



2009 NABA National Convention

FASB Update

June 2009

FASB Major Developments

FASB Statement 141(R), *Business Combinations*- Overview

- ▶ Broadened definition of a business
 - ▶ A transaction or other event in which an acquirer obtains control of one or more businesses
- ▶ New basis model
 - ▶ Requires new measurement (generally at fair value) of 100% of all assets, liabilities and noncontrolling interests
- ▶ Cost accumulation model no longer relevant
- ▶ Increased use of fair value
- ▶ Liabilities recognized in business combination only if liabilities of the acquired company
- ▶ The standard is effective for fiscal years beginning after 15 December 2008

FASB Statement 141(R), *Business Combinations*- Significant changes

- ▶ “Purchase price allocation period” is now “measurement period”
 - ▶ Applies to measurement and allocation of purchase price
 - ▶ Revised measurements must be applied retroactively
- ▶ Expense acquisition-related transaction costs
 - ▶ Debt and equity issuance costs continue to be capitalized
- ▶ Recognize contingent consideration arrangements at their acquisition-date fair values
- ▶ Record acquired IPR&D as Intangible assets
 - ▶ Amortization or impairment recognized in future earnings
- ▶ Assets the acquirer does not intend to use or use to the extent of highest and best use (defensive assets)
 - ▶ Measured and recognized at fair value based on the highest and best use by a market participant
 - ▶ Subsequent accounting being addressed by EITF Issue No. 08-7
- ▶ Share-based payment awards
 - ▶ More expense (as compared to FAS 141) could result if service period of replacement awards is shorter than original award

FASB Statement 141(R), *Business Combinations*- Significant changes (continued)

- ▶ Restructuring liabilities recognized in purchase accounting only if the criteria of FAS 146 are met as of the acquisition date
 - ▶ Limits restructuring obligations to those assumed from the target
 - ▶ Liabilities resulting from actions taken by the acquirer are NOT included in purchase accounting
- ▶ Income Taxes
 - ▶ Reduction in target's valuation allowance after the acquisition date is recognized as a reduction of income tax expense
 - ▶ All adjustments to liabilities for income tax uncertainties that pre-date or result from the acquisition are recognized as an element of the income tax provision
 - ▶ A deferred tax asset is recognized for the excess of tax deductible goodwill over financial reporting goodwill
- ▶ No effect on prior transactions
 - ▶ Except, changes to deferred tax asset valuation allowances and income tax uncertainties will affect acquirer's earnings

FASB Statement 160, *Noncontrolling Interests in Consolidated Financial Statements*- Overview

- ▶ Significantly affects consolidation accounting for all entities, except for NFPs
- ▶ Addresses how to account for noncontrolling interests in a consolidation and changes:
 - ▶ Classification and presentation of noncontrolling interests
 - ▶ Allocation of earnings between controlling and noncontrolling interests
 - ▶ Recognition of purchases and sales of shares of subsidiary
- ▶ No net EPS impact to parent (except for loss allocation) under Statement 160
- ▶ Effective for fiscal years beginning after 15 December 2008
 - ▶ Early adoption prohibited

FASB Statement 161, *Disclosures about Derivative Instruments and Hedging Activities*- Overview

- ▶ Enhances disclosures
- ▶ New discussion of objectives and strategies for using derivatives for risk management purposes
- ▶ Volume of derivative activity disclosed
- ▶ Tabular disclosure of gross fair value amounts, gains and losses on derivatives, and related hedged items
- ▶ Limited exemption for derivatives included in trading activities
- ▶ Credit-risk disclosures
- ▶ Effective for calendar-year companies in their first quarter 2009 financial statements

FASB Accounting Standards Codification

- ▶ FASB's goal – simplify access to US GAAP by consolidating all authoritative guidance into one source
- ▶ Expected to officially become the single source of authoritative nongovernmental US GAAP on 1 July 2009
- ▶ Reorganizes thousands of US GAAP pronouncements into approximately 90 Accounting Topics
- ▶ Content structure
 - ▶ Topics
 - ▶ Presentation, Financial Statement Account Topics (Assets, Liabilities, Equity, Revenue, and Expenses), Broad Transactions, Industries
 - ▶ Subtopics
 - ▶ Overall Subtopic – includes pervasive guidance for the topic
 - ▶ Additional Subtopics – incremental or unique guidance
 - ▶ Sections
 - ▶ Each Subtopic includes the same Sections
 - ▶ Sections are numbered consistently across Subtopics

FASB Staff Positions (FSPs) Issued in 2008 & 2009

- ▶ FSP No. FIN 48-2—Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises (FSP FIN 48-2)
- ▶ FSP No. SOP 07-1-1—Effective Date of AICPA Statement of Position 07-1
- ▶ FASB Staff Position No. FAS 157-1—Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13
- ▶ FSP No. FAS 157-2—Effective Date of FASB Statement No. 157 (FSP FAS 157-2)
- ▶ FSP No. FAS 140-3—Accounting for Transfers of Financial Assets and Repurchase Financing Transactions
- ▶ FSP SOP 90-7-1—An Amendment of AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code
- ▶ FSP FAS 142-3—Determination of the Useful Life of Intangible Assets FAS 142-3)
- ▶ FSP APB 14-1—Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1)

FSPs Issued in 2008 & 2009 (continued)

- ▶ FSP SOP 94-3-1 and AAG HCO-1—Omnibus changes to consolidation and Equity Method Guidance for Not-for-Profit Organizations
- ▶ FSP EITF 03-6-1-Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities
- ▶ FSP FAS 117-1—Endowments of Not-for-Profit Organizations
- ▶ FSB 133-1 and FIN 45-4—Disclosures about Credit Derivatives and Certain Guarantees
- ▶ FSP FAS 157-3—Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active)
- ▶ 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
- ▶ FSP FIN 48-3—Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises
- ▶ FSP FAS 132(R)-1—Employer’s Disclosures about Postretirement Benefit Plan Assets
- ▶ FSP EITF 99-20-1—Amendments to the Impairment Guidance of EITF Issue No.99-20

Emerging Issues Task Force

▶ Final Consensuses

- ▶ EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement"
- ▶ EITF Issue No. 08-6, "Accounting for Equity Method Investments Considerations"
- ▶ EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets"
- ▶ EITF Issue No. 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"

▶ Update

- ▶ EITF Issue No. 08-1, "Revenue Arrangements with Multiple Deliverables"
 - ▶ Board ratified the consensuses-for-exposure in this Issue at a November 2008 meeting, and a draft abstract was posted to the FASB website for a public comment period that ended 30 January 2009

FASB Current Projects

Exposure Draft – Disclosure of Loss Contingencies, an amendment of FASB Statement No. 5 and 141(R)

- ▶ ED issued June 2008
- ▶ Responding to users and regulators feedback that current recognition and disclosure practices for contingent liabilities are inadequate
- ▶ Proposed statement would
 - ▶ Expand population of loss contingencies requiring disclosure
 - ▶ Require disclosure of specific quantitative and qualitative information
 - ▶ Require tabular reconciliation of recognized loss contingencies
 - ▶ Provide an exemption from disclosing certain required information if would be prejudicial

Exposure Draft – Disclosure of Loss Contingencies, an amendment of FASB Statement No. 5 and 141(R)

- ▶ August 2008 – Over 200 comment letters received by the FASB in which many constituents raised concerns
- ▶ September 2008 – Board decided to redeliberate the ED and directed staff to prepare an alternative model
- ▶ Late 2008/early 2009 – Field testing of proposed and alternative models
- ▶ March 2009 – FASB roundtables with representation by regulators, audit standard setters, auditors, lawyers, preparers and users
 - ▶ Participants expressed a variety of views in the discussions
 - ▶ Appeared to reach some common ground
 - ▶ Focus of loss contingency disclosures should be on publicly available, factual information, rather than predictions about the outcome of litigation
 - ▶ Disclosures must balance the needs of users for information with the concerns of management regarding disclosure of prejudicial information
- ▶ Effective date delayed – will not be effective sooner than for fiscal years ending after 15 December 2009

Exposure Draft on Hedging Activities-Overview

- ▶ 125 comment letters filed 15 August 2008
- ▶ Intended to simplify hedging activities
- ▶ Eliminates ability to designate components of risk other than interest rate risk on an issuer's own debt and FX risk in a fair value or cash flow hedge
- ▶ Relaxes effectiveness threshold from "highly effective" to "reasonably effective"
- ▶ Eliminates short-cut method
- ▶ Requires effectiveness evaluation only at inception and only later if circumstances indicate the hedge may no longer be effective
- ▶ Claims to eliminate critical terms match approach to assessing hedge effectiveness but qualitative assessment methods seem to provide a similar concept; makes hedging with FX forwards easier

Exposure Draft on Hedging Activities-Overview (continued)

- ▶ Sampling of constituent comments
 - ▶ Nearly unanimous negative reaction
 - ▶ Federal Banking regulators opposed to elimination of hedging by bifurcated risk: “disincentive to prudent risk management”
 - ▶ Increased complexity when clarification was hoped for
 - ▶ Divergence from IFRS
 - ▶ Inability to dynamically hedge interest rate risk
 - ▶ Inability to hedge intercompany royalties denominated in a different currency
- ▶ FASB next steps
 - ▶ Possible coordination with IASB on a joint financial instrument complexity reduction project
 - ▶ Delayed rediliberations pending an agenda decision on the Financial Instruments FASB Project

FAS 140(R) – Project Update

- ▶ ED provisions affirmed include
 - ▶ Removal of the concept of a QSPE
 - ▶ Removal of special provisions for guaranteed mortgage securitizations
- ▶ Derecognition criteria have been the focus of redeliberations – conditions in the ED have been replaced with three conditions that are similar to the current FAS 140 model with some changes
 - ▶ Legal isolation – same as current model
 - ▶ Constraints on the transferee’s rights to pledge/exchange the assets – similar to current model (i.e., cannot provide “more than a trivial benefit” to transferor) but removes the QSPE concept and extends the look-through provisions
 - ▶ Effective control – similar to current model but includes a look-through provision
- ▶ Unit of account – only an entire financial asset or a participating interest in an individual financial asset is eligible for derecognition
 - ▶ No partial sale derecognition
 - ▶ Definition of a participating interest has been a subject of discussion

FIN 46(R) – Project Update

- ▶ ED provisions redeliberated include
 - ▶ Reconsideration
 - ▶ VIE reconsideration status criteria will be retained but have been expanded
 - ▶ PB reconsideration will be ongoing
 - ▶ TDR (troubled debt restructuring) exemption has been eliminated
 - ▶ Identification of PB
 - ▶ Quantitative analysis has been eliminated
 - ▶ Strictly a qualitative analysis
 - ▶ Power to direct matters that significantly impact the activities of a VIE, AND
 - ▶ Right to receive benefits or obligation to absorb losses that could potentially be significant to VIE
- ▶ IASB issued Exposure Draft 10, *Consolidated Financial Statements* (ED10) in December 2008

Exposure Draft on EPS

- ▶ Released on 7 August 2008 for comment period ending 5 December 2008
- ▶ Issued as part of joint project with the IASB to improve comparability of EPS
- ▶ Would clarify application of two-class method of computing EPS
- ▶ Key changes
 - ▶ Include (a) instruments currently exercisable for little or no cost to the holder and (b) shares that are currently issuable for little or no cost to the holder in basic EPS computation
 - ▶ No increase to denominator of diluted EPS for common shares that would arise from the exercise of freestanding instrument (or component of compound instrument that is accounted for as freestanding) that is measured at fair value each period with changes recognized through earnings
 - ▶ Treasury stock and reverse treasury stock methods
 - ▶ Use end of period market price rather than average price
 - ▶ Carrying value of liability that is not measured at fair value through earnings each period and assumed to be share settled would be included as assumed proceeds
 - ▶ Assume share settlement for instrument that can be settled in cash or common stock
 - ▶ Quarterly and year-to-date diluted EPS computed independent of any other periods
- ▶ Retrospective application with Effective Date expected to be in late 2009

Preliminary Views on Liability vs. Equity

- ▶ FASB issued *Preliminary Views, Financial Instruments with Characteristics of Equity* in November 2007
- ▶ IASB wrapped FASB's document in a similarly titled Discussion Paper in February 2008
 - ▶ Project will be conducted jointly with a stated goal for the Boards to issue a converged standard by 2011
- ▶ Project is focused on simplifying/improving financial reporting for financial instruments with characteristics of equity
 - ▶ Addresses classification, measurement, display, linkage and settlement/conversion/expiration/modification
- ▶ ED expected to be issued in late 2009

Discussion Paper – Preliminary Views on Financial Statement Presentation

- ▶ Issued 16 October 2008 – Estimated issuance of final document in 2011
- ▶ Joint project of FASB and IASB
 - ▶ At the joint meeting in March 2009, the staff will update the Boards on the field test and their plans for the next few months
- ▶ Boards' objectives for financial statement presentation
 - ▶ Portray a cohesive financial picture of an entity's activities
 - ▶ Disaggregates information so that it is useful in predicting an entity's future cash flows
 - ▶ Help users assess an entity's liquidity and financial flexibility
- ▶ Project Focus
 - ▶ Form, content, classification and display
 - ▶ Not addressing recognition or measurement requirements in other standards or note disclosures

Discussion Paper – Preliminary Views on Financial Statement Presentation

- ▶ Sections and categories
 - ▶ Business section (value creating activities)
 - ▶ Operating category (primary revenue/expense generating activities)
 - ▶ Investing category (activities generate return, but not part of core)
 - ▶ Financing section (activities that fund an entity's business)
 - ▶ Financing asset and Financing liability categories
 - ▶ May only include financial assets and liabilities
 - ▶ Equity, Discontinued Operations and Income Tax sections
- ▶ Classification – based on classification of assets and liabilities in statement of financial position
 - ▶ Management approach
 - ▶ At reportable segment level

Discussion Paper – Preliminary Views on Financial Statement Presentation

- ▶ Statement of Financial Position
 - ▶ Short-term / long-term subcategories OR liquidity if more relevant
 - ▶ One year distinction (not operating cycle)
 - ▶ Cash equivalents similar to short-term investments
 - ▶ Disaggregate similar assets/liabilities if measured on different bases
- ▶ Statement of Comprehensive Income
 - ▶ Single statement
 - ▶ Disaggregate income/expense items by function and by nature
- ▶ Statement of Cash Flows
 - ▶ Direct method
- ▶ Additional disclosures required in Notes to F/S

Exposure Drafts – Subsequent Events and Going Concern

- ▶ Exposure Drafts issued in October 2008
- ▶ Largely similar to current guidance in the auditing literature with some exceptions
 - ▶ Subsequent events – modification to names and definition
 - ▶ Going concern – change in time horizon for assessment and conform to IAS 1 language re type of information to evaluate
- ▶ Would be effective for interim or annual periods ending after 15 June 2009

Discussion Paper – Preliminary Views on Revenue Recognition in Contracts with Customers

- ▶ Issued 19 December 2008 – Estimated issuance of final document in 2011
- ▶ Joint project of FASB and IASB
- ▶ Will replace ALL existing revenue recognition guidance under both IFRS and US GAAP (potential scope exemptions)
- ▶ Decisions reached to date
 - ▶ An asset-and-liability based revenue recognition model to be applied to contracts with customers
 - ▶ Any performance obligations resulting from entering into the contract must be accounted for
 - ▶ The proposed model reflects the *transfer* of goods and services to the customer and not the *activities* of the entity
 - ▶ Revenue is recognized when the customer has *control* of the asset or the service is consumed
 - ▶ This will likely lead to different revenue recognition results when compared to the current risk and reward model

Discussion Paper – Preliminary Views on Revenue Recognition in Contracts with Customers

- ▶ Decisions reached to date (continued)
 - ▶ Initial measurement
 - ▶ No preliminary view on how rights would be measured other than based on contract-specific transaction price
 - ▶ Transaction price is allocated to the various performance obligations in the contract
 - ▶ Transaction price should be allocated to each performance obligation based on its relative stand alone selling price
 - ▶ Selling price estimated for goods/services not sold separately
 - ▶ Subsequent remeasurement
 - ▶ Only remeasured when onerous
 - ▶ When cost exceeds the carrying amount (cost trigger)
 - ▶ When current prices in accordance with IAS 37 exceed carrying amount (exit price trigger)

Discussion Paper on Leases

- ▶ Discussion Paper issued 16 March 2009
- ▶ Joint project of the FASB and IASB
- ▶ Decisions reached to date
 - ▶ New model for the recognition of assets and liabilities arising under lease contracts
 - ▶ Scope – accounting for lease arrangements within scope of existing lease accounting literature
 - ▶ Will include in DP a high-level discussion of lessor accounting issues but not included in scope of project
 - ▶ Options to extend or terminate a lease should not be recognized as separate assets
 - ▶ Initial measurement at present value of expected lease payments (discount using lessee's incremental borrowing rate for secured borrowings)
 - ▶ Classification as finance lease or operating lease removed by IASB
 - ▶ FASB – considering retaining this classification for subsequent measurement and presentation

Discussion Paper on Leases (continued)

- ▶ Decisions Reached to Date (continued)
 - ▶ Options to extend or terminate a lease should not be recognized as separate assets
 - ▶ Assets / liabilities recognized by lessees based upon its own assessment of most likely lease term
 - ▶ Contingent rentals and residual value guarantees
 - ▶ FASB – measure based on lessee’s best estimate of expected lease payments over lease term
 - ▶ Subsequent measurement
 - ▶ Amortize/depreciate right-of-use asset systematically over shorter of lease term and economic life of leased asset
 - ▶ Apportion lease payment b/w finance charge and reduction of outstanding liability
 - ▶ Reassess lease term and obligation using current assumptions at each reporting date and subsequently measure lease obligation at PV of current estimate of expected lease payments over revised lease term
 - ▶ Leases presented separately but adjacent to owned assets
 - ▶ Asset –as in-substance purchases or rights to use
 - ▶ Liability – separately

Proposed FASB Staff Positions (FSPs)

- ▶ FSP FAS 141(R)-a—Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies
- ▶ FSP FAS 157-e—Determining Whether a Market Is Not Active and a Transaction is Not Distressed
- ▶ FSP FAS 115-a, FAS 124-a, and EITF 99-20-b—Recognition and Presentation of Other-Than-Temporary-Impairments
- ▶ Proposed FSP FAS 144-d—Amending the Criteria for Reporting a Discontinued Operation
- ▶ Proposed FSP FAS 107-b and APB 28-a—Interim Disclosures about Fair Value of Financial Instruments
- ▶ Proposed FSP FAS 157-c—Measuring Liabilities under FASB Statement No. 157

Other FASB Projects

- ▶ Proposed Statement, Rescission of FASB Technical Bulletin No. 01-1, Nullification of EITF Topics No. D-33 and No. D-67, Amendments, and Technical Corrections
 - ▶ Address inconsistencies in US GAAP literature
 - ▶ Eliminate certain outdated guidance
 - ▶ Technical corrections to authoritative pronouncements if considered non-substantive in nature
- ▶ Mergers and Acquisitions by a Not-for-Profit Organization (including amendments to Statement 142)
- ▶ FIN 48 deferral
 - ▶ Would defer the Interpretation for all nonpublic entities until fiscal years beginning after December 15, 2008
- ▶ Oil and Gas Disclosures
 - ▶ Exposure Draft intended to be issued in second quarter of 2009
 - ▶ Would amend Statement 19