



Resources Global Professionals presents

# KEEPING CURRENT

A FINANCE & ACCOUNTING NEWSLETTER

April 2011

Welcome to our latest issue of “Keeping Current.” Included is a compilation of our **Financial Reporting Alerts** issued during the last quarter for your convenience. We hope to continue to provide you with frequent updates on what is happening at the Financial Accounting Standards Board (FASB), the Public Company Accounting Oversight Board (PCAOB) and the Securities and Exchange Commission (SEC) as well as any other relevant information for accounting and finance. Should you ever have any questions or suggestions, please don’t hesitate to contact your Resources Global Professionals Client Service Director.

*~ Colleen Cunningham*

**Colleen Cunningham**  
Global Managing Director, Finance and Accounting  
[colleen.cunningham@resources-us.com](mailto:colleen.cunningham@resources-us.com)

## Keeping Current: A Finance & Accounting Newsletter

April 2011

### FINANCIAL REPORTING ALERTS

#### **FASB ISSUES ASU 2011-01, RECEIVABLES (TOPIC 310): DEFERRAL OF THE EFFECTIVE DATE OF DISCLOSURES ABOUT TROUBLED DEBT RESTRUCTURINGS IN UPDATE 2010-20.**

January 19, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-01, *Receivables (Topic 310) Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*.

#### **Background**

On July 21, 2010, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) No. 2010-20, *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Topic 310, Receivables)*. The ASU required additional disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. It also included specific disclosures around Troubled Debt Restructurings including:

1. The nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses
2. The nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses.

Stakeholders have raised concerns that the introduction of the new disclosure requirements about troubled debt restructurings in one

reporting period followed by a change in what constitutes a troubled debt restructuring shortly thereafter (as outlined in a October 2010 Exposure Draft) would be burdensome for preparers and may not provide useful information for financial statement users. They have asked that the Board to defer disclosure requirements to be concurrent with the effective date for what constitutes a troubled debt restructuring.

Under the existing effective date in Update 2010-20, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010.

#### **Main Provisions**

The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring is being coordinated. Currently, the guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. In addition, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted.

#### **SEC ADOPTS RULES FOR SAY-ON-PAY AND GOLDEN PARACHUTE COMPENSATION AS REQUIRED UNDER DODD-FRANK ACT**

On January 25, 2011, the Securities and Exchange Commission (SEC) adopted rules concerning shareholder approval of executive compensation and "golden parachute" compensation arrangements as required under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

## Keeping Current: A Finance & Accounting Newsletter

April 2011

### Background

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act encompasses sweeping change to financial regulatory reform with the goal of preventing systemic risk in the system and to provide additional consumer protections.

The following rule amendments implement Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which added Section 14A to the Exchange Act.

### Rule Amendments – Required Say-on-Pay Votes and Additional Disclosure Requirements

#### *Shareholder Approval of Executive Compensation*

- Companies subject to the federal proxy rules are required to provide shareholders with an advisory vote on executive compensation at least once every three years beginning with the first annual shareholders meeting taking place on or after January 21, 2011.
- Companies are required to provide disclosure in the annual meeting proxy statement regarding the say-on-pay vote, including whether the vote is non-binding.
- Companies are required to provide additional disclosure in the Compensation Discussion and Analysis (CD&A) regarding whether they have considered the results of the most recent say-on-pay vote and how they considered them.

#### *Shareholder Approval of the Frequency of Shareholder Votes on Executive Compensation*

- Companies are required to allow shareholders a “frequency vote”, which is also a non-binding advisory vote, on how often they would like to be presented with the say-on-pay vote, at least once every six

years beginning with the first annual shareholders’ meeting taking place on or after January 21, 2011.

- Companies are required to disclose the frequency vote in the annual meeting proxy statement, including information on whether the vote is non-binding.
- In order to implement the requirement for the frequency vote, the rules revise the proxy rules to permit changes to the proxy card.
- Shareholder proposal rule (Rule 14a-8) is also revised to provide guidance regarding the impact of these new requirements on shareholder proposals relating to say-on-pay votes or frequency of say-on-pay votes.

#### *Form 8-K Disclosure of Frequency Determination*

- Form 8-K requires disclosure following a shareholder advisory vote on frequency of the company’s decision regarding how frequently it will conduct say-on-pay votes due to the non-binding nature of the vote and to allow shareholders to learn how often the company will provide the say-on-pay vote.
- The Form is required no later than 150 calendar days after the date of the annual meeting in which the vote took place, but in any event no later than 60 calendar days prior to the deadline for submission of Rule 14a-8 shareholder proposals for the subsequent annual meeting.

#### *Smaller Reporting Companies*

- The Commission adopted a temporary exemption for smaller reporting companies (public float of less than \$75 Million) on conducting say-on-pay and frequency votes until annual meetings occurring on or after January 21, 2013.

## Keeping Current: A Finance & Accounting Newsletter

April 2011

- Smaller reporting companies **are** required to conduct the shareholder advisory vote on golden parachute compensation upon effectiveness of the rules.

### *Shareholder Approval and Disclosure of Golden Parachute Arrangements*

- Companies are required to provide additional disclosure regarding compensation arrangements with executive officers in connection with merger transactions, going-private transactions and third-party tender offers, known as “golden parachute” arrangements.
- Companies are required to disclose all agreements and understandings that the acquiring and target companies have with the named executive officers of both companies. These disclosures must be in both narrative and tabular formats.
- Companies are required to provide a separate shareholder advisory vote to approve certain “golden parachute” compensation arrangements in connection with a merger, acquisition, consolidation, proposed sale or other disposition of all or substantially all assets.
- Compliance is required in proxy statements and other schedules and forms initially filed on or after April 25, 2011.

### **BLUE RIBBON PANEL ISSUES REPORT ON PRIVATE COMPANY GAAP TO THE FINANCIAL ACCOUNTING FOUNDATION**

On January 26, 2011 the blue-ribbon panel addressing how U.S. accounting standards can best meet the needs of users of private company financial statements issued their report on recommendations to the Financial Accounting Foundation (FAF) Board of Trustees. The report calls for fundamental changes to the system of

standard setting, including the creation of a new board, to be overseen by the FAF, that would focus on making exceptions and modifications to U.S. GAAP for private companies that better respond to the needs of the private company sector.

The FAF Board of Trustees, as part of its strategic initiative to review private company issues, will consider the panel’s recommendations as it deliberates improvements to the standard-setting process.

### **Background**

In December 2009, the FAF, the American Institute of Certified Public Accountants (AICPA), and the National Association of State Boards of Accountancy (NASBA) established a “blue ribbon” panel to address how accounting standards can best meet the needs of users of U.S. private company financial statements. The panel was asked to provide recommendations on the future of standard setting for private companies to the FAF Board of Trustees. This report is the result of the Panel’s work and includes member recommendations to the Trustees.

### **Recommendations**

#### *GAAP with Exceptions and Modifications for private companies*

- Accounting standards for private companies would continue to be based on existing US GAAP standards
- Establishes the allowance for exceptions and modifications that would result in relevant, decision-useful information in financial statements that meets the needs of the users of private company financial statements.
- Modifications and exceptions would have to be justified using a differential framework ( a guide to whether differences would be

## Keeping Current: A Finance & Accounting Newsletter

April 2011

appropriate) as they may result in different measurement, disclosure, presentation and recognition.

- A cost-benefit analysis would be performed taking into account costs to prepare, report on and use the financial statements.

### *Separate Private Company Accounting Standards Board*

- Recommends a separate accounting standards board (the “board”) reporting to the FAF:
  - The board would consist of members representative of the private sector
  - The board would have outreach responsibilities with corresponding feedback to the FASB
  - The FAF is recommended to perform a comprehensive review of the board after 3-5 years
- The board would have standard setting authority to determine and set exceptions and modifications.
- The board would monitor the activities of the FASB and work alongside them to insure differences in GAAP for private companies are warranted.
- Either the board or the FASB could promulgate differences depending on circumstances of the topic.

### **IASB AND FASB ISSUE EXPOSURE DRAFT: OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

On January 28, 2011, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) published for public comment exposure drafts on offsetting financial assets and financial liabilities.

### **Background**

This project is a joint project where the IASB and FASB are working to establish a common approach to the offsetting, or netting, of financial assets and financial liabilities in a company’s statement of financial position. Currently, the differences between IFRS and US GAAP offsetting requirements can cause significant differences in reported figures. The Exposure Drafts are open for comment until April 28, 2011.

### **Proposal**

The Exposure Drafts propose that financial assets and financial liabilities would be required to be offset in the statement of financial position only if all of the following criteria are met:

#### *There is an unconditional right of set-off*

- A right of set-off is the right of one company, by contract or otherwise, to use an amount that is owed to it by another company in full or partial payment of what it owes that company.
- Unconditional right of set-off means that the ability to exercise that right does not depend on a future event.

#### *There is a legally enforceable right to set-off*

- The company’s right of set-off must be available in all circumstances (ie., in the normal course of business, default or bankruptcy).

*The company intends to settle the asset and liability on a net basis, or the company will settle them simultaneously*

- Intent may be demonstrated through past practice in similar situations or its normal operating practices.

## Keeping Current: A Finance & Accounting Newsletter

April 2011

- Net settlement occurs when the company that owes the greater amount pays the difference between the amount that it owes and the amount owed to it.
- Simultaneous settlement occurs when each company pays the full amount that it owes the other but the payments occur at the same moment.

### *Required vs. permitted*

- A company that meets the proposed criteria must apply the offsetting rules in its statement of financial position.

### **IASB AND FASB ISSUE SUPPLEMENTS TO ADDRESS JOINT SOLUTION FOR IMPAIRMENTS OF FINANCIAL INSTRUMENTS**

On January 31, 2011, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) published for public comment supplements to existing Exposure Drafts dealing with impairments of financial instruments.

### **Background**

In October 2008, as part of a joint approach to dealing with the reporting issues arising from the global financial crisis, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) set up the Financial Crisis Advisory Group (FCAG) to consider improvements to financial reporting that would help enhance investor confidence in financial markets. The FCAG has identified delayed recognition of losses anticipated with financial instruments and the complexity of multiple impairment approaches as a primary weakness in accounting standards and their application

As a result of the IASB and FASB's work responding to the global financial crisis, both Boards announced accelerated timetables for replacing their respective financial instrument standards in April 2009. The results are as follows:

### IASB

- November 2009: IFRS 9 *Financial Instruments* on classification and measurement of financial assets and an Exposure Draft *Financial Instruments: Amortized Cost and Impairment* issued as first phase in replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The proposal effectively replaced the "incurred loss model" with an "expected loss model").
- December 2010: Exposure Draft *Hedge Accounting* issued.

### FASB

- May 2010: Proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activity* issued. This ED includes guidance on classification and measurement, credit impairment and hedge accounting requirements.
- December 2010: Boards preparing to publish IASB proposal on Hedge Accounting for comment to assess whether similar changes to US GAAP should be considered and began deliberations on its views on classification and measurement.

As the Boards began redeliberating their original models on impairments per the FCAG findings, each Board began developing models that was a change from its original proposal yet remained an area of divergence. As the Boards were committed to seeking a common solution, the supplementary

## Keeping Current: A Finance & Accounting Newsletter

April 2011

document presents an impairment model that they believe will allow them each to satisfy parts of their original objectives while achieving the desired common solution.

### Objective of original proposals

#### IASB

The board continues to stress the importance of reflecting the relationship between the pricing of the financial asset and the expected credit loss.

- Reflect the initial expected credit losses as part of determining the effective interest rate. The board believes this is a more reflective of the economic substance of the lending transaction.
- The Impairment becomes part of the measurement of the financial asset at amortized cost.
- Required an entity to estimate expected cash flows over the life of the instrument.
- This impairment approach would generally result in earlier recognition of credit losses than the incurred loss model currently used in IAS 39.
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Respondents to the original ED supported a change to an expected loss model but many felt the implementation would pose operational difficulties particularly for open portfolios.

#### FASB

The board continues to place primary importance on maintaining an allowance for credit losses sufficient to cover expected credit losses before they occur.

- Record an allowance balance that is sufficient to cover all estimated credit

losses for the remaining life of an instrument.

- Requires an entity to estimate cash flows not expected to be collected over the life of the instrument and recognize a related amount immediately in the period of estimate.
- The board believes this approach addresses concerns that, under current guidance, reserves tend to be at their lowest level when they are needed most at the beginning of a downward economic cycle.
- By recognizing all credit impairments immediately, the allowance account would have a balance of estimated credit losses based on cash flows not expected to be collected for the remaining lifetime of the financial asset.

### Common Approach

The boards are proposing a common solution, whereby they would establish a credit impairment approach based on expected (versus incurred) losses. Financial assets that are managed on an open portfolio basis would be placed into two groups, based on their credit characteristics for the purpose of determining the impairment allowance. For one group, the entire amount of the expected credit losses for the life of the asset would be recorded in the impairment allowance (the group referred to as the "bad book"). The other group (referred to as the "good book"), expected credit losses would be recorded on a portfolio basis over a time period at the higher of the time proportional expected credit losses (depending on the age of the portfolio) and the credit losses expected to occur within the foreseeable future period (minimum of 12 months). A discounted or a nondiscounted estimate can be used to calculate the time proportional allowance. If a discounted approach were used, the rate would be any reasonable rate between the risk free rate and the effective interest rate.

### Next Steps

## Keeping Current: A Finance & Accounting Newsletter

April 2011

The boards have proposed their models in acknowledgement of the importance of reaching a common solution to the accounting for impairment. They also believe that obtaining comments from their respective constituents is imperative to moving forward and giving the boards a common outcome. Comments for these supplements are due April 1, 2011.

### **FASB ISSUES ACCOUNTING STANDARDS UPDATE (ASU) No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.***

#### **Background**

Due to diversity in practice identifying restructurings of receivables that constitute troubled debt restructurings for a lender, the FASB added a project to focus on the identification of such troubled debt restructurings in 2010.

#### **Proposal**

In evaluating whether a restructuring should be classified as a troubled debt restructuring, a lender is required to separately conclude that both of the following criteria exist:

- The restructuring constitutes a concession by the lender to the borrower; and
- The borrower is experiencing financial difficulties

Concessions exist if the following has occurred:

- If a borrower does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, then the restructured debt would be considered to be at a below-

market rate, which may indicate that the lender has granted a concession.

- A temporary or permanent increase in the contractual interest rate as a result of restructuring does not preclude the restructuring from being considered a concession because the new contractual interest rate on the restructured debt could still be below the market interest rates for new debt with similar risk characteristics.
- A restructuring that results only in an insignificant delay in payment is not a concession. Although, various factors should be assessed as to whether a restructuring resulting in a delay of payment is insignificant.

Some other guidance included in the standard includes:

- Clarification of which factors indicate that a borrower is experiencing financial difficulties
- Guidance precludes a lender from looking to the borrower's effective interest rate test when evaluating whether a restructuring constitutes a troubled debt restructuring.

#### **Effective date**

For public companies, the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. For non-public entities it is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. Early adoption is permitted for both public and not public entities.

### **FASB ISSUES PROPOSED ACCOUNTING STANDARD UPDATE: *INTANGIBLES – GOODWILL AND OTHER (TOPIC 350)***

## Keeping Current: A Finance & Accounting Newsletter

April 2011

April 22 2011, the Financial Accounting Standards Board (FASB) issued a Proposed Accounting Standard Update to address changes to goodwill impairment testing.

### Background

In late 2010 the FASB held roundtables to discuss concerns raised by private companies that the current model for impairment testing of goodwill required under Topic 350 is complex and costly. Current guidance requires an entity to test goodwill for impairment, at least annually, using a two step process:

Step 1: Calculate the fair value of a reporting unit and compare the fair value to the carrying amount of the reporting unit, including goodwill.

Step 2: If the fair value of the reporting unit is less than its carrying amount, then the entity must measure the amount of the impairment loss, if any.

Entities are precluded from considering a qualitative approach (considering events and circumstances prior to assessing fair value) for testing goodwill impairment.

### Proposed changes

The Amendment proposes that an entity would have the option of first assessing the qualitative factors to determine whether it is *more likely than not* (presumed to be 50% or more likelihood) that the fair value of a reporting unit is less than its carrying amount. If, after consideration of qualitative factors, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount than performing the two step impairment test would not be necessary. If the conclusion is the opposite, then the entity would be required to perform the two step process of the impairment testing.

In addition, the proposed guidance, an entity may choose to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two step test.

The proposed Update would also expand on examples of qualitative events that an entity should consider between annual impairment testing, in determining whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount.

### **FASB ISSUES ACCOUNTING STANDARDS UPDATE (ASU) No. 2011-03, *Transfers and Services (Topic 860): Reconsideration of Effective Control for Repurchase Agreements***

#### Background

A repurchase agreement is a transaction wherein an entity transfers a financial asset(s) to another entity in exchange for collateral, with an agreement that the recipient of the financial asset will return the same or equivalent financial asset for a fixed price in the future. Current guidance under Topic 860 requires the transferor to maintain *effective control* over the transferred asset by considering their ability to repurchase or redeem financial assets transferred before maturity (the transferor's ability criterion).

#### Proposal

The amendment to the Topic 860, removes from the assessment of *effective control*, the transferor's ability criterion as well as related implementation guidance. All other criteria applicable to the assessment of effective control are unchanged and should indicate that the transferor is deemed to have maintained effective control over the financial assets transferred for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity .

## Keeping Current: A Finance & Accounting Newsletter

April 2011

### Effective date

The first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date.

### ABOUT RESOURCES GLOBAL PROFESSIONALS

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Resources Global was founded in 1996 within a Big Four accounting firm. Today, we are a publicly traded

company with over 2,700 professionals, from more than 80 practice offices, serving 2,200 clients around the world. Headquartered in Irvine, California, Resources Global has served 81 of the Fortune 100 companies.

**As of March 2010, Resources is now aligned with IASeminars, which allows us to provide CPAs and other financial professionals with a comprehensive range of training solutions around IFRS and other key finance and accounting initiatives.**

*For additional information, please contact your Resources Global Professionals Client Service Director.*