

Current Accounting and Reporting Developments Webcast Series

First quarter / March 18, 2014



Welcome

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Accounting Services Group Team Leader

Before we get started

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Before we get started

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- Today's program will be worth approximately **1.5** CPE credits

Today's agenda

Introduction

Accounting hot topics

- Accelerated share repurchases
- Determining functional currency
- Participating securities and the two-class method
- Discontinued operations reminders
- Income taxes and separate company financial statements

Private Company Council (PCC) – new standards

EITF, SEC and FASB Updates

Q&A

Closing

Polling question #1

Which of the following best describes your role or responsibilities within your organization?

- A. CFO or Controller / Assistant Controller
- B. Financial Reporting Director / Manager
- C. Accounting / Finance Manager
- D. Tax Director / Manager
- E. None of the above or PwC staff

Today's presenters

Beth Paul

Partner, National Professional Services Group

John Horan

Director, National Professional Services Group

Kirsten Schofield

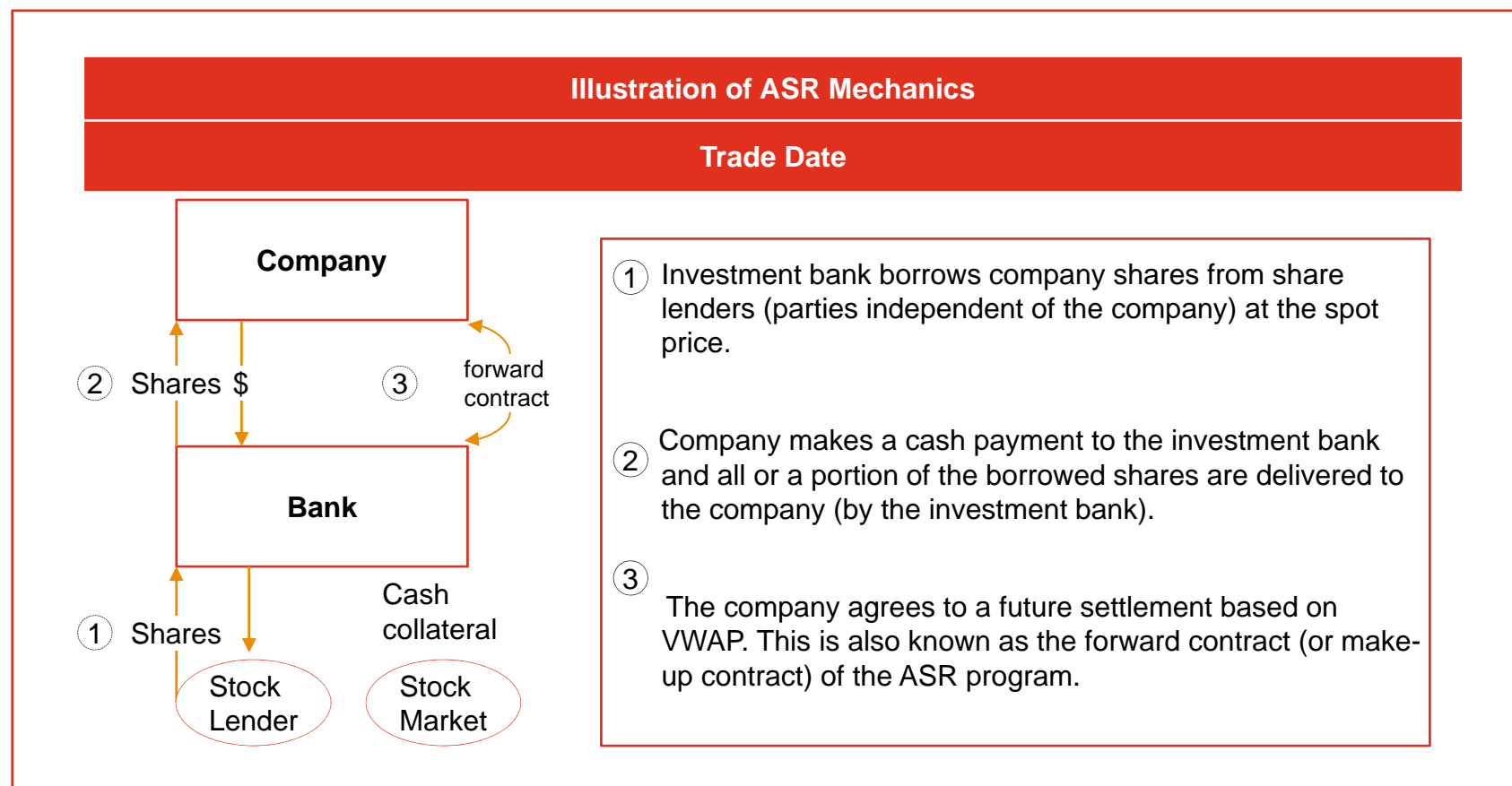
Partner, National Professional Services Group

Valerie Wieman

Partner, National Professional Services Group

Accounting hot topics

What is an Accelerated Share Repurchase (ASR)?



Accounting hot topics

ASR– Accounting Implications

Accounted for as two separate transactions:

1. A treasury stock transaction, and
2. A forward sale contract

Forward contract meets the definition of a derivative:

1. Analyze all adjustments
2. Must be within the Company's control to deliver unregistered shares

Accounting hot topics

ASR's – Earnings per share

- Initial delivery of shares treated as a treasury stock transaction
- Forward contract must be considered in diluted EPS
- Consideration must be given to whether the forward contract is a participating security

Accounting hot topics

Determining functional currency

- Functional currency is defined as the currency of the primary economic environment in which the entity operates, which is the currency of the environment in which the entity primarily generates and expends cash
- Two types of foreign operations:
 - Self-contained and integrated foreign operations → Functional currency is the local foreign currency
 - Extension of the parent → Functional currency is the parent's functional currency

Accounting hot topics

Determining functional currency (continued)

Assessment continuum

Self-contained operation

Extension of parent



Indicators

- Cash flows
- Sales price
- Sales market (e.g., global/local market)
- Expenses
- Financing
- Intercompany transactions

Accounting hot topics

Participating securities and the two-class method

- A participating security is any instrument contractually entitled to receive dividends along with common stock
- Two-class method – allocates earnings away from common shareholders to participating security holders
- Two-class method applies regardless of whether the company currently pays dividends

Accounting hot topics

Participating securities and the two-class method

- Unvested stock awards may be participating securities
 - Non-forfeitable dividend rights  participating
 - Forfeitable dividend rights  not participating
- Don't forget about the impact on compensation expense

Polling question #2

How many discontinued operations assessments has your company been involved with in the last 3 years?

- A. One
- B. More than one
- C. None
- D. None, but expected in near future

Accounting hot topics

Discontinued operations

Results of operations of a component of an entity that has been disposed of or is classified as held for sale, when both:

- Operations and cash flows have been or will be eliminated
- The entity will not have significant continuing involvement

A component of an entity may be a:

- ***Reportable segment***
- ***Operating segment***
- ***Reporting unit***
- ***Subsidiary***
- ***Asset group***

Disposal of an investment accounted for under the equity method, which is not part of a larger component asset group, does not qualify for reporting as a discontinued operation

Accounting hot topics

Discontinued operations (continued)

In the period a component has been disposed of or is held for sale

- Current and prior period income statements should report results of operations of the component in discontinued operations
 - Include any gains or losses on disposal and any impairments
 - Include the allocated tax expense or benefit
- Several options related to presentation in the statement of cash flows
- Balance sheet presentation alternatives also exist

The FASB is currently working to finalize a revised standard that would change the threshold for reporting a discontinued operation and the related disclosures. (Refer to PwC In brief 2013-46)

Accounting hot topics

Discontinued operations (continued)

When to revise historical financial statements

- Prior financial statements may not be “recast” until financials are issued covering the period in which the component is required to be reflected as a discontinued operation
- The need to recast before an offering may depend on whether there is a new registration statement or if securities are being taken “off the shelf”
- Income tax allocation

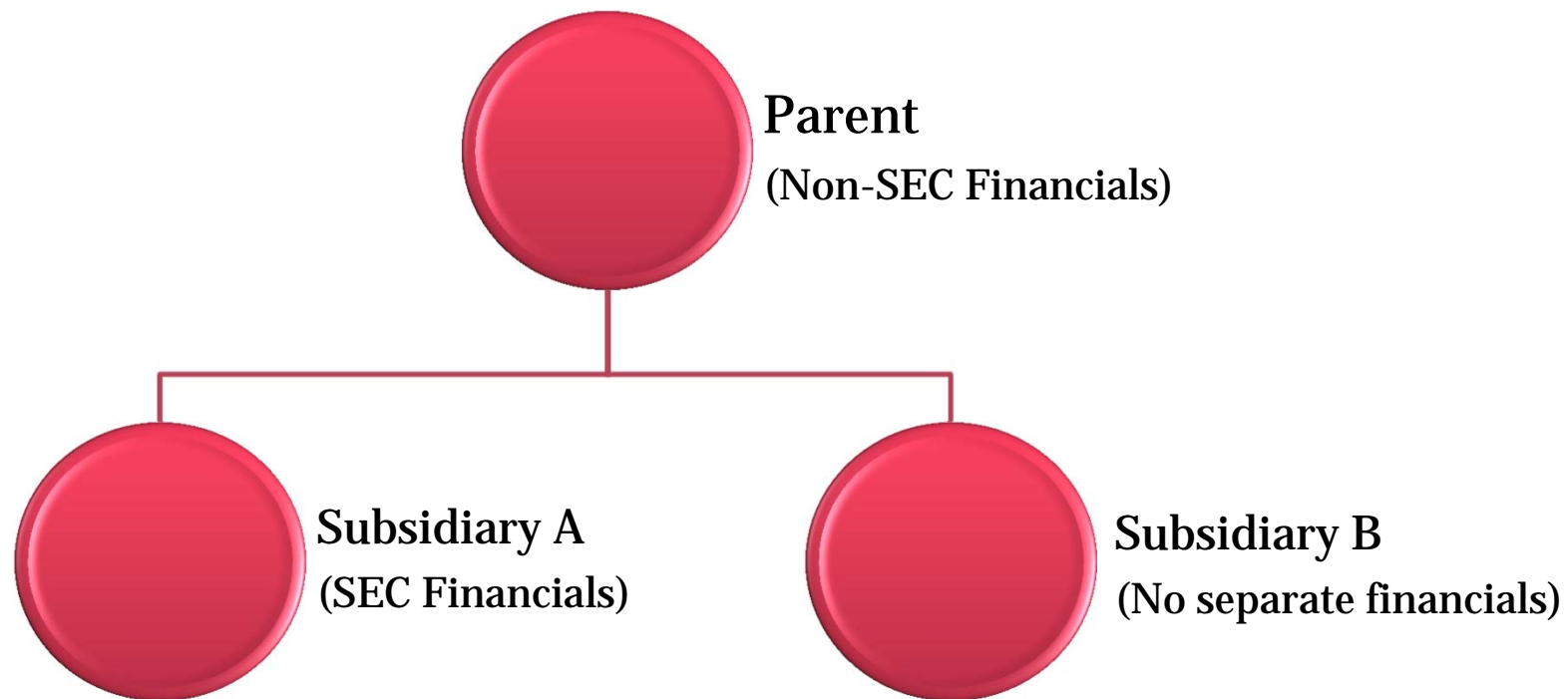
Prior Forms 10-K and 10-Q generally should not be amended since the financial statements included therein were correct when filed.

Companies may file revised financial statements on a Form 8-K that is incorporated by reference into the transactional filing.

Accounting hot topics

Income taxes – separate company financial statements

U.S. Consolidated Tax Return Group



Accounting hot topics

Income taxes – separate company financial statements (continued)

US GAAP

- Allocation method must be systematic, rational and consistent with income tax accounting principles

SEC

- Separate return method is preferred
- Proformas required if separate return method not used

Separate return method

- Hypothetical, separately-filed return for subsidiary only
- Disclose key judgments

Accounting hot topics

Income taxes – carve-out financial statements

- What's included in the carve-out financial statements? What's the corresponding pre-tax accounting?
- How should intercompany transactions and related deferrals (formerly eliminated in the consolidated financial statements) be reflected?
- Should hindsight be considered when making valuation allowance assessments?
- How do historical assertions and/or tax elections made by management of the consolidated group impact carve-out financial statements?

Polling question #3

Which of the following elements is not required to qualify as a business?

- A. Inputs
- B. Outputs
- C. Process

Private Company Council (PCC)

Impact of PCC alternatives on public companies

When a private company meets the definition of a public business entity (PBE), it will need to fully unwind the impact of its application of the PCC-approved accounting alternative in its historical financial statements.

If a public company acquires a private company that has applied the goodwill alternative in its financial statements, and is required to file the private company's stand-alone financial statements under S-X 3-05, those statements cannot reflect the PCC alternatives.

Private Company Council (PCC)

Accounting for goodwill subsequent to a business combination

What you need to know

Amortization

- Amortize on a straight-line basis over 10 years
- Naked credit – may result in release of valuation allowance

Impairment

- Trigger-based impairment assessment
- Impairment assessment at entity-wide or reporting unit level
- Single step impairment test

Impacts

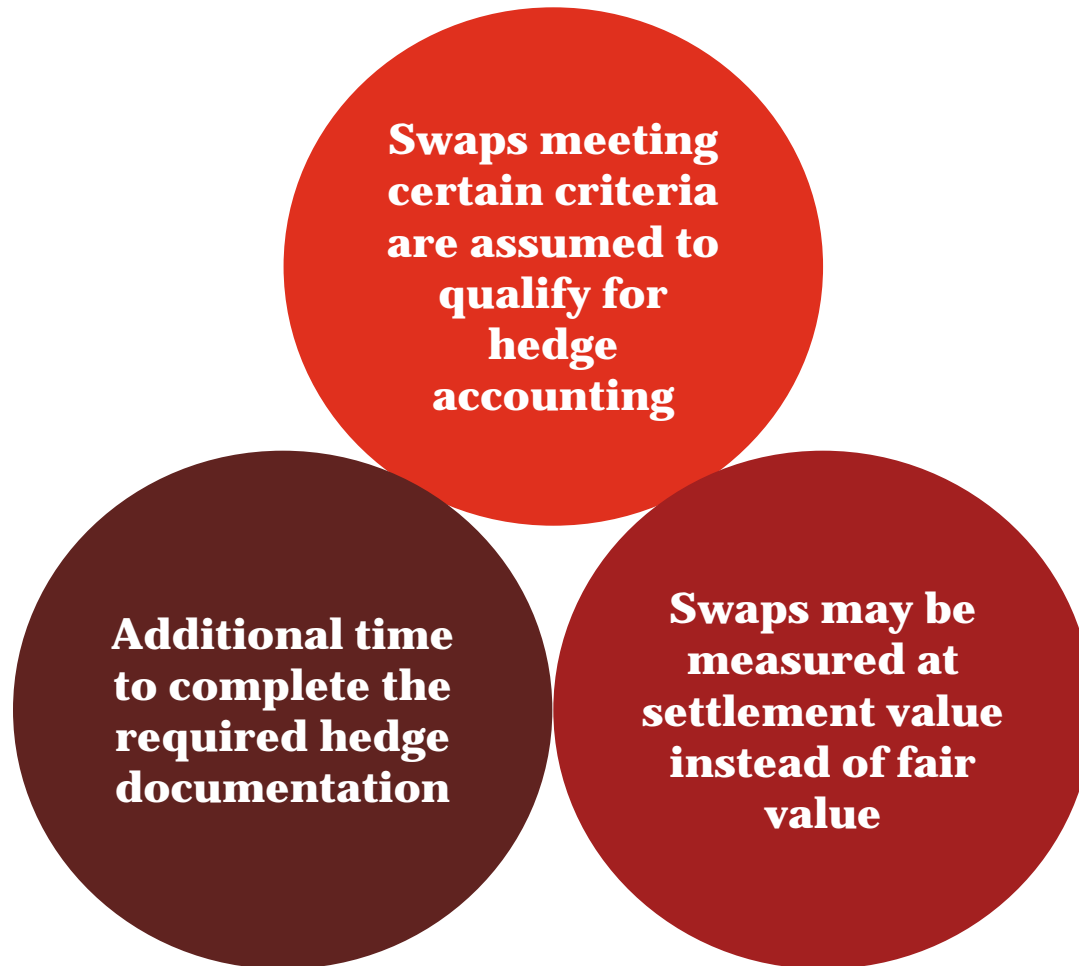
- ***Amortization***
- ***Impairment***

Looking forward

- ***Issued: January 2014***
- ***Effective: Annual periods beginning December 15, 2014***
- ***Early adoption permitted***

Private Company Council (PCC)

Receive-variable, pay-fixed interest rate swaps simplified hedge accounting approach



Private Company Council (PCC)

Receive-variable, pay-fixed interest rate swaps simplified hedge accounting approach (continued)

Qualifying criteria

- Swap and the borrowing are based on same index and reset period
- Terms of the swap are typical
- Repricing and settlement dates of the swap and the borrowing match or differ by no more than a few days
- Swap's fair value at inception is at or near zero
- Notional amount of the swap is equal to or less than the principal amount of the borrowing
- All interest payments on the borrowing, during the term of the swap, are designated as hedged

Private Company Council (PCC)

January 28, 2014 meeting update

What you need to know

- VIE alternatives - revised and re-approved for common control leasing arrangements
- Intangible assets proposal - continued to redeliberate
- Combined instrument approach - voted to discontinue the project

Next PCC meeting is scheduled for April 29, 2014

PCC is holding a private company town hall meeting in Seattle on May 8, 2014.

Polling question #4

Which of the following PCC alternatives are you expecting to adopt?

- A. Goodwill
- B. Simplified hedge accounting
- C. Neither of them
- D. Both of them
- E. Not eligible

EITF Update

March 2014 meeting

Final Consensuses

- ✓ Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (13-D)

Consensus-for-exposure

- ✓ Recognition of New Accounting Basis (Pushdown) in Certain Circumstances (12-F)

Further discussion

- ✓ Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (13-G)
- ✓ Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (12-G)

Polling question #5

Which of the following EITF topics is of most interest to your company?

- A. Issue 13-D, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period"
- B. Issue 12-G, "Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity"
- C. Issue 12-F, "Recognition of New Accounting Basis (Pushdown) in Certain Circumstances"
- D. Issue 13-G, "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity"
- E. Not applicable or PwC staff

SEC update

Priorities for 2014

- Implementing Dodd-Frank Act and JOBS Act rulemaking
- Strengthening the SEC enforcement program
- Intensifying efforts to structure and optimize equity markets
- Focus on recommendations for updating disclosure rules for public companies
- Cyber-threats
- Seeking greater accountability for gatekeepers
- Review of the “bad actor” provisions

The SEC recognized its achievements in 2013 and outlined its priorities for 2014 at the annual SEC Speaks conference in February.

SEC update (continued)

SEC Funding and 2014 Budget

- The FY 2013 proposed budget was \$1.6B but \$1.3B was approved
- The initial federal budget requested a 27% budget increase for FY 2014
 - Plan was to add over 675 additional staff (250 of which would have been additional examiners)
- The final fiscal 2014 budget allocated only a 2% increase to the SEC

“All of this is upon us at a time when our funding falls significantly short of the level we need to fulfill our mission to investors, companies, and the markets.”

Chair Mary Jo White at SEC Speaks 2014

Polling question #6

In relation to the conflict minerals rule, do you plan to file the Specialized Disclosure (i.e., Form SD) with the SEC by May 31?

- A. Yes, Form SD only
- B. Yes, Form SD and a Conflict Minerals report
- C. N/A - PwC Staff, or our business does not involve conflict minerals

FASB Update

Joint FASB/IASB projects

Expected completion timeline	2014	
	1H	2H
Revenue recognition (effective 2017)	✓	
Leases	No timeline provided	
Financial Instruments – classification & measurement		✓
Financial Instruments – impairment		✓
Insurance contracts	No timeline provided	

FASB Update

Other Projects

Completion timeline - first half of 2014

- Discontinued operations
- Repurchase agreements
- Technical corrections and improvements
- Development stage entities

Ongoing deliberations - no published completion timeline

- Consolidations
- Disclosure framework
- Financial Instruments – hedging
- Going concern
- Accounting for goodwill for public business entities and not-for-profits

FASB Update

Financial Instruments - Classification and measurement

- Proposed cash flow characteristics test:
 - Proposed test has been eliminated
 - Bifurcation of hybrid financial assets will be retained instead
- Business model assessment:
 - Proposed assessment is no longer being pursued
 - Existing U.S. GAAP models will be retained for classification of loans and securities
- Final standard expected second half of 2014

Polling question #7

Who do you think will win the 2014 NCAA basketball tournament?

- A. Florida
- B. Arizona
- C. Wichita State
- D. Virginia
- E. None of the above

Q&A session

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