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Current economic instability : accounting issues and risks for financial management and reporting - 2010; Financial Reporting Alert

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Current Economic Instability:

Accounting Issues and Risks for Financial Management and Reporting – 2010

Strengthening Financial Management and Reporting

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Notice to Readers

This Financial Reporting Alert is intended to provide accountants practicing in business and industry with an overview of recent economic, technical, regulatory, and professional developments that may affect financial management and reporting.

This document has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.

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Technical Manager
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How This Alert Helps You

This alert is intended to help you better understand the relevant economic and regulatory factors that affect your financial reporting and identify issues that could result in the material misstatement of your entity's financial statements.

The current economic situation makes financial management more challenging than ever. This Financial Reporting Alert (alert) is designed to be used by members of an entity's financial management and audit committee to identify and understand current accounting and regulatory developments affecting the entity's financial reporting, especially those that are the result of recent economic developments. It is intended to help you achieve a more robust understanding of the current economic environment in which your entity is operating. This alert is also an important tool to help you identify the significant risks that may result in the material misstatement of your entity's financial statements. To help you understand relevant industry, economic, and regulatory factors affecting your financial management and reporting, the AICPA also offers industry- and topic-specific alerts to be used in conjunction with this alert. These alerts can be obtained by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com. You should refer to the full text of pronouncements as well as the full text of any rules or publications that are discussed in this alert.

Certain accounting guidance referenced in this alert has been codified into the Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC). On June 30, 2009, FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*, which is codified in FASB ASC 105-10. On the effective date of this statement, FASB ASC became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). At that time, FASB ASC superseded all then-existing, non-SEC accounting and reporting standards for nongovernmental entities. Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC became nonauthoritative. See the discussion of FASB Statement No. 168 in the "Accounting Issues and Developments" section of this alert.

Understanding the Current Economic Environment to Assess Risks for Your Entity

Your entity's financial statements will be subject to specific risks of material misstatement arising from the current economic situation. The nature of your entity, the degree of regulation, or other external forces affecting the entity will vary, but this alert is designed to help you better assess these risks in order to develop appropriate controls.

It is important for members of an entity's financial management or audit committee to have a sufficient understanding of the entity and the current environment in which it operates. This understanding will help you perform not only adequate risk assessment, but also opportunity assessment. A proper risk assessment will assist you in understanding the risk that your entity's financial statements may be misstated. Understanding how the following things affect your entity will provide a basis for your risk and opportunity assessments:

- Current economic conditions
- Nature of the industry in which your entity operates and how it is changing (including effects on your supply chain and competitors)
- Industry, regulatory, and other external factors
- Business objectives and strategies and related risks
- Current, past, and projected financial performance of the entity
- Competitors' financial performance
- Internal control within your entity, which includes the selection and application of accounting policies

Your entity's financial statements are subject to specific risks of material misstatement arising from the nature of the entity, the degree of regulation, or other external forces affecting the entity (for example, political, economic, social, technical, and competitive forces). Just as the external environment changes, the conduct of your entity's business is also dynamic: business strategies and objectives change in response to external developments. Business risks result from (*a*) significant conditions, events, circumstances, actions, or inactions that could adversely affect your entity's ability to achieve its objectives and execute its strategies or (*b*) the setting of inappropriate objectives and strategies. An understanding of business risks increases the likelihood of identifying, correcting, and preventing risks of material misstatement in your financial statements. Most business risks will eventually have financial consequences and, therefore, an effect on the financial statements. However, not all business risks give rise to risks of material misstatement.

Understanding and properly addressing, as necessary, the matters presented in this alert will help you better assess risks of material misstatement of the entity's financial statements and implement appropriate controls that will strengthen the integrity of your financial management and reporting.

Economic, Legislative, and Regulatory Developments

Determine how current economic conditions and recently issued regulations and guidance from the Department of Treasury, IRS, and SEC affect your entity.

The Current Economy

December 2009 may have brought the beginning ripples of a wave of global economic recovery. Although many key indicators, such as unemployment, are still uncomfortably high, 2009 ended with rising commodity prices, a jump in new factory orders that caused the largest expansion in production in 3 years, and an increase in U.S. auto sales that approached prerecessionary levels. Further, after experiencing an overall decline in the stock market through March 2009, the markets have rebounded substantially. In March 2009, the S&P 500 and the Dow Jones Industrial Average reached their 12-year lows, and NASDAQ closed at its lowest point since October 2002. By early March 2010, all 3 had increased in value by at least 58 percent from March 2009 lows. In the second half of 2009, other positive signs emerged, such as continual increases in U.S. real gross domestic product (GDP) and consumer spending, which historically have pointed to economic recovery. Some key occurrences that exhibit the mixed state of the economy include the following:

- U.S. real GDP, the broadest measure of economic activity, decreased for four consecutive quarters beginning with the third quarter of 2008.
- The number of jobless claims remains high.
- The Federal Reserve has maintained the federal funds interest rate at a historically low level.
- Numerous financial institutions that received bailouts from the government were able to repay a substantial portion of the funds they received during 2009.
- Millions of households owe more on their mortgages than their homes are currently worth. The number of residential home foreclosures generally continues to increase; however, the fourth quarter of 2009 showed a decrease from the third quarter of 2009.
- The demand for the safety of U.S. Treasury bills has increased at a staggering rate, which drove the discount rate for three-month Treasury bills to 0.005 percent in early December 2009. This was the lowest rate since the securities began being auctioned by the Treasury in 1929.
- The Treasuries-Over-Euro-Dollar Spread reached 4.63 percent in October 2008, a historic high, before returning to a more typical 0.21 percent by year-end 2009.

Key Economic Indicators

These key economic indicators further illustrate the severity of the recent recessionary period experienced by the United States.

The GDP measures output of goods and services by labor and property within the United States. It increases as the economy grows or decreases as it slows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 5.9 percent in the fourth quarter of 2009 (second estimate) and 2.2 percent in the third quarter of 2009. Real GDP for the second quarter of 2009 decreased 0.7 percent. This data indicates a turnaround in the economy because in the fourth quarter of 2008 and the first quarter of 2009, real GDP decreased 6.3 percent and 5.5 percent, respectively.

From February 2009 to February 2010, the unemployment rate fluctuated between 8.2 percent and 10.1 percent. An unemployment rate of 10.0 percent represents approximately 15.3 million people. Since the start of the recession in December 2007, the number of unemployed persons has increased by as much as 7.8 million, or 5.1 percentage points.

The Federal Reserve has decreased the target for the federal funds rate more than 5.0 percentage points to less than 0.25 percent, where it remained throughout 2009 and into early 2010. The Federal Reserve noted in its March 16, 2010, press release that "economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period." The press release also described the ongoing improvements in the functioning of financial markets and the expiration of most of the Federal Reserve's special liquidity facilities.

Consumer Price Index Trends

The U.S. Department of Labor Bureau of Labor Statistics (BLS) annually publishes its Consumer Price Index for all Urban Consumers (CPI-U). The CPI-U is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI-U is the most widely used measure of inflation and is sometimes viewed as an indicator of the effectiveness of government economic policy. It provides information about price changes in the nation's economy to government, business, labor, and private citizens and is used as a guide when making economic decisions. The table that follows shows the U.S. city annual average CPI-U for the past 5 years. The baseline measurement is 1982–1984=100.

Year	*Annual Average Consumer Price Index for all Urban Consumers*	*Change From Prior Year*
2009	215.9	2.7%
2008	210.2	0.1%
2007	210.0	4.1%
2006	201.8	2.5%
2005	196.8	3.4%

Producer Price Index Trends

The Producer Price Index (PPI) of the BLS is a family of indexes that measure the average change over time in the prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the CPI. CPIs measure price change from the purchaser's perspective. Sellers' and purchasers' prices can differ due to government subsidies, sales and excise taxes, and distribution costs. The table that follows shows the annual average PPI for finished goods for the past 5 years. The baseline measurement is 1982=100.

Year	*Annual Average Producer Price Index-Finished Goods*	*Change From Prior Year*
2009	176.2	4.4%
2008	168.8	-0.9%
2007	170.6	6.3%
2006	160.5	1.1%
2005	158.8	5.4%

Interest Rates for Below Market Rate Loans

The IRS issues the blended annual applicable federal rate each year to provide guidance in relation to Internal Revenue Code Section 7872(e)(2), "Treatment of loans with below-market interest rates—Foregone interest" (*Internal Revenue Code, U.S. Code 26*). The term *forgone interest* means, with respect to any period during which the loan is outstanding, the excess of

a. the amount of interest, which would have been payable on the loan for the period, if interest accrued on the loan at the applicable federal rate and were payable annually on the day referred to in Subsection (a)(2), over

b. any interest payable on the loan properly allocable to such period.

This rate is a useful guide in evaluating interest rates and determining imputed interest for below market rate loans. The following table provides the blended annual rate for each of the previous five years as determined by the IRS.

Year	*Blended Annual Rate*
2009	0.82%
2008	2.80%
2007	4.92%
2006	4.71%
2005	3.11%

Financial Management Issues and Developments

Discover insight and advice from business and finance professionals to guide you in difficult economic conditions.

Operating in this current economic environment produces various challenges for your entity and requires steps to meet those challenges, including managing liquidity, maintaining and improving controls and risk management, and providing increased transparency to investors through financial statement disclosures. The following are considerations that may help you plan your short- and long-term business strategy during these trying times.

Strategies to Navigate the Current Business Environment

Entities across the country are feeling the shock from the collapse of the global financial markets. Regardless of industry, entities are searching for strategies on how they can maintain profitability during these difficult times. The best of these entities emerge from the fallout and position themselves for success after the dust settles and a sense of normalcy returns. The AICPA Business and Industry Executive Committee has assembled a list of key considerations when reviewing your business strategies.

One important rule that must be followed in situations such as this is don't panic. Rash decisions often result in undesired consequences.

After paying attention to the first rule, it is critical to review your cash management practices and to implement steps to improve them. Some items to consider include the following:

- Doing nothing may be the best action to take. Make sure your overall cash position and anticipated cash needs are in line with your business's short-term needs, goals, and risk tolerance level.
- Check the safety of any cash deposits you have. Have you considered a Certificates of Deposit Account Registry to spread the risk for short- to medium-term cash you may have invested in certificates of deposit?
- Focus on your broader cash flow planning situation. What are your cash flow needs for the next 90–120 days? Or 120–180 days? Do you have sufficient cash reserves for the next 30–60 days?
- Check with your lenders on the status of your credit lines. Are you in compliance with the terms? Will your bank renew the commitments at similar amounts, rates, and terms?

- Closely monitor your accounts receivables. Look for any new patterns of slow payments and follow up immediately. Review your largest and riskiest accounts to determine the potential effect of credit constraint or economic slowdown on those customers' ability to meet their obligations to you.
- Review inventory management practices if you are a manufacturer. Do you have opportunities to reduce on-hand inventory?
- Make sure you're capturing all your billable hours and are invoicing promptly if you are a service company. Have you billed all of your contractual items? How about all of your pass-through expenses including billable third-party services and travel and living expenses?
- Control what you can in your situation. Can you reduce spending in any areas to reduce the burden on your cash flow needs?
- Review all of your insurance coverage. Pay particular attention to coverage you have with those companies that have weak balance sheets. Be careful not to surrender a policy, as securing new coverage might require underwriting that can affect your coverage.

Your employees are also going to be concerned about the effect of the economy on the health of the entity, the likelihood of continued employment, and the effect on retirement or other benefit plans in which they participate. Regardless of how challenging the particular circumstances of your entity may be, communicating effectively and keeping employees informed about issues with the potential to affect them personally will pay dividends in productivity in the short term and loyalty in the long run.

Assessing Liquidity Risk

Cash flow is essential to any entity. The previous section pointed out several questions you should consider regarding liquidity. Whether you need to pay your employees, purchase goods or equipment, pay utility bills, fund research and development costs, or extend credit to customers, every entity needs access to working capital. During this time of economic uncertainty, banks and other sources of financing have severely curtailed or even eliminated many lending programs and lines of credit that are essential to businesses. In some cases, this restriction is due to tighter lending policies by the bank, in others because the bank's own access to credit is limited. To plan for or avoid an illiquid situation, ask the following questions to determine where your risks lie:

- Does your entity rely on a single lender or group of lenders? Have they shown any signs of financial distress?

- After a review of financial covenants in your debt agreements, are you in jeopardy of default?
- Are any of your key customers or suppliers showing signs of financial distress or an inability to meet their commitments?
- Are the economic assumptions that existed at the time supplier and customer agreements were created still valid? If not, is modification possible?
- Are there concerns about your entity's key insurance providers or their ability to pay claims?
- What role is financing going to play in your plans for future capital improvements, mergers and acquisitions, or other long-term investments? Are these still viable business options?
- After a thorough review of your investment portfolio,
  - is it possible that you will have trouble accessing or liquidating any investments?
  - have any of your investments been significantly or permanently impaired?
  - are any of your investments now of higher risk than your investment policy allows?
- Will depressed stock prices put you at risk of a takeover by strategic or financial buyers?
- Have you employed enterprise risk management (ERM) strategies as discussed in the "Enterprise Risk Management" section of this alert?
- Have you developed a plan to access alternative sources of liquidity, including the following?
  - Operating asset sales
  - Obtaining equity investors
  - Liquidating investments from your portfolio
  - Negotiating credit terms with a business partner or supplier
- How will your strategy to survive economic challenges create additional demands on your cash? For example, downsizing the workforce, business line or plant closures, or benefit plan changes will likely require cash to implement.

Line of Credit Renewals

Entities frequently rely on lines of credit or short-term loans from their local bank to finance operations or capital purchases. This year, many entities will receive an unpleasant surprise when it is time to renew these loans. The renewal of a line of credit is considered to be a new borrowing transaction that results in the reassessment of the risk that the borrower represents to the bank. The result of this reassessment of the borrower's creditworthiness is often higher interest rates and less friendly loan terms due to the tightening of the bank's lending policies. Therefore, it is very important to meet with your lenders to discuss upcoming renewals even when your entity is doing business as usual.

Assistance From Small Business Administration Programs

Small Business Financing

The U.S. Small Business Administration (SBA) has a variety of loan programs that can offer financial assistance to entities. The two most commonly used are the Section 7(a), "Loans to Small Business Concerns; Allowable Purposes; Qualified Business; Restrictions and Limitations," of the Small Business Act (7(a) loan) program, and the Certified Development Company loan program for projects in accordance with Section 504, "Private Debenture Sales," of the Small Business Investment Act of 1958 (CDC/504).

The 7(a) loan program offers the most basic and most used type loan of the SBA's business loan programs. Section 7(a) of the Small Business Act authorizes the SBA, through participating financial institutions, to provide business loans to American small businesses. All 7(a) loans are provided by lenders who are called "participants" because they participate with the SBA in the 7(a) program. Not all lenders choose to participate, but most American banks do. Some nonbank lenders also participate with the SBA in the 7(a) program, which expands the availability of lenders making loans under SBA guidelines. 7(a) loans are only available on a guaranty basis. This means they are provided by lenders who choose to structure their own loans by SBA's requirements and who apply and receive a guaranty from SBA on a portion of this loan. The SBA does not fully guarantee 7(a) loans. The lender and SBA share the risk that a borrower will not be able to repay the loan in full. The guaranty is a guaranty against payment default. It does not cover imprudent decisions by the lender or misrepresentation by the borrower. Under the guaranty concept, commercial lenders make and administer the loans.

The CDC/504 loan program is a long-term financing tool for economic development within a community. The 504 program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. A Certified Development Company (CDC) is a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private sector lenders to provide financing to small businesses. About 270 CDCs exist nationwide, with each covering a specific geographic area. Typically, a 504 project includes a loan secured with a senior lien from a private sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

For more information on these and other SBA loan programs, visit www.sba.gov.

Other SBA Resources

Each of the 50 states also cosponsors a program called Small Business Development Centers (SBDC), which provides planning and operational resources to help new and existing businesses. In addition to providing a list of local resources to assist businesses, the SBDCs also offer business counseling; market development and research services; government procurement contract assistance; import-export assistance; private equity funding assistance; and management education courses, which include topics such as business and strategic plan development, business risk assessment, and performance measurement. Many of these resources are offered free of charge. For more information or to find an SBDC near you, visit www.asbdc-us.org.

More information on liquidity concerns can be found at http://fmcenter.aicpa.org/Resources/.

Succession and Talent Management Planning

One of an entity's largest costs is often wages and benefits. Conversely, an entity's largest asset is often its workforce and the knowledge and expertise of those individuals. Interestingly, during this economic recession, entities are also faced with a rapidly aging workforce. As a result of the struggle to prepare top talent to fill positions left vacant by an aging workforce, businesses and firms across the United States have employed succession planning measures that strategically address maintaining the strength of the organization while balancing the replacement of critical organization leaders. Experts indicate that you should not abandon your entity's succession plan, but rather now is the time to implement such a plan.

If layoffs loom in your entity's future, it's time to implement your succession and talent management plan. "This is the time to keep your exceptional performers and their successors while cutting the average and (should they exist) below average employees," said Bill Reeb, CPA, CITP, of the Succession Institute.

Whether your entity is considering a layoff or not, if you don't already have a plan in place, Reeb recommends focusing on the leadership roles you need to fill rather than the employees you need to replace. The goal is not to replace personalities because that is not possible. Instead, clearly indicate the key roles and responsibilities of the positions in your succession plan. In addition, identify the authorities and limitations of those positions. Doing so allows you to internally develop and groom replacements (the preferred route) or seamlessly enlist a successor from outside the entity.

In assessing your entity's talent, it is important to keep in mind who will be leading the entity when the economy rebounds. In fact, Reeb explains that the succession planning process may bring to light the numerous management mistakes of the past such as incomplete performance reviews that result in undeserved raises and bonuses. In assessing your succession needs, the goal is to determine and retain talented employees.

Should your entity have to perform layoffs, several other key things should be kept in mind besides your succession plan, including the following:

- Plan early and carefully for a layoff (or potential future layoff). Make such decisions strategically and in consideration of the worst case scenario. Carefully consider the timing, especially when operating in a cyclical business, and forecast what resources are needed and when.
- Determine who your key employees are and tell them. Without making promises, communicate to those employees that they are identified as key talent. Explain the steps you are taking to try to keep them on during the turmoil. A business's survival depends on the commitment of its top performers. But an entity must demonstrate its commitment to those performers in return. Plan for what to do without these critical employees if they are wooed away by an entity that is actively recruiting.
- Be considerate and respectful. Layoffs always come with hurt feelings and stress, and the employees you keep may have difficulty adjusting to the changed environment. During the layoff and after, it's important to make certain the experience is as respectful and humane as possible. With advance planning, an entity can provide training for possible future redundant employees to help position them for another job. And it goes without saying, if you can provide outplacement services for those laid off, by all means, do. Outplacement services can help encourage laid-off employees to broaden their network, find their next position, or even tap into a new career.
- In the aftermath, keep remaining employees engaged. As with any situation, a layoff provides both challenges and opportunities. Consider how to use these moments to challenge your remaining employees and engage them in projects where they might have otherwise missed. One way to keep remaining employees motivated is to offer them training in a new skill or involvement in cross-departmental projects so they feel a part of the strategy to get the entity back on track. Providing the opportunities for potential triumphs makes employees feel valued and safe-a combination for success.

Considering Outsourcing

As a result of the economic downturn, many entities find themselves at a decision point on whether to retain or hire employees to perform certain services or to contract with an outside service provider. Risks and benefits are associated with both options. When assessing your choices, consider the following:

- How will a long-term service contract affect your business strategy?
- Is there an opportunity to restructure the workload of existing employees to meet your service needs?
- Does the service provider have strong corporate governance and internal control policies and procedures, including controls over your confidential information?
- How does the quality of employee-provided services compare to those of the outside service provider?
- How will employee turnover at the service provider affect your business?
- Have you developed a contingency plan if the service provider can not deliver as promised or goes out of business?
- How does the training, payroll, and benefits cost of employee-provided services compare to the cost of the service contract?
- Would using a service provider allow you to avoid the cost of a significant capital purchase?
- Does the service provider give you a significant advantage in terms of access to cutting edge talent, technology, or industry best practices?

It is critical to perform rigorous due diligence consistent with or in excess of the process of hiring an employee to ensure you have the information required to fully assess the risks and benefits to your entity. When assessing which of your entity's functions and related controls will be outsourced, it is useful to know that many service organizations engage an auditor to issue a report on a service organization's controls for use by user organizations and their auditors. Because these audits are performed in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, as amended (AICPA, *Professional Standards*, AU sec. 324), they are commonly referred to as SAS No. 70 reports. SAS No. 70, as amended, is not applicable to every control provided by the service organization. It is applicable only if the services provided are part of your entity's information system and the related controls are included in the scope of the auditor's examination. A service organization's services are part of your entity's information system if they affect any of the following:

- The classes of transactions in your entity's operations that are significant to your entity's financial statements
- The procedures, both automated and manual, by which your entity's transactions are initiated, authorized, recorded, processed, and reported from their occurrence to their inclusion in the financial statements
- The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial statements involved in initiating, authorizing, recording, processing, and reporting your entity's transactions
- How your entity's information system captures other events and conditions that are significant to the financial statements
- The financial reporting process used to prepare your entity's financial statements, including significant accounting estimates and disclosures

The guidance in SAS No. 70, as amended, is not relevant to situations in which

- the services provided are limited to executing your entity's transactions that are specifically authorized by you, such as the processing of checking account transactions by a bank or the execution of securities transactions by a broker.
- the audit of transactions arising from financial interests in partnerships, corporations, and joint ventures, such as working interests in oil and gas ventures, when proprietary interests are accounted for and reported to interest holders.

A SAS No. 70 report is intended to provide information about the controls at a service organization that may be relevant to your entity's internal control as it relates to your entity's financial statements. A careful review of this report can help you to determine where control risk exists and what actions, if any, should be taken by the service provider to modify their controls to ensure that they intersect seamlessly with those of your organization.

Enterprise Risk Management

To meet the challenges and risks in today's business environment, many entities have turned to a process called ERM. The purpose of ERM is to address processes, procedures, and risk on an entitywide basis to enable management to holistically understand the business risks that the entity faces. Some characteristics of the ERM model include strengthening communication; additional training including cross-training, process, and internal control improvement; and entity-wide participation.

Once implemented, managers of individual business components can make appropriate decisions based on an understanding of the risks that each business component encounters and how those risks affect other components and the entity as a whole. The purpose of this process is not to reduce business risk but rather to provide the knowledge that management needs to effectively assess risks and to then plan appropriate strategies to achieve the entity's business objectives. Additional information about ERM can be obtained from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Web site at www.coso.org/-ERM.htm.

Examples of risks that could affect your entity and could be identified and mitigated through the application of ERM strategies include the following:

- Rising costs and limited availability of raw materials
- Availability of specialized skills labor
- Rising cost and limited availability of short-term financing and liquidity issues
- Increasing transportation costs
- Overseas price competition
- Government regulation
- Product liability lawsuits
- Environmental issues
- Natural or terrorism-related disasters
- Intellectual property theft and data security

Report Identifies Global Business Risks

In January 2010, the World Economic Forum released *Global Risks 2010,* its annual report on the most significant and underlying global risks facing the global economy this year and beyond. The report argues that the events of the past year have revealed a fundamental need to change thinking on global risks and how they are managed. With unprecedented levels of interconnectedness between all areas of risk, the report stresses that the need to combat governance gaps globally is greater than ever. It argues that this can only be addressed by an overhaul of current values and behaviors by decision-makers to improve coordination and supervision.

Global Risks 2010 highlights the impact of the fiscal crisis and the social and political implications of high unemployment rates in several major economies as key concerns. Notably, the current models for health, education, and unemployment protection have been put under severe strain by the fiscal crisis, notwithstanding the longer-term implications of increasing life expectancy.

"The events of the last year have shown that there are underlying risks within the global economy that need to be addressed," said Daniel M. Hofmann, group chief economist of Zurich Financial Services. "In reaction to the financial crisis, many countries have put themselves at risk of overextending their fiscal positions and being burdened with extremely high levels of debt. This could put upward pressure on real interest rates, rein back growth and lead to protracted high levels of unemployment."

More widely, the report points to the impact of the global recession on longstanding underinvestment in infrastructure, especially in energy and agriculture, and the rising costs of treating chronic disease. These creeping risks have not appeared overnight, but the recession has limited the ability of decision-makers to combat them effectively.

The report also highlights risks where the levels of awareness and preparedness are currently very low; these include transnational crime and corruption, cyber-vulnerability, and biodiversity loss.

Global Risks 2010 notes that the response to the impact of the financial crisis and ensuing downturn has been a greater willingness to cooperate on common strategies and develop more effective global governance to address global risks. The report can be accessed at www.weforum.org/en/initiatives/globalrisk/Reports/index.htm.

Internal Control and Processes

As mentioned in the previous section of this alert, entities should focus on controls during this economic period. Small business owners and management have long sought ways to better control the organization they manage. A system of internal control is put in place to keep the organization on course toward profitability goals and achievement of its mission and to minimize surprises along the way. An effective system of internal control enables you to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal control promotes efficiency, reduces risks of asset loss, and helps ensure the reliability of financial statements and compliance with law as and regulations.

Management Objectives

Internal control includes techniques used by management to achieve its objectives and meet its responsibilities in the following three distinct categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The first category addresses an entity's basic business objectives, including performance and profitability goals and safeguarding of resources. The second relates to the preparation of reliable financial statements. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs.

Components of Internal Control

Internal control consists of five interrelated components. These are derived from the way management runs an organization and are integrated with the management process. Although the components apply to all entities, smaller organizations may implement them differently than larger ones. Their controls may be less formal and less structured, yet a small organization can still have effective internal control. The five components of internal control are described in the following sections.

Control Environment

The control environment component is the foundation upon which all other components of internal control are based, and it sets the tone of an organization. A small business can have unique advantages in establishing a strong control environment. Employees in many small businesses interact more closely with top management and are directly influenced by management actions. Through day-to-day practices and actions, you can effectively reinforce the company's fundamental values and directives. The close working relationship also enables senior management to quickly recognize when employees' actions need modification.

Risk Assessment

Risk assessment, as it relates to the objective of reliable financial reporting, involves identification and analysis of the risks of material misstatement. Establishment of financial reporting objectives articulated by a set of financial statement assertions for significant accounts is a precondition to the risk assessment process. Risk assessment in small businesses can be relatively efficient, often because in-depth knowledge of the company's operations enables the owner and management to have first-hand information about where risks exist. In carrying out your normal responsibilities, including obtaining information gained from employees, customers, suppliers, and others, you can identify risks inherent in business processes. In addition to focusing operations and compliance risks, you are positioned to consider the following risks to reliable financial reporting:

- Failing to capture and record all transactions
- Recording assets that do not exist or transactions that did not occur
- Recording transactions in the wrong period, for the wrong amount, or misclassifying transactions
- Losing or altering transactions once recoded
- Failing to gather pertinent information to make reliable estimates
- Recording inappropriate journal entries
- Improperly accounting for transaction or estimates
- Inappropriately applying formulas or calculations

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. When resource constraints compromise the ability to segregate duties, many smaller companies use certain compensating controls to achieve the objectives.

Information and Communication

Information systems identify, capture, process, and distribute information supporting the achievement of financial reporting objectives. Information systems in small businesses are likely to be less formal than in large businesses, but their role is just as significant. Many small businesses rely more on manual or stand-alone IT applications than complex integrated applications. Effective internal communication between top management and employees may be facilitated in smaller companies due to fewer levels of management hierarchy, fewer employees, and greater visibility of the owner. Internal communication can take place through frequent meetings and day-to-day activities in which the owner and other managers participate.

Monitoring

Internal control systems need to be monitored, which is a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Managers of many small businesses have first-hand knowledge of company activities, and their close involvement in operations positions them to identify variances from expectations and potential inaccuracies in reported financial information.

Financial Statement Disclosures

Given the current economic climate, lenders, investors, and regulators will expect increased disclosures in an entity's financial statements. Entities should review prior disclosures to be included in the current period's financial statements to determine if they are still appropriate and not misleading based on the current environment. Entities should also consider the effects and disclosure of events that occurred after the balance sheet date. Some topics you should consider expanding disclosures on include the following:

- Liquidity and capital resources
- Material impairments
- Pension plan assets
- Fair value determinations
- Critical accounting policies and estimates
- Risk factors
- Relationships with distressed businesses

Another area to consider discussing is the entity's strategy in dealing with current market conditions in addition to how the entity has been and will continue to be affected by the economic downturn.

In March and September 2008, the SEC sent illustrative letters to certain public companies identifying numerous disclosures on the application of FASB Statement No. 157, *Fair Value Measurements*, which the entity may include in its management's discussion and analysis (MD&A). Though the letters were sent only to financial institutions, the SEC has indicated the letters apply to other entities as well. The advice primarily focused on fair value measurements based on unobservable inputs, which require significant judgment and can have a material effect on the results of an entity's operations, liquidity, and capital resources. These letters can be obtained from the SEC's Web site at www.sec.

gov/divisions/corpfin/guidance/fairvalueltr0308.htm and www.sec.gov/divisions/corpfin/guidance/fairvalueltr0908.htm.

Additionally, as described in Statement of Position (SOP) 94-6, *Disclosure of Certain Significant Risks and Uncertainties* (AICPA, *Technical Practice Aids*, ACC sec. 10,640), disclosure regarding an estimate should be made when known information available prior to issuance of the financial statements indicates that both of the following criteria are met. It is at least reasonably possible (more than remote, but less than likely) that the estimated effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and the effect of the change would be material to the financial statements.

The Role of the Audit Committee

Audit Committee Assessment of Risk

It is important to remember business risks result from significant conditions, events, circumstances, actions, or inactions that could adversely affect an entity's ability to achieve its objectives, execute its strategies, and set appropriate objectives and strategies. This is especially true under difficult economic conditions that affect an entity in a variety of significant ways. Audit committees must continue to address all types of risks with their senior management team in addition to focusing on risks in the financial statements.

In March 2008, the AICPA issued *The AICPA Audit Committee Toolkit—Public Com*panies, *2nd Edition*, which contains tools (for example, the audit committee charter, conducting executive sessions, COSO *Internal Control—Integrated Framework*, and COSO *Enterprise Risk Management—Integrated Framework*) that can assist audit committees in their oversight responsibilities regardless of current events. Other audit committee toolkits are available for private companies, not-for-profits, and governments. Steps that audit committees should be taking include the following:

- Overseeing the adequacy of disclosures in the footnotes to the financial statements, including the following:
  - Issues with FASB Statement No. 157
  - Issues with investment or credit losses and reliance on credit rating agencies' ratings of investments
  - Understanding balance sheet exposures (cash, accounts receivable, accounts payable, debt agreements, investments, and so on), off balance sheet exposures, and other exposures (ability to access credit and capital, the cost of capital, interest rates, and so on)

— Understanding the issues associated with a pension plan (for example, valuation of assets, interest rates, discount rates, and other assumptions used)
— Understanding the effects of the credit crisis or consolidation, or both, on the entity's customers and suppliers

- Evaluating the entity's controls over risk and liquidity and discussing them with the entire board (for best practices, see *Observations on Risk Management during the Recent Market Turbulence* at www.sec.gov/news/press/2008/report030608.pdf)
- Assessing the impact on their entity of economic slowdown, market turmoil, and financial institutions' bankruptcy and consolidation. For example,
  — has the entity any issue with access to credit, financing, capital, covering insurable risks, or all of the preceding?
  — has the entity any issue with an initial public offering or divesting of assets or debt offerings?
  — has the entity any issue with mergers and acquisitions activity? In any mergers and acquisitions activity, review the resources needed for integration and the risk of not being successful.
  — does the MD&A discuss the impact of current financial and economic crisis on the business? Does it reflect a current view of opportunities and risks based upon today's market?
- Assessing the structure of the audit committee, the board, and the entire committee structure to ensure the oversight of risk management is adequately covered and to determine whether other committees or additional expertise is required to fully understand the risks
- Assessing the entity's "tone at the top" (for example, culture, risk appetite and strategy, and incentive compensation)
- Asking questions not only about traditional risks but also nontraditional risks and assumptions used to build future-looking models
- Asking questions about what hasn't changed, what has changed, and what may change that has an impact on the business
- Assessing the need for increased communication with both internal audit and external auditors
- Monitoring companies' conversion to eXtensible Business Reporting Language
- Being aware of the issue and understanding the level of entities' preparedness on International Financial Reporting Standards (IFRSs)

These times warrant increased watchfulness to ensure your organization is not critically affected by the credit markets' continuing turmoil. More information and the AICPA Audit Committee Toolkits can be found at www.aicpa.org/audcommctr/homepage.htm.

Audit Committee Assessment of Off-Balance-Sheet Arrangements and Other Disclosures

An area that has come under scrutiny, and one where the entity may be at risk, is off-balance-sheet arrangements. U.S. generally accepted accounting principles (GAAP) permits certain kinds of transactions to be accounted for off the entity's balance sheet, and many companies, as a means of managing risk or taking advantage of legitimate tax minimization opportunities, create off-balance-sheet arrangements. It is important that the audit committee understand the nature and the reason for off-balance-sheet arrangements, and ensure that any such arrangements are adequately disclosed. The list of considerations, which follows, is intended to assist audit committee members in developing an understanding of management's use of off-balance-sheet arrangements so they may weigh in on the appropriateness of the treatment and whether it will meet regulatory requirements.

Furthermore, the audit committee should ensure that, in addition to fulfilling the disclosure requirements of U.S. GAAP, MD&A disclosure requirements have been met with respect to any off-balance-sheet arrangements. It is imperative that the audit committee has a healthy and continuing dialogue with management about said arrangements. The following are items that should be regularly discussed between management and members of the audit committee:

- The entity's process for identifying off-balance sheet arrangements (for example, qualified special purpose entities and variable interest entities, securitized assets and liabilities, and so on); also, the process for disclosing these arrangements in the financial statements and MD&A
- The entity's process for identifying and valuing direct or indirect guarantees (that is, surety, loans, and so on)
- How any recognized guarantee liabilities, including related charges, have been accounted for and how they will be accounted for in the future
- Details on circumstances when the entity entered into any transactions that, when viewed individually, do not result in the recognition of a liability but that, if viewed together, might be deemed to result in a liability or obligation
- Details on circumstances when the entity solicited or received advice from or gave advice to any outside party on how to structure any transaction to produce a desired financial statement effect
- The process between the audit committee and the disclosures committee (if one exists) for ensuring disclosures are reviewed

Accounting Issues and Developments

Navigate the many new accounting developments to facilitate your entity's compliance.

Given the current economic climate, a number of accounting and financial reporting issues may affect your entity. Accounting pronouncements and related guidance having particular significance are briefly explained here. The following summaries are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable standard.

FASB Statement No. 168

FASB Statement No. 168, as codified in FASB ASC 105, *Generally Accepted Accounting Principles*, is effective for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date of FASB Statement No. 168, FASB ASC became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the SEC. FASB ASC superseded all then-existing, non-SEC accounting and reporting standards for nongovernmental entities. This new standard flattens the U.S. GAAP hierarchy to two levels: one that is authoritative (in FASB ASC) and one that is nonauthoritative (not in FASB ASC). Exceptions include all rules and interpretive releases of the SEC under the authority of federal securities laws, which are sources of authoritative U.S. GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. If an accounting change results from the application of this guidance, an entity should disclose the nature and reason for the change in accounting principle in their financial statements.

FASB Statement No. 168 is the final standard that will be issued by FASB in that form. It was added to FASB ASC through Accounting Standards Update (ASU) No. 2009-01, *Topic 105—Generally Accepted Accounting Principles—amendments based on—Statement of Financial Accounting Standards No. 168—The* FASB Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles*, on June 30, 2009. No new standards in the form of statements, FASB Staff Positions (FSPs), Emerging Issues Task Force (EITF) abstracts, or AICPA accounting SOPs, for example, will be issued. Instead, FASB will issue ASUs, but will not consider ASUs as authoritative in their own right. Instead, they will serve only to update FASB ASC, provide background information about the guidance, and provide the basis for conclusions on changes made to FASB ASC.

Referencing FASB ASC in Your Documentation

You should consider how your entity will reference FASB ASC in your documentation (policy and procedures, technical memorandums, financial statements and filings, engagement working papers, and so on). It is only prudent to reflect current U.S. GAAP in your documentation. The FASB notice to constituents includes a section on referencing FASB ASC in footnotes and other documents. In this notice, FASB encourages the use of plain English to describe broad topic references in the future. For example, to refer to the requirements of the *Derivatives and Hedging* topic, they suggest a reference similar to "as required by the *Derivatives and Hedging* topic of the FASB *Accounting Standards Codification*."

On the other hand, they do suggest using the detailed numerical referencing system in working papers, articles, textbooks, and related items. Additional information about how and when to implement the new FASB referencing system follows:

- *Nonpublic entities.* For nonpublic entities without interim filings, preparers choosing to reference specific accounting guidance in financial statements would make those references to FASB ASC for the first annual period ending after September 15, 2009. For example, a nonpublic entity with a July 31, 2009, year-end would not reference FASB ASC in its financial statements, but a nonpublic entity with a December 31, 2009, year-end would reference FASB ASC in its financial statements.
- *Public entities.* The SEC recently shared with the Center for Audit Quality SEC Regulations Committee some views on referencing FASB ASC in financial statements. For interim and annual financial statements for periods ending after September 15, 2009, the SEC stated that any references to specific elements of U.S. GAAP should use the FASB ASC reference. Therefore, a public entity filing financial statements for the quarter ended September 30, 2009, should reference FASB ASC in its financial statements. In addition, the SEC stated that references to specific U.S. GAAP (FASB ASC references) should be on a consistent basis for all periods presented. However, the SEC has encouraged companies to make financial statements more useful to users by drafting financial statement disclosures to avoid specific U.S. GAAP references and to more clearly explain accounting concepts.

Also, because FASB ASC is not intended to change U.S. GAAP, the consistent use of references to only FASB ASC for all periods presented (including periods before the authoritative release of FASB ASC) is appropriate.

However, if your entity will continue to follow grandfathered guidance not included in FASB ASC, it would still be appropriate to reference those standards (and not FASB

ASC). A listing of examples of grandfathered guidance can be found in FASB Statement No. 168.

Examples of disclosures using references to FASB ASC can be found at the AICPA's dedicated FASB ASC Web site: www.aicpa.org/Professional+Resources/Accounting+and+Auditing/FASB+Accounting+Standards+Codification/.

Decreases in Ownership of a Subsidiary

In January 2010, FASB issued FASB ASU No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*. This ASU addresses implementation issues related to the changes in ownership provisions in FASB ASC 810-10 (issued as FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*). These amendments clarify that the scope of the decrease in ownership provisions of FASB ASC 810-10 and related guidance applies to a subsidiary or group of assets that is a business or nonprofit activity, a subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture, and an exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity (including an equity method investee or joint venture). Further, the amendments clarify that the decrease in ownership guidance in FASB ASC 810-10 does not apply to the following transactions, even if they involve businesses: sales of in-substance real estate and conveyances of oil and gas mineral rights. The amendment also expands the required disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of FASB ASC 810-10. This ASU is effective beginning in the period that an entity adopts FASB Statement No. 160. If an entity has already adopted this guidance, then the amendments in this ASU are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this ASU should be applied retrospectively to the first period that an entity adopted FASB Statement No. 160.

Accounting for Certain Distributions to Shareholders

In January 2010, FASB issued FASB ASU No. 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force*. This ASU affects entities that declare dividends to shareholders that may be paid in cash or shares at the election of the shareholders with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate. The amendments in this ASU clarify that the stock portion of the distribution that allows the shareholders to elect or receive cash or shares, with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate, is considered a share issuance. The intent is to eliminate the current diversity in practice. These amendments are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis.

Accounting for Uncertainty in Income Taxes

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109*, was issued in July 2006 with an effective date of fiscal years beginning after December 15, 2006. In December 2008, FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which continued the deferral of FASB Interpretation No. 48 started by FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, in February 2008. FSP FIN 48-3 (FASB ASC 740-10-65-1[e]) deferred the effective date of FASB Interpretation No. 48 for certain nonpublic enterprises. The FASB ASC glossary defines a *nonpublic enterprise* as an entity that does not meet any of the following criteria:

- Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter (OTC) market (including securities quoted only locally or regionally).
- It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an OTC market, including local or regional markets).
- Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Nonpublic consolidated entities of public enterprises that apply U.S. GAAP and any nonpublic enterprise that has already applied the provisions of FASB Interpretation No. 48 in a full set of annual financial statements are not eligible for the deferral. The guidance deferred the effective date of FASB Interpretation No. 48 until the annual financial statements for fiscal years beginning after December 15, 2008. Therefore, a calendar-year nonpublic company would need to apply FASB Interpretation No. 48 in 2009 for the first time.

In September 2009, FASB issued ASU No. 2009-06, *Income Taxes (Topic 740)-Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities.* This update affects all nongovernmental entities, and the disclosure amendments only apply to nonpublic entities. The four main provisions of the ASU include the following:

- If income taxes paid by the entity are attributable to the entity, the transaction should be accounted for in accordance with the guidance on uncertainty in income taxes in FASB ASC 740, *Income Taxes*. If the taxes paid by the entity are attributable to the owners, the transaction should be accounted for as a transaction with the owners. Attribution should be based on the laws and regulations of the jurisdiction and should be made for each jurisdiction where the entity is subject to income taxes.

- Management's determination of the taxable status of the entity, including its status as a pass-through entity or tax-exempt not-for-profit entity, is a tax position subject to the standards required for accounting for uncertainty in income taxes.
- Regardless of the tax status of the reporting entity, the tax positions of all entities within a related group of entities must be considered.
- For nonpublic entities, it eliminates the disclosures of a tabular reconciliation of the total amount of unrecognized tax benefits at the beginning and end of the periods presented and the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate (see FASB ASC 740-10-50-15[a]-[b]).

For entities that are currently applying the guidance on accounting for uncertainty in income taxes, this ASU is effective for interim and annual periods ending after September 15, 2009. For those entities that have deferred the application of accounting for uncertainty in income taxes in accordance with FSP FIN 48-3, this ASU is effective upon adoption of those standards.

Consolidation of Variable Interest Entities

In June 2009, FASB issued FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, which changes how to determine when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. FASB Statement No. 167 was incorporated into FASB ASC through FASB ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance.

This statement also amends consolidation of variable interest entities (VIE) guidance to eliminate the quantitative approach previously required for determining the primary beneficiary of a VIE, which was based on determining which enterprise absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both.

Entities will be required to provide additional disclosures about involvement with VIEs and any significant changes in risk exposure due to that involvement. Entities also will be required to disclose how involvement with a VIE affects the entity's financial statements.

FASB Statement No. 167 retains the scope of previous VIE consolidation accounting guidance, with the addition of entities previously considered qualifying special purpose entities because the concept of these entities was eliminated in FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*, which was incorporated into FASB ASC by FASB ASU No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*.

This statement also discusses the objectives of its required disclosures and notes that an entity may need to supplement the minimum required disclosures to meet these objectives. The objectives are for the financial statement users to have an understanding of the following:

- The significant judgments and assumptions made by an enterprise in determining whether it must consolidate a VIE or disclose information about its involvement in a variable interest entity, or both
- The nature of restrictions on a consolidated VIE's assets and on the settlement of its liabilities reported by an enterprise in its statement of financial position, including the carrying amounts of such assets and liabilities
- The nature of, and changes in, the risks associated with an enterprise's involvement with the VIE
- How an enterprise's involvement with the VIE affects the enterprise's financial position, financial performance, and cash flows

This statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited.

Application of Consolidation Requirements for Certain Investment Funds

In February 2010, FASB issued ASU No. 2010-10, *Consolidation (Topic 810): Amendments for Certain Investment Funds*. This ASU defers the amendments to consolidation guidance from FASB Statement No. 167 for a reporting entity's interest in an entity that has all the attributes of an investment company, as specified in FASB ASC 946, *Financial Services—Investment Companies*, or for which it is industry practice to apply measurement principles for financial reporting that are consistent with those in FASB ASC 946. The deferral also applies to a reporting entity's interest in an entity that is required to comply with or operate in accordance with requirements that are similar to those included in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2010-10 does not defer the disclosure requirements in FASB Statement No. 167. For further details, including who the deferral does not apply to, readers are encouraged to review the full text of ASU No. 2010-10, which can be found on FASB's Web site.

Accounting for Transfers of Financial Assets

Also in June 2009, FASB issued FASB Statement No. 166, which is a revision to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. FASB Statement No. 166 was incorporated into FASB ASC by FASB ASU No. 2009-16 and is discussed in FASB ASC 860, *Transfers and Servicing*. It eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. The purpose of this statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance.

The primary objectives of the disclosure requirements of this guidance are to provide the financial statement users with a clear understanding of the following:

- A transferor's continuing involvement (as defined in this pronouncement), if any, with transferred financial assets
- The nature of any restrictions on assets reported by an entity in its statement of financial position that relate to a transferred financial asset, including the carrying amounts of those assets
- How servicing assets and servicing liabilities are reported under this pronouncement

- For transfers accounted for as sales when a transferor has continuing involvement with the transferred financial assets and for transfers of financial assets accounted for as secured borrowings, how the transfer of financial assets affects a transferor's financial position, financial performance, and cash flows

These objectives must be met by the disclosures, regardless of the specific requirements of the pronouncement. It may be the case that an entity provides greater detail than what is a required disclosure to meet these objectives, depending on the facts and circumstances.

FASB Statement No. 166 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This statement must be applied to transfers occurring on or after the effective date; however, the disclosure provisions should be applied to transfers that occurred both before and after the effective date.

Subsequent Events

In May 2009, FASB issued FASB Statement No. 165, which has been codified in FASB ASC 855, *Subsequent Events*, and is effective for interim and annual periods ending after June 15, 2009. This statement is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The purpose of this disclosure is to alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented.

In particular, this statement sets forth the following:

- The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements
- The disclosures that an entity should make about events or transactions that occurred after the balance sheet date

FASB states that this guidance should not result in significant changes in current practice with regard to the subsequent events that an entity reports, either through recognition or disclosure, in its financial statements. Further, in September 2009, the AICPA issued two questions and answers regarding this guidance. Technical Questions and Answers (TIS) section 8700.01, "Effect of FASB ASC 855 on Accounting Guidance in AU Section 560" (AICPA, *Technical Practice Aids*), notes that preparers of financial statements for nongovernmental entities are required to follow the accounting guidance in FASB ASC 855. Additionally, the accounting guidance contained in AU section 560, *Subsequent Events* (AICPA, *Professional Standards*, vol. 1), would no longer be applicable to audits of nongovernmental entities. TIS section 8700.02, "Auditor Responsibilities for Subsequent Events" (AICPA, *Technical Practice Aids*), discusses the effects of the entity's responsibility to disclose the date through which the subsequent events have been evaluated on the auditor's responsibilities for subsequent events. Both questions and answers can be accessed at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/ Practice+Aids+and+Tools/Recently+Issued+Technical+Practice+Aids.htm.

In February 2010, FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*, to address questions that arose in practice about potential conflicts between the guidance in FASB ASC 855 and SEC guidance—specifically, the requirements to disclose the date that the financial statements are issued. This ASU also addresses the intended breadth of the reissuance disclosure provision related to subsequent events.

ASU No. 2010-09 requires an entity that is an SEC filer or a conduit bond obligor for conduit debt securities that are traded in a public market to evaluate subsequent events through the date the financial statements are issued. All other entities must evaluate subsequent events through the date the financial statements are available to be issued. Further, an entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. Lastly, only non-SEC filers should disclose in the revised financial statements the dates through which subsequent events have been evaluated in both the issued or available-to-be-issued financial statements and the revised financial statements. Revised financial statements are considered reissued financial statements.

The amendments in ASU No. 2010-09 are effective upon issuance, except for the use of the issued date for conduit bond obligors. That amendment is effective for interim or annual periods ending after June 15, 2010.

Fair Value

FASB ASC 820-10-20 defines *fair value* and establishes a framework for measuring fair value; however, it does not dictate when an entity must measure something at fair value, nor does it expand the use of fair value in any way. The need to understand fair value accounting has increased in importance as alternative investments increased in popularity and complexity. *Fair value* is defined as "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."

Measuring Liabilities at Fair Value

On August 27, 2009, FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*. This ASU was issued to increase the consistency in the application of FASB ASC 820, *Fair Value Measurements and Disclosures*, to liabilities because many constituents had expressed concern. This ASU applies to all entities that measure liabilities at fair value under FASB ASC 820 and amends sections of FASB ASC 820-10.

This ASU states that, in circumstances in which a quoted price in an active market for the identical liability is not available, fair value of the liability must be measured by either (*a*) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities, or similar liabilities when traded as assets, or (*b*) another valuation technique that is consistent with the principles of FASB ASC 820, such as an income approach or a market approach. Further, if a restriction on the transference of the liability exists, the ASU clarifies that an entity is not required to factor that in to the inputs of the fair value determination. Lastly, the ASU also clarifies that a quoted price in an active market for the identical liability, or an unadjusted quoted price in an active market for the identical liability, when traded as an asset, are level 1 measurements within the fair value hierarchy. The guidance in this ASU is effective for the first reporting period (including interim periods) beginning after issuance. The full text of the ASU can be accessed from FASB's Web site at www.fasb.org.

Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)

In September 2009, FASB issued ASU No. 2009-12, *Fair Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance was issued because of the complexities and practical difficulties in estimating the fair value of alternative investments. It is applicable to all reporting entities that hold an investment that is required or permitted to be measured or disclosed at fair value on a recurring or nonrecurring basis, and as of the reporting entity's measurement date, if the investment both

- does not have a *readily determinable fair value*. The FASB ASC glossary states that an equity security has a readily determinable fair value if it meets any of the following conditions:
  - — The fair value of any equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the SEC or in the OTC market, provided that those prices or quotations for the OTC market are publicly reported by NASDAQ or by Pink Sheets LLC. Restricted stock meets that definition if the restriction terminates within one year.
  - — The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to previously.
  - — The fair value of an investment in a mutual fund is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.
- is in an entity that has all of the attributes specified in FASB ASC 946-10-15-2 or, if one of those attributes are not met, is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in FASB ASC 946.

As a practical expedient, this ASU permits a reporting entity to measure the fair value of an investment within its scope on the basis of the net asset value (NAV) per share of the investment (or its equivalent) if the NAV is calculated in a manner consistent with the measurement principles of FASB ASC 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with FASB ASC 820. If the practical expedient is used, certain attributes of the investment (such as restrictions on redemption) and transaction prices from principal-to-principal or brokered transactions will not be considered in measure the investment's fair value.

This ASU also requires disclosures by major category of investment about the attributes of investments, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investees. The major category of investment is required to be determined based on the guidance in FASB ASC 320-10-50-1B. These disclosures are required for all investments within the scope of this ASU. The ASU adds an example of its required disclosures in FASB ASC 820-10-55-64A.

These amendments are effective for interim and annual periods ending after December 15, 2009 and are included in FASB ASC 820-10. Early application is permitted in financial statements for earlier and interim and annual periods that have not been issued. An entity may elect to early adopt the measurement amendments of this ASU and defer the adoption of the disclosure provisions of FASB ASC 820-10-50-6A until periods ending after December 15, 2009. The AICPA practice aid *Alternative Investments—Audit Considerations* also is available and is a useful tool for both auditors and management. It focuses on the existence and valuation considerations for alternative investments.

In December 2009, the AICPA issued TIS sections 2220.18-.27 of TIS section 2220, *Long-Term Investments* (AICPA, *Technical Practice Aids*), to assist reporting entities when implementing the provisions of FASB ASC 820 to estimate the fair value of their investments in certain entities that calculate NAV. TIS sections 2220.18-.27 apply to investments that are required to be measured and reported at fair value and are within the scope of paragraphs 4-5 of FASB ASC 820-10-15. These questions and answers compliment the guidance provided in ASU No. 2009-12.

Topics covered in these questions and answers include the following:

- The circumstances when NAV may be used to estimate the fair value of investments as a practical expedient
- How to identify the unit of account for interests in alternative investments
- Considerations for determining whether the reported NAV has been calculated in a manner consistent with FASB ASC 946
- Examples of circumstances when an adjustment to the reported NAV may be necessary
- How to adjust the reported NAV when it is not as of the reporting entity's measurement date
- How to adjust the reported NAV when it has not been calculated in accordance with FASB ASC
- The determination of the appropriate level within the fair value hierarchy for NAV of alternative investments in relation to the ability to redeem the investment versus the actual redemption request for the investment
- The definition of *near term* for the purposes of determining the appropriate level within the fair value hierarchy
- The tailoring of disclosures categories to address the nature and risks of investments
- Some considerations for determining the fair value of alternative investments when not utilizing NAV as a practical expedient

The full text of the questions and answers can be located on the AICPA Web site at www.aicpa.org/download/news/2009/TIS_Section_2220_Long-Term_Investments.pdf.

Fair Value Measurements Disclosures

In February 2010, FASB issued FASB ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, to increase the transparency in financial reporting of fair value measurements. FASB noted that due to the different degrees of subjectivity and reliability on level 1, level 2, and level 3 fair value measurements, information about significant transfers between the three levels and the underlying reasons for such transfers would be useful to financial statements users.

This ASU amends FASB ASC 820-10 to require the following new disclosures:

- *Transfers in and out of levels 1 and 2.* A reporting entity should disclose separately the amounts of significant transfers in and out of level 1 and level 2 fair value measurements and describe the reasons for the transfers.
- *Activity in level 3 fair value measurements.* In the reconciliation for fair value measurements using significant unobservable inputs (level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

Additionally, the ASU amends FASB 820-10 to clarify certain existing disclosures as follows:

- *Level of disaggregation.* A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.
- *Disclosures about inputs and valuation techniques.* A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either level 2 or level 3.

The amendments in ASU No. 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

Other-Than-Temporary Impairment

Determining when an investment is other-than-temporarily impaired is another topic that has received increased attention in today's economic environment. FSP FAS 115-1 and FAS 124-1, *The Meaning of* Other-Than-Temporary Impairment *and Its Application to Certain Investments*, as amended by FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, is codified in several topics in FASB ASC, including FASB ASC 320, *Investments—Debt and Equity Securities*, and FASB ASC 325, *Investments—Other*. This guidance addresses the determination of when an investment is considered impaired, whether the impairment is other-than-temporary, and the measurement of the impairment loss. Also included in this amended guidance are accounting issues to be considered subsequent to the recognition of other-than-temporary impairments and related disclosures about unrealized losses as a result of the other-than-temporary impairment. This amended guidance applies to (*a*) debt and equity securities within the scope of FASB ASC 320; (*b*) debt and equity securities within the scope of FASB ASC 958-320 that are held by an investor that reports a performance indicator; and (*c*) equity securities not within the scope of FASB ASC 320 and 958-320 and not accounted for under the equity method, pursuant to FASB ASC 323, *Investments—Equity Method and Joint Ventures*.

Given the current economic situation, you should be alert to values of many types of assets on the balance sheet and possible impairment issues. Readers should consult the appropriate accounting requirements for further information.

Recognition and Presentation of Other-Than-Temporary Impairments

On April 9, 2009, FASB released FSP FAS 115-2 and FAS 124-2, which was primarily codified in FASB ASC 310-30, 320-10, and 325-40. The purpose of this guidance is to bring greater consistency to the timing of impairment recognition and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. Among other points, the guidance

- limits its changes to existing guidance for determining whether an impairment is other than temporary to debt securities.
- replaces the existing requirement that the entity's management assert that it has both the intent and ability to hold an impaired security until recovery, with a requirement that management assert that it does not have the intent to sell the security, or it is more-likely-than-not it will not have to sell the security before recovery of its costs basis.
- incorporates examples of factors from existing literature that should be considered in determining whether a debt security is other-than-temporarily impaired and

how those factors interact with the requirement to assert that the entity does not intend to sell the security, and it is more-likely-than-not that the entity will not have to sell the security before recovery of its cost basis.

- requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income, when an entity does not intend to sell the security and it is more-likely-than-not that the entity will not have to sell the security before recovery of its cost basis.
- requires an entity to recognize noncredit losses on held to maturity debt securities in other comprehensive income and amortize that amount over the remaining life of the security with no effect on earnings, unless the security is subsequently sold or additional credit losses exist.
- addresses debt securities accounted for in accordance with FASB ASC 310-30, stipulating that credit losses should be measured on the basis of an entity's estimate of the decrease in expected cash flows, including those that result from an increase in expected prepayments.
- clarifies that existing premiums or discounts and subsequent changes in estimated cash flows or fair value should continue to be accounted for in accordance with existing guidance (for example, EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," which was primarily codified in FASB ASC 325-40).
- requires an entity to present the total other-than-temporary impairment in the statement of earnings with an offset for the amount recognized in other comprehensive income.
- requires an entity to present separately in the financial statement where the components of accumulated other comprehensive income are reported and amounts recognized therein related to held to maturity and available for sale debt securities, for which a portion of an other-than-temporary impairment has been recognized in earnings
- modifies the disclosure requirements of certain debt and equity securities to require an entity to provide the following:
  - The cost basis of available for sale and held to maturity debt securities by major security type.
  - The methodology and key inputs, such as performance indicators of the underlying assets in the security, loan to collateral value ratios, third party guarantees, levels of subordination, and vintage, used to measure the portion of an other-than-temporary impairment related to credit losses by major security type.

— A tabular rollforward of the amount related to credit losses recognized in earnings for debt securities.

- modifies previous guidance to require that major security classes be based on the nature and risks of the security and additional types of securities to be included in the list of major security types listed in FASB ASC 942-320-50-2.
- requires the preceding additional disclosures, as well as all prior existing disclosures, for interim periods.

The guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. If an entity elects to adopt early either FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, or FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, the entity also is required to adopt this FSP early. Additionally, if an entity elects to adopt this FSP early, it is required to adopt FSP FAS 157-4. This guidance does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this guidance requires comparative disclosures only for periods ending after initial adoption. More information is available at www.fasb.org.

The Meaning of Other-Than-Temporary Impairment for Equity Securities

Soon after the issuance of FSP FAS 115-2 and 124-2 in early April 2009, which focused on other-than-temporary impairment of debt securities, the SEC issued Staff Accounting Bulletin (SAB) No. 111 to amend and replace topic 5(M) in the SAB series, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. SAB No. 111 maintains the SEC's previous views related to equity securities and amends topic 5(M) to exclude debt securities from its scope. For available-for-sale equity securities, the phrase *other-than-temporary impairment* should not be interpreted as permanent. When the value of one of these securities has declined, management should investigate the reason. Management should consider all available evidence to evaluate the realizable value of these investment assets. A few examples of factors that, individually or in combination, indicate that declines in value of an available-for-sale equity security are other-than-temporary (and, therefore, a write-down of the carrying value is required) include the following:

- The length of time and the extent to which the market value has been less than cost
- The financial condition and near term prospects of the issuer

- The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value

Further, unless evidence exists to support a realizable value equal to or greater than the carrying value of the equity security classified as available for sale, a write-down to fair value accounted for as a realized loss should be recorded. This loss should be included in net income in the period it occurs, and the written-down value of the security becomes the new cost basis.

Accounting for Losses Due to Fraud

A topic of discussion for management and their auditors is the manner in which losses due to fraud are reflected in the financial statements. Because no accounting standard exists that provides specific guidance on accounting for losses due to fraud, application of professional judgment in this matter can lead to different results. For example, some clients have determined that the losses should be reported in the current period, when the entity became aware of the fraud, whereas others are opting for a restatement of the financial statements for one or more prior periods because they believe the loss in value occurred in a prior period and, therefore, an adjustment is appropriate. It is important that the auditor understand how the decision was reached and that proper disclosure be made in the financial statements.

Management also may consider whether they have properly disclosed or recognized any liability associated with the potential clawback of distributions received from the perpetrator of Ponzi schemes. Lawsuits to recover funds distributed to investors prior to the discovery of a fraud for the purpose of redistributing the funds are also a possibility. Management, in conjunction with appropriate legal counsel, should determine the probability and result of such a lawsuit and disclose or accrue a potential liability, as required by FASB ASC 450, *Contingencies*.

Exposure Draft on Credit Quality and Credit Losses

In late June 2009, FASB issued the exposure draft *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which had a comment period through August 24, 2009. This guidance would require enhanced disclosures about the allowance for credit losses and the credit quality of financing receivables and would be applicable for all creditors, including public and nonpublic entities that prepare financial statements in accordance with U.S. GAAP. Under this proposed guidance, six major categories of disclosures are disaggregated either by portfolio segment or by class. These categories are allowance for credit losses, rollforward schedules of financing receivables, fair value, credit quality information, impaired financing receivables, and nonaccrual status. The goal of the exposure draft is to provide more information regarding the nature of credit risk inherent in the creditor's portfolio of financing receivables; how that risk is analyzed and assessed in arriving at the allowance for credit losses; and the changes, and reasons for the changes, in both the receivables and the allowance for credit losses. An ASU is expected to be issued in early 2010.

Convergence With IFRSs

Since the signing of the Norwalk Agreement by FASB and the International Accounting Standards Board (IASB), the bodies have had a common goal—one set of accounting standards for international use. *International convergence of accounting standards* refers to both the goal of this project and the path taken to reach it. The path toward reaching this goal will both improve U.S. GAAP and IFRSs and eliminate the differences between them. In the Norwalk agreement, each body acknowledged its commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. FASB and the IASB have undertaken several joint projects, which are being conducted simultaneously in a coordinated manner to further the goal of convergence of U.S. GAAP and IFRSs. The "On the Horizon" section of this alert discusses these joint projects. For more information, visit www.fasb.org and www.iasb.org.

SEC Work Plan for Consideration of IFRSs

In February 2010, the SEC issued Release No. 33-9109, *Commission Statement in Support of Convergence and Global Accounting Standards*. This release provides an update to the roadmap previously discussed regarding the SEC's consideration of global accounting standards, including a confirmation of its continued support for the convergence of U.S. GAAP and IFRSs in order to narrow the differences between the two sets of standards. The SEC believes that a more comprehensive work plan is necessary to transparently lay out the work that must be done to support a decision on the appropriate course to incorporate IFRSs into the U.S. financial reporting system for U.S. issuers, including the scope, time frame, and methodology for any such transition. Therefore, the SEC has indicated that it will carefully consider and deliberate whether these changes are in the best interest of U.S. investors and markets.

The SEC directed its staff to execute a work plan, the results of which will aid the SEC in its evaluation of the impact that the use of IFRSs by U.S. entities would have on the U.S. securities market. The work plan includes consideration of IFRSs, both as they currently exist and after the completion of the various convergence projects underway by FASB and the IASB. Among other things, the work plan addresses some of the comments and concerns received on the roadmap, including the following:

- Sufficient development and application of IFRSs for the U.S. reporting system
- The independence of standard setting for the benefit of investors
- Investor understanding and education regarding IFRSs
- Examination of the U.S. regulatory environment that would be affected by a change in accounting standards
- The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies
- Human capital readiness

Beginning no later than October 2010, and frequently thereafter, the SEC staff will provide public progress reports on the work plan, as well as the status of the FASB and IASB convergence projects, until the work is complete. By 2011, assuming completion of these convergence projects and the staff's work plan, the SEC will decide whether to incorporate IFRSs into the U.S. financial reporting system and, if so, when and how. Commentors provided feedback on the timing discussed in the roadmap, suggesting that a four or five year time frame would be necessary to successfully implement a change in their financial reporting systems to incorporate IFRSs. Under that assumption, if the SEC determines in 2011 to incorporate IFRSs into the U.S. financial reporting system, the first time that U.S. entities would report under such a system would be no earlier than 2015. This timeline will be further evaluated as part of the work plan. The work plan is included as an appendix at the end of Release No. 33-9109 and also can be found on the SEC's Web site at www.sec.gov.

International Financial Reporting Standard for Small and Medium-Sized Entities

In July 2009, the IASB issued *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). IFRS for SMEs* is an approximately 230-page significantly reduced and simplified version of full IFRSs. In creating *IFRS for SMEs*, the IASB eliminated many accounting topics that are not generally relevant to private companies (for example, earnings per share and segment reporting), easing the financial reporting burden on private companies through a cost-benefit approach. *IFRS for SMEs* is a self-contained global accounting and financial reporting standard applicable to the general purpose financial statements of, and other financial reporting by, entities that are known in many countries as SMEs.

IFRS for SMEs is intended to be used by entities that publish general purpose financial statements for external users and do not have public accountability. Under the IASB's definition, an entity has public accountability if it files or is in the process of filing its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market or if it holds assets in a fiduciary capacity for a broad group of outsiders. Examples of entities that hold assets in a fiduciary capacity include banks, insurance companies, brokers and dealers in securities, pension funds, and mutual funds. It is not the IASB's intention to exclude entities that hold assets in a fiduciary capacity for reasons incidental to their primary business (for example, travel agents, schools, and utilities) from utilizing *IFRS for SMEs*.

Unlike public companies, U.S. private companies are not required to use a particular basis of accounting when preparing their financial statements. The factors that drive a private company's choice of which financial accounting and reporting framework to follow in preparing its financial statements depend upon each company's objectives and the needs of their financial statement users. Currently, private companies in the United States can prepare their financial statements in accordance with U.S. GAAP, as promulgated by FASB; an other comprehensive basis of accounting, such as cash or tax basis; or full IFRSs, among others. Now, with the issuance of *IFRS for SMEs*, U.S. private companies have an additional option.

Some U.S. private companies may find the simplified *IFRS for SMEs* an attractive alternative to the more complicated and voluminous U.S. GAAP. Those private companies may find *IFRS for SMEs* to be a more relevant and less costly financial accounting and reporting standard than U.S. GAAP. Being based on full IFRSs and missing many accounting topics, *IFRS for SMEs*, therefore, differs from U.S. GAAP in a variety of areas. Some of the key differences under *IFRS for SMEs* are the following:

- Disclosures are simplified in a number of areas including pensions, leases and financial instruments.
- Last in, first out (LIFO) is prohibited.
- Goodwill and indefinite life intangible assets are amortized over a period not exceeding 10 years.
- Depreciation is based on a components approach.
- The temporary difference approach to income tax accounting is simplified.
- Reversal of impairment charges, if certain criteria are met, is allowed.
- Accounting for financial assets and liabilities makes greater use of cost.

Some key challenges that may be present in choosing to use *IFRS for SMEs* include understanding the differences between *IFRS for SMEs* and U.S. GAAP, the willingness of financial statement users to accept financial statements prepared under *IFRS for SMEs*, working with and accepting a more principles-based set of accounting standards compared to the more rules-based U.S. GAAP, the impact on taxes and tax planning strategies, and the impact on financial reporting metrics.

The AICPA welcomes the introduction of *IFRS for SMEs* in the United States. Private companies should be allowed to choose the financial accounting and reporting framework that best suits their objectives and the needs of their financial statement users. *IFRS for SMEs* represents another valuable financial accounting and reporting option for private companies to consider using, depending upon their unique circumstances.

In May 2008, the AICPA Governing Council voted to recognize the IASB as an accounting body for purposes of establishing international financial accounting and reporting principles. This amendment to appendix A of Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, vol. 2, ET sec. 202, par. .01), and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, vol. 2, ET sec. 203, par. .01), gives AICPA members the option to use IFRSs as an alternative to U.S. GAAP. As such, a key professional barrier to using IFRSs and, therefore, *IFRS for SMEs* has been removed. CPAs may need to check with their state boards of accountancy to determine the status of reporting on financial statements prepared in accordance with *IFRS for SMEs* within their individual state. Any remaining barriers may come in the form of unwillingness by a private company's financial statement users to accept financial statements prepared under *IFRS for SMEs*, and a private company's expenditure of money, time and effort to convert to *IFRS for SMEs*. Information about *IFRS for SMEs* and about the activities of the IASB can be found at www.ifrs.com.

The AICPA Launches IFRS.com Web Site

To assist in both awareness building and education, the AICPA maintains and updates the Web site www.ifrs.com. The site provides current information about developments in international convergence. Developed by the AICPA, in partnership with its marketing and technology subsidiary, CPA2Biz, www.ifrs.com provides a comprehensive set of resources for accounting professionals, auditors, financial managers, audit committees, and other users of financial statements.

The Web site features tools and resources to help CPAs get acquainted with IFRSs, the surrounding issues, and available support. Resources include up-to-date financial news and information, training, frequently asked questions, articles and publications, online video presentations, a blog, and a Wiki. The Wiki is a collaborative, ongoing work in progress for anyone to contribute and use. The purpose of the Wiki is to provide a detailed and comprehensive comparison of *IFRS for SMEs* with corresponding requirements of U.S. GAAP. Contributing to the Wiki is improving the resource for the entire CPA profession.

IFRSs Primer and Questions for Audit Committees

To assist audit committee members in understanding how the IFRSs transition will affect their entity, the Audit Committee Effectiveness Center has prepared a primer on IFRSs implementation issues. It is available at www.aicpa.org/audcommctr/ifrs.htm. This primer contains information about the IFRSs and a list of questions that audit committees can review with management to determine the best strategy and timing for a smooth transition.

Private Company Financial Reporting

In December 2009, the AICPA and the Financial Accounting Foundation established the "blue-ribbon panel" to address how U.S. accounting standards can best meet the needs of users of private company financial statements. This panel also is sponsored by the National Association of State Boards of Accountancy. The "blue-ribbon panel" will provide recommendations on the future of standard setting for private companies, including whether separate, stand-alone accounting standards for private companies are needed. Although no deadline has been set for the panel's work, the recommendations are likely to come in 2010.

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

The following table contains a list of recently issued accounting pronouncements and related guidance. For information on accounting standards issued subsequent to the writing of this alert, please refer to the AICPA Web site at www.aicpa.org and the FASB Web site at www.fasb.org. You may also look for announcements of newly issued standards in the *CPA Letter* and *Journal of Accountancy*.

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Accounting Standards Update (ASU) No. 2010-10 (February 2010)	*Consolidation (Topic 810): Amendments for Certain Investment Funds*
FASB ASC ASU No. 2010-09 (February 2010)	*Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*
FASB ASC ASU No. 2010-08 (February 2010)	*Technical Corrections to Various Topics*

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Recent Accounting Standards Updates, Pronouncements, and Related Guidance *(continued)*

FASB ASC ASU No. 2010-07 (January 2010)	*Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions*
FASB ASC ASU No. 2010-06 (January 2010)	*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*
FASB ASC ASU No. 2010-05 (January 2010)	*Compensation—Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation*
FASB ASC ASU No. 2010-04 (January 2010)	*Accounting for Various Topics—Technical Corrections to SEC Paragraphs*
FASB ASC ASU No. 2010-03 (January 2010)	*Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures*
FASB ASC ASU No. 2010-02 (January 2010)	*Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*
FASB ASC ASU No. 2010-01 (January 2010)	*Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force*
FASB ASC ASU No. 2009-17 (December 2009)	*Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*
FASB ASC ASU No. 2009-16 (December 2009)	*Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*
FASB ASC ASU No. 2009-15 (October 2009)	*Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing—a consensus of the FASB Emerging Issues Task Force*
FASB ASC ASU No. 2009-14 (October 2009)	*Software (Topic 985): Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force*
FASB ASC ASU No. 2009-13 (October 2009)	*Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*
FASB ASC ASU No. 2009-12 (September 2009)	*Fair Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*
FASB ASC ASU No. 2009-11 (September 2009)	Extractive Activities-Oil and Gas-Amendment to Section 932-10-S99
FASB ASC ASU No. 2009-10 (September 2009)	*Financial Services—Broker and Dealers: Investments—Other—Amendment to Subtopic 940-325*

FASB ASC ASU No. 2009-09 (September 2009)	*Accounting for Investments—Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees—Amendments to Sections 323-10-S99 and 505-50-S99*
FASB ASC ASU No. 2009-08 (September 2009)	*Earnings per Share—Amendments to Section 260-10-S99*
FASB ASC ASU No. 2009-07 (September 2009)	*Accounting for Various Topics—Technical Corrections to SEC Paragraphs*
FASB ASC ASU No. 2009-06 (September 2009)	*Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*
FASB ASC ASU No. 2009-05 (August 2009)	*Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value*
FASB ASC ASU No. 2009-04 (August 2009)	*Accounting for Redeemable Equity Instruments—Amendment to Section 480-10-S99*
FASB ASC ASU No. 2009-03 (August 2009)	*SEC Update—Amendments to Various Topics Containing SEC Staff Accounting Bulletins*
FASB ASC ASU No. 2009-02 (June 2009)	*Omnibus Update—Amendments to Various Topics for Technical Corrections*
FASB ASC ASU No. 2009-01 (June 2009)	*Topic 105—Generally Accepted Accounting Principles—amendments based on—Statement of Financial Accounting Standards No. 168—The FASB* Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles*
FASB Statement No. 168 (June 2009) (Codified in FASB ASC 105, *Generally Accepted Accounting Principles*)	*The* FASB Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*
FASB Statement No. 167 (June 2009) (Codified in FASB ASC 810, *Consolidation*)	*Amendments to FASB Interpretation No. 46(R)*
FASB Statement No. 166 (June 2009) (Codified in FASB ASC 860, *Transfers and Servicing*)	*Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*
FASB Statement No. 165 (May 2009) (Codified in FASB ASC 855, *Subsequent Events*)	*Subsequent Events*

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FASB Statement No. 164 (April 2009) (Codified in FASB ASC 810 and 350, *Intangibles—Goodwill and Other*)	*Not-for-Profit Entities: Mergers and Acquisitions—Including an amendment of FASB Statement No. 142*
FASB Emerging Issues Task Force (EITF) Issues (Various dates)	Go to www.fasb.org/eitf/agenda.shtml for a complete list of EITF Issues.
FASB Staff Positions (FSPs) (Various dates)	Go to www.fasb.org for a complete list of FSPs.
Technical Questions and Answers (TIS) section 6910.33, "Certain Financial Reporting, Disclosure, Regulatory, and Tax Considerations When Preparing Financial Statements of Investment Companies Involved in a Business Combination" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses considerations and provides illustrative examples relating to an investment company that is engaged in a business combination.
TIS section 2220.18, "Applicability of Practical Expedient" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the circumstances when net asset value (NAV) could be considered as a basis for determining the fair value of investments.
TIS section 2220.19, "Unit of Account" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the definition of *unit of account* in relation to alternative investments.
TIS section 2220.20, "Determining Whether NAV Is Calculated Consistent With FASB ASC 946, *Financial Services—Investment Companies*" (AICPA, Technical Practice Aids) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses considerations in determining whether NAV reported by the manager of the alternative investment has been calculated in a manner consistent with FASB ASC 946.
TIS section 2220.21, "Determining Whether an Adjustment to NAV Is Necessary" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer provides examples of circumstances when an adjustment to NAV reported by the manager of the alternative investment may be necessary.

TIS section 2220.22, "Adjusting NAV When It Is Not as of the Reporting Entity's Measurement Date" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer provides examples of circumstances when an adjustment to NAV reported by the manager of the alternative investment may be necessary due to a difference from the reporting entity's measurement date and an example of how NAV might be adjusted accordingly.
TIS section 2220.23, "Adjusting NAV When It Is Not Calculated Consistent With FASB ASC 946" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer provides examples of circumstances when an adjustment to NAV reported by the manager of the alternative investment may be necessary because it has not been calculated in accordance with FASB ASC 946 and examples of how NAV might be adjusted accordingly.
TIS section 2220.24, "Disclosures—Ability to Redeem Versus Actual Redemption Request" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the determination of the appropriate level within the fair value hierarchy for alternative investments when taking into account restrictions on redemption of the investments.
TIS section 2220.25, "Impact of 'Near Term' on Classification Within Fair Value Hierarchy" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the definition of *near term* for the purposes of applying the fair value hierarchy.
TIS section 2220.26, "Categorization of Investments for Disclosure Purposes" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses the tailoring of disclosure categories to the nature and risks of the investments held.
TIS section 2220.27, "Determining Fair Value of Investments When the Practical Expedient Is Not Used or Is Not Available" (AICPA, *Technical Practice Aids*) Issue Date: December 2009 (Nonauthoritative)	This question and answer discusses considerations for valuing alternative investments when not utilizing NAV as a practical expedient for determining fair value of investments.
TIS section 6910.30, "Disclosure Requirements of Investments for Nonregistered Investment Partnerships When Their Interest in an Investee Fund Constitutes Less Than 5 Percent of the Nonregistered Investment Partnership's Net Assets" (AICPA, *Technical Practice Aids*) Issue Date: August 2009 (Nonauthoritative)	This question and answer discusses the disclosure requirements for investments for nonregistered investment partnerships.

(continued)

Recent Accounting Standards Updates, Pronouncements, and Related Guidance *(continued)*

TIS section 6910.31, "The Nonregistered Investment Partnership's Method for Calculating Its Proportional Share of Any Investments Owned by an Investee Fund in Applying the '5 Percent Test' Described in TIS Section 6910.30" (AICPA, *Technical Practice Aids*) Issue Date: August 2009 (Nonauthoritative)	This question and answer discusses the method of determining the application of TIS section 6910.30 to nonregistered investment partnerships.
TIS section 6910.32, "Additional Financial Statement Disclosures for Nonregistered Investment Partnerships When the Partnership Has Provided Guarantees Related to the Investee Fund's Debt" (AICPA, *Technical Practice Aids*) Issue Date: August 2009 (Nonauthoritative)	This question and answer discusses additional disclosures required for nonregistered investment partnerships.
TIS section 1600.04, "Presentation of Assets at Current Values and Liabilities at Current Amounts in Personal Financial Statements" (AICPA, *Technical Practice Aids*) Issue Date: June 2009 (Nonauthoritative)	This question and answer discusses the definitions of *current values* and *current amounts* for personal financial statements.

Audit and Attestation Issues Affecting Your Entity's Audit or Attest Engagement

Understand what your auditor will be looking for under the requirements for a risk-based approach to financial statement audits as a result of the current economic crisis.

The recent economic conditions and regulatory actions described in this alert may cause additional risk factors that had not previously existed or did not have a material effect on your entity in prior years. Some examples that may result from the current economic conditions are as follows:

- Constraints on the availability of capital and credit
- Going concern and liquidity issues
- Marginal achievement of explicitly stated strategic objectives
- Use of off-balance-sheet financings, special-purpose entities, and other complex financing arrangements
- Volatile real estate markets
- The credit crisis

Your entity's auditor will be considering factors such as these in the audit of the financial statements because these items may result in significant measurement uncertainty, including accounting estimates and fair value measurements, and operations that are exposed to volatile markets. Your entity's auditor may increase the extent of audit procedures, perform procedures closer to year-end, or increase audit procedures to obtain more persuasive evidence.

Audit and Attest Issues for Nonissuers

Fair Value Measurements

In addition to the looming questions relative to fair value accounting, expect your entity's auditors to pay special attention to fair value measurements. Particular assets, liabilities, and components of equity are measured or disclosed at fair value in the financial statements, and it is your responsibility as financial management to make the fair value measurements and disclosures. It is the auditor's responsibility, when auditing these fair values, to ensure they are in conformity with U.S. GAAP.

Your entity's auditor will carefully analyze the sufficiency of audit evidence to support fair value measurements. The auditor will obtain an understanding of your entity's process for determining fair values, as well as whether the fair value measurements and disclosures are in accordance with U.S. GAAP. During this testing, your entity's auditor may also identify any possible indicators of impairment. When testing the fair value measurements and disclosures, the auditor evaluates whether management's assumptions are reasonable and reflect market information, or are not consistent with market information. In relation to FASB Statement No. 157, this might include whether the market is distressed, whether the transaction was an orderly transaction, the reasonableness of the determination within the fair value hierarchy of inputs, and the reasonableness of the underlying assumptions. You should consider these issues to ensure proper fair value measurements in your entity's financial statements and to expect your entity's auditors to closely examine these measurements.

Accounting Estimates

Your entity's auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as whole. Although this alert has discussed fair value measurements at length, it is important to remember that many types of accounting estimates exist in your entity's financial statements. Some examples include the allowance for uncollectible accounts receivable, impairment analysis and estimated useful lives of long-lived assets, valuation allowance for deferred tax assets, and actuarial assumptions in pension and other postretirement benefit costs. Given the current economic climate, your entity's auditor will exercise additional skepticism when considering the underlying assumptions used in accounting estimates.

Consideration of an Entity's Ability to Continue as a Going Concern

The consideration of an entity's ability to continue as a going concern is required in every audit performed under generally accepted auditing standards, and is an especially important consideration in the current state of the economy. As explained by AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1), the auditor's evaluation is based on relevant conditions that exist at or have occurred prior to the date of the auditor's report. It is important to note the current time frame for this consideration is one year beyond the date of the financial statements. If the auditor believes a substantial doubt exists about the entity's ability to continue as a going concern, the next steps are to obtain management's plans to mitigate the effect of such conditions and then assess the likelihood these plans can be effectively implemented.

Some examples of indicators that there could be substantial doubt about the ability of your entity to continue as a going concern include, but are not limited to, the following:

- Negative trends such as negative cash flows from operating activities, recurring operating losses, working capital deficiencies, or lack of the ability to obtain additional financing
- Other indications of financial difficulties such as defaults on debt, debt covenants, or both; arrearages in dividends; the need to seek new sources of financing; or the disposal of substantial assets
- Inadequate capitalization
- Internal matters such as turnover in key management positions like CEO, CFO, and controller, or substantial dependence on the success of a particular investment or project
- Entrance into a new market for which your entity might not have the required expertise to successfully compete
- External matters such as market conditions

Some risks related to the current state of the economy that may influence your entity's ability to continue as a going concern include the following:

- Lenders may be looking for ways to get out of lending relationships.
- Financial support of a related party may not be a feasible mitigating factor depending on the financial health of that related party.
- Financial health could be significantly weakened if your entity's suppliers or customers have been strongly affected by the economy.
- Projections your entity based on historical data may not be reliable future predictions now.

In response to these risks, be prepared for your auditor to

- discuss your entity's relationship with lenders and thoroughly review loan agreements.
- focus on the viability of related parties to provide financial support and review any formal documentation stating the details of this financial support.
- obtain a strong understanding of your entity's customers and suppliers and to focus on any major customer or supplier to evaluate their financial health.
- review any of your entity's projections in detail and consider their reasonableness based upon current economic conditions.

If an auditor determines a substantial doubt exists about your entity's ability to continue as a going concern, the auditor should communicate with those charged with governance of the entity in accordance with AU section 341. AU section 341 provides guidance to an auditor evaluating whether substantial doubt exists about an entity's ability to continue as a going concern and what the auditor should do when a going concern exists. FASB has undertaken a project that will relocate the guidance related to going concern from the auditing standards to accounting standards. See the "On the Horizon" section of this alert for details.

On the Horizon

Explore current projects and pronouncements to anticipate their effect on your entity.

Presented in the following sections is information about ongoing projects of particular significance or projects that may result in significant changes. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing existing standards.

The following table lists the various standard setting bodies' Web sites, where information may be obtained on outstanding exposure drafts, including downloading exposure drafts. These Web sites contain much more in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to information provided by the various standard setting bodies for further information.

Standard-Setting Body	*Web Site*
AICPA Auditing Standards Board	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Auditing+Standards+Board/
Financial Accounting Standards Board	www.fasb.org
Governmental Accounting Standards Board	www.gasb.org
Professional Ethics Executive Committee	www.aicpa.org/Professional+Resources/Professional+Ethics+Code+of+Professional+Conduct/Professional+Ethics/
Public Company Accounting Oversight Board	www.pcaob.org
Securities and Exchange Commission	www.sec.gov

Accounting Pipeline

Presented in the following sections are accounting projects and pronouncements currently in progress. Some of the proposed pronouncements discussed in last year's alert have not been finalized as of this writing, and, thus, are included again.

FASB and IASB Memorandum of Understanding

In September 2008, FASB and the IASB updated their "Memorandum of Understanding" (MoU), originally published in 2006, to reaffirm their respective commitments to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. FASB and the IASB agreed that the goal of joint projects is to produce common, principles-based standards, subject to the required due process. In the MoU, the boards identified 11 convergence topics on which to focus and, at the October 2009 meeting, developed strategies to ensure timely completion of the following:

- Financial instruments
- Consolidations
- Derecognition
- Fair value measurement
- Revenue recognition
- Leases
- Financial instruments with characteristics of equity
- Financial statement presentation
- Other MoU projects
- Other joint projects

Also, during the October 2009 meeting, FASB and the IASB reaffirmed their commitment to convergence, agreed to intensify their efforts to complete the major projects discussed in the MoU, and committed to making quarterly progress reports on these major projects. Further, mid-2011 is the goal of completion of major MoU projects. FASB and the IASB also have several other joint projects in process, including the conceptual framework project, emissions trading schemes, insurance contracts, and reporting discontinued operations.

Readers also are encouraged to monitor developments on the AICPA's Web site, www.ifrs.com, in addition to the FASB, IASB, and SEC Web sites. The growing acceptance of IFRSs as a basis for U.S. financial reporting could represent a fundamental change for the U.S. accounting profession.

Going Concern FASB Project

Currently, the only guidance on going concern resides in the auditing literature, and this project's intention is to incorporate going concern guidance into U.S. GAAP. Specifically, this guidance would discuss the following:

- Preparation of financial statements as a going concern
- An entity's responsibility to evaluate its ability to continue as a going concern

- Disclosure requirements when financial statements are not prepared on a going concern basis
- Disclosure requirements when there is a substantial doubt about an entity's ability to continue as a going concern

A draft of the proposed statement was released and commented on late in 2008. In a February 2009 board meeting, FASB discussed the comments received on the proposal and decided to provide guidance that defines a going concern and clarifies that the period for the going concern assessment is not a strict 12-month period, nor is it intended to be an indefinite look-forward period. FASB also has decided to broaden the scope of the project to include disclosure enhancements on short and long term risks, defining *substantial doubt*, and defining when the liquidation basis of accounting is appropriate. Readers should be alert to developments on this topic.

Other Accounting Projects

Additionally, FASB has the following projects underway:

- Embedded credit derivatives scope exceptions
- Disclosure of certain loss contingencies
- Disclosure framework
- Accounting for casino jackpots
- Accounting for a loan modification when the loan is accounted for under the aggregate pool method in FASB ASC 310-30

FASB and the IASB established an advisory group, the Financial Crisis Advisory Group (FCAG), which is composed of senior leaders with international experience in financial markets. The FCAG advises FASB and the IASB about the standard setting implications of the global financial crisis, as well as changes to the global regulatory environment. Readers should refer to http://fasb.org/fcag/index.shtml for additional information.

Resource Central

Discover additional tools to increase your ability to serve your entity's financial reporting needs.

The following are various resources that you may find beneficial.

Publications

You may find the following publications useful with respect to recent financial accounting, reporting, and management developments:

- Financial Reporting Alert *Not-for-Profit Organizations—Accounting Issues and Risks 2009* (product no. 029209kk [paperback])
- *Smart Risk Management: A Guide to Identifying and Reducing Everyday Business Risks* (product no. 029884kk [paperback])
- *Accounting Trends & Techniques, 63rd Edition* (product no. 0099009kk [paperback] or WAT-XX [online])
- *IFRS Accounting Trends & Techniques* (product no. 0099109 [paperback] or WIF-XX [online])
- *Checklists and Illustrative Financial Statements for Corporations* (product no. 0089309kk [paperback] or WCP-CL12 [online])

AICPA reSOURCE: Accounting and Auditing Literature

The AICPA has created your core accounting and auditing library online. AICPA reSOURCE is now customizable to suit your preferences or your firm's needs. Or, you can sign up for access to the entire library. Get access—anytime, anywhere—to the FASB ASC, the AICPA's latest *Professional Standards, Technical Practice Aids*, Audit and Accounting Guides, Audit Risk Alerts, *Accounting Trends & Techniques*, and more. To subscribe to this essential online service for accounting professionals, visit www.cpa2biz.com.

Continuing Professional Education

The AICPA offers a number of continuing professional education (CPE) courses that are valuable to CPAs working in industry and public practice, including the following:

- *AICPA's Annual Accounting and Auditing Update Workshop (2009-2010 Edition)* (product no. 736185kk [text] or 187193kk [DVD]). Designed for those in business and industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *SEC Reporting* (product no. 736776kk [text] or 186757kk [DVD]). Confidently comply with the latest SEC reporting requirements with this comprehensive course. This course clarifies new, difficult, and important reporting and disclosure requirements while giving you examples and tips for ensuring compliance.
- *International Versus U.S. Accounting: What in the World is the Difference?* (product no. 731667kk [text]). With the fast pace of the convergence project, understanding the differences between the IFRSs and U.S. GAAP is becoming more important for entities of all sizes. This course outlines the major differences between the IFRSs and U.S. GAAP.
- *The International Financial Reporting Standards: An Overview* (product no. 157220kk [online] or 739750HSkk [DVD]). This course captures a live presentation on the IFRSs given to the AICPA board of directors.

The following courses are specifically related to the current economic state and to fair value. They are useful for both members of business and industry and auditors:

- *Minimize the Effects of a Recession on Your Business* (product no. 182010kk [DVD and manual] and 352010kk [additional text and manual for DVD]). An economic slowdown may be an inevitable part of the business cycle, but its painful impact does not have to be the same for every entity. This course provides the information and guidance you need to weather a recession and build a stronger entity over the long haul.
- *Plug Your Profit Leaks: Ways to Significantly Save Time and Money* (product no. 733821kk [text]). This course gives you specific ways to immediately affect an organization's bottom line. These proven techniques for plugging the most overlooked profit leaks come from specific strategies for lowering costs, improving productivity, or gaining efficiencies.
- *Lean Accounting and Management: Improving Profitability by Streamlining Operations* (product no. 731275kk [text]). Learn how to minimize waste and create wealth in your organization through a lean accounting and management approach that improves profitability by streamlining operations. Develop an action plan for accomplishing the transition to this lean accounting and management approach within your organization.

- *Fair Value Accounting: A Critical New Skill for All CPAs* (product no. 733302kk [text] or 183302kk [DVD and manual] and 353302kk [additional manual for DVD]). The course covers the conceptual and practical issues that arise when fair value measurement is implemented under existing FASB standards and provides examples of these issues.

Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

AICPA CPExpress (formerly AICPA InfoBytes), offered exclusively through CPA2Biz, is AICPA's flagship online learning product. AICPA members pay $180 for a new subscription and $149 for the annual renewal. Nonmembers pay $435 for a new subscription and $375 for the annual renewal. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning about a wide variety of topics. Some courses of special interest to practitioners in business and industry include the following:

- *Accounting & Auditing Quarterly Updates*
- *Accounting & Auditing Annual Updates*
- *Fair Value Accounting: A Critical New Skill for All CPAs*
- *Bottom Line Management Accounting: Practical Solutions to Real World Problems*
- *Plug Your Profit Leaks: Ways to Significantly Save Time and Money*
- *Controllers: AICPA's Annual Update*
- *Lean Accounting*
- *Lean Management*

To register or learn more, visit www.cpa2biz.com.

Webcasts

Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high quality, two-hour CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available on CD-ROM.

CFO Quarterly Roundtable Series

The CFO Quarterly Roundtable Series, brought to you each calendar quarter via webcast, covers a broad array of "hot topics" that successful organizations employ and subjects that are important to the CFOs' personal success. From financial reporting, budgeting, and forecasting to asset management and operations, the roundtable helps CFOs, treasurers, controllers, and other financial executives excel in their demanding roles.

SEC Quarterly Update Webcast Series

The SEC Quarterly Update Webcast Series, brought to you each calendar quarter, showcases the profession's leading experts on what is "hot" at the SEC. From corporate accounting reform legislation and new regulatory initiatives to accounting and reporting requirements and corporate finance activities, these hard-hitting sessions will keep you "plugged in" to what is important. A must for preparers in public companies and practitioners who have public company clients, this is the place to be when it comes to knowing about the areas of current interest at the SEC.

IFRS Quarterly Webcast Series

The IFRS Quarterly Webcast Series, brought to you each calendar quarter, is part of a multistep educational process to get practitioners, financial managers, and auditors up to speed on all aspects of IFRS implementation. Over the course of the quarterly series, the IFRSs will be covered in depth. International harmonization is quickly approaching, and this series will help both accountants and auditors stay abreast of the developments and the changes they will need to implement.

Member Service Center

To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at (888) 777-7077.

Hotlines

Accounting and Auditing Technical Hotline

Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. You can reach the Technical Hotline, available from 9 a.m. to 8 p.m. on weekdays, at (877) 242-7212 or at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+and+Auditing+Technical+Help/.

Ethics Hotline

In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at (888) 777-7077 or by e-mail at ethics@aicpa.org.

Conferences

The AICPA offers a number of conferences for practitioners in business and industry that include the most recent developments affecting the profession:

- The AICPA National Audit Committee Forum has been developed by experienced audit committee members to address current and emerging issues associated with the best practices of audit committee functions. The forum will identify key issues for audit committees. It will also provide an in-depth examination of the resources, processes, and tools required to address these issues and to implement new ideas. The forum will be held in Washington, DC, on July 29-30, 2010.
- The AICPA sponsors a Controllers Workshop in the summer and fall of each year. The Controllers Workshop is a two-day conference developed by controllers for controllers. Controllers, accounting and financial managers, treasurers, CFOs, and CEOs are all encouraged to attend. The 2010 Controllers Workshops will take place July 20–21 and November 11–12.
- The AICPA International Business, Accounting, Auditing, and Tax Conference is a two-day conference that will address today's new economic challenges, the fundamentals and fine points of international accounting, auditing, and tax issues, as well as how to do business in particular regions of the world. This conference will be held in Washington, DC, June 23–24, 2010.
- The AICPA National CFO Conference provides the opportunity to learn from expert speakers and fellow practitioners who will share insights and practical examples on how they are managing now and in the future. The focus of this conference will be on using and developing appropriate resources, enhancing your leadership skills, and recognizing and managing risks. This conference will be held in La Jolla, California, May 13–14, 2010.
- AICPA has partnered with the Enterprise Risk Management Initiative faculty at North Carolina State University to offer the one-and-one-half day workshop: "The Board and Senior Executive Roles in Risk Oversight: Taking a Strategic View of the Enterprise." This workshop helps board and audit committee members understand expectations for greater risk oversight and develop effective audit committee

practices for evaluating and monitoring techniques used to manage entity risks so that stakeholder value is protected and enhanced. Senior executives will find this information helpful as well due to the interaction between the board, audit committee and senior executives. This forum will be held on October 14–15, 2010 in New York City, New York.

For further information about AICPA conferences or to register, call (888) 777-7077 or visit www.cpa2biz.com.

Services for AICPA Members in Business, Industry, and Government

The AICPA provides a number of centers and services directed at its members in business and industry, including the Financial Management Center, the Audit Committee Effectiveness Center, and the Audit Committee Matching System. These centers and services can be accessed by visiting www.aicpa.org/Professional+Resources/Business+Industry+and+Government/.

AICPA Financial Management Center

The Financial Management Center serves CPAs working in business, industry, and government and is designed to provide financial managers and executives with tools and resources to move entities forward.

Audit Committee Effectiveness Center

Realizing that financial statement integrity and reliability depends upon balancing the pressures of multiple stakeholders, including management, regulators, investors, and the public interest, this center provides guidance and tools to make audit committee best practices actionable. Several audit committee toolkits are offered through this center including public company, not-for-profit, and government toolkits.

Audit Committee Matching System

The Audit Committee Matching System was designed (*a*) to provide members with opportunities to serve on boards of directors and (*b*) as a public service to provide a list of qualified, credentialed candidates to serve on boards of directors and presumably the audit committees of those boards.

* * * *

This Financial Reporting Alert replaces *Current Economic Crisis: Accounting Issues and Risks for Financial Management and Reporting—2009*.

We hope you find this alert helpful to you and your entity. We would greatly appreciate your feedback on this Financial Reporting Alert. You may e-mail these comments to ccole@aicpa.org or write to

Christopher Cole, CPA, CFE, CFF
AICPA
220 Leigh Farm Road
Durham, NC 27707-8110

Appendix—Additional Web Resources

Here are some useful Web sites that may provide valuable information to accountants.

Web Site Name	*Content*	*Web Site*
AICPA	Provides summaries of recent auditing and other professional standards, as well as other AICPA activities	www.aicpa.org www.cpa2biz.com www.ifrs.com
AICPA Accounting Standards Executive Committee	Issues guides and practice bulletins containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards
AICPA Accounting and Review Services Committee	Develops and issues review and compilation standards and interpretations	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Accounting+and+Review+Services+Committee
AICPA Professional Issues Task Force	Accumulates and considers practice issues that appear to present concerns for practitioners, and disseminates information or guidance, as appropriate, in the form of practice alerts	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Professional+Issues+Task+Force
Economy.com	Offers analysis, data, forecasts, and information on the United States and world economies	www.economy.com
The Federal Reserve Board	Presents key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summarizes recent accounting pronouncements and other FASB activities	www.fasb.org
Government Accountability Office	Offers policy and guidance materials, reports on federal agency major rules	www.gao.gov
Governmental Accounting Standards Board (GASB)	Summarizes recent accounting pronouncements and other GASB activities	www.gasb.org
International Accounting Standards Board	Summarizes International Financial Reporting Standards and International Accounting Standards	www.iasb.org
International Auditing and Assurance Standards Board	Summarizes International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Presents information on standards-setting activities in the international arena	www.ifac.org

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Web Site Name	*Content*	*Web Site*
Private Company Financial Reporting Committee	Presents information on the initiative to further improve FASB's standard setting process to consider needs of private companies and their constituents of financial reporting	www.pcfr.org
Public Company Accounting Oversight Board (PCAOB)	Provides information on accounting and auditing the activities of the PCAOB and other matters	www.pcaob.org
Securities and Exchange Commission (SEC)	Offers information on current SEC rulemaking and the Electronic Data Gathering, Analysis, and Retrieval database	www.sec.gov
USA.gov	Acts as a portal through which all government agencies can be accessed	www.usa.gov