Grant Thornton

# Presentation to the Triangle Institute of Internal Auditors

# Accounting Updates

# Newly effective guidance

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|---|
| ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements* |
| ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement Disclosure Requirements in U.S. GAAP and IFRS* |
| ASU 2011-05, *Presentation of Comprehensive Income* |
| ASU 2011-08, *Testing Goodwill for Impairment* |

# ASU 2011-03 – Reconsideration of effective control for repurchase agreements

| Summary | Potential Impact |
|---|---|
| • Intended to improve and simplify assessment of effective control for repurchase agreements (repos)<br>• More repos to qualify as secured borrowings<br>• Formerly four criteria to maintain effective control of assets in a repo and treat as secured borrowing<br>• Removed criterion that transferor be able to repurchase on substantially agreed terms even if the transferee defaults<br>• Transferor no longer required to hold cash or other collateral sufficient to purchase replacement asset(s) to qualify for secured borrowing accounting<br>• Effective for new transfers and existing transactions modified as of first interim or annual period beginning on or after December 15, 2011<br>• Prospective application required<br>• Early adoption not permitted | Potential balance sheet classification change |

# ASU 2011-04 – Fair value measurements

| Summary | Potential Impact |
| --- | --- |
| • Changes made to converge with IFRS and clarify FASB's intent, but do not require additional fair value measurements<br>• Highest-and-best-use and valuation premise concepts apply only to nonfinancial assets<br>• Option to measure certain groups of financial assets and liabilities on a net basis<br>• Guidance provided on incorporating certain premiums and discounts in fair value measurements<br>• Guidance provided on measuring the fair value of items classified in shareholders' equity<br>• New disclosures, some not required for nonpublic entities, including, but not limited to:<br>  • Information about valuation techniques and unobservable inputs used in Level 3 measurements<br>  • Narrative description about Level 3 measurements' sensitivity to changes in unobservable inputs<br>• Effective for public entities for interim and annual periods beginning after December 15, 2011; early application prohibited<br>• Effective for nonpublic entities for annual periods beginning after December 15, 2011; early application permitted for interim periods beginning after December 15, 2011<br>• Prospective application required | No new measurements but could be more/increased disclosure |

# ASU 2011-05 – Statement of comprehensive income

| Summary | Potential Impact |
| --- | --- |
| • Objectives<br>  • Converge presentation under U.S. GAAP and IFRS<br>  • Display items in OCI with greater prominence<br>• Applies to all entities with OCI items<br>• Presentation of OCI items in statement of shareholders' equity no longer permitted<br>• Two presentation options under U.S. GAAP<br>  • One continuous statement of comprehensive income<br>  • Two separate but consecutive statements<br>• Statement(s) include<br>  • Each component of net income and total net income<br>  • Each component of OCI and total OCI<br>  • Total comprehensive income<br>• Differences in specific components of OCI between U.S. GAAP and IFRS remain<br>• Effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011<br>• Effective for nonpublic entities for fiscal years ending after December 15, 2012, and interim and annual periods thereafter<br>• Early adoption permitted<br>• Retrospective application required | Impacts presentation of other comprehensive income |

# ASU 2011-08 – Qualitative option for goodwill impairment assessment

| Summary | Potential Impact |
|---|---|
| • Option to make qualitative assessment of whether it is more likely than not (likelihood greater than 50 percent) that the fair value of a reporting unit is less than its carrying amount at the measurement date<br>  • If more likely than not, proceed to Step 1<br>  • If **not** more likely than not, no further analysis<br>• Option available to all entities, public and nonpublic<br>• To make qualitative assessment, consider relevant events and circumstances<br>• Events and circumstances also apply to determination whether<br>  • An interim impairment test is needed<br>  • Step 2 must be performed for a reporting unit with a zero or negative carrying amount<br>• Fair value measurement carryforward provisions eliminated<br>• Effective for annual and interim goodwill impairment tests for fiscal years beginning after December 15, 2011<br>• Early adoption permitted | Adds qualitative option for goodwill analysis – "Step Zero" |

# ASU 2011-08 – Qualitative option for goodwill impairment assessment (continued)

**Qualitative Assessment**

- Determine whether it is more likely than not that at the reporting date, a reporting unit's fair value is less than its carrying amount
- Examples of relevant events and circumstances (not all-inclusive)
  - Macroeconomic conditions
  - Industry and market considerations
  - Cost factors
  - Overall financial performance
  - Other entity-specific events
  - Events affecting reporting unit (e.g. recognition of goodwill impairment loss at subsidiary level)
  - Sustained decrease in share price

# FASB and IASB joint projects

| Project | Timing |
|---|---|
| Revenue Recognition | Final in Q1 or Q2 2013 |
| Accounting for Financial Instruments | |
| Classification and Measurement | ED in Q3 or Q4 |
| Impairment | ED in Q3 or Q4 |
| Hedging[1] | |
| Liquidity / Interest Rate Risk Disclosures | Comments due in Q3 |
| Leases | Revised ED in Q3 or Q4 |
| Consolidation: Policy and Procedures | Final in Q1 or Q2 2013 |
| Insurance Contracts | ED in Q3 or Q4 |
| Investment Companies | Final in Q4 |
| [1] No projected timetable as of August 6, 2012 | |

# FASB projects

| Project | Timing |
|---|---|
| Impairment of Indefinite-Lived Intangible Assets | ED in Q4 |
| Disclosures about Risks and Uncertainties and the Liquidation Basis of Accounting | Comments due in Q4 |
| Investment Property Entities | Final in Q4 |
| Definition of a Nonpublic Entity | Comments due in Q4 |
| Repurchase Agreements | ED in Q4 |
| Codification Technical Corrections: Amendments to Conform Terminology to ASC 820, *Fair Value Measurement* | Final in Q3 |
| Disclosure Framework | Comments due in Q4 |

# EITF Issues discussed at March 15, 2012 meeting

| Project | Status |
|---|---|
| Parent's Accounting for the Cumulative Translation Adjustment upon the Sale or Transfer of a Group of Assets That Is a Nonprofit Activity or a Business within a Consolidated Foreign Entity (Issue 11-A) | Comment period ended, no final consensus reached |
| Not-for-Profit Entities: Classification of the Sale of Donated Securities in the Statement of Cash Flows (Issue 12-A) | Final in Q4 |
| Not-for-Profit Entities: Services Received from Employees of an Affiliated Entity (Issue 12-B) | Comments due in Q3 |
| Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (Issue 12-C) | Final in Q4 |
| Accounting for Joint and Several Liability for which the Total Amount of the Obligation at the Reporting Date Is Fixed (Issue 12-D) | Comments due in Q3 |
| Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs (Issue 12-E) | Final in Q4 |

# Proposed ASU – Impairment testing: indefinite-lived intangibles

| Summary | Potential Impact |
| --- | --- |
| • Optional qualitative assessment to determine whether it's more likely than not that an indefinite-lived intangible asset is impaired<br>• Consider all relevant events and circumstances that may affect significant inputs to asset's fair value measurement<br>• If more likely than not, perform quantitative test under current guidance<br>• The FASB is continuing to re-deliberate the issues in this project and once those re-deliberations are completed, the Board likely will decide whether to re-expose those decisions for public comment. | Provides an option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired, similar to the option for evaluating goodwill under the guidance in ASU 2011-08, *Testing Goodwill for Impairment*. |

# Proposed ASU – Revenue recognition

| Summary | Potential Impact |
| --- | --- |
| • Comment period on re-exposure ended in March 2012<br>• Final update expected Q1 or Q2 2013<br>• Scope – most contracts with customers, limited exceptions<br>• Five step approach to revenue recognition<br>• Significantly expanded disclosure requirements<br>• Would be applied retrospectively subject to certain reliefs | Many entities will experience some change in revenue recognition, and most will see changes to internal accounting policies and documentation. Accordingly, a significant effort should be anticipated. |

# Joint FASB/IASB project – Leases

| Summary | Potential Impact |
| --- | --- |
| • Boards to re-expose guidance in second half of 2012<br>• Lessee accounting<br>- Single approach<br>- Record right-of-use asset and obligation to make lease payments<br>• Lessor accounting<br>- Single "receivable and residual" approach | Many companies would experience changes in both lessee and lessor models related to amortization of right-of-use asset. Changes would be retroactive and require significant new disclosures. |

# Joint project – Accounting for financial instruments

| Summary | Potential Impact |
| --- | --- |
| **Classification and measurement**<br>• Focus has been on redefining three categories – (1) amortized cost, (2) fair value – net income, and (3) fair value – other comprehensive income<br><br>**Impairment**<br>• Boards working toward converged model<br>• "Three bucket" impairment model<br>• Bucket 1 measurement would include lifetime expected losses on portion of assets for which loss event is expected within next 12 months<br>• Buckets 2 and 3 capture lifetime expected losses on group and individual basis, respectively<br><br>**Hedging**<br>• FASB expects to begin redeliberations in second half of 2012<br>• IASB expects to issue review draft in Q4 2012 | Changes in accounting for measurement and impairment. |

# SEC and Corporate Governance Updates

# Jumpstart Our Business Startups (JOBS) Act

| Summary | Potential Impact |
| --- | --- |
| • Law signed on April 5, 2012<br><br>• Designed to increase American job creation and economic growth by improving access to the public capital markets for smaller companies<br><br>• Creates new category of issuers called “emerging growth companies” (EGCs)<br>− Qualification is generally based on annual gross revenues<br>− Receives reduced regulatory and disclosure requirements for up to a maximum of five years following its equity IPO<br><br>• Includes provisions to benefit companies seeking capital in U.S. private markets<br>− Increase in Regulation A threshold from $5 million to $50 million<br>− Increase the Exchange Act Section 12(g) registration threshold from 500 to 2,000 shareholders<br>− Increase the threshold from 300 to 1,200 for banks to terminated their registration and reporting obligation | Mainly affects companies planning to make an initial public equity offering |

# Jumpstart Our Business Startups (JOBS) Act

| Summary | Potential Impact |
| --- | --- |
| • EGCs may:<br>− Provide only two years of audited financial statements in its equity IPO registration statement<br>− Exclude selected financial data for periods prior to the earliest audited period included in its equity IPO registration statement<br>− Comply with any new or revised accounting standards when effective for companies that are not issuers<br>− Scale executive compensation disclosures to the level provided by smaller reporting companies<br>− Submit draft equity IPO registration statements for confidential review by the SEC staff prior to public filing<br><br>• EGCs receive temporary exemption from:<br>− Section 404(b) of the Sarbanes-Oxley Act<br>− Future PCAOB rules, if adopted, requiring mandatory audit firm rotation or supplements to the auditor's report<br>− Certain current and future executive compensation-related disclosures | Benefits limited to companies meeting EGC definition |

# SEC – Advisory Committee on Small and Emerging Companies – Recommendations

| Summary | Potential Impact |
| --- | --- |
| • Established in 2011<br><br>• Advise the Commission on various matters related to securities offerings, reporting and governance requirements applicable to emerging companies, as well as publicly traded companies with market capitalization of less than $250 million<br><br>• Recommendations made that are consistent with provisions in the JOBS Act:<br>− Relax or modify restrictions on general solicitation and general advertising in private offerings of securities under Regulation D, Rule 506<br>− Modify Exchange Act Section 12(g) registration thresholds<br>− Exempt certain public offerings of up to $50 million annually from the registration requirements under the Securities Act of 1933<br>§ Exemption would be modeled after Regulation A that exempts public offerings of up to $ 5 million in any 12-month period from registration requirements<br><br>• Continues to evaluate emerging companies' access to capital to inform SEC rulemaking | Recommendations drove some measures included in the JOBS Act, though review extended only up to companies with $250M or less in market cap versus $1B annual revenue level of EGC |

# SEC – Commission issues statement on global convergence – Final

| Summary | Potential Impact |
| --- | --- |
| • Outlines a Work Plan that responds to concerns raised in comment letters received on the proposed IFRS Roadmap<br>• Factors to be explored include the following:<br>− Sufficient development and consistent application of IFRS<br>− Independence of standard setter for the benefit of investors<br>− Investor understanding and education regarding IFRS<br>− Effect of a change in accounting standards on U.S. laws or regulations excluding securities laws<br>− Costs of implementation for issuers<br>− Readiness of preparers and auditors<br>• Frequent public progress reports provided<br>• SEC has solicited public comment on the effect that incorporating IFRS into the financial reporting system may have on U.S. issuers<br>• Further action on IFRS and reports of the Work Plan are expected throughout 2012 | IFRS will more likely than not happen. Trying to find a common ground is difficult…..there are a lot of vested interests on both sides. |

# SEC – Commission publishes two IFRS-related papers – Final

| Summary | Potential Impact |
| --- | --- |
| As part of the IFRS Work Plan, two staff papers issued in November 2011:<br>• *A Comparison of U.S.GAAP and IFRS*, which identifies accounting areas where:<br>− Objectives are similar or the guidance is substantially converged<br>§ Example: business combinations<br>− There are fundamental differences<br>§ Example: asset impairment, income taxes, and contingencies<br>− The Boards have developed industry-specific guidance<br>§ Example: U.S. GAAP includes guidance for oil and gas entities, investment companies, and broker-dealers, whereas IFRS does not contain specific guidance for these industries<br><br>• *An Analysis of IFRS in Practice*, which highlights areas where:<br>− Transparency and clarity of disclosure could be enhanced<br>− Accounting policy disclosures may not have included all relevant accounting areas<br>− Terminology used in disclosures was not consistent with terminology used in IFRS standards<br>− References to home country GAAP is not adequately explained | Further efforts to explore similarities and differences, areas of successful convergence, and areas remaining divided |

# SEC – Facilitating Shareholder Director Nominations – Final

| Summary | Potential Impact |
| --- | --- |
| • Exchange Act Rule 14a-8 amended<br>− Requires companies to include in their proxy materials, under certain circumstances, shareholder proposals seeking to establish a procedure in the company's governing documents for including one or more shareholder director nominees in the company's proxy materials<br>• Effective September 20, 2011<br>• SEC staff issued related publications<br>− Small Entity Compliance Guide "Facilitating Shareholder Director Nominations"<br>− Staff Legal Bulletin No. 14F "Shareholder Proposals"<br>− Investor Bulletin "Voting in Annual Shareholder Meetings – What's New in 2012" | Impact on the 2012 proxy season |

# SEC – Disclosure Guidance issued by Division of Corporation Finance – Final

| Summary | Potential Impact |
| --- | --- |
| Division of Corporation Finance issued Disclosure Guidance Topics intended to help registrants improve their disclosures around specific risk areas.<br><br>• Topic No.1: *Staff Observations in the Review of Form 8-K filed to Report Reverse Mergers and Similar Transactions* (issued September 2011)<br>− Summarizes the reporting requirements for operating companies entering into reverse merger transactions with public shells<br>• Topic No. 2: *Cybersecurity* (issued October 2011)<br>− Assists registrants in determining which, if any, disclosures related to cybersecurity risks and cyber incidents should be included<br>• Topic No. 3: *Staff Observations in the Review of Promotional and Sales Material Submitted Pursuant to Securities Act Industry Guide 5* (issued December 2011)<br>− Information in sales material is to be consistent with that in the prospectus and should provide a balanced discussion of the risks and rewards<br>• Topic No. 4: *European Sovereign Debt Exposures* (issued January 2012)<br>− Disclosures should be by country and by financial statement category separated between sovereign and non-sovereign exposure. | Additional disclosures requirements |

# Audit Updates

# Audit committee communications – Proposed

| Summary | Potential Impact |
| --- | --- |
| • PCAOB re-proposed standard addressing communications with audit committees<br>- Links communications to performance requirements in other standards<br>- Enhances inquires of audit committee about matters relevant to the audit<br>• Proposal enhances or includes additional communications related to:<br>- Audit strategy, significant risks, and related changes<br>- Accounting policies, practices, and estimates, including quality<br>- Significant unusual transactions outside the normal course of business<br>- Other firms involved in the audit and basis for serving as principal auditor<br>- Difficult or contentious matters requiring consultation<br>- Going concern | Changes to the nature of the communications<br><br>Will increase minimum communications and timing of those communications |

# Related parties– Proposed

| Summary | Potential Impact |
| --- | --- |
| • PCAOB proposed new standard and amendments for auditing related parties<br>• Proposal focuses on three areas<br>− Related parties and related party transactions, including those that are undisclosed<br>− Significant unusual transactions<br>− Financial relationships and transactions with officers<br>• Proposal generally aligns with International Standards on Auditing (ISA)<br>− Board expects the proposal to have a more significant impact on smaller audit firms<br>− Some new requirements for firms that have adopted the ISAs<br>• Comments were due May 15, 2012 | More prescriptive procedures |

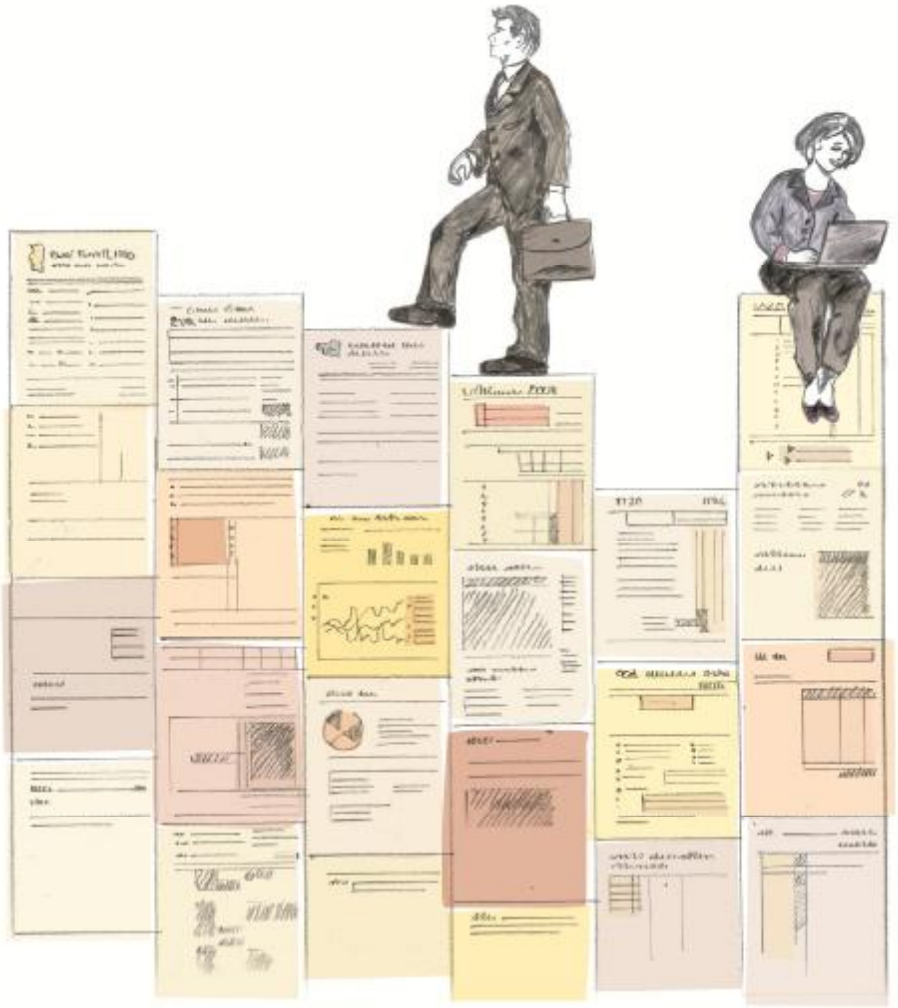
# Auditor independence and audit firm rotation – Concept Release

| Summary | Potential Impact |
| --- | --- |
| • Concept release issued soliciting comments on enhancing auditor independence, objectivity and professional skepticism, including mandatory audit firm rotation<br>• Mandatory audit firm rotation would require audit firms to rotate off an audit engagement after a set number of consecutive years<br>− Some believe rotation would enhance audit quality by alleviating management pressures on the auditor and providing a fresh point of view<br>− Others believe lower audit quality and greater risk of audit failure may result, particularly in the earlier years, due to the steep learning curve and elimination of institutional knowledge<br>• Changes of this magnitude require careful evaluation to consider:<br>− Unintended consequences<br>− Costs and benefits of any potential change<br>• Public roundtable convened in March of 2012, additional roundtables are being planned<br>• Congressional hearings - House Financial Services Committee (March 2012); clearly not in favor of rotation | Proponents and opponents both recognize the potential for a significant increase in costs and disruption in the process |

# Other standard setting activities

| Summary | Potential Impact |
| --- | --- |
| **Other proposed standards expected to be adopted or re-proposed**<br>• Audit transparency (Q3 2012)<br>• Supplemental information (Q3 2012)<br>• Confirmations (Q4 2012)<br><br>**Certain upcoming 2012 proposals**<br>• Auditor's reporting model<br>• Supervision<br>• Specialists<br>• Fair value measurements<br>• Part of audit performed by other auditors | Expansion of the auditor's responsibilities related to confirmation procedures will directly affect the timing and cost of an audit<br><br>Audit reports will likely require revision with respect to supplemental information; increased audit procedures may also be necessary |

# Tax Updates



# Tax legislative review for 2011 and 2012

| Summary | Potential Impact |
|---|---|
| Tax legislation enacted during 2011: | |
| • Repeal expanded Form 1099 reporting requirements | Reduces exposure for erroneous reporting |
| • Repeal of government contract withholding rules | Repeals Federal income tax withholding requirement equal to 3% of gross proceeds on all government contracts. |
| • Expansion of Work Opportunity Tax Credit (WOTC) to cover certain veterans | |
| • Extension (through December, 2012) of reduced FICA taxes for employees | |
| Legislation extending other provisions (including research credit) that expired at the end of 2011 have NOT yet been enacted. | Benefit of expired provisions may not be considered for financial accounting until period in which extension is enacted |

# Tax legislative outlook for 2012

| Summary | Potential Impact |
| --- | --- |
| Most observers believe that tax legislative activity in 2012 will be limited, at least until after the November election.<br><br>• The extension of the provisions that expired at the end of 2011 may be considered sometime in 2012. However, it is unclear when an extension will be enacted, if it will be retroactive to the beginning of the year, or if all of the expired provisions will be included.<br><br>• Other tax legislation is likely to be debated, but is thought unlikely to be enacted (if at all) until after the November election. Included in this category is:<br>(1) Extension of the 2001 and 2003 individual tax cuts,<br>(2) Proposals to allow the repatriation of foreign source income at reduced rates<br>(3) Changes in the research credit calculation<br>(4) Taxation of carried interest income as earned income<br>(5) Increased bonus depreciation<br><br>• The debate over fundamental tax reform will continue, but most observers believe legislation will not be considered until 2013 or later.<br><br>• Supreme Court upheld virtually all of the health care legislation enacted in 2010, preserving many tax provisions. Potentially sets up more Congressional debate. | |

# IRS modifies treatment of repair costs – suspends examinations to allow for automatic method changes

| Summary | Potential Impact |
| --- | --- |
| On December 23, 2011, the IRS published new regulations distinguishing improvement costs required to be capitalized to tangible property from repair costs allowed to be expensed. The regulations also provide new rules expanding the ability of taxpayers to deduct unrecovered costs on the retirement of a portion of a building. These changes are generally believed to be favorable for most taxpayers.<br><br>On March 7, 2012, the IRS published Revenue Procedures for making automatic changes to take advantage of the new regulations. Generally, applications to make these changes should be filed with the return for the first taxable year beginning in 2012.<br><br>Subsequent to the publication of the Revenue Procedures, the IRS Large Business and International Division (LB&I) issued a directive to its examining agents to discontinue examination activity on the issue to allow taxpayers to make the changes necessary to comply with the new regulations. | Virtually every taxpayer that owns or leases a building is likely to benefit from these new regulations<br><br>Early adoption of the necessary changes may accelerate the period in which any tax benefit attributable to the changes can be recognized<br><br>Amounts that have been or would be reserved for possible controversy in this area should be examined to determine if they can be released in connection with a method change |

# Thank you!

# Questions?