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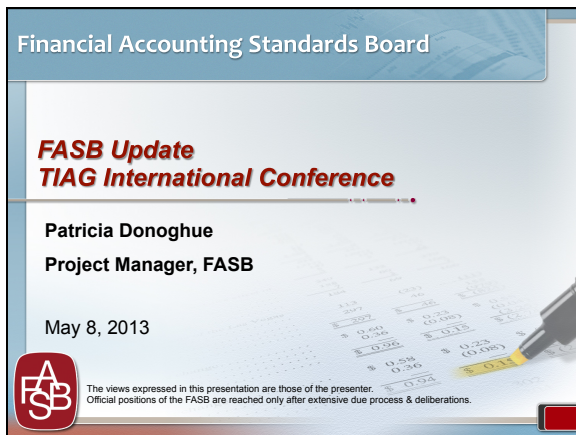
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Financial Accounting Standards Board

## Brief Overview of the FASB

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## FASB Mission

*To establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports*



Accomplished through comprehensive and independent process that encourages broad participation, objectively considers all stakeholder views, and subject to oversight by FAF Board of Trustees



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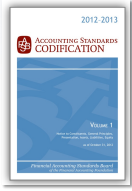
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## FASB: Standards


### FASB Accounting Standards Codification™


- Authoritative U.S. GAAP



### Accounting Standards Update

- Non-authoritative
- How & why Codification amended





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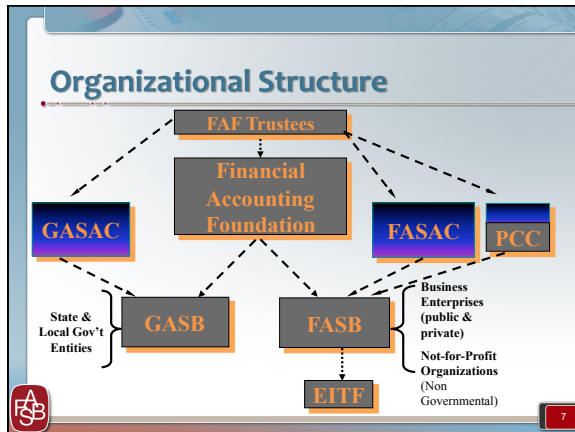
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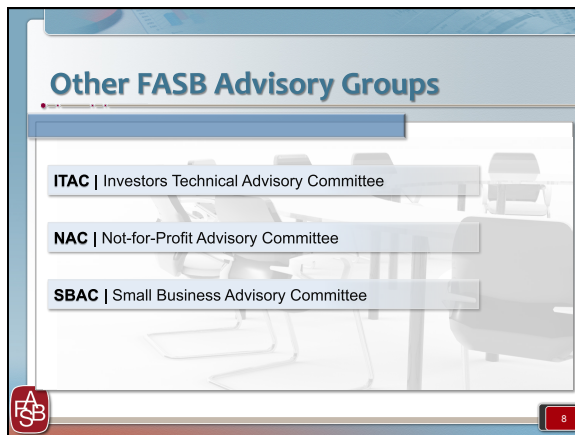
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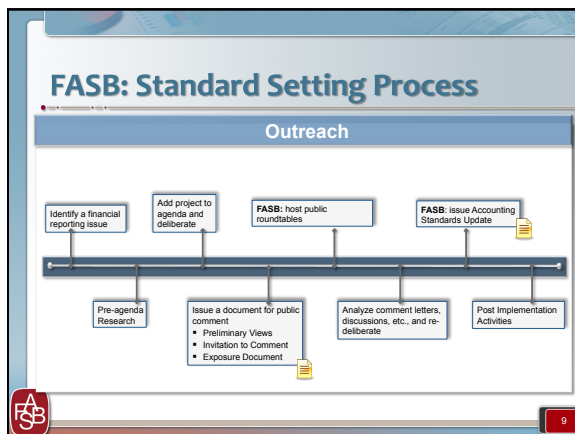
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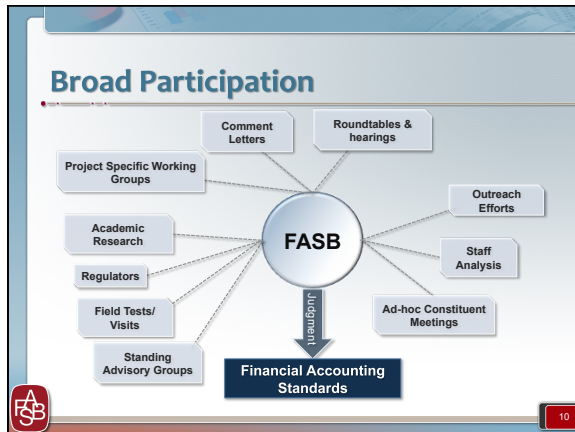
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### Int'l. Convergence—Challenges

-  Different starting points
-  Cultural differences
-  Cannot be achieved by standard setting alone

The FASB logo is in the bottom left corner, and the number '12' is in the bottom right corner.

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## Int'l Convergence - Successes

Since 2002, the FASB and the IASB have substantially improved and converged standards in the following areas:

- Business combinations
- Noncontrolling interests
- Fair value measurements
- Borrowing costs
- Segment reporting
- Stock compensation
- Nonmonetary exchanges.


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## Joint projects with the IASB

- Joint projects with the IASB
  - Revenue Recognition
  - Leases
  - Financial Instruments
    - Classification & Measurement
    - Impairment
  - Insurance Contracts



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## Gaps in IFRS

\* some of which the IASB is or may be working on filling

Broker/Dealers	Extractive Industries*
Insurance Companies*	Rate-Regulated Industries*
Employee Benefit Plans	NFPs


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### SEC Decision

**July 13, 2012—SEC staff issues final paper on possible incorporation of IFRS into U.S. GAAP**

- No recommendation on how U.S. should proceed
- Describes positive aspects of IFRS
- Identifies continuing concerns
  - ✓ *Costs of transition*
  - ✓ *Inconsistent application*
  - ✓ *Permanent funding mechanism*


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### What It Means to the U.S.

- FASB's mission is to ensure capital providers benefit from the highest quality standards that can be consistently applied, interpreted and enforced to provide best financial reporting
- FASB will focus on continuing to improve U.S. GAAP
- FASB will continue to work with national, regional and international standard setters to develop more comparable global accounting standards

— Member of IASB's new Accounting Standards Advisory Forum


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### Accounting Standards Advisory Forum

Established by the IFRS Foundation to advise IASB

**Membership:**

- *Financial Accounting Standards Board*
- *South African Financial Reporting Standards Council*
- *Accounting Standards Board of Japan*
- *Australian Accounting Standards board*
- *Chinese Accounting Standards Committee*
- *Asia Oceania Standard Setters Group*



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## Accounting Standards Advisory Forum

**Opportunities for FASB:**

- Represent U.S. interests in IASB standard setting
- Enhance relationships with other standard setters
- Continue process of converging U.S. GAAP and IFRS

*Mutual commitments consistent with FAF Trustees' view of long-range goal of converging global accounting standards*


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## Financial Accounting Standards Board

### Private Company Developments


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## SME's vs. Nonpublic Entities

- IFRS has separate standards for Small and Medium Size Entities(SME's)
  - Excludes financial institutions
  - Focused on entities in developing economies
  - May include both private and public entities
  - No special accounting for Not-for-Profits
- US: Nonpublic Entities
  - FAF Private Company Council
  - AICPA SME Project
  - Not-for-Profit Special Standards


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Private Companies (scope considered in FASB Nonpublic Entity Definition project)


**U.S. GAAP *applies to:***

- Public companies
- Private companies
- Not-for-profit organizations

**U.S. GAAP for Private Companies *potential differences in:***

- Recognition and measurement
- Disclosure
- Display (Presentation)
- Transition
- Effective date

• Note: Not all differences may be applicable to all private companies




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### PC Decision-Making Framework



<b>Not intended to be entirely new conceptual framework</b>
<b>Intended to help facilitate decisions &amp; drive consistency</b>
<b>Fundamental approach retains &amp; improves information relevant to typical users</b>
<b>Seeks to reduce cost &amp; complexity where appropriate, but not in a way that adversely affects reporting of relevant information</b>




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### PCC--Agenda

**What issues will the PCC be addressing?**  
(Those with an \* are also being monitored by the NAC and the FASB staff for potential applicability to NFPs)

- February 2013--PCC adds three project to its agenda
  - Consolidating VIEs
  - Accounting for "plain vanilla" interest rate swaps\*
  - Accounting for various intangibles in a business combination (likely including goodwill)\*
- Proposed private company decision-making framework (joint with the FASB)
- Research: development stage entities and stock-based compensation




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### PCC vs. AICPA SMEs Project

**AICPA Framework:** Self-contained, non-GAAP standards (blend of accrual income tax and other traditional accounting methods)

**PCC/FASB:** A better cost-benefit balance within GAAP for private companies thru appropriate exceptions and modifications

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### Financial Accounting Standards Board

## Leases

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### Why a Leases Project?

Existing Lease Accounting Does Not Meet Users' Needs

- Accounting depends on classification
- Contractual rights & obligations (assets & liabilities) are off balance sheet
- Many users adjust financial statements

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## Why a Leases Project?

Concerns about off-balance sheet accounting

- In 2005, SEC identified lease accounting as an area that needs to be addressed

Structuring Opportunities

- Lease classification often based on bright lines
- Significant difference in accounting on either side of operating/finance lease line

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## Leases

Project objective

- Increase transparency & comparability among organizations that lease assets, by recognizing assets & liabilities that arise from lease transactions on a lessee's balance sheet.

Convergence

- Boards have remained converged on major decisions.

Next steps

- Revised Exposure Draft expected in second quarter of 2013

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## Proposed Right-of-Use Model

*A lease contract is one in which the right to control the use of an asset (for a period of time) is transferred to the lessee.*

Lessor

Right of Use

Lessee

Largely converged on decisions

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## The Rationale (Lessee)

**What the lessee obtains**

- Right to use asset
- Obligation to pay for that right

**Importance of leased asset**

- Not all leases are the same

**How best to reflect those contracts in lessee's income statement**

- Amortization on ROU asset
- Straight-line lease expense

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## Classification (Lessee & Lessor)

**Lessee consumes more than insignificant portion of leased asset**

Leases of assets other than property *unless*:

- Lease term is insignificant relative to economic life of asset or
- PV of lease payments is insignificant relative to FV of asset

**Lessee does not consume more than insignificant portion of leased asset**

Leases of property (land and/or a building) *unless*:

- Lease term is major part of remaining economic life of asset or
- PV of lease payments is substantially all of FV of asset

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## Classification of leases – examples

**More than insignificant**

Vessel (20yrs)<sup>1</sup>

Truck (4yrs)<sup>3</sup>

Car (3yrs)<sup>4</sup>

**Insignificant**

Vessel (5yrs)<sup>1</sup>

Airplane (8yrs)<sup>2</sup>

Comm. Property (30yrs)<sup>1</sup>

Comm. Property (10yrs)<sup>1</sup>

Assumed economic life of:  
<sup>1</sup> 40 years | <sup>2</sup> 25 years | <sup>3</sup> 10 years | <sup>4</sup> 6 years

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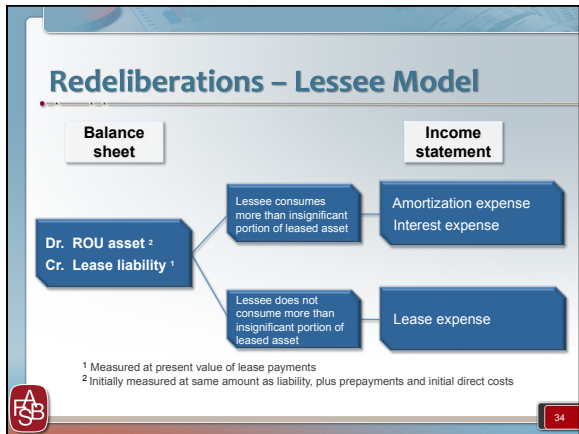
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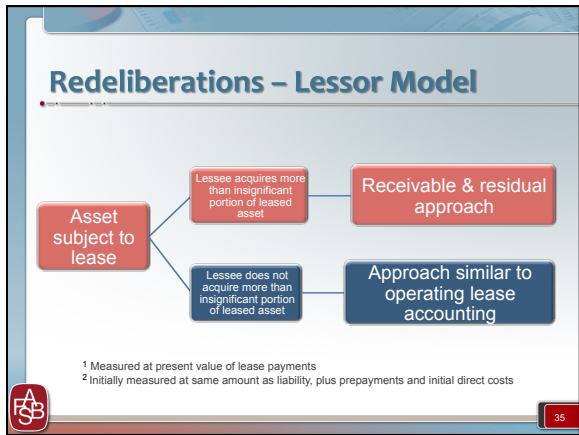
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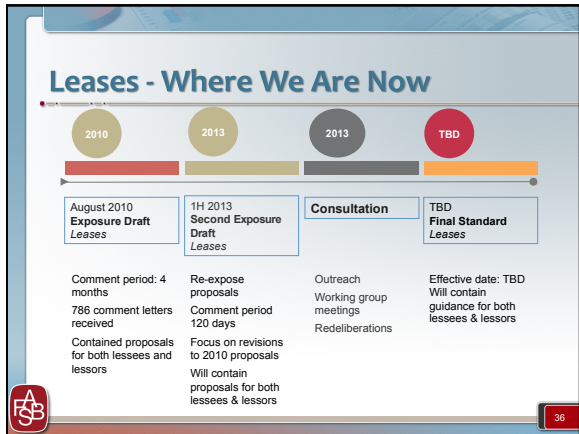
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## Recent and Next Steps



**4<sup>th</sup> Quarter 2012**

- Discussed findings, observations & NAC feedback with project resource group

**1<sup>st</sup> half of 2013**

- Additional research
- Discuss findings, observations, and staff's recommendations with Board
- Seek Board decision for next step/objective (possible issuance of an ITC to garner broader public input)

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## Financial Accounting Standards Board

# Revenue Recognition



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## Revenue Recognition

**Objective: single, principle-based revenue standard**

- Improve accounting for contracts with customers
  - More robust framework for recognizing revenue
  - Increased comparability across industries & capital markets
  - Better disclosures

Converged with IASB on major decisions up to now  
Final standard expected in mid-2013

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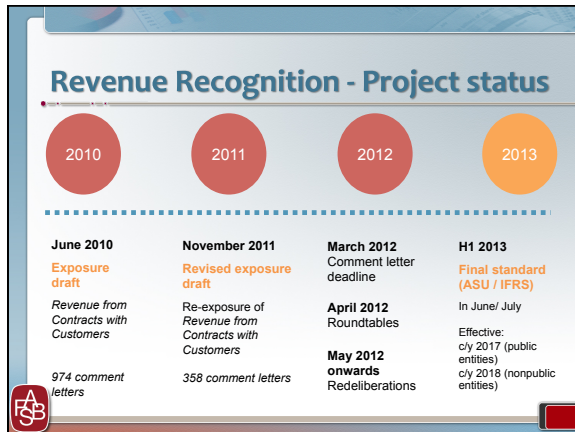
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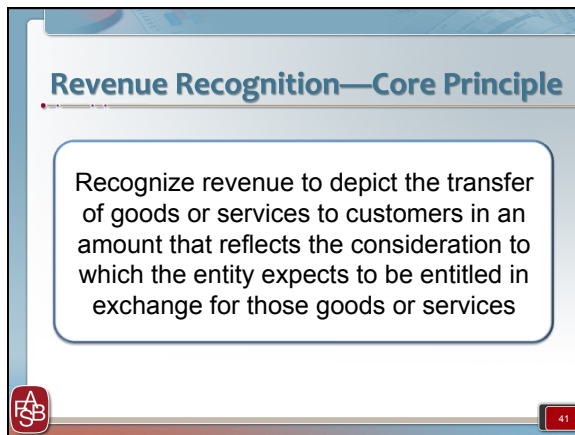
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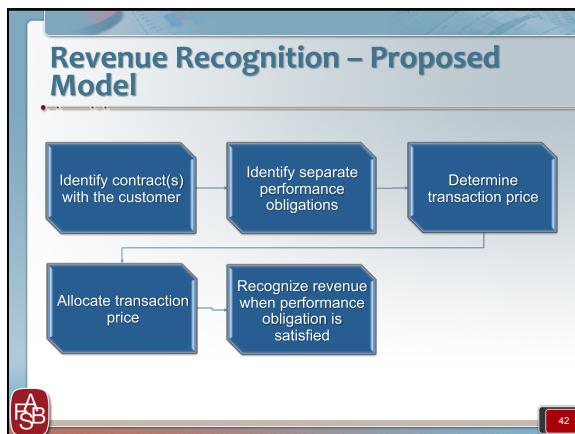
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Financial Accounting Standards Board

## Disclosure Framework Project




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## Disclosure Framework Project

### Objective

- Improve effectiveness of disclosures in notes to financial statements by clearly communicating the information most important to users of those statements.
  - ✓ Reducing volume of notes *not* primary focus (audit, legal, regulatory considerations)—but sharper focus on important information will result in reduced volume in most cases.



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## DF - Invitation to Comment

- Major components
  - A decision process for the Board
  - A decision process for reporting entities
  - Organization & formatting of notes to financial statements
- Other items
  - Interim disclosures

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### Staying Current – FASB Online

- Key resources at [www.fasb.org](http://www.fasb.org)
  - FASB webcast series
  - Projects
  - Nonpublic entities resources
  - Codification
- Twitter: FAFNorwalk
- Email: sign up for *Action Alert*



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### Financial Accounting Standards Board

**Questions / Comments ?**



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