

Assurance Group

Current Issues in Accounting/Auditing

October 28, 2009

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Agenda

- FASB Codification
- IFRS Convergence Update
- Fair Value
- Section 404(b) Reporting – Internal Control over Financial Reporting

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FASB Codification

- “Culmination of a years-long project
- Presents a single source of authoritative U.S. GAAP in a topically organized format
 - Supersedes a previous level and GAAP issued by standards setters, except for guidance issued by the SEC
- Any sources of U.S. GAAP not included in the Codification are NON-authoritative
- Excludes content deemed redundant or non-authoritative (e.g., FASB concept statements and most basis for conclusions)

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FASB Codification, continued

- Effective for interim and annual periods ending after September 15, 2009
- Includes SEC content in separate sections
- Structure – 5 groupings of topics
 - General Principles
 - Presentation
 - Financial Statement Accounts
 - Assets, Liabilities, Equity, Revenues, Expenses
 - Broad Transactions
 - Business combinations, leases, etc.
 - Industry

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FASB Codification, continued

- Detail structure
 - Topics
 - Subtopics
 - Sections
 - Subsections
 - Paragraphs

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IFRS Convergence Update

- G20 leaders and finance ministers have advocated for a single set of high-quality global accounting standards
- Obama administration has called for “significant progress” toward a single set of standards by the end of 2009
- Mary Schapiro has expressed interest to move the process forward and take a fresh look at convergence
- Existing roadmap issued almost 2 years ago is in limbo – no certain dates established or modified from this document

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Fair Value

- Most hotly discussed accounting topic in the last 10 years
- Political pressures are mounting in the US and abroad to have accounting rules that help in the current environment, not hurt

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Fair Value

- “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”
- Difficult to assess in this market with illiquidity and distressed sales

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Fair Value

- Excerpts from SFAS 157:
 - “An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction”
 - “Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that are ...[w]illing to transact for the asset or liability; that is, they are motivated but not forced or otherwise compelled to do so”
 - “For example, a transaction price might not represent the fair value of an asset or liability at initial recognition if ... [t]he transaction occurs under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.”

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Fair Value Pronouncements/Guidance

- FSP FAS 157-3 (discussed in New York)
- SEC study – December 2008
- *Valuation Considerations for Investments in Alternative Investments* – AICPA draft issues paper – January 2009
- FSP FAS 157-4, FSP FAS 107-1 and APB 81-1, FSP FAS 115-2 and FAS 124-2 – all issued April 9, 2009
- Innumerable articles, opinions, studies and analyses

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SEC Study

- FV accounting was not a primary underlying cause of bank failures or other distressed financial institutions studied
- Investors agree that FV information is useful and increases quality of information
- Recommend to improve application of and guidance related to FV accounting under SFAS 157

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FSP FAS 157-4

- Provides additional guidance for estimating fair value when volume and level of activity for an asset or liability has significantly decreased
- Provides guidance on identifying circumstances that indicate a transaction is not orderly
- Effective for reporting periods ending after June 15, 2009

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FSP FAS 107-1 and APB 28-1

- Disclose more fair value information (methods and assumptions) in interim filings
- For public companies only
- Effective for reporting periods ending after June 15, 2009

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FSP FAS 115-2 and FAS 124-2

- Amends guidance for other than temporary impairment (“OTTI”) for debt securities
- Intend to sell – OTTI has occurred
- Assess whether it is more likely than not that the entity will be required to sell before maturity
- OTTI related to credit loss recognized in earnings
- OTTI related to other factors recognized in equity (other comprehensive income)

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Fair Value

- Still evolving – stay tuned
- Become more adept at understanding generally accepted valuation methodologies and when to apply them
- Use experts (or become one yourself through training and certification)

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Internal control over financial reporting – US public companies

- October 2, 2009 – SEC announced that the smallest publicly reporting companies will need to get an auditor's report on their internal control over financial reporting beginning with annual reports of companies with fiscal years ending after June 15, 2009 (i.e., beginning with companies with a June 30 fiscal year end).
- "There will be no further Commission extensions," said SEC Chairman Mary Schapiro.
- We shall see...

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Conclusion

- FV is here to stay, whether you like it or not
- We all need to adapt (or retire!!)
- FV requires considerable judgment
- Be aware of litigation risk in particularly tricky situations
- It's not "business as usual," so don't audit like it is
- Seek help from experts as needed
- Smile!!

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