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ASSURANCE PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q1 2012

COMPLIANCE WEEK

ACCOUNTING: 2012 COULD BRING MORE QUESTIONS THAN ANSWERS

By Tammy Whitehouse
January 3, 2012

2012 looks to be a pivotal year on the accounting and auditing front. Several big questions loom that could change the face of accounting in the United States.

While only a handful of new standards are expected to take effect in the coming year, enormous change remains on the horizon. The big questions for public companies are: When, if ever, are we going to adopt International Financial Reporting Standards? What's going to happen to U.S. Generally Accepted Accounting Principles in the meantime? And what will be the role of the Financial Accounting Standards Board going forward?

To some, the accounting profession might not get the answers to these questions in the coming year....

...Looking further ahead, Dolinar says companies should pay close attention to the changes coming for revenue recognition and leasing. FASB recently published a second draft of a proposed new standard for how all companies would recognize revenue and is expected in 2012 to publish a second draft of a proposal to bring all leases on to corporate balance sheets. "Both of those are going to have a pervasive impact on all companies," he says. "They're not going to be effective this year, but once companies know where FASB is headed with them, they are both going to require a lot of work to prepare for."

Chris Smith, a partner and audit and accounting practice leader at BDO USA, says FASB is far enough along in developing those standards that companies can get a good sense of what will be expected by reading the current draft versions. "Companies need to be participating in this process and commenting on these standards," he says. "If you get your hands on this stuff as it gets issued, that's what's going to be coming down."

FASB is also working on a project to take a comprehensive look at all disclosures and see where changes might be in order....

COMPLIANCE WEEK

CHINESE ACCOUNTING SCANDALS LEAVE BANKERS JUMPY

By Tammy Whitehouse
January 24 2012

A wave of accounting scandals emerging from China in 2011 has caused investment bankers to get more cautious about new offerings, according to a recent BDO poll.

Almost half of the investment bankers who answered BDO's poll expect initial public offerings from China to decline in

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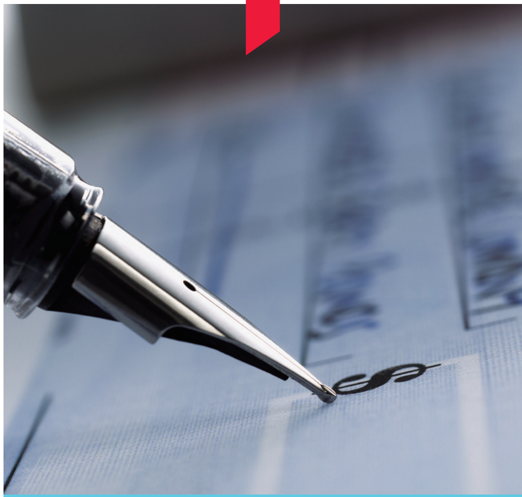

BDO USA ASSURANCE PRACTICE

BDO USA's Assurance Practice delivers comprehensive, independent, efficient, and effective audits of financial statements, including those that are integrated with an audit of internal controls. We also provide quality assurance services to help ensure that our clients' financial statements meet the complex regulatory and business requirements under which they function.

At the core of our service philosophy is a commitment to proactively communicate with our clients and their audit committee, or others charged with corporate governance, about issues and information that impacts their company and industry.

For non-audit clients, we provide a broad range of advisory services including assistance with internal audit, risk advisory, internal control design and testing and other accounting services.

2012 as a result of accounting scandals, making investors more skittish while also making Chinese companies more likely to look elsewhere for capital to avoid U.S. regulation. Some investment bankers also believe China-based companies are finding more capital available in Asia-Pacific exchanges, making offerings in the United States less appealing.

Nearly 80 percent of investment bankers said the Chinese accounting scandals – such as Longtop Financial Technologies, Puda Coal, China-Biotics, Sino-Tech Energy and others – have inspired them to increase their due diligence on China-based offerings. Most say they are taking a closer look at internal controls over financial reporting and corporate governance structures. Smaller numbers of bankers are scrutinizing business risks and product or sales trends, according to the survey results.

IPOs on U.S. exchanges represented more than one-fourth of total global IPO proceeds in 2011, a considerable increase from 2010, according to BDO....

...The results are not entirely surprising to **Lee Graul a partner in the capital markets practice at BDO USA,** given economic concerns in virtually every country in the world. Bankers have made their concerns about Chinese IPOs known, he says, and now the insurance sector is starting to show some concern as well.

“So much of the Asia-Pacific market works on rumors,” he says. “It's a delicate situation. There are some companies accused of accounting fraud that aren't guilty and others that are. When the negative press hits, the bankers and investors start getting very cautious and tend to shy away from those investments.”....

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FASB CHANGE COULD TRIM INTANGIBLES TESTS

The standard-setter proposes simplifying compliance with an accounting rule in a way that could cut companies' valuation costs.

By Sarah Johnson
February 02, 2012

A new proposal from the Financial Accounting Standards Board may save companies some third-party costs involving gauging the fair value of intangible assets.

The change would give companies more flexibility in how they determine whether certain assets need to be tested for impairment. Similar to a rule approved last year for goodwill impairment tests, this proposed amendment to a FASB rule would let companies make a “qualitative” assessment of whether the fair value of an indefinite-lived intangible asset is more than its carrying amount because of events and circumstances that occurred during the year.

If the company determines that the fair value is “more likely than not” higher, it won't need to calculate the actual fair value. Such a valuation can be complex and costly...

...The proposed change, which is open for public comment through April 24, would go into effect for fiscal years beginning after June 15, 2012.

The change is meant to simplify the process for companies without affecting financial reports. In a statement, FASB chairman Leslie Seidman said the proposed amendment will reduce costs “without changing the information provided to investors.”

Under the new guidance, if approved, companies won't feel a need to have every valuation checked by outside parties. “If a company can satisfy itself that more likely than not there's been no impairment, based on a thoughtful assessment of qualitative factors, then it won't be required to take the next step of paying someone to quantify that assessment,” says **Chris Smith, a partner and audit and accounting practice leader at BDO USA.**

In some cases, close judgment calls that management may make in this regard could lead to auditor questions later on, Smith acknowledges. Companies could still take the safe route and defer these evaluations to third parties. The new guidance says

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companies can "bypass" the qualitative assessment in favor of calculating an asset's fair value.

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TOP SHAREHOLDER ISSUES FOR 2012 PROXY SEASON

By Jaclyn Jaeger
March 08 2012

The advent of "say-on-pay" votes on executive compensation programs, uncertain compliance and reporting obligations to arise from Dodd-Frank, and the European economic crisis will be only a few top concerns for shareholders as the 2012 annual proxy season approaches.

Such an uncertain economic and political climate will make for an especially challenging proxy season for companies of every industry. Accounting and consulting firm **BDO USA** compiled the following list of topics that corporate management and boards of directors should be prepared to address in connection with 2012 annual meetings:

Dodd-Frank: Regulations established under the Dodd-Frank Act no doubt will bring executive compensation to the forefront for shareholders, who will be asking companies numerous questions about their positions on several key elements of the Act. These questions include:

- Has the company implemented "clawback" provisions that would allow it to recover compensation that was erroneously awarded in the three years prior to an accounting misstatement?
- Has the company adopted a policy prohibiting an employee or outside director from hedging or pledging equity held directly or indirectly including compensatory equity grants?
- Has the company assured itself that the members of the board's compensation committee are independent?
- Does the compensation committee of the board engage the services of outside advisors including compensation consultants and legal counsel? If so, by what process does it determine their independence?

Executive Compensation: Few companies failed to receive shareholder endorsement of their executive compensation programs in 2011—and that's only expected to continue into 2012. Companies that failed to receive a "yes" vote, or had programs pass by a slim majority, should be sure to address any pay issues that were the focus of shareholder concerns. Additionally, compensation committee members who appear to be unresponsive to these concerns may find themselves the target of shareholder "vote no" campaigns when they are up for re-election.

Possible Auditor Rotation: Given recent proposals by U.S. and European regulators to require mandatory audit firm rotation, management and audit committees should be prepared to discuss with shareholders questions regarding lengthy auditor tenures. Some topics of discussion may include what process the company uses to select an audit firm; how long the current firm has been in place; how long ago the audit engagement was put out for bid; and how the audit committee ensures that the audit firm performs quality work.

European Debt Crisis: Sovereign debt holders or any companies with facilities or sales operations in Greece, Italy or other Mediterranean countries need to be prepared for worst case scenarios. Shareholders will ask about contingency plans the company has in place should a major collapse occur.

Political Contributions: With SEC Commissioner Luis Aguilar calling for greater disclosure of corporate political spending, and the 2012 presidential election sure to bring even more attention to the issue, boards should be prepared for increased scrutiny. This means being prepared to explain oversight of political donations, lobbying activities, and contributions to industry associations that lobby on the company's behalf...

CEO Succession: As businesses begin to rebound from the recession, executive movement should pick-up - including CEO turnover. Be prepared to both explain to shareholders the succession plan that the board has in place, and to identify CEO candidates, if needed.

China: Numerous accounting scandals that took place at Chinese companies made headlines in 2011. Companies that operate in China, or partner with Chinese suppliers, will be best prepared if they are able to explain to shareholders what type of due diligence or risk management the company has conducted on China-based partners and suppliers to mitigate any exposure to poor financial reporting.

▶COMPLIANCE WEEK

THE INEXACT SCIENCE OF MAKING SOUND, DEFENSIBLE BUSINESS JUDGMENTS

By Tammy Whitehouse
March 13, 2012

Just as proverbial "beholders" have been left to define beauty through the generations, business executives have been left to little more than their own wits to determine how best to exercise professional judgments—especially ones that will hold up to litigation or regulatory scrutiny. So the Committee of Sponsoring Organizations has stepped forward to help out.

COSO— best known for providing leadership to public companies on risk, internal controls, and fraud—explores unchartered territory in its latest "thought paper," Enhancing Board Oversight: Avoiding Judgment Traps and Biases. It leverages the work of academics who have studied the use of judgment in business and the more recent interest by at least one Big 4 firm to integrate those research findings into its training for accountants and auditors...

...**Susan Lister, national director of auditing for BDO USA,** says she often sees decisions reached quickly as a result of overconfidence, described in the COSO paper as one of the obstacles to good judgments. "If you have someone in a position where they are making a decision time after time, they become confident they are in the best position to make the judgment, so they fall into a trap of not considering alternatives," she says. Many corporations have developed a mantra that they want decisions to fall within a small circle of people to keep decision-making nimble. "I hear that all the time, but you may not have all the expertise in that small circle to make that judgment," she says.

From an accounting perspective, she cites fair-value measurements and goodwill impairments as situations where perhaps the circle of decision makers should be a little larger than some companies would like to arrive at a good judgment. "It takes a lot of knowledge of the business, a particular product line, how the company operates, so many factors," she says. "People who are used to making snap judgments really need to get more people involved on those challenging judgments."

INVESTOR'S BUSINESS DAILY

EURO CRISIS SUBJECT OF ANNUAL MEETINGS

March 16, 2012

Accounting and consulting firm **BDO USA** says the European debt crisis and M&A plans will likely be among the top issues at 2012 shareholder meetings and that companies should be prepared to respond.

Sovereign debt holders or any companies with facilities or sales operations in Greece, Italy or other Mediterranean nations, according to BDO, need to prepare for shareholder questions.

On the M&A side, companies will likely be asked to report on any acquisition plans and what takeover defenses are in place as M&A activity heats up in 2012.

Management will also be asked about pullbacks in outsourcing as overseas labor costs rise and executive compensation issues.

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