

THE NEWSLETTER FROM BDO'S NATIONAL ASSURANCE PRACTICE

BDO KNOWS: **FASB**



2010 ACCOUNTING YEAR IN REVIEW

FULL SPEED AHEAD!

The rapid pace of change in accounting standards during 2010 has implications for the near term, as well as the longer term outlook. Many new pronouncements are effective for 2010 year-end reports, more will take effect in 2011, and several major projects such as revenue recognition and lease accounting are expected at a later date that the FASB hasn't yet determined. The unprecedented level of standard-setting activity has been driven in large part by the recent economic downturn and the Financial Accounting Standards Board's (FASB) convergence program with the International Accounting Standards Board (IASB).

Our year-in-review letter summarizes recent pronouncements with broad applicability by subject,¹ as well as hot topic reminders on applying existing U.S. GAAP to assist you in closing the books on 2010. Next, we've summarized five major FASB proposals, with additional commentary on the public feedback that's been received to date and our expectations about next steps. Lastly, we've included a comprehensive list of recently-issued accounting standards as an appendix.

¹ We have excluded those recent accounting standards updates (ASUs) with a narrow focus, such as minor technical corrections and industry-specific guidance. However, all ASUs issued in 2010 are included in the appendix of effective dates for reference.

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► RECENT PRONOUNCEMENTS AND HOT TOPICS

Consolidation of Variable Interest Entities (VIEs)

Effective in 2010, Topic 810² was updated to improve financial reporting by enterprises involved with variable interest entities.³ While public companies adopted the guidance in the first quarter, many private entities may be preparing their first set of financial statements under the new guidance. The update to Topic 810 retains many of the principles in the variable interest consolidation model, but there are some significant changes:

- **Elimination of the QSPE** – The concept of a qualifying special purpose entity (QSPE) was eliminated by a concurrent update to Topic 860.⁴ One of the changes to Topic 810 was to remove a scope exception that excluded QSPEs from a consolidation analysis. Upon adoption, the new guidance requires that existing QSPEs be re-evaluated to determine whether entities are VIEs and consolidation is required.
- **Identifying the primary beneficiary** – Previously, companies often assessed their involvement with a VIE by determining if they would absorb a majority of the VIE's expected losses and/or residual returns, which is a quantitative method that is difficult to apply. The new guidance requires a qualitative assessment when determining the primary beneficiary. This assessment will require judgment and consideration of all facts and circumstances. If the enterprise has the (i) power to direct the activities that most significantly impact the economic performance of the VIE, and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be potentially significant to the VIE, then it would be considered the primary beneficiary. In performing the analysis, only substantive contractual and noncontractual terms, transactions and arrangements need to be considered. Kick-out rights and substantive participating rights are ignored unless the rights are held by a single enterprise.
- **Previously, if more than one party in a related party group had a variable interest and, as a group, they would be considered the primary beneficiary of a VIE, the enterprise most closely associated with the VIE would consolidate it. Under the revised model, if one party in the related party group individually meets the primary beneficiary conditions, that party consolidates the VIE. Only when an enterprise concludes that neither it nor its related parties has both characteristics, but the related party group as a whole has them, does the party within the group that is most closely associated with the VIE become the primary beneficiary. When determining whether an enterprise has the power to direct the activities of a VIE, an enterprise is still required to assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed.**
- **Shared power** – Under the revisions to Topic 810, if the power to direct the most significant activities of a VIE is shared with unrelated parties, there is no primary beneficiary and no party consolidates the VIE. Power is considered shared if two or more unrelated parties together have the power to direct the activities that most significantly impact the VIE's economic performance and if decisions about those activities require the consent of each of the parties. If multiple parties have power over the same significant activities (such as multiple loan servicers for a single trust), but the power is not shared, the party (if any) with the power over the majority of the activities has power over the VIE. If power is not shared and multiple unrelated parties have power over different activities, the party with power over the activities that most significantly impact the entity's economic performance has the power over the VIE.
- **Ongoing assessments** – Topic 810 previously required an enterprise to reassess whether an entity is a VIE and whether it is the primary beneficiary only upon the occurrence of specific events. The new guidance requires ongoing assessments of which enterprise is the primary beneficiary of the VIE. Reconsideration of VIE status is still based on the occurrence of specified events. However, when considering whether the entity is a VIE, the new guidance adds an additional reconsideration event that requires enterprises to determine if changes in facts or circumstances cause the holders of the equity at risk, as a group, to lose the power to direct the activities that are most significant to the economic performance of the entity. The new guidance also eliminates the exemption for reconsidering an entity's VIE status or determining a VIE's primary beneficiary upon a troubled debt restructuring.
- **Fees paid to decision makers and service providers** – The revised variable interest model combines and changes the criteria that determine whether fees paid to decision makers or service providers are variable interests. Under Topic 810, such fees used to be evaluated under separate criteria to determine if they were variable interests in an entity. The most significant change relates to cancellation provisions and kick-out rights. It is no longer necessary to consider whether kick-out rights exist to determine that fees paid to a decision maker are not variable interests. The requirement to consider customary cancellation provisions in other service contracts is also eliminated.
- **Additional disclosures** – The updated guidance requires additional disclosures that are designed to illustrate an enterprise's involvement with VIEs and any significant changes in risk exposure due to that involvement. The disclosures also require an enterprise to explain any significant judgments and assumptions made in the consolidation analysis.

² Consolidation

³ FASB Accounting Standards Update No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*

⁴ Transfers and Servicing

- Presentation – An enterprise must separately present on the face of the balance sheet (i) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, and (ii) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary.

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We have prepared two publications related to the revised VIE guidance. The first article summarizes the new consolidation model, contrasting it with prior guidance, which can be accessed [here](#). The second document is a step-by-step practice aid with accompanying narrative to assist in applying the guidance and is available [here](#).

After the updates to Topic 810 were issued but prior to their adoption, several users of financial statements of investment managers continued to express concerns about the usefulness of those statements if the fund managers were required to consolidate the funds they manage. In addition, there was a conflict with the IASB's deliberations to date on evaluating principal and agent relationships that would result in a different consolidation conclusion for investment funds compared with U.S. GAAP. Since the FASB and the IASB have a joint project to develop a single converged accounting standard on consolidation policy, the FASB decided that the effective date of the amendments should be deferred for the affected investment funds so both Boards could develop consistent guidance on a joint basis. Until the joint project is finalized, companies within the scope of the deferral⁵ will continue to apply the prior guidance in Topic 810.

Contingencies

In July 2010, the FASB proposed an update to Topic 450 *Contingencies*, which if adopted, would have expanded the current disclosure requirements for certain loss contingencies. The proposed threshold for disclosure would have been whether there is at least "a reasonable possibility (that is, more than remote possibility)" that a loss may have been incurred regardless of whether the entity has accrued for the loss. The proposal would have impacted contingencies arising from litigation, environmental obligations, warranties, withdrawals from multi-employer pension plans and certain contingent losses in connection with business combinations.

The response to the proposal was not supportive, due in large part to concerns that the resulting disclosures could be prejudicial towards the reporting enterprises and their shareholders, as well as because of conflicts imposed on attorneys under the ABA Treaty.⁶ In evaluating the feedback, the FASB questioned whether the information that investors need about contingencies was due to a lack of compliance with existing standards, as opposed to inadequate standards themselves. As such, the FASB decided to revisit the issue in 2011 after it studies disclosures of contingent losses in 2010 year-end reports. The SEC staff has also indicated it will focus on this area of public companies' reports. As such, preparers may want to take a fresh look at their disclosures this year to determine whether they meet the spirit of the guidance in Topic 450. It requires disclosure of contingencies "when there is at least a reasonable possibility that a loss...may have been incurred" and the contingent loss either doesn't qualify for recognition in the financial statements or an exposure to loss exists in excess of the amount accrued.⁷

Debt and Equity

Many borrowers have faced pending debt maturities or other borrowing terms that they would have difficulty meeting. As a result, companies have negotiated new or amended financing arrangements. Because of the significantly different accounting treatments, borrowers should first consider whether such transactions fall within the scope of accounting literature covering troubled debt restructurings before moving onto the modification vs. extinguishment analysis. As a reminder, the two key features of a troubled debt restructuring are that the debtor is experiencing financial difficulties and the creditor has provided concessions associated with the economic situation of the debtor. Management should also bear in mind that debt modification or extinguishment accounting only applies to changes that occur in the context of a single debtor-creditor relationship. If the creditor is different before and after the change, the amendment will generally meet the criteria for a debt extinguishment. If the debtor-creditor relationship is the same after the change in the debt, then the issuer should analyze the change based on the guidance in ASC 470-50.⁸

⁵ FASB Accounting Standards Update No. 2010-10, *Amendments for Certain Investment Funds*. Note that only entities specifically within the scope of the ASU are eligible for the deferral.

⁶ American Bar Association's *Policy Regarding Lawyers' Responses to Auditors' Requests for Information*

⁷ ASC 450-20-50-3

⁸ Debt—Modifications and Extinguishments

► BDO INSIGHT:

The debt and equity literature is among the most difficult in U.S. GAAP. In addition to the complexity of accounting for a modification or restructuring, the design of financial instruments continues to evolve. These transactions often include the issuance of conversion options embedded in debt or preferred shares and freestanding warrants to purchase the issuer's shares. We have received many questions about accounting for these types of transactions, and the SEC staff frequently questions whether the appropriate accounting analysis has been performed. To assist practitioners in this area of the literature, we have developed a practice aid that is available [here](#).

Several other debt-related presentation issues should be considered at each balance sheet date under ASC 470-10-45:⁹

- If a covenant violation occurs that would otherwise give the lender the right to call the debt, a lender may provide a waiver for a period greater than one year while retaining future covenant requirements. In this situation, the borrower should classify the obligation as noncurrent, unless a covenant violation that gives the lender the right to call the debt has occurred at the balance sheet date or would have occurred absent a loan modification, *and* it is probable that the borrower will not be able to cure the default within the next 12 months (both conditions must be met).
- Borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a lock-box arrangement must be presented as a current liability.
- Outside of a revolver, the presence of a subjective acceleration clause should be evaluated based on the facts and circumstances to determine the appropriate classification. For example, recurring losses or liquidity problems would indicate that long-term debt subject to a subjective acceleration clause should be classified as a current liability. In contrast, some situations would be appropriately addressed by disclosing the existence of such clauses. Lastly, neither reclassification nor disclosure would be required if the likelihood of the debt being accelerated was remote. This might be the case if the lender historically has not accelerated due dates of loans containing similar clauses and the financial condition of the borrower is strong and its prospects are bright.

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Even when not required, management may wish to consider disclosing the existence of acceleration clauses so that financial statement users are aware it is possible that the debt may be reclassified to short term in the future.

- Short-term debt can only be classified as non-current if the borrower has the intent and ability to refinance it on a long-term basis. This can be demonstrated after the balance sheet date but before issuance of the financial statements if the borrower issues equity securities or obtains a long-term financing agreement.
- Lastly, some debt instruments contain cross-default provisions. As such, a covenant violation in one instrument could have implications for other borrowings.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued ASU 2010-06,¹⁰ which applies to all companies that are required to make disclosures about their recurring and non-recurring fair value measurements. It was adopted in response to constituents' requests to improve disclosures related to fair value measurements that are required by Topic 820.¹¹ The ASU requires two new disclosures. First, for assets and liabilities that are measured at fair value on a recurring basis, companies must now disclose separately (that is, on a gross basis) the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements. Further, the reasons for the transfers must be described. Entities are required to assess the significance of the transfer with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. Second, for Level 3 assets and liabilities that are measured at fair value on a recurring basis, a company must present separately (that is, on a gross basis) information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements. The ASU indicates that gains or losses recorded in other comprehensive income should be included in the reconciliation, in addition to gains or losses recorded in earnings. Further, while many entities previously disclosed transfers in and out of Level 3 on a net basis, the ASU now requires separate (gross) disclosure of significant transfers in and significant transfers out of Level 3. The ASU contains examples of such disclosures, which may be accessed [here](#).

⁹ Debt—Overall—Other Presentation Matters

¹⁰ FASB Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements*

¹¹ Fair Value Measurements and Disclosures

The ASU also requires companies to develop and disclose their accounting policies for determining when transfers between levels are recognized. Judgment will be required to develop this policy, which must be consistently applied in future periods. Examples of policies for when to recognize transfers may be based upon the date of the event or change in circumstances that caused the transfer, the beginning of the reporting period, and the end of the reporting period. The policy for recognizing transfers should be the same for "inbound" and "outbound" transfers.

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The new requirements above may present practical challenges for companies that need to make changes to their information systems in order to extract and present investment activity in the new format, particularly those with large investment portfolios such as certain financial institutions. In addition, the population of investments subject to these disclosures may increase because some companies may be presenting the assets of newly-consolidated variable interest entities when they adopt the revisions to ASC 810-10. Financial asset transfers that do not qualify for sale accounting under the revisions to ASC 860-10 could also increase the population of assets subject to these disclosures.

The ASU also indicates a company should provide fair value measurement disclosures for each *class* of assets and liabilities. In the past, some practitioners equated a class with a line item on the balance sheet. However, the ASU clarifies that a class is *often a subset* of assets or liabilities within a balance sheet line item. As a result, companies will need to use judgment in determining the appropriate classes of assets and liabilities. For equity and debt securities, class should be determined on the basis of the nature and risks of the investments, in a manner consistent with the five categories identified in ASC 320-10-50-1B: (shared) activity or business sector, vintage, geographic concentration, credit quality and economic characteristic. For financial institutions, classes of debt and equity securities should be the same as the industry guidance described in ASC 942-320-50-2 that specifies all of the following major security types, although additional types also may be necessary:

- a. Equity securities, segregated by any one of the following:
 - Industry type
 - Entity size
 - Investment objective
- b. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies
- c. Debt securities issued by states of the United States and political subdivisions of the states
- d. Debt securities issued by foreign governments
- e. Corporate debt securities
- f. Residential mortgage-backed securities
- ff. Commercial mortgage-backed securities
- fff. Collateralized debt obligations
- g. Other debt obligations.

For all other assets and liabilities, entities should use judgment to determine the appropriate classes of assets and liabilities for which they should provide disclosures about fair value measurements.

Finally, the ASU requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements which fall in either Level 2 or Level 3. Any changes in valuation techniques must also be disclosed, including the reasons for the change. This may be the case, for instance, if markets become inactive, leading companies to use an income approach in place of a market approach, or a combination thereof.

The ASU is effective in 2010 (e.g., first quarter for public companies; year-end for private companies), except for the separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which are effective in 2011.

Impairment of Goodwill and Long-Lived Assets

U.S. GAAP requires an interim period impairment test of the goodwill of a reporting unit if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Similarly, indefinite-lived intangible assets must be tested on an interim basis if events or changes in circumstances indicate they might be impaired. The impairment triggers (or warning signs) for goodwill and indefinite-lived intangibles can include, but aren't limited to: (i) a decline in market capitalization and/or recent cash or operating losses due to market conditions with an expectation that the declines or losses may continue, (ii) weakness in a particular industry segment, such as the financial institution and automobile industries, (iii) downward revisions to future period profit forecasts, and (iv) restructuring activities such as layoffs or plans to dispose of a reporting unit or a significant portion of it.

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With respect to goodwill, management should remember that changes to the company's operating segments under Topic 280 will likely impact the identification of its reporting units. If a breakeven or underperforming operation is carved out of a larger segment as a standalone reporting unit, the likelihood of goodwill impairment may increase.

More generally, similar impairment triggers exist in other parts of the literature including property, plant and equipment and intangible assets. When management has identified a trigger in one area of its financial statements, additional impairment analyses may be warranted in other areas too.

In 2011, public companies that have reporting units with zero or negative carrying amounts will need to reassess them under ASU 2010-28.¹² Private companies will have an extra year, unless they choose to early adopt. In the past, some companies have concluded that Step 1 of the goodwill impairment test is automatically passed because the fair value of their reporting unit is greater than zero. To "fix" this mechanical shielding of potential goodwill impairments, the FASB indicated companies will be required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The "more likely than not" assessment is based on management's judgment as to whether there are any adverse factors indicating that an impairment exists, similar to the examples above (see ASC 350-20-35-30). We expect many companies will recognize impairments when they adopt the ASU. At transition only, impairment charges will be recorded in retained earnings. Thereafter, they will be charged to the income statement.

Income Taxes

If a company has a pattern of operating losses, it may need to reevaluate the realization of its deferred tax assets. U.S. GAAP requires that companies consider all positive and negative evidence in making these assessments. The evidence is then weighted according to the extent to which it can be objectively verified, with the result that an expectation of future taxable income without other evidence will generally not be sufficient to overcome an actual history of recent losses.

In addition, U.S. GAAP provides an exception to the recognition of a deferred tax liability for the temporary difference created by an excess of the book basis over the tax basis of an investment in a foreign subsidiary or joint venture as long as that excess is indefinitely invested in the foreign entity. Because such an excess is typically caused by undistributed earnings of the subsidiary or joint venture, the parent company may need to record a deferred tax liability if it plans to repatriate the foreign entity's earnings or is otherwise unable to assert such funds will remain invested indefinitely.

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As part of a company's period-end tax accrual or other tax planning activities, management may want to review our [2010 tax bulletins](#). They address legislative and regulatory developments throughout the year at the state, federal and international levels.

Investments and Receivables

As companies manage their cash needs, one option may be to liquidate their investments. The option to sell investments underscores the importance of a thorough other-than-temporary impairment analysis since a sale may represent a source of much-needed cash. Under Topic 320,¹³ when the fair value of a debt security falls to a level lower than its amortized cost basis at the balance sheet date, a company must assess whether the impairment is other than temporary (OTTI). An OTTI is triggered if: (i) an entity has the intent to sell the security, (ii) it is more likely than not that it will be required to sell the security before recovery, or (iii) it does not expect to recover the entire amortized cost basis of the security.

If the entity intends to sell or it is more likely than not that the entity will be required to sell the debt security before anticipated recovery of the entire amortized cost basis, an OTTI exists and the impairment loss is recorded in earnings. If the entity does not intend to sell the debt security and it is more likely than not that it will not be required to sell the debt security, and recovery of the entire amortized cost basis is not expected, then OTTI is split between the credit loss portion and the amount related to all other factors, such as liquidity and market interest rates (i.e., the non-credit portion). The credit loss portion of the total OTTI is the difference between the amortized cost of the debt security and the present value of estimated cash flows to be received from the debt security. The credit loss is recognized in earnings, while the non-credit portion is recognized in other comprehensive income (OCI).

¹² FASB Accounting Standards Update No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*

¹³ Investments—Debt and Equity Securities

For equity securities, impairment continues to be assessed based on assertions of intent and ability to hold until recovery (SAB Topic 5.M. and SAB 111). However, the presentation and disclosure requirements of the debt model apply to investments in both debt and equity securities. Further, the SEC staff indicated in a letter to the FASB that perpetual preferred securities possessing significant “debt-like” characteristics may be evaluated under the OTTI model for debt securities, unless there is evidence of deterioration in the credit quality of the issuer.¹⁴ In that case, we understand ASC 320-10-S99 would continue to apply.

In 2010, the FASB issued ASU 2010-20¹⁵ requiring companies to provide detailed disclosures about (i) the nature of credit risk inherent in an entity’s financing receivables, (ii) how the entity analyzes that risk in estimating its allowance for credit losses, and (iii) the changes in the allowance for credit losses as well as the reasons for those changes. A financing receivable is a contractual right to receive money such as loans, notes receivable, credit card receivables and non-operating lease receivables.¹⁶ The ASU requires a company to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. The disclosures are required to be presented by class of financing receivable or by portfolio segment, two new defined terms. A portfolio segment is the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, e.g., by type of receivable, industry or risk rates. Classes of financing receivable generally are a disaggregation of a portfolio segment.

The new disclosures include a rollforward of the allowance for credit losses from the beginning of the period to the end of the period, by portfolio segment, with the ending balance further disaggregated based on impairment methodology such as loans evaluated individually or collectively for impairment. Other disclosures include significant purchases and sales of financing receivables during the period; the amount of nonaccrual financing receivables and those past due 90 days or more and still accruing; the aging of financing receivables past due; and the amount of impaired financing receivables. The ASU also requires certain disclosures related to troubled debt restructurings (TDR). However, the FASB recently proposed to defer those requirements while it works on a separate [TDR project](#). Aside from the proposed deferral related to TDRs, public companies are not required to provide all the required disclosures at once. The amendments that require disclosures as of the end of a reporting period (e.g., credit quality information and impaired loan information) are effective for the 2010 year-end. The amendments that require disclosures about activity that occurs during a reporting period (e.g., the allowance rollforward) are effective in the first quarter of 2011. Private companies have an additional year.

Loan Modifications in a Pool

In April 2010, the FASB issued ASU 2010-18¹⁷ to address the accounting for a loan receivable that is a part of an acquired pool of loans and is modified in a TDR. The issue is whether the loan should be removed from or retained in the pool when it is modified. This issue is particularly relevant to financial institutions and other entities that have been acquiring a high volume of credit-impaired loans accounted for in pools and have modified individual loans in these pools.

ASC 310-30¹⁸ provides guidance on accounting for acquired loans (i) with evidence of a deterioration in credit quality since origination and (ii) for which it is probable, at acquisition, that all contractually required payments will not be received. U.S. GAAP allows loans acquired in the same fiscal quarter with common risk characteristics, such as similar credit risk or risk ratings, to be accounted for in the aggregate as a pool. Upon establishment of the pool, the pool becomes the unit of account. Once a pool is established, individual loans should not be removed from the pool unless the entity sells, forecloses, or otherwise receives assets in satisfaction of the loan or the loan is written off.

Under the ASU, modifications of loans that are within the scope of ASC 310-30 and are accounted for as part of a pool should not be removed from the pool even if the modification of those loans would otherwise be considered a TDR. This is premised on the FASB’s view that a TDR is the continuation of a prior loan, not the creation of a new loan. Consequently, the integrity of the pool should be maintained. However, a company is required to consider whether the pool that includes the loan is impaired if expected cash flows of the pool change.

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In practice, the ASU may commonly apply to pools of commercial and real estate construction loans purchased by financial institutions acquiring failed depositories or for loans purchased from financial institution regulators. The guidance in ASU 2010-18 does not apply to individual acquired loans in the scope of ASC 310-30 (i.e., loans that are not aggregated and accounted for within pools). Such individual loans will continue to follow the TDR requirements in ASC 310-40. The guidance also does not apply to smaller-balance homogenous loans that are collectively evaluated for impairment such as purchased residential mortgage loans and credit card receivables.

¹⁴ See <http://www.sec.gov/info/accountants/staffletters/fasb101408.pdf>.

¹⁵ FASB Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*

¹⁶ Trade receivables are not subject to the disclosure requirements.

¹⁷ FASB Accounting Standards Update No. 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*

¹⁸ Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality

Pension Plans

While pension accounting has not changed in the last year, the assumptions used to calculate the periodic pension costs have attracted attention in a down market. As such, companies should carefully consider whether the rates of return applied to the underlying assets are reasonable in the circumstances. Companies should also consider the effect that the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010 (HCERA) have on benefit obligations this year-end. Given uncertain aspects of the legislation, affected companies should coordinate with their actuaries and auditors on this point.

On a related matter, participants in multiemployer pension plans should also note the FASB has an active project aimed at requiring significant new disclosures about the (un)funded status of [multiemployer plans](#). That project is expected to be complete in mid-2011.

Separately, the FASB issued ASU 2010-25¹⁹ to clarify the accounting treatment of loans to participants in defined contribution pension benefit plans. The ASU states participant loans should be classified as notes receivable from participants and carried at their unpaid principal balance plus accrued interest, not fair value, in the financial statements of the plan. The new guidance is effective in 2010.

Pro Forma Information

The FASB issued another new standard effective in 2011 to resolve diversity in practice in the footnote disclosure of pro forma revenue and earnings information related to business combinations.²⁰ The new guidance clarifies companies should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the prior year. In the past, practice was mixed as to whether companies assumed the business combination occurred at the beginning of each respective period in a comparative presentation (that is, as if the acquisition occurred twice) vs. assuming it occurred only once at the beginning of the prior year.

Revenue Recognition

Under ASC 605-25²¹ many companies' sales arrangements are often characterized by transactions with multiple deliverables, for which the most recent guidance is ASU 2009-13.²² For example, in the technology industry, hardware and professional services may be sold together as part of the same customer arrangement. Similarly, an equipment manufacturer may sell multiple products under the same purchase order that are delivered at different times, or provides installation services in addition to delivery of products. While some companies chose to early-adopt ASU 2009-13 in 2010, companies who did not are required to adopt in 2011 for new or materially modified contracts. Importantly, the determination of whether an arrangement has been materially modified is a matter of judgment and should be based on the individual facts and circumstances.

► BDO INSIGHT:

The ASU allows companies to allocate consideration in multiple deliverable arrangements in a manner that better reflects the underlying economics compared to prior guidance. In addition, it will often result in earlier revenue recognition. Under this guidance, companies with multiple deliverable arrangements may choose to change their pricing policies and sales practices to employ greater variability in pricing products and services.

The ASU replaces and significantly changes certain guidance in ASC 605-25. Specifically, it eliminates the requirement to have objective and reliable evidence of fair value for the undelivered products or services to record revenue. Instead, revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables meet certain criteria. In addition to softening the requirements for evidence of fair value, the ASU also eliminates the use of the residual method of allocation. Instead, arrangement consideration must be allocated at the inception of the arrangement to all deliverables based on their relative selling prices. When applying the relative selling price method, a hierarchy is used for estimating the selling price for each of the deliverables, as follows:

- Vendor-specific objective evidence (VSOE) of the selling price – VSOE is limited to either of the following: (i) the price charged for a deliverable when it is sold separately or (ii) for a deliverable not yet being sold separately, the price established by management having the relevant authority. It must be probable that the price, once established, will not change before the separate introduction of the deliverable into the marketplace.
- Third-party evidence (TPE) of the selling price – Defined as the prices of the vendor's or any competitor's largely interchangeable products or services, in standalone sales to similarly situated customers.

¹⁹ FASB Accounting Standards Update No. 2010-25, *Reporting Loans to Participants by Defined Contribution Pension Plans*

²⁰ FASB Accounting Standards Update No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*

²¹ Revenue Recognition—Multiple Element Arrangements

²² FASB Accounting Standards Update No. 2010-13, *Multiple-Deliverable Revenue Arrangements*

- Best estimate of the selling price – the price at which the vendor would transact if the deliverable were sold by the vendor regularly on a standalone basis. The vendor should consider market conditions as well as entity-specific factors when estimating the selling price.

Since the residual method has been eliminated, many companies may need to expand their procedures for collecting data relevant to estimating selling prices of delivered items. While it is expected that this data already exists internally, it may now become a more formal part of the accounting process.

In conjunction with ASU 2009-13, the FASB issued ASU 2009-14,²³ which changes the scope of ASC 985-605 (formerly SOP 97-2, “the software literature”) to exclude certain software-enabled products. Companies that sell tangible products containing both software and non-software components that function together to deliver the product’s essential functionality are no longer subject to the software literature with respect to those products and would instead follow the non-software guidance in ASC 605-25. Other companies that sell software remain subject to the software literature.

► BDO INSIGHT:

For additional BDO perspectives on the new revenue recognition standards and their impact on your business, click [here](#).

In April 2010, the FASB issued ASU 2010-17²⁴ to address questions regarding the milestone method of revenue recognition. For example, biotech companies may enter into arrangements to provide research or development services that include payment provisions contingent upon milestone events such as successful completion of a phase of a drug study or achieving a specific result. The ASU is limited to arrangements in which research or development²⁵ deliverables are provided over a period of time and consideration is contingent upon uncertain future events. While some companies chose to early-adopt the ASU in 2010, companies who did not that apply milestone accounting are required to adopt in 2011. Note that although an entity is not required to apply the milestone method, it is the only model permitted for an entity to recognize consideration that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved.

The ASU provides that a milestone is an event for which there is *substantive uncertainty* at the date the arrangement is entered into that event will be achieved. If achieved, the event would result in additional payments being due to the vendor. For purposes of revenue recognition, the event can only be achieved based in whole or in part on either the vendor’s performance or a specific outcome resulting from the vendor’s performance. A company’s assessment of the probability of meeting a milestone does not impact whether substantive uncertainty exists. Rather, substantive uncertainty is simply meant to imply that the uncertainty is “real” and not a form of disguised upfront payment.

A company can recognize revenue contingent upon meeting a milestone in its entirety in the period in which a milestone is achieved only if the milestone meets all the criteria to be considered substantive. For a milestone to be considered substantive, it must be commensurate with either (i) the vendor’s performance to achieve the milestone, or (ii) the enhancement of value of the item delivered as a result of a specific outcome resulting from the vendor’s performance to achieve the milestone. A milestone must also relate solely to past performance and be reasonable relative to all deliverables and payment terms in the arrangement.

The milestone method is considered a proportional performance method of revenue recognition. An entity would first consider the separation criteria in ASC 605-25 (ASU 2009-13) to allocate consideration other than milestones among multiple deliverables in the arrangement. After the arrangement consideration is allocated among the various deliverables, the milestone method could be used to determine the timing of revenue recognition for an individual deliverable that contains substantive milestones.

Stock Compensation

ASU 2010-05²⁶ was issued to reflect the SEC staff’s view on certain escrowed share arrangements in which significant shareholders of a company, who may also be officers or directors, place a portion of their shares in escrow in connection with an initial public offering or other financing transaction. The escrowed shares are released back to the shareholders only if performance targets are met. Historically, the staff considered these arrangements to be compensatory, equivalent to a reverse stock split followed by the grant of a restricted stock award under a performance-based plan.

The new guidance states that when evaluating the substance of the transaction and whether the presumption of compensation can be overcome, an arrangement in which the shares are forfeited if employment terminates is considered to be compensation. Otherwise, if

²³ FASB Accounting Standards Update No. 2010-14, *Certain Revenue Arrangements That Include Software Elements*

²⁴ FASB Accounting Standards Update No. 2010-17, *Milestone Method of Revenue Recognition*

²⁵ The terms *research and development* are defined in ASC 730-10-20.

²⁶ FASB Accounting Standards Update No. 2010-05, *Escrowed Share Arrangements and the Presumption of Compensation*

the escrowed shares will be released or canceled without regard to continued employment, the facts and circumstances may indicate that the arrangement is in substance an inducement made to facilitate the transaction on behalf of the company. Judgment will be required to determine that the presumption of compensation has been overcome. However, in such cases, the staff now believes that the arrangement should be recognized and measured as a reduction of the proceeds allocated to the newly-issued securities. Further, the staff observed discounts on debt securities are amortized using the effective interest method, while discounts on common equity are not generally amortized.

In another share-based payment matter, the FASB issued ASU 2010-13²⁷ to address diversity in practice regarding the classification of certain employee share-based payment awards with an exercise price denominated in the currency of a market in which the underlying equity securities trade. Under Topic 718,²⁸ an award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. Liability treatment results in incremental income statement volatility compared to equity classification. In addition to the basic principle on classification, Topic 718 provides an exception to liability treatment for options granted to an employee of a company's foreign operations that provide a fixed exercise price denominated in (i) the foreign operation's functional currency or (ii) the currency in which the employee's pay is denominated.

However, Topic 718 previously did not specify whether options granted to an employee of the company's foreign operations with an exercise price denominated in the currency of a market in which the entity's underlying equity securities trade contained a condition *other than* a market, performance or service condition that would require liability accounting. This led to diversity in practice as to whether equity or liability treatment applied. ASU 2010-13 expanded the exception to liability treatment to include awards with an exercise price denominated in the currency of a market in which a substantial portion²⁹ of the entity's equity securities trades. In other words, these awards should be equity-classified assuming all other criteria for equity classification are met. The ASU takes effect in 2011.

Subsequent Events

In February 2010, the FASB issued ASU 2010-09³⁰ to address concerns about conflicts with SEC guidance and other practice issues related to subsequent events. The ASU defined a new type of entity known as an "SEC filer," which has several practical implications for the evaluation and disclosure of subsequent events. For more information, see our [2010 SEC Year in Review letter](#).

► ON THE HORIZON

As part of their convergence efforts, the FASB and IASB have committed to completing their projects on financial instruments, revenue recognition, leases, the presentation of other comprehensive income, fair value measurement, balance sheet netting of derivative and other financial instruments, and the consolidation of investment companies by June 2011. Other joint projects that have been delayed include financial instruments with characteristics of equity, financial statement presentation and presentation of discontinued operations. The timing of projects related to the consolidation of voting interest entities and derecognition is yet to be determined. Collectively, these projects are referred to as Memorandum of Understanding (MoU) projects.

During 2010, the FASB exposed five major proposals for public comment that are expected to become effective at later date, no earlier than 2012. We've summarized the proposals with broad applicability on the following pages.

Financial Instruments

The proposal addresses classification, measurement, impairment and hedge accounting. If adopted, the proposal would result in comprehensive changes to the current accounting of many instruments including investments in debt and equity securities, nonmarketable equity securities, loans, loan commitments, debt liabilities and derivatives. The proposal would have the greatest effect on banks and other financial institutions, but all enterprises that engage in financial instrument transactions would be affected. The response from most constituents has been largely negative, and the FASB is currently redeliberating the proposal with the benefit of public feedback.

Under the proposal, most financial instruments would be reported on the balance sheet at fair value with changes in fair value recorded through net income unless (i) an instrument qualifies and an entity elects to recognize the changes in fair value through other comprehensive income, or (ii) a specific exception applies. In the proposal, the FASB provided specific exceptions to fair value measurement for short term trade receivables and payables, certain instruments that can be redeemed only for a specified amount, some types of an entity's own plain-vanilla debt instruments and core deposit liabilities.

²⁷ FASB Accounting Standards Update No. 2010-13, *Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in which the Underlying Equity Security Trades*

²⁸ Compensation—Stock Compensation

²⁹ To limit potential abuse, the term *substantial portion* is used to describe what level of market activity would meet the qualifications for application of this ASU.

³⁰ FASB Accounting Standards Update No. 2010-09, *Amendments to Certain Recognition and Disclosure Requirements*

The proposal would replace today's multiple impairment models with a single approach for recognizing and measuring impairment of loans and other financial assets that are not adjusted to fair value each period through earnings. The proposed model focuses on *credit* impairments, whether or not fair value is less than cost. This change would eliminate the "probable" threshold that exists under U.S. GAAP for recognizing impairments on loans. If, based on *existing* facts and circumstances, an entity does not expect to collect all of the contractual cash flows that were expected when the asset was originated or purchased, an impairment would be recognized in net income. An entity would be precluded from considering future events beyond the balance sheet date in its assessment. Impairments would result in the establishment of or an increase to an allowance for credit impairment account; impairments would also be reversed to the extent of previous charges. For assets acquired at a discount due to credit quality, additional yield adjustment guidance is provided for situations when the amount of cash currently expected to be collected exceeds the previously recognized allowance.

In response to the proposal, the FASB received over 2,800 comment letters from all constituent types (investors, creditors, preparers, auditors, etc.), almost all of which were strongly opposed. In September 2010, the FASB published an overview of face-to-face meetings and calls with individual investors and investor groups on the ED. It indicated "Most investors consulted agree that better information about risks inherent in loans (interest, credit, and liquidity) would improve financial reporting, *but they do not believe fair value as a primary measurement attribute, with changes recognized in equity, is the best way to provide that information* for loans and financial liabilities that the entity intends to hold for collection or payment of cash flows *and for which no readily observable markets exists (emphasis added).*" Rather, they "believe fair value for these instruments would increase subjectivity of reported information and would not appropriately represent financial results for these instruments based on the way they are managed."

As a result of the unprecedented level of criticism, we expect the final standard to be significantly different than the proposal. To date, the FASB's redeliberations have focused on revising the proposed credit impairment model and reducing the population of instruments that would be marked-to-market through earnings.

Insurance

Unlike U.S. GAAP, IFRS has no comprehensive standard for insurance accounting. As an offshoot of the revenue recognition project, the IASB has developed a proposal for insurance that is significantly different than existing U.S. GAAP in Topic 944.³¹ The approach is based on the principle that insurance contracts create rights and obligations to generate cash inflows (premiums) and outflows (benefits and claims). An insurer would estimate those cash flows and apply certain discounting techniques to measure the contract in its entirety as a single amount, adjusting it through earnings over time.

While the FASB has a different view on the approach it would take to measure and discount the contractual cash flows, the larger difference is that either view (IASB or FASB) would depart from the separate presentation of premium revenues and benefits paid, the traditional U.S. approach.

The FASB has solicited input on the IASB's proposal, in two parts: (i) whether constituents prefer the IASB or FASB perspective on how to account for the entire insurance contract as a single unit, and (ii) whether constituents believe a wholesale change from existing U.S. GAAP is warranted vs. more targeted improvements to the existing accounting model in Topic 944. The comment period ended in mid-December 2010, and the FASB is currently evaluating the feedback it received.

Leases

The proposal would end "off-balance sheet" accounting for almost all leases, likely impacting certain key performance indicators and/or debt covenants across companies. Instead, both parties to a lease would record assets and liabilities to reflect their respective rights and obligations under the contract. The proposal is intended to result in a more transparent picture of a lease's economics by eliminating the "bright lines" that distinguish different types of leases under current accounting standards, e.g., operating vs. capital leases.

Lessees: At the commencement date, a lessee would record a right-of-use asset and corresponding liability for future rental payments. The asset and liability would be measured at the present value of the lease payments, discounted at the lessee's incremental borrowing rate, or the rate the lessor charges if it can be determined. The right-of-use asset would also include any recoverable initial direct costs incurred by lessee.

The present value of the lease payments would be comprised by two elements: lease term and rentals. The term would be estimated as the longest possible term that is more likely than not to occur. This means lessees would need to evaluate all options to extend or terminate the lease (as opposed to only those that are "reasonably assured" under today's standards), including contractual factors like renewal options, termination penalties and residual value guarantees. The estimated term would also include the impact of non-contractual factors like legal requirements, business concerns such as whether the leased asset is crucial to the lessee's operations, the existence of significant leasehold improvements, and the lessee's own intentions and past practices.

For example,³² assume a lessee has a lease with a non-cancellable 10-year term, with two consecutive five year renewal options. The lessee estimates the probability for each term as follows:

- a. 40% for a 10-year term,
- b. 30% for a 15-year term, and
- c. 30% for a 20-year term.

Under these scenarios, the term would be at least 10 years, with a 60% chance that the term would be 15 years or longer. In other words, there is a 60% chance that either scenario b) or c) will occur. However, there is only a 30% chance on a standalone basis that scenario c) will occur. The 60% chance of 15 years is the longest possible term more likely than not to occur, so the lease term would be 15 years.³³

The amount of lease payments would be the expected outcome of the probability-weighted average cash flows for a "reasonable number of outcomes" over the life of the lease. In addition to minimum lease payments, this would incorporate contingent rentals, residual value guarantees and term option penalties.

After commencement, the right-of-use asset would be amortized on a systematic basis over the estimated lease term (as described above) or the useful life of the underlying asset if shorter, and would also be assessed for impairment under Topic 350.³⁴ The lease liability would be amortized using the interest method under which payments would be allocated between principal and interest expense, like a mortgage. The combined effect of amortizing the asset and liability would generally accelerate the timing of lease-related expenses in earnings compared to the straight-line approach currently used for operating leases.

Lessors: At inception, lessors would apply one of two accounting models based on the circumstances. The "derecognition approach" would apply if the lessor does not retain exposure to the significant risks or benefits associated with the leased asset during or after the lease term. Otherwise, the "performance obligation" approach would apply. The lessor would determine whether it is exposed to significant risks or benefits using a series of indicators provided in the proposal. By itself, the transfer of title would not be determinative for this test.

Lessor – performance obligation approach: The lessor would record an asset for the right to receive lease payments and a corresponding performance obligation liability representing the obligation to permit the lessee to use the leased asset. The leased asset itself would remain on the lessor's books. The lease payments receivable and the performance obligation would both be equal to the present value of the sum of the lease payments, discounted using the rate that the lessor charges the lessee. The receivable would also include any recoverable initial direct costs incurred by the lessor.

The lessor would estimate the lease term and the amount of lease payments using the same guidance as the lessee discussed above, except that the lessor must be able to measure contingent rentals "reliably" in order to reflect them in the estimate. In addition, the lessor may reach different judgments than the lessee about factors impacting the lease's term, particularly concerning the lessee's intent. As such, lessor and lessee accounting may not be symmetric for the same lease.

After commencement, the lessor would measure the lease payments receivable at amortized cost using the interest method. The receivable would also be assessed for impairment under Topic 310.³⁵ The performance obligation liability would be relieved based on the leased asset's usage pattern, such as units delivered or machine hours used. If the lessor isn't able to reliably determine the pattern of use, the straight-line method would apply.

Lessor – derecognition approach: At the commencement date, the lessor would recognize an asset for the right to receive lease payments, with the corresponding amount credited to lease income, and would derecognize a portion of the underlying leased asset, with the corresponding charge to lease expense. The retained portion of the rights in the leased property would be reclassified as a residual asset.

The lease payments receivable would be measured, amortized and assessed for impairment the same way it would under the performance obligation approach. The carrying amount of the leased asset that is derecognized would be the carrying value of the underlying asset multiplied by the fair value of the lease receivable divided by the fair value of the underlying asset. The residual asset would be assessed for impairment under either Topic 350 or Topic 360.³⁶

Public feedback on the lease proposal has been generally supportive of the lessee model since most constituents agree with the FASB that leases are essentially a form of financing and should be treated similar to the way debt is recorded—that is, on balance sheet. Nevertheless,

³² Adapted from paragraph B17 of the proposal.

³³ Note there is a 70% chance that either scenario a) or b) will occur. However, that only implies it is 70% likely that the term will be at least 10 years, which is not the longest possible term more than 50% likely to occur.

³⁴ Intangibles – Goodwill and Other

³⁵ Receivables

³⁶ Property, Plant and Equipment

commenters have requested changes to make the final standard more operational. For example, practitioners have expressed concern with the subjectivity of the estimates in determining the lease term and the amount of lease payments to record.

The feedback for lessor accounting has been somewhat more contentious. A number of constituents are not in favor of the proposed "dual" model for lessors. In addition, there are theoretical inconsistencies with the criteria for recognizing lease income compared to the conditions for revenue recognition outside of a lease. Further, some find the result of the performance obligation model counterintuitive since the lessee will recognize a right to use asset on its balance sheet while the lessor continues to carry the underlying leased asset on its balance sheet, in effect, a double-counting of the same asset.

In short, we believe it is unlikely that the FASB will abandon its "right-to-use" model. In that scenario, a significant amount of incremental assets and liabilities will be recognized relative to current accounting, but the degree of change to improve the final standard is uncertain, particularly with respect to lessor accounting.

Revenue Recognition

Revenue is central to the financial reporting of virtually every business. Under U.S. GAAP, revenue recognition guidance has been developed on a piece-meal basis over many years, resulting in more than 100 pieces of authoritative guidance, but no central standard. This has given rise to diverse guidance across industries, as well as non-authoritative practices to fill the void where there is no U.S. GAAP. To remedy this situation, the FASB exposed a comprehensive proposal to supersede existing guidance. For some industries like software and real estate, the proposal would represent a significant change, while for others the impact would be minimal, such as "cash and carry" transactions in the retail sector.

The proposed model is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration the vendor receives. To apply that principle, a company would:

- Identify the contract with a customer – the contract can be written, verbal or implied. It can also be comprised by more than one ostensibly separate document; likewise, a single document may be separated into more than one contract in order to recognize revenue. As such, the proposal includes guidance on separating and combining contracts to facilitate these judgments.
- Identify the separate performance obligations in the contract – similar to a "deliverable" under existing U.S. GAAP, a performance obligation is an enforceable promise to deliver a good or service to a customer. Performance obligations would be separated for accounting purposes if they are "distinct," which is a new defined term in the proposal.
- Determine the transaction price – this is the amount of consideration the vendor receives, or expects to receive. The amount may be fixed and easily identifiable, as in many retail transactions. In other cases, the transaction price may vary based on contingent consideration, rebates, bonuses, the customer's credit risk or the time value of money, etc. When the transaction price is variable, the vendor would develop estimates in order to measure and recognize revenue, a significantly different approach than what exists in today's software revenue recognition rules and the SEC staff guidance concerning fixed and determinable amounts.
- Allocate the transaction price to the separate performance obligations – the allocation would be made on the basis of standalone selling prices. Companies would look first to observable selling prices for this purpose, but would be required to develop internal estimates in the absence of observable inputs. That is, revenue would not be deferred based on an inability to estimate selling price.
- Recognize revenue when the entity satisfies each performance obligation – performance obligations would be satisfied when the vendor transfers control to the customer, which is defined by the customer's ability to benefit from the promised good or service.

In contrast to financial instruments, the feedback on the revenue proposal has been generally positive, although commenters have consistently requested operational improvements, similar to the lease proposal. For instance, many constituents believe the transfer of control guidance is not sufficiently clear or robust to ensure comparability within or across industries. In addition, many have requested more implementation guidance to illustrate the application of the principles in common transactions. As such, we expect the final standard to be generally consistent with the core principles in the proposal, although many changes are likely to narrow the gap between theory and practice.

Statement of Comprehensive Income

Current U.S. GAAP allows several alternatives for displaying comprehensive income and its components in the financial statements. The proposed amendments would eliminate the following two reporting options: (i) the option to present other comprehensive income (OCI) and its components in a separate statement of comprehensive income, and (ii) the option to present OCI in the statement of changes in equity.

Under the proposal, an entity that reports items of OCI, in any period presented, would be required to:

- Report comprehensive income and its components in a single continuous statement of financial performance (which must be displayed as prominently as other primary financial statements) in two sections: (i) net income and (ii) other comprehensive income
- Display a total for each section of net income and other comprehensive income
- Display each component of net income and each component of other comprehensive income in the financial statement

Entities also would be required to display reclassification adjustments on the statement of comprehensive income. It would no longer be acceptable to show such reclassification adjustments in the notes to the financial statements.

The accumulated balances of each component of OCI would be reported separately from retained earnings on the statement of changes in equity or in the notes to the financial statements. Under current guidance, entities have the option to present these accumulated balances on the statement of financial position, the statement of changes in equity, or in the notes to the financial statements.

While the OCI proposal was issued as a companion to the financial instruments exposure draft, it did not attract the same level of public attention. We understand the FASB has been somewhat receptive to feedback indicating that it should not prescribe a presentation that would detract from the prominence of earnings per share, since that performance indicator is central to financial reporting in the US. Therefore in the final standard, we expect the FASB to provide an option for companies to present net income and OCI either in a single continuous statement or in two separate, but consecutive, statements.

Transition and Effective Dates

The FASB has exposed a separate document for input on the method(s) and timing that should be used over the next several years to adopt the proposals described above, as well as other projects. It can be accessed by clicking [here](#) and is open for comment until January 31, 2011.

The FASB's solicitation for feedback on the manner of transition reflects the unparalleled volume and pace of change in U.S. GAAP. As a result, a key question is whether to adopt all of the projects at once in a "big bang," or to stagger their implementation over several years. Therefore, the effective dates and transitions of the MoU projects have not been determined yet.

The FASB's complete technical agenda and timeline, including the MoU projects, can be accessed on its [website](#).

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APPENDIX OF EFFECTIVE DATES¹

PRONOUNCEMENT	EFFECTIVE DATE
ASC 260, Earnings Per Share	
ASU 2010-01 , <i>Accounting for Distributions to Shareholders with Components of Stock and Cash</i>	Effective for interim and annual periods ending on or after 12/15/09. Retrospective application is required.
ASC 310, Receivables	
ASU 2010-18 , <i>Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset</i>	Effective for modifications of loans accounted for within a pool occurring in the first interim or annual period ending on or after 7/15/10. The amendments are to be applied prospectively. Early application is permitted.
ASU 2010-20 , <i>Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses</i>	For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after 12/15/10. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after 12/15/10. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after 12/15/11.
ASC 350, Intangibles—Goodwill and Other	
ASU 2010-28 , <i>When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts</i>	<p>Effective for a public entity for fiscal years, and interim periods within those years, beginning after 12/15/10. Early adoption is not permitted. Effective for a nonpublic entity for fiscal years, and interim periods within those years, beginning after 12/15/11. Nonpublic entities may elect early adoption using the effective date for public entities.</p> <p>Upon adoption, an entity must assess whether it is more likely than not that a goodwill impairment exists for each reporting unit with a zero or negative carrying amount. If it is more likely than not that a goodwill impairment exists, the second step of the goodwill impairment test shall be performed (using the date of adoption for purposes of this step) to measure the amount of impairment loss, if any. The ASU shall be adopted by recording a cumulative-effect adjustment to beginning retained earnings in the period of adoption.</p>
ASC 470, Debt	
ASU 2009-15 , <i>Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing</i>	Effective for fiscal years beginning on or after 12/15/09 and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. Effective for new share-lending arrangements entered into in periods that begin on or after 6/15/2009.
ASC 605-25, Revenue Recognition, Multiple-Element Arrangements	
ASU 2009-13 , <i>Multiple-Deliverable Revenue Arrangements</i>	Effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after 6/15/10. Early application is permitted.
ASU 2010-17 , <i>Milestone Method of Revenue Recognition</i>	Effective prospectively for milestones achieved in fiscal years, and interim periods within those years, beginning on or after 6/15/10. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply the amendments retrospectively from the beginning of the year of adoption.
ASC 718, Stock Compensation	
ASU 2010-05 , <i>Escrowed Share Arrangements and the Presumption of Compensation</i>	Effective immediately on issuance in January, 2010 for all SEC registrants.

¹ This appendix was prepared with a calendar-year end company in mind. Therefore standards with an effective date in 2009 have been included since many companies applied them for the first time in 2010, e.g., the first interim or annual period beginning on or after December 15, 2009. Standards that do not require adoption before 2011 are highlighted in gray.

PRONOUNCEMENT	EFFECTIVE DATE
ASU 2010-13 , <i>Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades</i>	Effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/10. The amendments should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings for all awards outstanding as of the beginning of the annual period in which the Update is adopted. Early application is permitted.
ASC 720, Other Expenses	
ASU 2010-27 , <i>Fees Paid to the Federal Government by Pharmaceutical Manufacturers</i>	Effective for calendar years beginning after 12/31/10. Since the fee did not previously exist, the guidance is effective on a prospective basis and does not require entities to reevaluate any existing policies related to similar government fees.
ASC 740, Income Taxes	
ASU 2010-12 , <i>Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts</i>	Effective immediately upon issuance on 4/14/10.
ASC 805, Business Combinations	
ASU 2010-29 , <i>Disclosure of Supplementary Pro Forma Information for Business Combinations</i>	Effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 12/15/10. Early application is permitted.
ASC 810, Consolidations	
ASU 2009-17 , <i>Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities</i>	Effective as of the beginning of the first fiscal year beginning after 11/15/09 and for interim periods in those years. Early application is not permitted.
ASU 2010-02 , <i>Accounting and Reporting for Decreases in Ownership of a Subsidiary—A Scope Clarification</i>	The amendments are effective beginning in the period that an entity adopts FAS 160 (ASC 810-10). If an entity has previously adopted FAS 160 as of the date of the amendments in this Update are included in the Codification, the amendments in this Update are effective beginning in the first interim or annual reporting period ending on or after 12/15/09. The amendments must be applied retrospectively to the date FAS 160 was adopted.
ASU 2010-10 , <i>Amendments for Certain Investment Funds</i>	Effective as of the beginning of the first fiscal year beginning after 11/15/09 and for interim periods in those years. The effective date coincides with that of ASU 2009-17. Early application is not permitted.
ASC 815, Derivatives and Hedging	
ASU 2010-11 , <i>Scope Exception Related to Embedded Credit Derivatives</i>	Effective for interim periods beginning after 6/15/10. Early application permitted for the first interim period after 3/5/10.
ASC 820, Fair Value Measurements and Disclosures	
ASU 2009-12 , <i>Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)</i>	Effective for interim and annual periods ending after 12/15/09. Early application permitted.
ASU 2010-06 , <i>Improving Disclosures about Fair Value Measurements</i>	Effective for interim and annual periods beginning after 12/15/09; except for the requirement to separately disclose amounts in the Level 3 rollforward on a gross basis, which is effective for interim and annual periods beginning after 12/15/10. Early application is permitted.
ASC 830, Foreign Currency Matters	
ASU 2010-19 , <i>Foreign Currency Issues: Multiple Foreign Currency Exchange Rates</i>	Effective upon SEC Staff Announcement made at the 3/18/10 meeting of the FASB Emerging Issues Task Force.
ASC 855, Subsequent Events	
ASU 2010-09 , <i>Amendments to Certain Recognition and Disclosure Requirements</i>	Effective upon issuance in February 2010, except that the requirement to use the issued date for conduit bond obligors is deferred until interim and annual periods ending after 06/15/10.
ASC 860, Transfers and Servicing	
ASU 2009-16 , <i>Accounting for Transfers of Financial Assets</i>	Effective as of the beginning of the first fiscal year beginning after 11/15/09 and for interim periods in those years. Early application is not permitted.

PRONOUNCEMENT	EFFECTIVE DATE
ASC 924-605, Casinos-Revenue Recognition	
ASU 2010-16, <i>Accruals for Casino Jackpot Liabilities</i>	Effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/10. The amendments should be applied prospectively with a cumulative-effect adjustment reflected in retained earnings. Early application is permitted. If an entity elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply the amendments retrospectively from the beginning of the year of adoption.
ASC 932, Extractive Activities—Oil and Gas	
ASU 2010-03, <i>Oil and Gas Reserve Estimation and Disclosures</i>	Effective for fiscal years ending on or after 12/31/09. Early application is not permitted. For entities that become subject to the disclosure requirements due to the change in the definition of significant oil and gas producing activities, effective date may be deferred until annual periods beginning after 12/31/09.
ASU 2010-14, <i>Accounting for Extractive Activities — Oil and Gas</i>	Effective upon issuance on 4/20/10.
ASC 944, Financial Services – Insurance	
ASU 2010-15, <i>How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments</i>	Effective for fiscal years, and interim periods within those fiscal years, beginning after 12/15/10. The amendments should be applied retrospectively to all prior periods upon the date of adoption. Early application is permitted.
ASU 2010-26, <i>Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts</i>	Effective for fiscal years, and interim periods within those fiscal years, beginning after 12/15/11 through prospective adoption. Retrospective application is permitted. Early adoption is permitted, but only at the beginning of an entity's annual reporting period.
ASC 954, Health Care Entities	
ASU 2010-23, <i>Measuring Charity Care for Disclosure</i>	Effective for fiscal years beginning after 12/15/10. The amendments in this Update should be applied retrospectively to all prior periods presented. Early application is permitted.
ASU 2010-24, <i>Presentation of Insurance Claims and Related Insurance Recoveries</i>	Effective for fiscal years, and interim periods within those years, beginning after 12/15/10. A cumulative-effect adjustment should be recognized in opening retained earnings in the period of adoption if a difference exists between any liabilities and insurance receivables recorded as a result of applying the amendments in this Update. Early adoption and retrospective application are permitted.
ASC 958, Not-for-Profit Entities	
ASU 2010-07, <i>Not-for-Profit Entities: Mergers and Acquisitions</i>	Effective for: (a) mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after 12/15/09; (b) acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 12/15/09. Early application is not permitted.
ASC 962, Plan Accounting-Defined Contribution Pension Plans	
ASU 2010-25, <i>Reporting Loans to Participants by Defined Contribution Pension Plans</i>	Effective for fiscal years ending after 12/15/10. The amendments should be applied retrospectively to all prior periods presented. Early adoption is permitted.
ASC 985-605, Software, Revenue Recognition	
ASU 2009-14, <i>Certain Revenue Arrangements That Include Software Elements</i>	Effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after 6/15/10.

PRONOUNCEMENT	EFFECTIVE DATE
Other	
ASU 2010-04 , <i>Accounting for Various Topics-Technical Corrections to SEC Paragraphs</i>	Effective immediately on issuance in January, 2010 for SEC registrants.
ASU 2010-08 , <i>Technical Corrections to Various Topics</i>	The clarifications about embedded derivatives and hedging in ASC 815-15 are effective for fiscal years beginning after 12/15/09. The amendments to the guidance about accounting for income taxes in a reorganization in ASC 852-740 applies to reorganizations dated on or after the beginning of the first fiscal year beginning on or after 12/15/08. All other amendments are effective as of the first reporting period (including interim periods) beginning after the date of issuance of the ASU on 2/2/10.
ASU 2010-21 , <i>Accounting for Technical Amendments to Various SEC Rules and Schedules Amendments to SEC Paragraphs Pursuant to Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies (SEC Update)</i>	Effective immediately on issuance in August, 2010 for SEC registrants.
ASU 2010-22 , <i>Accounting for Various Topics—Technical Corrections to SEC Paragraphs (SEC Update)</i>	Effective immediately on issuance in August, 2010 for SEC registrants.