirements. Not surprisingly, the increase in the number of loan modifications in the past year has brought some attention to the issue of whether a loan that is within a pool should be removed from the pool when it is modified and accounted for as a troubled debt restructuring (TDR) (when a concession has been granted and the creditor is experiencing financial difficulty).

The EITF recently proposed new guidance that would maintain the integrity of the pool as a single unit of account and exempt these troubled loans from TDR accounting. The proposed guidance, which is open for public comment, will be redeliberated at the EITF's March 2010 meeting. However, more disclosures may be on the horizon for loan pools. The EITF has recommended that the FASB consider incremental disclosures for loan pools in conjunction with their finance receivable and credit loss disclosure project, which is expected to be finalized in 2010.

Insurance Entities —Deferred acquisition costs (DAC) re-examined by EITF

An exposure draft recently issued by the EITF may have a significant impact on the types of acquisition costs that are deferred by insurance entities. Under the proposal, acquisition costs that are "directly related" to the acquisition of insurance contracts will be eligible for deferral. For example, costs such as agent and broker commissions, as well as the portion of selling agent and underwriter salaries associated with successful contract acquisition

efforts would be capitalized. However, the portion of such costs relating to unsuccessful efforts and all indirect costs would be expensed. In addition, advertising costs would be explicitly excluded from contract acquisition costs and would instead be accounted for under other non-industry specific guidance. Directionally, the EITF proposal is designed to align the accounting more closely with those costs capitalized for originating loans.

This proposal is likely to change the accounting for many insurance companies -- and have a potentially significant impact on equity -- not to mention possible future regulatory considerations. The proposed amendments come on the heels of the tentative decisions reached by the FASB and IASB in their joint project on insurance contracts. The boards decided that all acquisition costs should be expensed as incurred. However, that project is not expected to be finalized until 2013, according to the FASB.

The exposure draft is out for public comment and will be redeliberated at the March 2010 meeting. The proposal is expected to be effective in January 2011 for calendar year-end companies.

Subsequent Events—FASB clarifies new standard

In the second quarter of this year, the FASB issued new guidance that effectively included subsequent event guidance from the auditing literature to the accounting literature. While the new guidance was modeled after the same principles that were in the auditing literature, there were some changes in terminology.

Late in the game, the FASB included a requirement to disclose the date through which subsequent events were evaluated -- a seemingly benign disclosure. However, this disclosure created difficulties for SEC filings. As a result, the FASB plans to propose guidance that will clarify that the disclosure is required unless the financial statements are included in filings with the SEC. An exposure draft is expected to be issued soon with final guidance expected in the first quarter of 2010. For more information on the subsequent events accounting standard refer to [DataLine 2009-27](#), *Subsequent Events*.

Loss contingency disclosures—Stay tuned

Last quarter we provided an update that the loss contingency disclosure project was back in play after a period of inactivity. The FASB began its redeliberations in August on the controversial project, which is aimed at amending the disclosure requirements for certain loss contingencies. The latest insight into this project is that the FASB is heading in a direction that may alleviate the many objections of constituents who were concerned that the original disclosures would have been prejudicial and could have jeopardized a company's legal strategy. While it's safe to say that loss contingency disclosures will not be effective for 2009 year-end reporting season, companies and engagement teams should stay tuned for further decisions from the FASB on this project. Refer to [PwC DataLine 2009-44](#), *Disclosure of Certain Loss Contingencies- A Project Update* for further information.

Retiree health costs—Tax deductibility in question

Employers that sponsor retiree health benefit plans that provide a benefit at least actuarially equivalent to the benefits under Medicare Part D receive a tax-free federal subsidy. The proposed Affordable Health Care for America Act (the Proposed Act) includes a provision that would reduce these subsidies. A provision under the Proposed Act would require the amount of the subsidy received to be offset against the employer's deduction for health care expenses. As a result, if the Proposed Act is enacted, deferred tax assets associated with the retiree health benefit plan will be reduced. The impact of the proposed tax changes

would be recognized immediately in the income statement in the period of enactment and a company's effective tax rate could be adversely affected in future periods as a result of the Proposed Act.

For more information, companies are encouraged to read [HRS Insight 09/32, Accounting for Changes in Tax Deductibility of Retiree Health Costs Proposed in House and Senate Finance Committee Health Reform Bills](#).

President Obama's international tax proposals—To be continued

A recent Wall Street Journal article suggested that the Obama Administration has set aside its international tax proposals for this year, but may reconsider them next year as part of tax reform. This message is consistent with what we have heard recently. Given the pressures of budget deficits, companies should be mindful of the potential for some (or all) of the international provisions to come "into play" in the near future. As the changes could have a significant impact on US-based multinationals, companies should continue to assess their tax positions and structures related to these proposed changes. Companies may also want to consider enhanced disclosures to alert readers that the proposals may have a significant impact on their financial statements in MD&A or Risk Factor disclosures.

For more information refer to recently issued Tax Accounting Services [NewsAlert](#), *Tax accounting implications of the Obama Administration's international tax proposals*, and the 10Minutes on [International Tax Increases](#).

Standards that became effective in recent periods

Effective for fiscal years beginning after November 15, 2008

- Amendments to ASC 820 (formerly FAS 157, *Fair Value Measurements* (for the delayed application of this Statement for nonfinancial assets and nonfinancial liabilities))
- Amendments to ASC 815 (formerly FAS 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*)
- Amendments to ASC 860 (formerly FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*)

Effective for fiscal years beginning after December 15, 2008

- Amendments to ASC 805 (formerly FAS 141 (revised 2007), *Business Combinations*)
- Amendments to ASC 810 (formerly FAS 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*)
- Amendments to ASC 944 (formerly FAS 163, *Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60*)
- Amendments to ASC 260 (formerly FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*)
- Amendments to ASC 325 (formerly FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*)
- Amendments to ASC 470 and ASC 825 (formerly FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*)
- Amendments to ASC 805 (formerly FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*)
- Amendments to ASC 810 and ASC 860 (formerly FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*)
- Amendments to ASC 958 (formerly FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*)
- Amendments to ASC 275 and ASC 359 (formerly FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*)
- Amendments to ASC 808 (formerly EITF 07-1, *Accounting for Collaborative Arrangements*)
- Amendments to ASC 260 (formerly EITF 07-4, *Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships*)
- Amendments to ASC 815 (formerly EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*)
- Amendments to ASC 840 (formerly EITF 08-3, *Accounting by Lessees for Nonrefundable Maintenance Deposits*)
- Amendments to ASC 470 (formerly EITF 08-4, *Transition Guidance for Conforming Changes to EITF Issue No. 98-5, 'Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios'*)
- Amendments to ASC 820 (formerly EITF 08-5, *Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement*)
- Amendments to ASC 323 (formerly EITF 08-6, *Equity Method Investment Accounting Considerations*)
- Amendments to ASC 350 and ASC 805 (formerly EITF 08-7, *Accounting for Defensive Intangible Assets*)

Appendix

- Amendments to ASC 815 (formerly EITF 08-8, *Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary*)

Effective for periods ending after June 15, 2009, early adoption permitted

- Amendments to ASC 855 (formerly FAS 165, *Subsequent Events*)
- Amendments to ASC 820 (formerly FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*)
- Amendments to ASC 320 (formerly FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*)
- Amendments to ASC 825 (formerly FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*)

Effective for periods beginning after August 26, 2009

- ASU 2009-05—*Measuring Liabilities at Fair Value*

Effective for interim or annual periods ending after September 15, 2009

- Amendments to ASC 105 (formerly FAS 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*)
- ASU 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*

Effective for fiscal years beginning after November 15, 2009

- FAS 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140* (not yet included in the Codification)
- FAS 167, *Amendments to FASB Interpretation No. 46(R)* (not yet included in the Codification)

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)*
- Proposed - EITF Issue No. 09-E, *Accounting for Distributions to Shareholders with Components of Stock and Cash* (not posted in final form at time of publication)

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

- FAS 164, *Not-for-Profit Entities: Mergers and Acquisitions—Including an amendment of FASB Statement No. 142* (not yet included in the Codification)
- ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*

Appendix

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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