Financial statement reporting developments
An update of important changes

Deloitte & Touche LLP
Panel discussion
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Agenda

- Introduction: Margaret Mulley, Deputy Managing Partner AERS Strategy and Innovation, Deloitte & Touche LLP (5 minutes).
- Overview of new accounting standards and projects: Patrick Casabona, Senior Manager, Deloitte & Touche LLP and Professor, St. Johns University (5 minutes).
- Fair value measurements — Update: Patrick Casabona (10 minutes).
- Accounting for financial instruments: Adrian E. Mills, Partner, Deloitte & Touche LLP (30 minutes).
- Revenue recognition: Ignacio Perez Zaldivar, Partner, Deloitte & Touche, LLP (20 minutes).
- Lease accounting: Clif Mathews, Senior Manager, Deloitte & Touche, LLP (20 minutes).
- Other projects — Other Comprehensive Income and Trouble Debt Restructuring: Alejandro Rebollo, Senior Manager, Deloitte & Touche LLP (15 minutes).
- Questions and answers (5 minutes).

Acronyms

Acronym	Full Form
AOCI	Accumulated Other Comprehensive Income
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ED	Exposure Draft
FASB	Financial Accounting Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
OCI	Other Comprehensive Income
OTTI	Other Than Temporary Impairment
PP&E	Property, Plant and Equipment
SEC	U.S. Securities and Exchange Commission
U.S. GAAP	Generally Accepted Accounting Principles in the United States

FASB's and IASB's convergence agenda

Joint projects

Expected date / Projects	2011	
	Q2	H2
Financial instruments: • Classification and measurement • Impairment • Offsetting • Hedge accounting		ED/F? ↓
Revenue recognition		ED
Leases		ED
Fair value measurement	ASU issued in May 2011	
Insurance		ED
Consolidation		ED
Presentation of financial statements: • Financial statement presentation • Discontinued operations • Other comprehensive income	F	

ED — Exposure Draft **F — Final Standard**

FASB — Only projects

Projects \ Expected date	2011	
	Q2	H2
Troubled debt restructurings	ASU issued in April 2011	
Transfers and servicing — Repurchase agreements	ASU issued in April 2011	
Investment properties		ED
Disclosures about an employer's participation in a multiemployer plan		F
Goodwill impairment assessments	ED	F
Disclosures about certain loss contingencies		

ED — Exposure Draft **F — Final Standard**

Fair value measurement project

Fair value measurement update — Objectives

- New Accounting Standards Update (ASU) was issued on May 12, 2011.
- IASB also issued IFRS 13.
- Objectives of the project:
  - Primary objective was to align the words in accounting principles generally accepted in the United States of America (U.S. GAAP) and IFRS (constituents asked that the guidance have the same words).
  - Secondary objectives included:
    - Clarify and refine the measurement principles in Accounting Standards Codification (ASC) Topic 820.
    - Expand the fair value disclosure requirements.
  - The ASU **does not** change:
    - When fair value measurements are required or permitted, or
    - The fundamental fair value measurement principles (e.g., exit price, market participants, principle, or most advantageous market, etc.).

Measurement — Highest and Best Use (HBU)

	Before	After
HBU	Did not prohibit "in combination" valuation premise for financial assets.	• In combination premise only applicable to **nonfinancial assets** (e.g., fixed assets and intangibles) and certain liabilities (e.g., working capital). • New guidance on offsetting risk positions for financial assets and liabilities has been provided.
HBU	Used terms "in-use" and "in-exchange."	• Uses terms "in combination" and "stand-alone."

Observation: Not expected to have a significant effect on current practice.

Measurement — Financial instruments with offsetting risk positions

	Before	After
Offsetting positions in market or credit risk	No explicit guidance on measuring the fair value of offsetting positions in a given market risk or credit risk.	Explicit guidance is now provided for when it is appropriate to fair value the net position.

New requirement: Permitted when financial assets and liabilities that have **offsetting positions in market risks and counterparty credit risk**:

1. Are managed on the basis of the net exposure to either of those risks.
2. Information is provided to the entity's key management personnel on that basis.
3. Measures those financial assets and liabilities at fair value in the statement of financial position at each reporting date.

Observation: Not expected to have a significant effect on current practice. Entities should consider how best to document and support their policy.

Measurement — Premiums and discounts

	Before	After
Premiums and discounts	Blockage factor prohibited for Level 1 items.	Establishes principles for considering when premiums and discounts are appropriate.

New requirement: *Establishes the following principles —*

- A fair value measurement shall **not** incorporate a premium or discount that is **inconsistent with the unit of account** (as specified by other U.S. GAAP).
- Premiums or discounts that reflect **size as a characteristic of the entity's holding** rather than as a characteristic of the asset or liability are **not** permitted.
- If there is a quoted price in an active market (i.e., a **Level 1** input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value.

Observation: Entities that have historically applied a blockage factor to a Level 2 or Level 3 measurement would not be permitted to continue such practices. Other adjustments that are a characteristic of the item are not precluded (e.g., market illiquidity or restrictions). Adjustments for noncontrolling interests and control premiums may still be appropriate.

Measurement — Own equity instruments

	Before	After
Instruments classified in the entity's equity	No guidance existed.	Guidance is provided. Fair value measurements of own equity items follow the principles used to estimate the fair value of liabilities.

New requirement:

- Assume that the equity-classified instrument is **not canceled** but instead transferred to a market participant who would take on the "rights and obligations associated with the instrument" on the measurement date.
- Estimate an exit price from the perspective of a **market participant who holds the identical item as an asset.**

Observation: Generally not expected to have a significant effect to current practice.

Disclosure — Level 3

	Before	After
New **Level 3** disclosure requirements	• No requirement to disclose quantitative information about inputs. • No requirement to disclose a description of the valuation process used by the entity. • No requirement to describe the sensitivity of Level 3 inputs or any related interrelationships.	• Required to disclose quantitative information about inputs.* • Required to disclose a description of the valuation process used by the entity. • Required to provide a narrative description of the sensitivity and any related interrelationships (this disclosure is not required for nonpublic entities).

New requirement: *Not required to create quantitative information to comply with this disclosure requirement (e.g., when the entity uses prices from prior transactions or third-party pricing information without adjustment). However, cannot ignore quantitative unobservable inputs that are reasonably available to the entity.

Quantitative information about level 3 fair value measurements

Example

Item	Fair Value at 12/31	Valuation technique	Unobservable input	Range (Weighted average)
Residential mortgage-backed securities	$125	Discounted cash flow	• Constant prepayment rate • Probability of default • Loss severity	• 3.5%–5.5% (4.5%) • 5%–50% (10%) • 40%–100% (60%)
Direct venture capital investments: Energy	$32	Market comparable companies	• EBITDA multiple • Revenue multiple • Discount for lack of marketability • Control premium	• 6.5–12 (9.5) • 1.0–3.0 (2.0) • 5%–20% (10%) • 10%–20% (12%)

Valuation process
Example

- Information about **the group responsible for the reporting entity's valuation policies** and procedures:
  - Its description
  - To whom that group reports
  - The internal reporting procedures in place
- The frequency and methods for **calibration**, back testing, and other testing procedures of pricing models.
- The **process for analyzing changes** in fair value measurements from period to period.
- How the reporting entity determined that **third-party information**, such as broker quotes or pricing services, used in the fair value measurement was developed in accordance with Topic 820.
- The **methods used to develop and substantiate** the unobservable inputs used in a fair value measurement.

Narrative description of sensitivity

Example

A reporting entity might disclose the following about its residential mortgage-backed securities:

- "The significant unobservable inputs used in the fair value measurement of the reporting entity's residential mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default.
- Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.
- Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates."

Disclosure — Transfers between levels 1 and 2

	Before	After
Transfers between Levels 1 and 2	Only significant transfers were required.	• All transfers should be disclosed. • Nonpublic entities are not required to make this disclosure.

New requirement: For recurring measurements, the amounts of any transfers between Levels 1 and 2 of the fair value hierarchy, the reasons for those transfers, and the entity's policy for determining when transfers between levels are deemed to have occurred. Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

Observation: Entities may find it challenging to capture this data, if they previously only tracked significant transfers between Levels 1 and 2.

Disclosure — When fair value is only disclosed

	Before	After
Fair value measurements that are only disclosed*	• No requirement to provide the level in the fair value hierarchy. • No requirement to provide HBU disclosures. • Required to disclose method and significant assumptions or changes thereto for financial instruments (ASC 825).	• Must disclose the level in the fair value hierarchy. • HBU disclosures required (see next slide). • Must disclose method and significant assumptions (as well as changes) for financial and nonfinancial instruments • Not required for nonpublic entities.

New requirement: *That is, assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed.

Observation: The FASB believes that these disclosures will help investors better understand the relative reliability of the fair value measurements that are only disclosed in the footnotes.

Disclosure — HBU is not the current use

	Before	After
HBU of a nonfinancial asset differs from its current use	There was no requirement to make disclosures about situations when an entity's current use of an asset differs from its HBU.	Disclosure is now required.

New requirement: For recurring and nonrecurring fair value measurements, if the HBU of a nonfinancial asset differs from its current use, an entity shall disclose that fact and why the nonfinancial asset is being used in a manner that differs from its HBU.

Observation: This disclosure is not expected to occur frequently.

U.S. GAAP vs. IFRS

	U.S. GAAP	IFRS
Disclosure requirements	Narrative measurement uncertainty (sensitivity analysis).	Also requires quantitative sensitivity analysis.
	Nonpublic entity disclosure exemptions: • Disclosures required for public companies relating to fair value measures disclosed but not recognized. • Narrative sensitivity analysis. • Transfers between Levels 1 and 2.	No exemptions for nonpublic entities.
	Amounts disclosed may differ, because offsetting requirements for financial instruments differ, pending the outcome of a current joint project.	

U.S. GAAP vs. IFRS (cont.)

	U.S. GAAP	IFRS
Net Asset Value (NAV)	Reporting entity may use NAV per share to determine fair value of investments in certain entities that apply investment-company accounting on the basis of NAV.	NAV is not available as a practical expedient when determining fair value of investments in investment companies, because IFRS do not currently have equivalent investment-company accounting.
Day-one gains or losses	No prohibition against day-one recognition of differences between fair value and transaction price.	Prohibited under IFRS 9 and IAS 39, unless based on observable inputs.
Deposit liability	Value equal to the amount payable on demand as of the reporting date.	Value cannot be less than the present value of the amount payable on demand.

Fair value measurement — Effective date and transition

- Effective date
  - *U.S. GAAP public company* — First reporting period beginning after December 15, 2011. Early adoption is not permitted.
  - *U.S. GAAP nonpublic company* — Annual periods ending on or after December 15, 2012. Early adoption is permitted.
  - *IFRS* — Annual periods beginning on or after January 1, 2013.
- Transition
  - Prospective (i.e., no recasting of prior periods or cumulative effect adjustment to retained earnings).

Accounting for financial instruments

Accounting for financial instruments

Project update

Topic	FASB	IASB
Classification and measurement	Redeliberations of the ED are underway. FASB anticipates completing its deliberations in 2011.	IASB issued IFRS 9, *Financial Instruments*, in November 2009 (revised in October 2010). IFRS 9 is effective from January 1, 2013 (with early application permitted).
Hedge accounting	Redeliberations have not yet begun.	Redeliberations are underway and the IASB has been quite active. The IASB plans to complete redeliberations over the next few months.
Impairment	A working party with representatives from both Boards proposed a new model. Both Boards voted to further explore the model jointly.	
Offsetting	Supports approach based on conditional rights of offset.	Supports approach proposed in ED.

Financial instruments: Classification and measurement

Classification and measurement

Overview

- There have been significant changes from the ED.
- Deliberations have generally resulted in decisions that align with existing accounting practices (fewer fair value requirements than the ED):
  - E.g., fair value would not be the default measurement attribute for loans.
  - Nonderivative liabilities would typically be at amortized cost.
- In the next few slides we cover redeliberations through June 8, 2011 and a comparison against IFRS 9 across key provisions.

Classification and measurement — Key provisions

Subject	FASB's Original ED	IFRS 9	FASB's Redeliberations
Categories	Six categories of financial assets and liabilities: 1. FV-NI (default). 2. FV-OCI (elective for qualifying debt instruments). 3. Amortized cost (limited elective). 4. Redemption value for certain redeemable investments. 5. Remeasurement approach for core deposit liabilities with changes recognized through net income (default) or OCI (elective for qualifying core deposits).	Three categories of financial assets: 1. FVTPL. 2. Amortized cost (required for certain debt instruments). 3. FVTOCI (elective for equity investments). And, three categories of financial liabilities: 1. FVTPL (required for trading and derivative liabilities). 2. Fair value, with gains/losses from own credit risk through OCI and other changes recognized in profit or loss. 3. Amortized cost (required for certain debt instruments).	Effectively, three categories of financial instruments: 1. FV-NI (instruments held for sale or transfer or actively managed on FV basis). 2. FV-OCI (financial assets: (1) for which an entity's business activity is "investing" and (2) that are not held for sale). 3. Amortized cost (financial instruments, in lending and customer financing activities that meet certain criteria). The FASB has not yet redeliberated the redemption value category. Initial measurement will be aligned with subsequent measurement.

Classification and measurement (cont.)

Subject	FASB's Original ED	IFRS 9	FASB's Redeliberations
FV-OCI	Elective for financial assets and liabilities meeting three criteria: 1. Cash flow characteristics. 2. Business strategy: collect or pay related contractual cash flows. 3. No embedded derivative that requires bifurcation.	At initial-recognition irrevocable election for equity investments. Unrealized AND realized gains and losses are recorded in OCI, while dividend income is recorded in profit or losses, unless it clearly represents a recovery of part of the cost of the investment.	Financial asset: Carried at FV-OCI if it meets the cash flow characteristics criterion (see below) and meets the following business activity conditions: 1. Invest cash to either (1) "[m]aximize total return…" or (2) "[m]anage the interest rate or liquidity risk by either holding or selling..." 2. Financial assets that are not held for sale."

Cash Flow Characteristics Criterion (Based on May 4 board decisions)

"It is a debt instrument held or issued with all of the following characteristics:

1. It is not a financial derivative instrument subject to guidance in ASC Topic 815.
2. There is an amount transferred to the debtor (issuer) at inception that will be returned to the creditor (investor) at maturity or other settlement, which is the principal amount of the contract adjusted by any discount or premium at acquisition.
3. The debt instrument cannot contractually be prepaid or otherwise settled in such a way that the investor would not recover substantially all of its initial investment, other than through its own choice."

Classification and measurement (cont.)

Subject	FASB's Original ED	IFRS 9	FASB's Redeliberations
Amortized Cost	Elective for certain financial instruments, including short-term receivables and payables (certain conditions apply), and financial liabilities that both (1) qualify for FV-OCI, and (2) for which FV measurement would create an accounting mismatch.	Required for financial assets meeting both: 1. Business model criterion – holding assets to collect the contractual cash flows. 2. Cash flow characteristics — contractual cash flows represent payment of principal and interest. Required for a financial liability if not held for trading and fair value option is not elected.	A financial instrument is carried at amortized cost if it meets the cash flow criterion and the business activity criterion (see below).

Amortized Cost Business Strategy Criterion (Based on April 6 decisions)

"The business activity for [amortized cost] financial instruments must meet all of the following conditions:

1. Financial instruments issued or acquired for which an entity's business strategy, at origination or acquisition of the instrument, is to manage the instruments through customer financing (lending or borrowing) activities. These activities primarily focus on the collection of substantially all of the contractual cash flows from the borrower or payment of contractual cash flows to the lender.
2. Financial instruments for which the holder of the instrument has the ability to manage credit risk by negotiating any potential adjustment of contractual cash flows with the counterparty in the event of a potential credit loss. Sales or settlements would be limited to circumstances that would minimize losses due to deteriorating credit.
3. Financial instruments that are not held for sale (assets) or transfer (liabilities) at acquisition or issuance."

Classification and measurement (cont.)

Subject	FASB's Original ED	IFRS 9	FASB's Redeliberations
FV-NI	Default measurement attribute for financial assets and liabilities.	Financial assets that do not meet the amortized cost criteria or for which FVTOCI classification is not elected at initial recognition. Financial assets and liabilities for which the fair value option is elected.	A financial instrument is carried at FV-NI if the business activity meets either of the following conditions (or fails the cash flow characteristics criterion): 1. "Financial instruments that are held for sale (assets) or transfer (liabilities) at acquisition." 2. "Financial instruments that are actively managed and monitored internally on a fair value basis but do not qualify for the FV-OCI category.
Reclass of OCI to net income	Amounts in accumulated OCI are recycled to net income upon sale, settlement, or impairment.	Amounts in accumulated OCI are permanently deferred in equity.	No change from original ED.

Classification and measurement (cont.)

Subject	FASB's Original ED	IFRS 9	FASB's Redeliberations
Equity Investments	Carried at fair value, with changes in fair value recognized in earnings, except for certain redeemable investments that are carried at redemption value, with changes in the redemption value recognized in earnings.	FVTPL unless FVTOCI through irrevocable election at initial recognition.	FV-NI with practicability exception for nonmarketable equity securities (nonpublic entities only). The practicability exception calls for measurement at cost less OTTI with adjustments for observable changes in price. Equity method per ASC Topic 323 retained.
Hybrids	FV-NI for the entire hybrid financial contract. No embedded derivative would be bifurcated from a hybrid instrument (except for hybrid financial instruments outside the proposed scope of the ASU. FV-OCI for hybrid contracts meeting certain criteria.	Never bifurcate embedded derivative from financial asset host (exception for assets outside the scope of IFRS 9). Embedded derivative guidance in IAS 39 is retained for financial liabilities.	Current U.S. GAAP retained (i.e., bifurcate if ASC Topic 815-15 criteria are met).

Classification and measurement (cont.)

Subject	FASB's Original ED	IFRS 9	FASB's Redeliberations
Fair value option	No explicit option.	Available for financial assets when an FV designation eliminates or significantly reduces an accounting mismatch, though an irrevocable election must be made at initial recognition. Also available for financial liabilities if: 1. Same as above, 2. an entity manages or evaluates a group of instruments on an FV basis, or 3. it contains certain types of embedded derivatives. Changes in fair value are recognized in profit or loss, with reclassifications to ensure changes attributable to changes in an entity's own credit from earnings to OCI.	Limited option available for hybrid liabilities for which the entity has determined there exists an embedded derivative requiring bifurcation. No option permitted for assets. However, the FASB is evaluating how to avoid accounting mismatches and whether an option for hybrid assets is needed.

Classification and measurement (cont.)

Subject	FASB's Original ED	IFRS 9	FASB's Redeliberations
Reclassification	Not permitted.	Required for financial asset if the business model changes; however, changes in the business model are expected to be infrequent.	Not permitted.

Next steps

- Redeliberations expected to continue during 2011.
- Effective date and transition not yet decided:
  - Proposed transition was cumulative effect in the period of adoption. No recasting of prior periods.
  - Proposed a four-year deferral for nonpublic entities with less than $1 billion in total consolidated assets.
- Final document in 2011?

Impairment

Supplementary document and feedback received

- Key features:
  - Focused on recognition of open portfolio credit losses.
  - Proposed an allowance for credit losses determined using an analysis of “good book” and “bad book” assets:
    - Bad book assets — Immediately recognize lifetime expected losses.
    - Good book assets — Recognize the higher of (1) credit losses expected to occur within the foreseeable future period (no less than 12 months) or (2) the expected lifetime loss estimate apportioned to the period passed, calculated by using a time-proportional ratio (i.e., weighted-average age to weighted-average life).
- Feedback received:
  - Foreseeable future period.
    - Vague/No conceptual basis.
    - May lead to counterintuitive results.
  - Multiple calculations are required.
  - When to transfer assets to the “bad book”?

Tentative model to be explored

- Overall model — Reflect the pattern of deterioration of the credit quality of loans.
- Timing and amount of losses recognized dependent on credit quality (3-bucket approach):
  – Bucket 1:
  – Assets not affected by events with direct relationship to potential future defaults (e.g., macroeconomic events such as a decreasing gross domestic product).
  – Bucket 2:
    - Assets affected by events that indicate a direct relationship to potential future defaults (e.g., housing price decline in a particular area).
    - Expected losses **not** individually identifiable.
  – Bucket 3:
    - Assets affected by events that indicate a direct relationship to potential future defaults (e.g., loan refinance with home value decreasing).
    - Expected losses individually identifiable.

Tentative model to be explored (cont.)

- Allowance balance:
  - – Bucket 1 — 12 months of initial expected credit losses, plus the full remaining lifetime effect of any changes in expected credit losses.
  - – Bucket 2 — Based on a portfolio-level calculation of the full lifetime expected losses.
  - – Bucket 3 — Full lifetime expected losses.
- Operational concerns in an open portfolio?

Financial instruments: Hedge accounting

Overview

- Both the FASB and the IASB have developed proposals to change existing hedge accounting requirements:
  - FASB published Proposed ASU in May 2010.
  - IASB published ED in December 2010.
  - FASB issued a Discussion Paper in February 2011 seeking feedback on IASB's ED.
  - IASB began redeliberations in April 2011.
- The IASB approach involves a radical overhaul of the existing hedge accounting approach to align it more closely with risk management activities.
- The FASB approach involves more limited changes to existing hedge accounting requirements.
- Still to come from IASB — Macro hedging.

IASB Redeliberations

- Equity instruments at FV-OCI — eligible for hedge accounting.
  - Ineffectiveness presented in OCI.
- Hedge accounting not permitted for any other instrument in FV-OCI.

The proposals — IASB's ED vs. FASB's proposed ASU

Subject	FASB's Proposed ASU	IASB ED
Hedged Items		
Risk components	Allows an entity to designate hedges of financial items for certain specified risks (including foreign currency, benchmark interest rate, and credit). Component hedging of nonfinancial items not permitted.	A risk component of any item (could be financial or nonfinancial) is eligible for hedge accounting if the risk component is (1) separately identifiable and (2) reliably measurable. Permits two types of components of nominal amounts to be designated as hedged items (1) a percentage component or (2) a layer component (e.g., bottom layer).

IASB Redeliberations — Nominal components (layers):

- Permit a layer-based designation of a hedged item when the item does not include a prepayment option whose fair value is affected by changes in the hedged risk.
- For partially prepayable items, allow for a layer-based designation of the hedged item for those amounts that are not pre-payable at the time of designation.
- Allow for a layer-based designation of the hedged item if it includes the effect of a related prepayment option when determining the change in fair value of the hedged item.
- Not to differentiate written and purchased prepayment options for the purpose of the eligibility of layer-based designation of hedged items.

The proposals — IASB's ED vs. FASB's proposed ASU (cont.)

Subject	FASB's Proposed ASU	IASB ED	IASB Redeliberations
Hedged Items (cont.)			
Ability to designate the combination of an exposure and a freestanding derivative as an hedge item	Not permitted.	A combination of an exposure and a derivative could be designated jointly as a hedged item.	Net yet redeliberated.
Groups and net positions	Hedges of net positions are not permitted.	Permits groups of individually eligible hedged items to be hedged collectively as a group (including a net position) if the group is managed together for risk management purposes.	Not yet redeliberated.

The proposals — IASB's ED vs. FASB's proposed ASU (cont.)

Subject	FASB's Proposed ASU	IASB ED
Hedging Instruments		
Time value of options	No change to current U.S. GAAP. If option time value is included in the hedge, an entity can defer time value in OCI when certain conditions are met.	An entity can defer some or all of the time value in OCI. The reclassification of amounts out of AOCI depends on whether the hedged item is transaction related or period related.

IASB Redeliberations:

- Retain the EDs proposed accounting model (an 'insurance premium view'), but will provide additional guidance on differentiating between transaction related and time period related hedged items.
- Did not provide an overriding principle supporting the accounting treatment for the time value of options.
- Proposals will be required rather than permitted as an accounting policy choice.
- Zero-Cost Collars: accounting for time value should be consistent with treatment for changes in the time value of options (not yet redeliberated).

The proposals — IASB's ED vs. FASB's proposed ASU (cont.)

Subject	FASB's Proposed ASU	IASB ED
Hedging Instruments (cont.)		
Nonderivative financial instruments	Nonderivative financial instruments cannot be designated as hedging instruments except for certain foreign currency hedges.	Permits nonderivative financial instruments accounted for at fair value through profit or loss to be designated as hedging instruments.

IASB Redeliberations:

- Cash instruments: Only those at FV-NI are eligible (for hedges other than foreign exchange risk). Consistent with ED.
- Fair Value Option (FVO):
  - Liabilities — Those designated under FVO and with change in FV related to own-credit risk recognized in OCI not eligible as hedging instrument.
  - Hedge designation cannot contradict basis for initially electing FVO.

The proposals — IASB's ED vs. FASB's proposed ASU (cont.)

Subject	FASB's Proposed ASU	IASB ED
Effectiveness Assessment		
Effectiveness threshold	Hedge is expected to be reasonably effective.	Hedge must achieve "other-than-accidental offset", be unbiased and minimize expected ineffectiveness.
Means of assessing effectiveness (quantitative vs. qualitative)	Typically, only a qualitative assessment is required; however, a quantitative assessment may be necessary if the qualitative assessment is not conclusive. Eliminates shortcut method and critical terms match.	No specific requirement for a quantitative assessment; qualitative assessment sufficient in some cases.
Frequency of hedge effectiveness assessments	Inception only, unless reassessment is warranted because of a change in circumstances.	An entity would need to determine that a hedging relationship meets the hedge effectiveness requirements at inception and then on an ongoing basis. No retrospective assessment is required.

IASB Redeliberations:

- See next slides

IASB's redeliberations

Assessment of hedge effectiveness

- Disaggregate the umbrella term "other than accidental offsetting" into the following:
  - The notion of an economic relationship between the hedged item and the hedging instrument, which gives rise to offset.
  - The effect of credit risk on the level of offsetting gains or losses on the hedging instrument and the hedged item, which may reduce or modify the extent of offsetting.

IASB's redeliberations (cont.)

Assessment of hedge effectiveness (cont.)

- Remove references to umbrella terms "unbiased" and "minimizing expected hedge ineffectiveness", and the requirement that an entity should have no expectation that the changes in the value of the hedging instrument will systematically either exceed or be less than the change in value of the hedged item.

  Instead, **designation of hedging relationship based on the "economic hedge" ratio**:
  - The quantity of hedged item that it actually hedges.
  - The quantity of the hedging instrument that it actually uses to hedge that quantity of hedged item.

    Note: Cannot designate a hedge to create an imbalance in the weightings of the hedged item and hedging instrument that would create ineffectiveness to achieve an accounting outcome inconsistent with the purpose of hedge accounting.

IASB's redeliberations (cont.)
Rebalancing

- Rebalancing — Mandatory vs. voluntary
  – Rebalance hedging relationship if:
    - The hedge ratio used for risk management purposes changes.
    - If rebalancing is required to prevent an imbalance in the ratio that would create ineffectiveness in order to achieve an outcome that is inconsistent with the purpose of hedge accounting.
  – Notion of proactive rebalancing eliminated/made obsolete.

The proposals — IASB's ED vs. FASB's proposed ASU

Subject	FASB's Proposed ASU	IASB ED	IASB Redeliberations
Ineffectiveness Measurement			
Deter-mination of amounts recorded in AOCI for cash flow hedges	Eliminates the "lower of test." Ineffectiveness recorded in earnings both for overhedges and underhedges. AOCI balance is equal to the amount necessary to offset the present value of the cumulative change in expected future cash flows on the hedged transaction since hedge inception, less any amounts previously reclassified.	Retains the "lower of test." Ineffectiveness recorded in profit or loss for overhedges, but not for underhedges.	Not yet redeliberated.
Dedesignation			
Voluntary dedesignation of a hedging relationship	An entity cannot voluntarily remove hedge designation after it has been established; however, the entity may enter into an offsetting derivative to effectively terminate the hedge.	An entity cannot voluntarily remove hedge designation after it has been established; however, partial dedesignation and rebalancing may be required.	IASB reaffirmed proposal in ED — no voluntary dedesignation.

The proposals — IASB's ED vs. FASB's proposed ASU (cont.)

Subject	FASB's Proposed ASU	IASB ED	IASB Redeliberations
Cash Flow Hedge — Mechanics			
Basis adjustment	No change to current U.S. GAAP. Amount is reclassified from AOCI to earnings when the hedged transaction affects earnings.	Eliminates an entity's ability to either adjust the basis of a hedged nonfinancial item (when the forecasted transaction is recognized) or reclassify amounts from AOCI to profit or loss, when the hedged item affects earnings. The ED requires an entity to apply a basis adjustment when the forecasted transaction is recognized.	Not yet redelibertated.

The proposals — IASB's ED vs. FASB's proposed ASU (cont.)

Subject	FASB's Proposed ASU	IASB ED
Fair Value Hedge — Mechanics		
Changes in fair value of hedged item — balance sheet impact	No change to current U.S. GAAP. Carrying value of the hedged item is adjusted.	Changes in fair value of the hedged item are reported in a separate line item on the balance sheet. Carrying value of the hedged item is not adjusted.
Changes in fair value of hedged item and hedging instrument — income statement impact	No change to current U.S. GAAP. Changes in fair value of the hedging instrument and the hedged item are both recorded in earnings.	Changes in fair value of the hedged item and the hedging instrument are recorded in OCI, with any hedge ineffectiveness recognized in profit or loss.

IASB Redeliberations:

- Fair value changes of the hedging instrument and the hedged item go to the income statement (IAS 39 today), instead of OCI.
- Gain/loss on the hedged item attributable to the hedged risk reflected as an adjustment to the carrying amount of the hedged item (IAS 39 today), rather than as a separate balance sheet line item.
- No linked presentation.
- Additional disclosures required.

Next steps

- IASB continuing redeliberations.
  - Goal: Publication of IFRS general hedging model in Q3.
  - Macro hedge accounting project.
    - Identifying and deliberating issues over summer.
    - Goal: publish ED in Q4 2011.
  - FASB timetable for redeliberations: TBD
    - Following IASB redeliberations.
    - Current focus on classification and measurement, impairment.

Financial instruments: Offsetting

Offsetting ED

Proposed principle

Offset of a recognized financial asset and a recognized financial liability would be **required** when an entity:

- Has an **unconditional** and **legally enforceable right to set off** the financial asset and financial asset and liability.
- **Intends** either:
  - To settle the financial asset and liability on a net basis.
  - To realize the financial asset and settle the financial liability simultaneously.

Offsetting ED (cont.)

Proposed tabular disclosure

Gross carrying amounts (before offsetting and certain portfolio adjustments).

-     Amounts offset

+/- Portfolio-level adjustments related to credit risk

= Net carrying amount reported in the statement of financial position

-     Amounts that satisfy the "right of setoff" criterion, but fail the "intent" criterion

-     Amounts subject to a conditional right of setoff (e.g., some master netting arrangements) by type

= Net amount

-     Cash collateral (capped by net carrying amount)

-     Fair value of other financial instruments collateral (capped by net carrying amount)

= Net amount

Offsetting ED (cont.)

Next steps

- Boards began initial redeliberations in May 2011.
- Areas identified for initial focus:
  - Simultaneous settlement criterion and its application to exchange cleared transactions.
  - Collateral arrangements.
  - Unit of account.
- June joint Board meeting:
  - IASB: Retain the ED and address certain areas (listed above).
  - FASB: Conditional offsetting for certain financial instruments.
  - Boards to seek possible path toward convergence through disclosure requirements.

Revenue recognition project – Project overview

Revenue project
Current timeline

December 2010 and January 2011

- Summarized comment letter responses and affirm redeliberation plan
- Segmenting a contract
- Identifying separate performance obligations
- Determining the transfer of control for goods and services

February and March 2011

- Cost of obtaining a contract, warranties, breakage and prepayments
- Measuring progress, contract combining, modifications, onerous
- Time value of money, collectibility, uncertain consideration

April and May 2011

- Determining and allocating the transaction price, licenses and rights to use, fulfillment costs, sales and repurchase agreements
- Disclosures and fulfillment costs

June 2011

- Application to telecommunications industry, transition, re-expose

Q3 2011

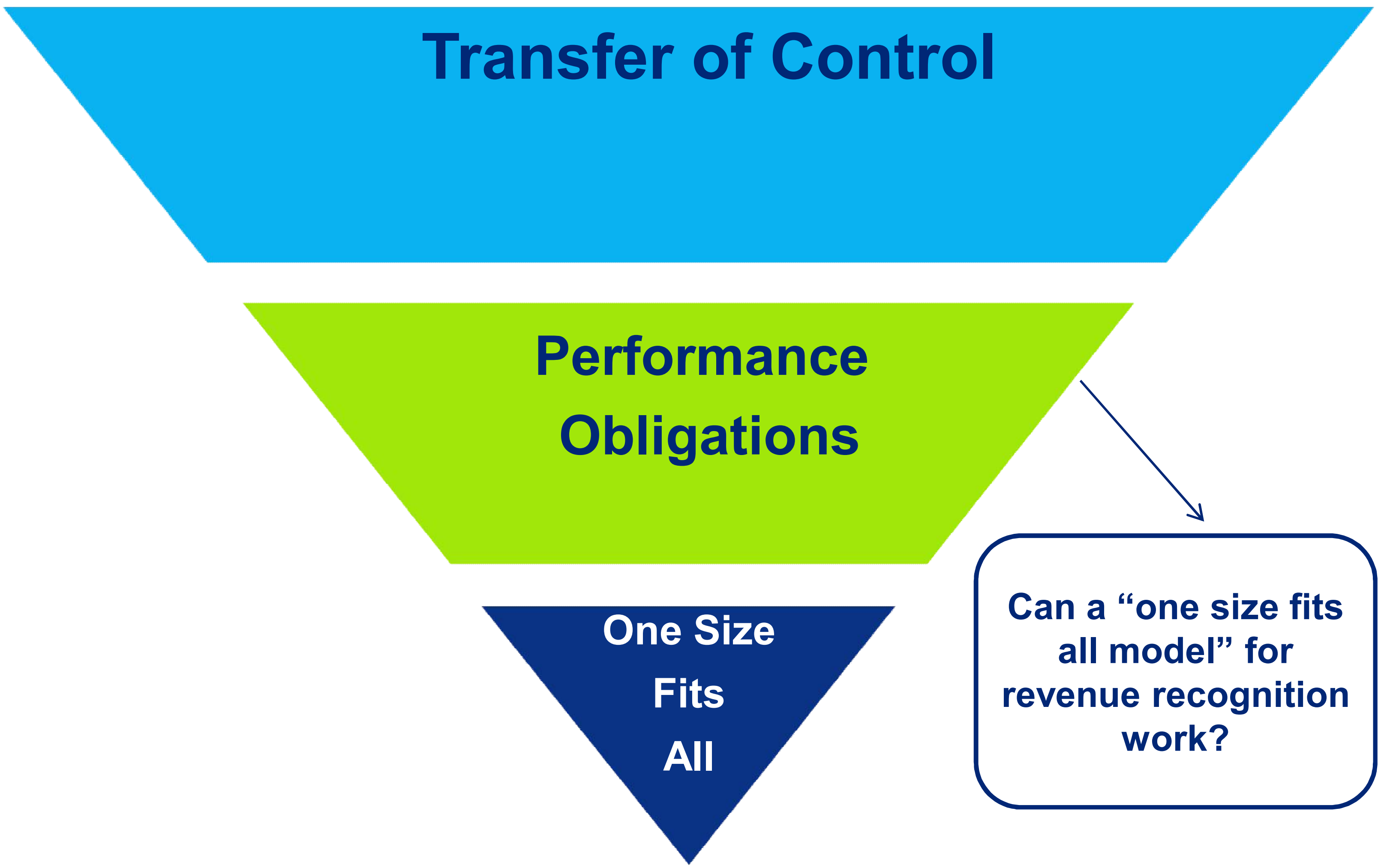
- Expose for comment with 120-day comment period

Q2/Q3 2012?

- Finalize standard?

Revenue project

Key concepts in the Exposure Draft



Revenue project – summary of key provisions
Scope (and scope exceptions)

- Applies to an entity's contracts with customers
- Does not apply to:
  - Lease contracts (ASC 840)
  - Insurance contracts (ASC 944)
  - Certain contractual rights or obligations
  - Guarantees (other than product warrants), and
  - Nonmonetary exchanges whose purpose is to facilitate a sale to another party
- A contract can be written, verbal, or implied (specific criteria provided in the exposure draft)
- If both parties can unilaterally terminate without penalty then a contract does not exist

Revenue project – summary of key provisions

Core principle and steps in the model

Core principle: Recognize revenue to depict the *transfer of goods or services* in an amount that reflects *the consideration the entity expects to receive* in exchange for those goods or services.

Identify contract(s) with the customer (Step 1)

Identify the separate performance obligations (Step 2)

Determine and allocate the transaction price (Step 3 & 4)

Recognize revenue when performance obligations are satisfied (Step 5)

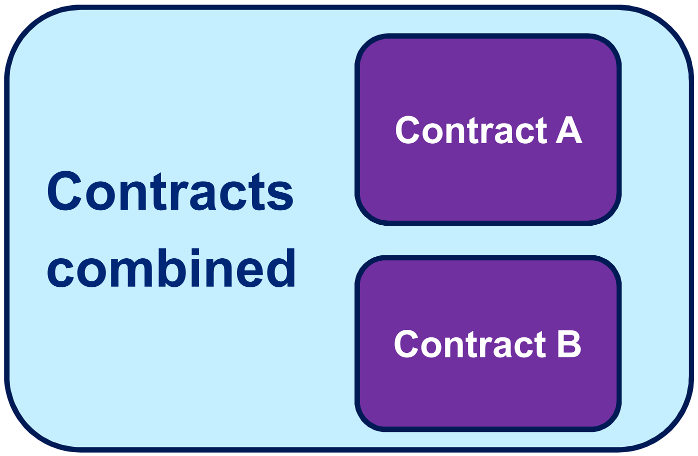
Steps in Applying the Revenue Recognition Model
1. Identify the contract(s) with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations
5. Recognize revenue when the performance obligations are satisfied

SOUNDS SIMPLE…RIGHT?

Revenue recognition project - Steps in the model

Revenue project – summary of key provisions
Step 1. identify the contract(s) with the customer

Combine Contracts

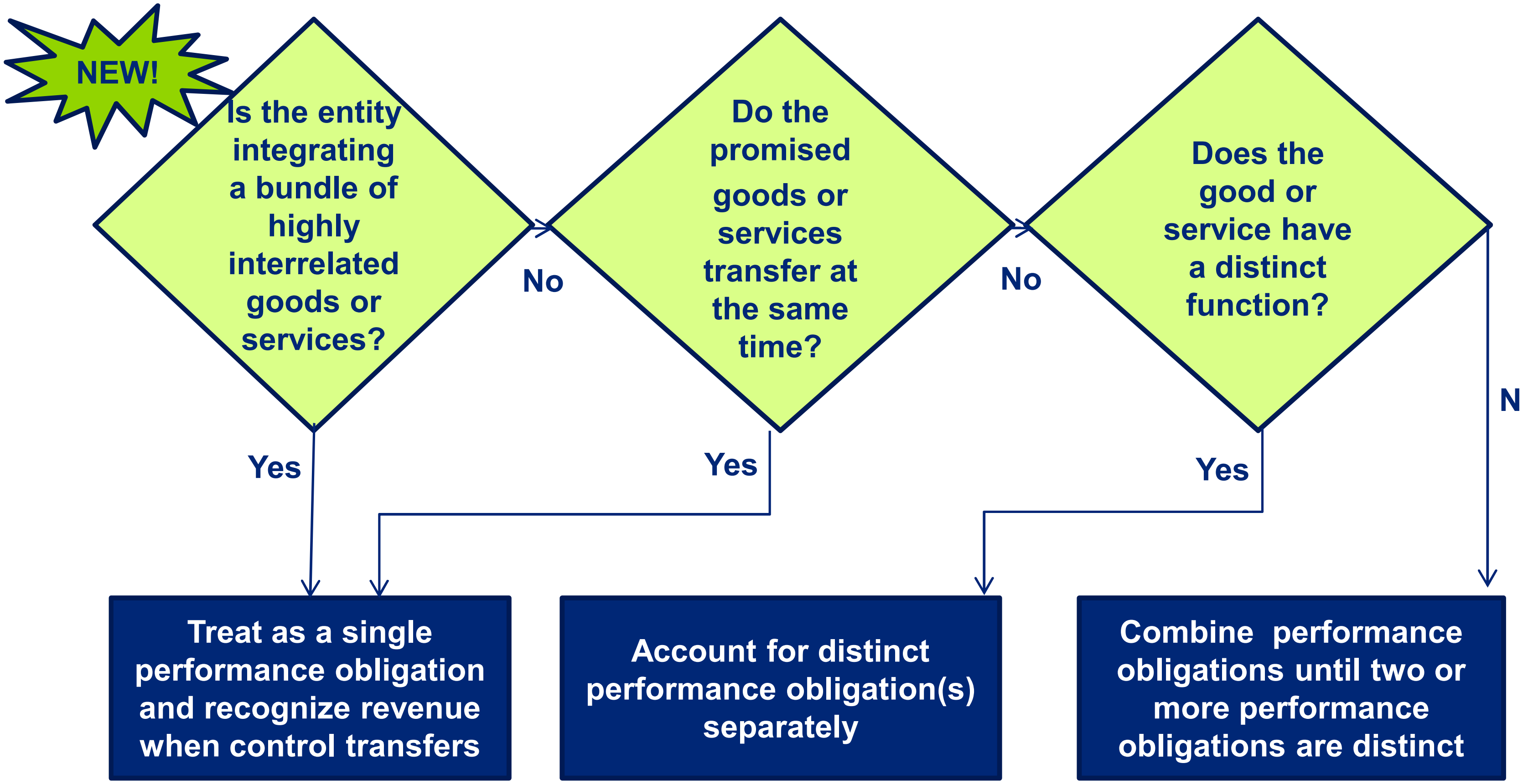


Combine contracts entered into at (or near) the same time with the same (or related) customer if:
- Single commercial objective,
- Interdependent consideration, or
- Interrelated design, technology, or function

Contract Modifications…
- Deemed a separate contract when additional obligations are at current prices (otherwise reallocate price to all obligations)

Contract Segmentation…
- Guidance eliminated (still identify separate performance obligations)

Revenue project – summary of key provisions
Step 2. identify the performance obligations in the contract



A good or service has a distinct function if it either (1) is regularly sold separately by the entity or (2) can be used on its own or together with resources that are readily available to the customer

NEW!

Revenue project – summary of key provisions
Step 3. determine the transaction price

Transaction Price…

- Consideration often varies due to discounts, rebates, refunds, credits, incentives, performance bonus/penalty, contingencies, price concessions, or similar items
- Probability weighted or most likely amount of consideration the entity is *entitled to* from customer (which ever is most predictive)
- Other considerations include:
  - Time value of money
  - Noncash consideration
  - Consideration paid to a customer
- Collectibility…initial and subsequent adjustments for collectibility presented separately within net revenue.

Revenue project – summary of key provisions

Step 4. allocate transaction price to separate performance obligations

- Allocate transaction price on a relative standalone selling price basis (estimate standalone selling price if not observable)
  - Expected cost-plus margin, adjusted market assessment, or residual (when price is highly variable) methods are acceptable
- Allocate changes in the transaction price to all performance obligations (based on initial allocation) unless portion of (or changes in) transaction price relate entirely to one (or more) obligations, which is the case when…
  - Contingent terms relate specifically to a certain obligation, and
  - Amount allocated is reasonable relative to entire contract
- Do not reallocate for changes in standalone selling prices

Revenue project – summary of key provisions

Step 5. recognize revenue when performance obligations are satisfied

- Recognize revenue when promised good or service is transferred to the customer which occurs when the customer obtains *control* of that good or service (in the amount that the entity is reasonably assured to be entitled to)
- Indicators of control (point-in-time) – the customer…
  - has an unconditional obligation to pay
  - has legal title
  - has physical possession
  - has risks and rewards of ownership

NEW!

- If continuous transfer of goods or services – select one revenue recognition method for each separate performance obligation
  - Select a method that best depicts the transfer of the goods or services (input, output, or passage of time)

Revenue project – summary of key provisions

Step 5. recognize revenue when performance obligations are satisfied

- An entity satisfies a performance obligation continuously if…
  - Its performance creates or enhances a customer controlled asset, or
  - Its performance does not create an asset with an alternative use and at least one of the following…
    - the customer receives a benefit as the entity performs each task,
    - another entity would not need to reperform the task(s) performed to date it were to fulfill the remaining obligation to the customer,
    - the entity has a right to payment for performance to date even if the customer could cancel the contract for convenience

Revenue project – summary of key provisions

Step 5. recognize revenue when performance obligations are satisfied

NEW!

- Entities shall recognize revenue from satisfying performance obligations only if the transaction price is reasonably assured
- The amount is not reasonably assured when…
    1. Additional consideration can be avoided without breaching the contract (e.g., certain royalties)
    2. Entity has no experience with similar types of contracts (or other persuasive evidence)
    3. Entity has experience, but experience is not predictive (susceptible to external factors, judgment of third parties, and risk of obsolescence)

Revenue recognition project - Contract costs

Revenue project – summary of key provisions

Subsequent measurement

Onerous performance obligations…

- Onerous test is limited to contracts with performance obligations that an entity satisfies over an extended period of time (e.g., long-term service contracts)
- Recognize a separate liability and a corresponding expense for expected losses on satisfying remaining obligations
- Measure liability based on difference between the allocated transaction price and…
  - amount of direct costs (costs related directly to the contract) to satisfy the performance obligation, or
  - amounts the entity would have to pay to cancel the contract
- Update the measurement of the liability at each subsequent reporting date (changes recognized as an adjustment of expense)

Revenue project – summary of key provisions
Contract cost

Cost of fulfilling the contract…

- Recognize assets in accordance with other Topics (inventory, PP&E, software, etc.), otherwise only if the costs:
  - relate directly to the contract (or specific contract under negotiation)
  - relate to future performance (generate/enhance a resource used to satisfy obligations in the future) and
  - are expected to be recovered
- Costs related to contracts with a duration of one year or less may be expensed, as a practical expedient
- Amortize on a systematic basis consistent with the transfer of the related goods or services
  - amortization period may extend past expected duration of original contract (e.g., for other contracts/renewals with same customer)

Revenue project – summary of key provisions
Contract cost

Cost of obtaining the contract…

- Costs of obtaining a contract that are incremental and expected to be recovered should be capitalized
  - Optional practical expedient to expense if less than 1 year
  - Present such costs separately in financial statements
  - Subsequently amortize on a systematic basis (may be over multiple or renewal contracts with same customer)
- Recognize the following costs as expense when incurred:
  - Certain costs of obtaining a contract (that is, costs that don’t qualify for capitalization)
  - Costs related to satisfied performance obligations
  - Costs of abnormal amounts of wasted material, labor or other resources to fulfill the contract

Leases project

Summary of key provisions

- Virtually all leases would come on balance sheet:
  - **Liability** for future lease commitments.
  - Corresponding **“right to use” asset.**
- Recorded amount could be more than the “minimum” committed amount, if lease renewals or other uncertain lease provisions are included.
- **Short-term leases**: 12 months or less; expense rent payments as incurred (lessees only).
- Financial ratios and key metrics will change; companies will need to explain the changes to external users of their financial data.

Scope

Mainly retains guidance in current U.S. GAAP and IFRS:

- **Specified asset**
  - Right of substitution may exist.
- Right to **control** the underlying asset:
  - Ability or right to **operate** the asset.
  - Ability or right to control **physical access.**
  - Obtain all but an insignificant amount of the **output**.

Scope — Deliberations on definition of a lease

- Discussions have focused on:
  - **Specified asset**:
    - Uniquely identified asset (narrow).
    - Asset of a particular specification (broad).
  - **Control**
    - Change to “power” (ability to direct the use) and benefits (receive benefits from use) elements, consistent with revenue recognition project.

“Substantially all output” would no longer be determinative.

Final decisions on this could significantly change the number of arrangements accounted for as leases.

Initial measurement — Lessee

- **Asset**: Present value of obligation to make lease payments over the lease term and guaranteed residual value, plus initial direct costs (IDC):
  - Discount rate: Lessor's implicit rate if known, otherwise lessee's incremental borrowing rate.
  - IDC: Directly attributable arranging a lease.
  - Subject to impairment tests.
- **Liability**: Present value of obligation to make lease payments over the lease term and guaranteed residual value.
- **Expense**: Interest expense (Effective interest on liability) and amortization expense (on right of use asset).

Lease term

- Lease term may include renewal periods to the extent the company has a **significant economic incentive** to renew:
  - Generally means bargain renewal options or economic penalties such as loss of leasehold improvements.
  - Consider contract, asset, entity, and market-based factors.
- Companies would need to assess possibility of potential renewals and related **motivations** to renew.
- Reassessment would be required.

Subsequent measurement — Lessee

- Reassessments required for changes in:
  - Lease term
  - Lease payments
- Asset carried at **amortized cost**, subject to impairment and adjusted based on certain changes in lease obligation.
- Liability carried at amortized value using **effective interest method** and adjusted based on reassessments.

Illustrative example — Lessee

FACT PATTERN	
Lease term	10 years
Payment, years 1-5	$ 2,000,000
Payment, years 6-10	$ 2,500,000
Renewal option	None
Concessions	None
GRV*	None
Lessee's IBR**	7%

* GRV = Guaranteed Residual Value
** IBR = Incremental Borrowing Rate
(Assume lessor's implicit rate not available)

SUMMARY OF IMPACT		
Current lease accounting		
Straight-line rent exp	$	2,250,000
Lease ED accounting		
Leased asset	$	15,508,855
Lease liability	$	15,508,855
Annual depreciation expense	$	1,550,886
Interest expense, year 1	$	1,085,620

Note: Information presented herein is for illustrative purposes only and does not represent accounting guidance or advice. Assumptions and calculations are based on a specific fact pattern. Any change to this fact pattern could significantly change the illustrated results. Further, amounts are based on the provisions of the current Leasing ED, which is not authoritative accounting guidance. Changes to these provisions may cause significant changes to the illustrated results.

Illustrative example — Lessee (cont.)

	Current Lease Accounting	Lease ED Accounting
ASSETS		
Current assets	$ 57,000	$ 57,000
Plant, Property, and Equipment	21,000	21,000
Leased assets	-	15,509
Total	**$ 78,000**	**$ 93,509**
LIABILITIES & STOCKHOLDERS' EQUITY		
Liabilities		
Current liabilities	$ 3,100	$ 3,100
Long-term debt	39,800	39,800
Lease liability	-	15,509
Total liabilities	**42,900**	**58,409**
Total stockholders' equity	**35,100**	**35,100**
Total	**$ 78,000**	**$ 93,509**
Ratios:		
Debt-to-equity	1.22 : 1	1.66 : 1

Note: Information presented herein is for illustrative purposes only and does not represent accounting guidance or advice. Assumptions and calculations are based on a specific fact pattern. Any change to this fact pattern could significantly change the illustrated results. Further, amounts are based on the provisions of the current Leasing ED, which is not authoritative accounting guidance. Changes to these provisions may cause significant changes to the illustrated results.

Illustrative example — Lessee (cont.)

	Current Lease Accounting		Lease ED Accounting (Financing)	
Sales revenue	$	20,800	$	20,800
Cost of goods sold		6,700		6,700
Gross margin		14,100		14,100
Operating expenses:				
General and administrative		1,200		1,200
Rent		2,250		-
Depreciation		-		1,551
Interest		-		1,086
Total operating expenses		3,450		3,837
Net income	**$**	**10,650**	**$**	**10,263**
EBITDA (Non-GAAP)	***$***	***10,650***	***$***	***12,900***

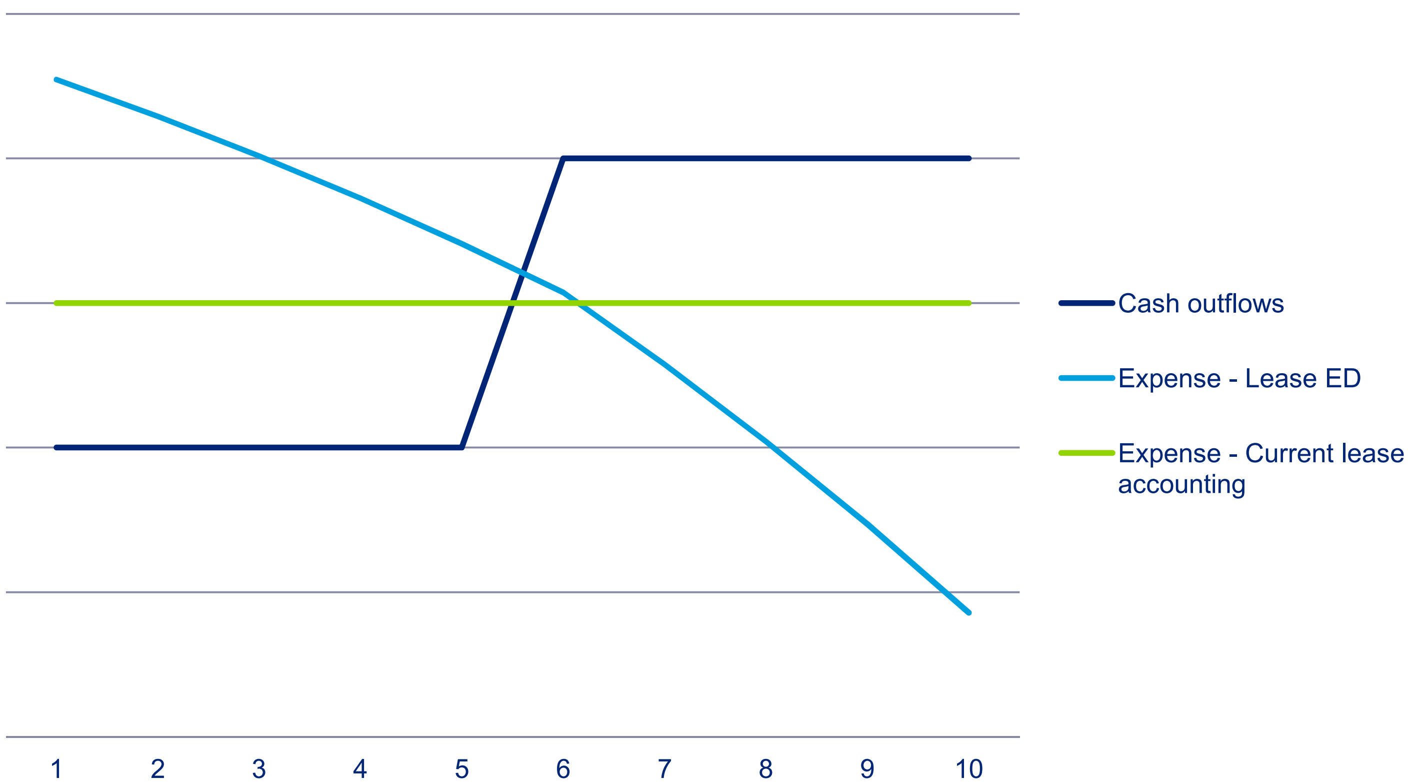
Note: Information presented herein is for illustrative purposes only and does not represent accounting guidance or advice. Assumptions and calculations are based on a specific fact pattern. Any change to this fact pattern could significantly change the illustrated results. Further, amounts are based on the provisions of the current Leasing ED, which is not authoritative accounting guidance. Changes to these provisions may cause significant changes to the illustrated results.

Illustrative example — Lessee — Year 1 journal entries

- January 1, Y1 (Lease inception):
  - Dr. Building $ 15,508,855
  - Cr. Lease liability $ 15,508,855
- December 31, Y1:
  - Dr. Lease liability $ 914,380
  - Dr. Interest expense $ 1,085,620
  - Cr. Cash (Lease payment) $ 2,000,000

  - Dr. Depr expense $ 1,550,886
  - Cr. Accumulated depreciation $ 1,550,886

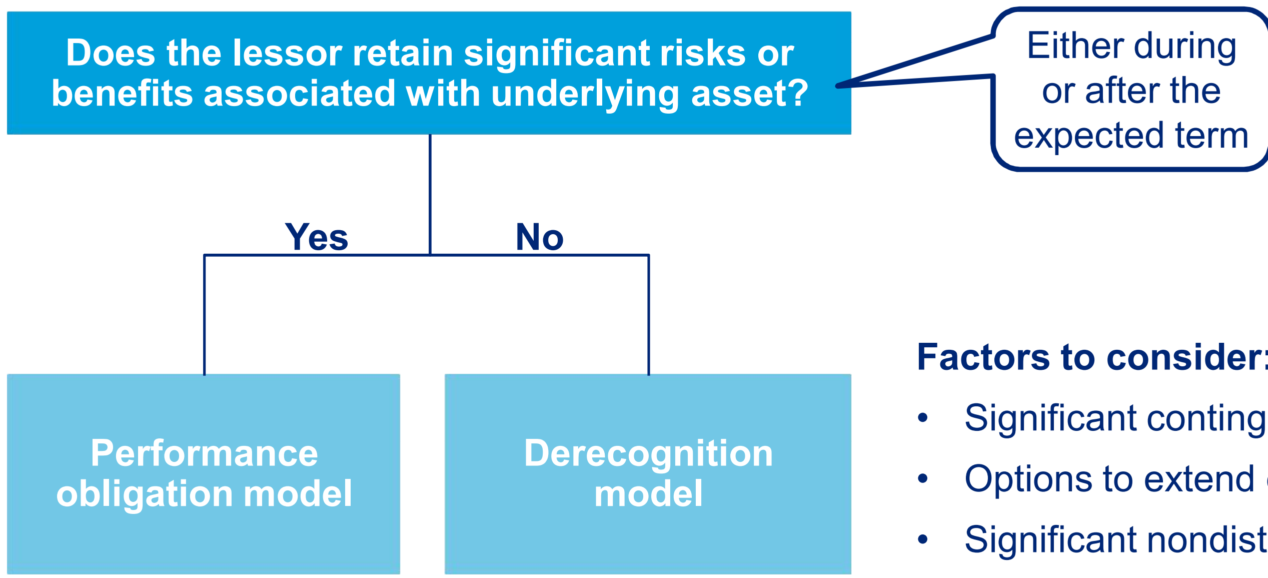
Illustrative example — Lessee — Income statement impact



Note: Information presented herein is for illustrative purposes only and does not represent accounting guidance or advice. Assumptions and calculations are based on a specific fact pattern. Any change to this fact pattern could significantly change the illustrated results. Further, amounts are based on the provisions of the current Leasing ED, which is not authoritative accounting guidance. Changes to these provisions may cause significant changes to the illustrated results.

Lessor accounting — Current ED

Based on retention of **risks and benefits** of the underlying asset.



Factors to consider:

- Significant contingent rentals
- Options to extend or terminate
- Significant nondistinct services

Update: At their July 2011 meeting, the FASB and IASB decided a single lessor accounting model should apply to all leases, except for short-term leases and leases of investment property measured at fair value. This single accounting model is generally consistent with the **partial derecognition approach**.

Initial measurement — Lessor

- **Assets**
  1. Lease receivable measured as the present value of lease payments
  2. Residual asset measured on an allocated-cost basis

- **Income**
  1. Day-one profit, if the profit is reasonably assured
  2. Interest income (effective interest on receivable) and amortization expense (on residual asset)

Subsequent measurement — Lessor

- Reassessments required for changes in:
  - Lease term
  - Lease payments

- Assets carried at **amortized cost**, subject to impairment and adjusted based on certain changes in lease obligation.

Path to a final standard

- Joint ED comment period ended in December 2010.
- Over 750 comment letter responses, raising many significant issues on the proposed rules.
- FASB/IASB deliberations ongoing
- FASB/IASB confirmed plans to re-expose; expected late 2011
- On-balance-sheet treatment considered **“virtually certain.”**
- Effectiveness estimated **2014–2016** for public companies.
  – Retrospective application expected to be required.
- Companies starting to prepare, with a focus on **assessing impacts** and **gathering data**.

Other projects —
Other comprehensive income and trouble debt restructuring

Other comprehensive income (ASU 2011-05)

On June 16, the FASB issued ASU 2011-05, 1 which revises the manner in which entities present comprehensive income in their financial statements.

- ASC 220-10-45-8 currently provides three options for reporting comprehensive income. It states that "the components of [OCI] and total comprehensive income be reported below the total for net income in a statement that reports results of operations, in a separate statement of comprehensive income that begins with net income, and in a statement of changes in equity."
- The new guidance removes the third presentation option in ASC 220 but does not change the items that must be reported in OCI.

Other comprehensive income (ASU 2011-05) (cont.)

Under the new ASU, entities have the option to present total comprehensive income, the components of net income, and the components of OCT in either of the following:

- **A single, continuous statement of comprehensive income** — Entities must include the components of net income, a total for net income, the components of OCI, a total for OCI, and a total for comprehensive income.
- **Two separate but consecutive statements** — Entities must report components of net income and total net income in the statement of net income (i.e., the income statement), which must be immediately followed by a statement of OCI that must include the components of OCI, a total for OCI, and a total for comprehensive income. A reporting entity may begin the second statement with net income.

Other comprehensive income (ASU 2011-05) (cont.)

Entity XYZ Consolidated Statement of Comprehensive Income for Year Ended December 31, 201X

Revenues		$ 140,000
Expenses	$ (24,900)	
Amortization of prior-service cost reclassified from other comprehensive income	(133)	(25,033)
Other gains and losses		8,000
Gain on sale of securities	500	
Gains reclassified from other comprehensive income	2,000	2,500
Income from operations before tax		125,467
Income tax expense		(31,367)
Income before extraordinary item — net of tax		94,100
Extraordinary item — net of tax		(30,500)
Net income		63,600
Less net income attributable to the noncontrolling interest	(12,720)	
Net income attributable to Entity XYZ	50,880	
Earnings per share		
Basic and diluted 0.46		
Other comprehensive income — net of tax:		
Foreign currency translation adjustments		8,000
Unrealized gains on securities:		
Unrealized holding gains arising during period	13,000	
Less reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:		
Prior-service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less amortization of prior-service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
Comprehensive income		80,600
Less comprehensive income attributable to the noncontrolling interest		(16,120)
Comprehensive income attributable to Entity XYZ		$ 64,480

Other comprehensive income (ASU 2011-05) (cont.)

Entity XYZ Statement of Consolidated Comprehensive Income for Year Ended December 31, 201X		
Net income		$ 63,600
Other comprehensive income — net of tax:		
Foreign currency translation adjustments[(a)]		8,000
Unrealized gains on securities:		
Unrealized holding gains arising during period	$ 13,000	
Less reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:		
Prior-service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less amortization of prior-service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
Comprehensive income		80,600
Less comprehensive income attributable to the noncontrolling interest		(16,120)
Comprehensive income attributable to Entity XYZ		$ 64,480

Other comprehensive income (ASU 2011-05) (cont.)

- Under either method, entities must display adjustments for items that are reclassified from OCI to net income in both net income and OCI. Also, the ASU does not change the current option for entities to present components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented, or disclosed in the notes to the financial statements.
- **IFRS considerations** — The IASB also issued its corresponding guidance to amend IAS 1. However, while the boards' new guidance essentially converges the requirements for presenting OCI, there are still differences between U.S. GAAP and IFRS concerning (1) what items are included in comprehensive income and (2) reclassification requirements.

Other comprehensive income (ASU 2011-05) (cont.)

- **Scope** — Applies to all entities that provide a full set of financial statements. It also applies to investment companies, defined benefit pension plans, and other employee benefit plans that are exempt from the requirement to provide a statement of cash flows.
- **Effective date** —
  - Public entities — Fiscal years and interim periods within those years beginning after December 15, 2011.
  - Nonpublic entities — Fiscal years and interim periods within those years beginning after December 15, 2012.
  - Early adoption is permitted.
- **Transition** — Guidance must be applied retrospectively.

Troubled debt restructurings (ASU 2011-02)

During April 2011 the FASB issued ASU 2011-01 *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, in response to:

- The increased volume of debt restructured by creditors during the recent economic downturn.
- The need for additional guidance to help determine whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring.

Troubled debt restructurings (ASU 2011-02) (cont.)

- Possible effects of a conclusion that a modification is a troubled debt restructuring (TDR) include the following:
  - A lender may need to perform a different impairment measurement analysis.
  - A lender would have to provide additional financial statement disclosures.
- In evaluating whether a modification of a loan represents a TDR, an entity must use judgment to determine whether:
  - The debtor is experiencing financial difficulty.
  - The lender has granted a concession to the borrower.

Troubled debt restructurings (ASU 2011-02) (cont.)

Is a debtor experiencing financial difficulty?

- The ASU amends ASC 310-40 to include the indicators from ASC 470-60 that a lender should consider in determining whether a borrower is experiencing financial difficulties (e.g., debtor default, debtor bankruptcy, or concerns about the future as a going concern are all indicators of financial difficulty).
- It further clarifies that a borrower could be experiencing financial difficulty even if it is not currently in default, but default is probable in the foreseeable future.

Troubled debt restructurings (ASU 2011-02) (cont.)

Was a Concession Granted?

- A borrower's inability to access funds at a market interest rate for a new loan indicates that the modification was executed at a below-market rate, and therefore, may indicate that a concession was granted.
- A modification that permanently or temporarily increases a loan's contractual interest rate does not preclude the restructuring from being considered a concession because the rate may still be below market.
- A modification that results in an insignificant delay in contractual cash flows is not considered to be a concession. The ASU provides examples to assist lenders in determining whether a delay resulting from a restructuring is insignificant.

Troubled debt restructurings (ASU 2011-02) (cont.)

Does this ASU change the way creditors account for a troubled debt restructuring?

- No. The ASU does not change the guidance provided by ASC 310-40. Some of the key provisions are as follows:
  - How you account for a troubled debt restructuring is still dependent on the type of restructuring.
  - A creditor that receives from a debtor in full satisfaction of a receivable; 1) receivables from third parties, real estate, or other assets and/or 2) shares of stock or other evidence of an equity interest in the debtor, shall account for those assets (including an equity interest) at their fair value at the time of the restructuring.
  - A creditor that receives long-lived assets that will be sold from a debtor in full satisfaction of a receivable shall account for those assets at their fair value less cost to sell.
  - Legal fees and other direct costs incurred by a creditor to effect a troubled debt restructuring shall be included in expense when incurred.

Troubled debt restructurings (ASU 2011-02) (cont.)

- **Scope** — Applies to all entities that provide a full set of financial statements. It also applies to investment companies, defined benefit pension plans, and other employee benefit plans that are exempt from the requirement to provide a statement of cash flows.
- **Effective date** —
  - **Public entities** — The guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and is to be applied retrospectively to modifications occurring on or after the beginning of the annual period of adoption.
  - **Nonpublic entities** — Effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods.
  - Early adoption is permitted

Deloitte.