Highlights of Emerging Accounting and Financial Reporting Standard Setting Activity

Deloitte & Touche LLP

Annual Meeting of the American Accounting Association

Panel discussion

August 8, 2012

Moderator

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Agenda

Topic	Presenter	Time
Introduction Significant FASB and IASB Projects	Patrick Casabona. • Professor, St. John's University • AERS Learning Deloitte & Touche LLP	5 minutes
Accounting for Financial Instruments	Adrian Mills • Partner, Deloitte & Touche LLP	20 minutes
Revenue Recognition	Ignacio Perez Zaldivar • Partner, Deloitte & Touche LLP	25 minutes
Leases	Clif Mathews • Senior Manager, Deloitte & Touche LLP	25 minutes
Private Company Council	Tim Kolber • Senior Manager, Deloitte & Touche LLP	15 minutes
Other Project Updates • Other Comprehensive Income • Indefinite-lived Intangible Assets	Patrick Casabona	10 minutes

Acronyms

Acronym	Full Form
AOCI	Accumulated Other Comprehensive Income
AFS	Available for Sale
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CF	Cash Flow
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
PV	Present Value
SEC	U.S. Securities and Exchange Commission
U.S. GAAP	Generally Accepted Accounting Principles in the United States

Significant FASB and IASB Projects

Update on Convergence Projects/Standards

Significant FASB/IASB Joint Projects

Projects / Expected date	2011	2012 H1	2012 H2	2013
Financial instruments:				
• Classification and Measurement		RD	ED	
• Impairment of Financial Assets			ED	
• Hedge Accounting – General (IASB)				
• Hedge Accounting – Macro (IASB)			ED	
• Offsetting of Financial Assets and Financial Liabilities	F *(December)*		ED	
• Liquidity and Interest Rate Risk Disclosures (FASB)*			C	
Revenue recognition	ED-Revised *(November)*			F *(1st half)*
Leases			ED	
Investment Companies	ED *(October)*		F	
Insurance Contracts			ED	
Consolidation Policy	ED *(November)*			F *(1st half)*
Presentation – Other Comprehensive Income	F *(June)* Deferral *(December)*	ED		

*** Project represents a FASB-only project**

RD — Review Draft ED — Exposure Draft C – Comment Deadline F — Final Standard

FASB “Only” Projects

Expected date / Projects	2011	2012		2013
		H1	H2	
Liquidation basis of accounting and going concern (formerly disclosures about risks and uncertainties)	F *(April)*			
• Liquidation basis of accounting			C	
• Going concern			ED	
Impairment of Indefinite-lived Intangible assets		ED	F	
Investment property entities	ED *(October)*			
Disclosures about an employer’s participation in a multiemployer plan	ED *(September)*		F	
Nonpublic entity fair Value measurement disclosures (Updated November 29, 2011)		Discontinued		
Disclosure framework		D		
Transfers and Servicing: Repurchase Agreements and Similar Transactions			ED	

ED — Exposure Draft **F — Final Standard** **D – Discussion Memorandum**

United States - SEC's Decision on IFRSs

- Final report on incorporating IFRSs issued in July 2012
- No recommendation as to whether, when, or how to incorporate IFRSs
- Little support for designating IFRSs as issued by the IASB as authoritative for use by U.S. issuers
- Focus on other approaches, including the *endorsement* mechanism
  - Incorporation of individual IFRSs into local accounting standards usually using specified endorsement criteria
  - Examples include European Union, Australia

SEC Final Report: Summary of Findings

- Lack of guidance within IFRSs (insurance, extractive, rate-regulated industries)
- A need for improvement in the IASB's interpretive process
- The IASB to rely more on national standard setters
- Cooperation with regulators in various jurisdictions to address diversity in practice
- Mechanism needed to protect U.S. Capital markets (e.g. endorsement mechanism)
- Concerns about funding sources
- Staff to further explore how investor education can be improved

IFRS Used by Public Companies in G-20

IFRS Required

- **Argentina (2012)**
- **Australia (2005)**
- **Brazil (2010)**
- **Canada (2011)**
- **France (2005)**
- **Germany (2005)**
- **India (2012)**
- **Indonesia (2012)**
- **Italy (2005)**
- **Korea (2011)**
- **Mexico (2012)**
- **Russia (2013)**
- **Saudi Arabia *(certain listed companies)***
- **South Africa (2005)**
- **Turkey (2005)**
- **United Kingdom (2005)**

IFRS Permitted

- China

  (Permitted for Hong Kong listed companies, China GAAP converged with IFRSs)
- Japan

  (Permitted in 2010 for certain companies, considering a requirement in 2015 or 2016)

IFRS Not Allowed

- United States

  (Except foreign private issuers may use IFRSs)

** Note: The Group of Twenty (known as the G-20) is a group of major 20 economies. The European Union is the 20th member of the G-20.*

Accounting for Financial Instruments

Project Update

Accounting for Financial Instruments
Project Update

Topic	FASB	IASB
Classification and measurement (C&M)	Redeliberations substantially completed December 2011. However, FASB is revisiting certain tentative decisions.	IASB issued IFRS 9, *Financial Instruments*, in November 2009 (revised in October 2010). IFRS 9 is effective from January 1, 2015 (with early application permitted).
	The boards jointly deliberated key elements of their respective models, which are now more closely converged.	
Impairment	Both boards are working together to jointly develop a new expected-loss impairment model.	
Hedge accounting	Redeliberations have not yet begun.	Redeliberations on general hedge accounting are complete. The IASB is now working through its macro hedging model.

Accounting for Financial Instruments
Classification and Measurement

Classification and Measurement

Subject	Model essentials (FASB and IASB)	Contractual cash flow assessment (joint tentative decision)
Investments in debt securities and loans		
General model and characteristics assessment	Financial instruments are placed in one of three categories considering: 1. Instrument's cash flows characteristics 2. Business model Categories: Amortized Cost FV-OCI FV-NI	**Instruments that fail the cash flow assessment are automatically in FV-NI.** Those that pass, are classified in accordance with the business model. Criterion: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI"). • Principal — Amount transferred at initial recognition. • Interest — Consideration for the time value of money and credit risk associated with the principal amount outstanding. • Prepayment provisions, extension options, and other features must be considered.

Classification and Measurement (cont'd)

Subject	Results of joint tentative decisions
Investments in debt securities and loans	
Amortized cost	• Eligible assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows. Permits investments in debt securities at amortized cost (a change for the FASB).
FV-OCI	• Eligible instruments included in a portfolio with the objective of both collecting contractual cash flows and selling the financial assets. Permits debt instruments at FV-OCI (a change for the IASB). • Both the FASB and IASB will require recycling (a change for the IASB).
FV-NI	• Instruments that do not meet the amortized cost or FV-OCI business model criteria or that fail the cash flow characteristics assessment at FV-NI (i.e., FV-NI is a “residual” measurement category).
Reclassifications	• Entities are required to reclassify financial assets when the business model changes, which is expected to occur very infrequently (a change for the FASB).
FVO	• FASB provides FVO for groups of assets and liabilities an entity holds in order to manage net exposure on a fair value basis and for hybrid liabilities. • IASB permits FVO for instruments otherwise at amortized cost or FV-OCI.

Classification and Measurement (cont'd)

Other Items

Subject	FASB's redeliberations
Equity investments	• FV-NI with practicability exception for nonmarketable equity securities (nonpublic and public entities) and equity method investments.
Equity method of accounting	• Equity method per ASC 323 retained; however, investments required to be measured at FV-NI if they are held for sale when the investment initially becomes eligible for the equity method of accounting. • Indicators of 'held for sale': – The entity has specifically identified potential exit strategies. – The entity has defined the time at which it expects to exit the investment.
Financial liabilities	• FASB's tentative model requires liabilities that meet the instrument characteristics criterion to be measured at amortized cost unless the entity's strategy is to subsequently transact at fair value or the liability is a short sale. The FASB may need to revisit this approach after converging their characteristics criterion with the IASB.
Initial measurement	• Aligned with subsequent measurement. • Investment companies would still initially measure at transaction price and subsequently measure at fair value with transaction costs recorded in unrealized gains/losses (day 2).
Presentation	• Parenthetical presentation on face of balance sheet: – Fair value for assets and liabilities at amortized cost – Amortized cost for an entity's own debt measured at FV-NI • For financial liabilities measured at FV-NI, changes in fair value attributable to changes in an entity's own credit will be shown in OCI and recycled to NI upon settlement.

Classification and Measurement (cont'd)
Taking It All In

- Key changes in U.S. GAAP
  - Investments in all equity securities, including nonmarketable equity securities and purchased options or warrants on such instruments, are generally measured at FV-NI. AFS (or FV-OCI) is not available for equity securities.
  - Financial assets are no longer bifurcated; bifurcation requirements of financial liabilities are retained.
- Key differences between FASB’s tentative model and IFRS 9
  - IFRS 9 permits investments in equity securities to be measured at FVTOCI, while FASB’s model does not.

Classification and Measurement (cont'd)

Next Steps

- Open issues:
  - Scope
  - Transition method
  - Effective date
  - Specialized industry guidance
- Updated models are expected sometime in 2012:
  - The FASB plans to re-expose any proposed changes to the codification.
  - The IASB hopes to make any changes to IFRS 9 as quickly as possible, but previously indicated it would expose the FASB's final model to its constituents.

Accounting for Financial Instruments
Impairment

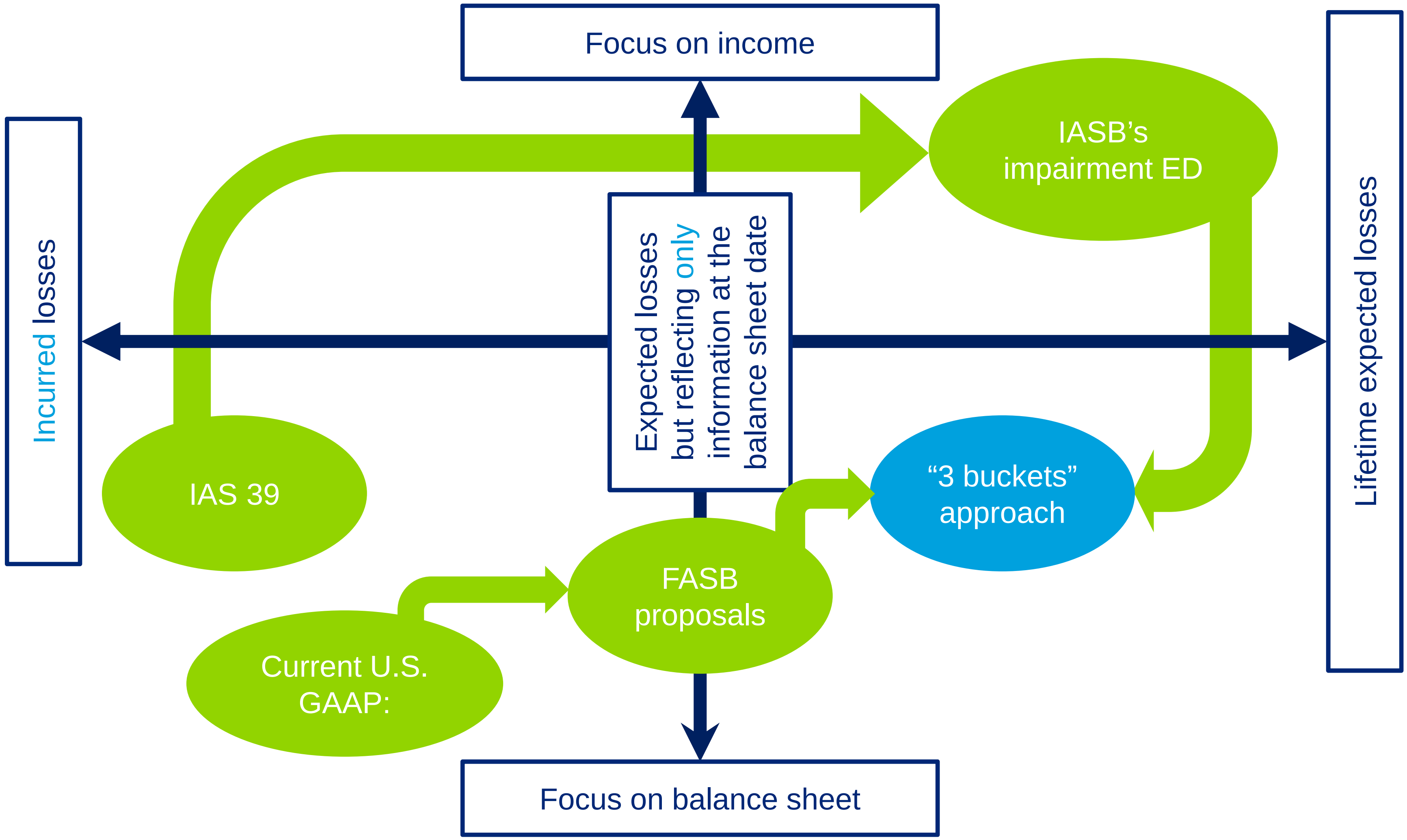
Impairment

Background and Timeline

- Why?
  - Current incurred loss model - “too little, too late”
  - Different impairment models for loans and debt securities
  - International convergence

- Timeline
  - 2009/2010 – FASB and IASB proposed different impairment models
  - January 2011 – Boards jointly proposed “good-book, bad-book” model
  - Present – Boards jointly developing new expected loss model using “three-bucket approach”

Impairment
Different Theories



Impairment of Financial Instruments

Three Bucket Approach

Bucket 1	Bucket 2	Bucket 3
Comprised of debt instruments that: • Have not been affected by observable events that are directly related to possible future defaults, but • **Affected by macroeconomic events that may change expected credit losses** Allowance – Lifetime expected credit losses on financial assets for which a loss event is expected over the next 12 months	Comprised of debt instruments that: • **Affected by the occurence of observable events that are directly related to future defaults**; however, • **Individual debt instruments that are in danger of default have not yet been specifically identified** Allowance – **Portfolio-level** calculation of lifetime expected credit losses	Comprised of debt instruments: • For which credit losses are expected to occur or have occurred • **Individual instruments in default or expected to be are specifically identified** Allowance – Lifetime expected credit losses for the specifically identified debt instruments

- Initially place financial assets in Bucket 1 except for purchased debt instruments with explicit expectation of credit losses at acquisition
- Transfer out of Bucket 1 considering credit and likelihood of default

Impairment of Financial Instruments

Three Bucket Approach (cont'd)

- Purchased financial assets with explicit expectations of losses at acquisition
  - Classification: initially in bucket 2 or 3, and cannot subsequently transfer to bucket 1
  - Impairment is not recognized until changes occur in expected cash flows from that point forward
  - Immediately recognize favorable changes in cash flows expected to be collected as a reduction of impairment expense in P&L
  - Present assets at transaction price (i.e., expected cash flows at acquisition date, but disclose impairment implicit in price).

Impairment of Financial Instruments
Other Tentative Decisions

- Estimate of Expected Credit Losses
  - Reasonable and supportable information
  - Range of possible outcomes
  - Time value of money
- Trade and lease receivables – with significant financing element
  - Apply the three-bucket expected-loss model, OR
  - Record lifetime expected credit losses
- Trade receivables – **without** significant financing element
  - Record lifetime expected credit losses
- Open items and next steps:
  - Off-balance-sheet (e.g., loan commitments), disclosure, and transition
  - Bucket model application to debt securities
  - ED expected second half of 2012, but FASB addressing concerns

Accounting for 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 IASB wrapped-up redeliberations in Fall 2011`
  - Staff draft of the final standard will be posted to the IASB's website in Q1 2012
  - Target issuance for a final standard now second half 2012
- The IASB began redeliberations on their macro hedging model and expect to issue an ED in Q3 2012.
- The FASB approach involves more limited changes to existing hedge accounting requirements. Redeliberations have not begun and next steps/timing are TBD.

Hedge Accounting
IASB – Key Provisions in the Tentative Model

- Relies on risk management objectives of an entity as the basis for hedge accounting.
- A derivative is allowed to be a hedged item when combined with an eligible non-derivative hedged item.
- A group of individually eligible hedged items may be hedged as a group.
- Hedge accounting for risk components of both nonfinancial and financial items would be permitted provided they are separately identifiable and reliably measurable.
- Assessment of hedge effectiveness is more qualitative (i.e., no bright-line threshold of 80–125 percent offset requirement)
- Voluntary de-designation of a hedging relationship would not be permitted; a hedge could be discontinued only when it no longer meets the qualifying criteria.

Hedge Accounting
FASB – ED Proposals

Topic	FASB ED
Hedgeable risks	Similar to current U.S. GAAP (ASC 815)
Determination of amounts recorded in OCI for cash flow hedges	Recorded at amount necessary to offset PV of cumulative change in expected future CFs on hedged transaction since hedge inception.
Assumption that hedge is perfectly effective	Not allowed: neither shortcut nor critical terms matching method is permitted.
Frequency of hedge effectiveness assessments	Inception only, unless change in circumstances warrants reassessment.
Threshold for hedge accounting	Reasonably effective
Means of assessing effectiveness	• Qualitative assessment at inception of hedging relationship • Quantitative assessment may be necessary in some situations
De-designating a hedging relationship	• Voluntary de-designation prohibited • But: can effectively terminate hedge by entering into offsetting derivative

Hedge Accounting

IASB's Tentative Model vs. FASB's Proposed ASU

Subject	FASB's proposed ASU	IASB's tentative model
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.

Hedge Accounting

IASB's Tentative Model vs. FASB's Proposed ASU (cont'd)

Subject	FASB's proposed ASU	IASB's tentative model
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.
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. Cash flow hedges of net positions are only available for hedges of foreign currency risk. Offsetting cash flows in a net position do not have to affect P&L in the same period, but items in a CF hedge must be specified in such a way that the pattern of P&L affects is set at designation.

Hedge Accounting

IASB's Tentative Model vs. FASB's Proposed ASU (cont'd)

Subject	FASB's proposed ASU	IASB's tentative model
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).
- Forward Points: Entity permitted to recognize forward points that exist at inception of a hedging relationship in profit or loss over time on a rational basis and accumulate subsequent fair value changes in AOCI.

Hedge Accounting

IASB's Tentative Model vs. FASB's Proposed ASU (cont'd)

Subject	FASB's proposed ASU	IASB's tentative model
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.

Hedge Accounting

IASB's Tentative Model vs. FASB's Proposed ASU (cont'd)

Subject	FASB's proposed ASU	IASB's tentative model
Effectiveness assessment		
Effectiveness threshold	Hedge is expected to be reasonably effective.	Economic relationship between instrument and item must give rise to offset, and credit risk cannot dominate the value changes. Designation based on the economic hedge ratio.
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:

- Mandatory rebalancing if (1) hedge ratio used for risk management changes, or (2) if required to prevent an imbalance in the ratio that would create ineffectiveness (no proactive rebalancing).

Hedge Accounting

IASB's Tentative Model vs. FASB's Proposed ASU (cont'd)

Subject	FASB's proposed ASU	IASB's tentative model
Ineffectiveness measurement		
Determination 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.
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.

Hedge Accounting

IASB's Tentative Model vs. FASB's Proposed ASU (cont'd)

Subject	FASB's proposed ASU	IASB's tentative model
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.

Hedge Accounting

IASB's Tentative Model vs. FASB's Proposed ASU (cont'd)

Subject	FASB's proposed ASU	IASB's tentative model
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.	Gain/loss on the hedged item attributable to the hedged risk is reflected as an adjustment to the carrying amount of the hedged item.
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 the income statement.

IASB Redeliberations:

- No linked presentation.
- Additional disclosures required.

Accounting for Financial Instruments

Liquidity and Interest Rate Risk Disclosures

Liquidity & Interest Rate Risk Disclosures

Definition of a Financial Institution

- A financial institution is defined in the proposed ASU as:

> *"Entities or reportable segments for which the primary business activity is to do either of the following:*
>
> *a. Earn, as a primary source of income, the difference between interest income generated by earning assets and interest paid on borrowed funds*
>
> *b. Provide insurance."*

- Entities that measure substantially all of their assets at FV-NI (e.g., broker-dealers), would provide only disclosures required for entities that are not financial institutions.
- Disclosure requirements for financial institutions apply to any reportable segment that is a financial institution.

Liquidity & Interest Rate Risk Disclosures
Summary

- The proposed ASU was released Jun 27, 2012
  - Comments due on September 25, 2012
- No comparative disclosures in the year of transition, but required prospectively. The proposed ASU will not include an effective date and will be exposed for a 90-day comment period.
- Annual and interim** requirements include:

Description of the required disclosure	Financial institution	Non-financial institution
Liquidity Disclosures		
Liquidity Gap Maturity Analysis	Yes	No
Cash Flow Obligations	No	Yes
Available Liquid Funds	Yes	Yes
Issuance of Time Deposits	Yes*	No
Interest Rate Risk Disclosures		
Repricing Gap Analysis	Yes	No
Interest Rate Sensitivity Analysis	Yes	No

* Depository institutions only ** Nonpublics make annual disclosures only

- See our July 6 Heads Up for more information

Accounting for Financial Instruments
Appendix – Sample Tables

Liquidity & Interest Rate Risk Disclosures

Liquidity Gap Maturity Analysis

Financial institutions only (asset-side sample):

Liquidity Gap Maturity Analysis of a Bank's Financial Instruments

	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4–20X6	20X7 and Later	Total Carrying Amount
As of December 31, 20X1								
Financial assets:								
Amortized cost								
Cash and due from banks	$X,XXX	$ X,XXX	$X,XXX	$ X,XXX	–	–	–	$X,XXX
Lease receivable	X,XXX	X,XXX	X,XXX	X,XXX	$X,XXX	$X,XXX	$X,XXX	X,XXX
Loans:								
Commercial	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Mortgage	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Consumer	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Fair value with changes recognized in other comprehensive income								
Investment securities:								
U.S. Treasury	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Agency MBS	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Corporate debt securities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Fair value with changes recognized in net income								
Debt securities								X,XXX
Derivatives	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Loans held for sale								X,XXX
Equity securities								X,XXX
Other financial assets								X,XXX
Total financial assets	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other assets								X,XXX
Total assets								$X,XXX

Liquidity & Interest Rate Risk Disclosures

Liquidity Gap Maturity Analysis

Financial institutions only (liability-side sample):

Liquidity Gap Maturity Analysis of an Insurance Entity's Financial Instruments

	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4–20X6	20X7 and Later	Total Carrying Amount
Financial liabilities:								
Amortized cost								
Demand deposits	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	$X,XXX
Savings deposits	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Money market accounts	X,XXX	X,XXX	X,XXX	X,XXX	–	–	–	X,XXX
Brokered deposits	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other time deposits	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Short-term borrowings	X,XXX	X,XXX	X,XXX	X,XXX	–	–	–	X,XXX
Long-term borrowings	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
FHLB advances	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Subordinated debt	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other borrowings	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other financial liabilities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Fair value with changes recognized in net income								
Derivatives	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Total financial liabilities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other liabilities								X,XXX
Equity								X,XXX
Total liabilities and stockholders' equity								$X,XXX
Excess/deficit of financial assets over financial liabilities	$X,XXX	$(X,XXX)	$(X,XXX)	$(X,XXX)	$X,XXX	$(X,XXX)	$X,XXX	$X,XXX
Financial assets to financial liabilities	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%
Cumulative financial assets over financial liabilities	$X,XXX	$(X,XXX)	$(X,XXX)	$(X,XXX)	$X,XXX	$X,XXX	$X,XXX	$X,XXX
Off-balance-sheet commitments and obligations	$X,XXX	$ X,XXX	$X,XXX	$ X,XXX	$X,XXX	$X,XXX	$X,XXX	–

Liquidity & Interest Rate Risk Disclosures

Cash Flow Obligations Table

Non-financial institutions:

Expected Cash Flow Obligations as of December 31, 20X1

	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4–20X6	20X7 and Later	Total	Adjustment to Carrying Amount	Total Carrying Amount
Short-term borrowings	$X,XXX	$X,XXX	$X,XXX	$X,XXX	–	–	–	$X,XXX	$(X,XXX)	$X,XXX
Long-term debt	X,XXX	X,XXX	X,XXX	X,XXX	$X,XXX	$X,XXX	$X,XXX	X,XXX	(X,XXX)	X,XXX
Interest payments	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	X,XXX
Lease payment obligations	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	X,XXX
Commitments	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	–
Purchase obligations	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	X,XXX
Contributions to defined pension plans	X,XXX	X,XXX	X,XXX	X,XXX	–	–	–	X,XXX	(X,XXX)	–
Other obligations	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	X,XXX
Derivatives	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	–	X,XXX
Total obligations	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$ X,XXX	$X,XXX	$(X,XXX)	$X,XXX

Liquidity & Interest Rate Risk Disclosures

Available Liquid Funds

All entities:

	Parent Company	Subsidiaries	Broker / Dealers
Available liquid funds:			
Cash	$X,XXX	$X,XXX	$X,XXX
Deposits (interest-bearing and non-interest-bearing)	X,XXX	X,XXX	X,XXX
Government-issued debt securities	X,XXX	X,XXX	X,XXX
Public sector debt securities	X,XXX	X,XXX	X,XXX
Availability of borrowings:			
Amount available under ABC credit facility	X,XXX	X,XXX	X,XXX
Amount available under receivables purchase agreement	X,XXX	X,XXX	X,XXX
Amount available under XYZ credit facilities	X,XXX	X,XXX	X,XXX
Total available funds	$X,XXX	$X,XXX	$ X,XXX

Liquidity & Interest Rate Risk Disclosures

Demand Deposits Issued

Depository institutions:

Illustrative Bank's Deposits Issued for the 12 Months Ended December 31, 20X1
Period of Issuance for the Last 12 Months

	Q4 20X1			Q3 20X1			Q2 20X1			Q1 20X1		
	Total Amount	Avg. Rate	Avg. Life	Total Amount	Avg. Rate	Avg. Life	Total Amount	Avg. Rate	Avg. Life	Total Amount	Avg. Rate	Avg. Life
Uninsured time deposits	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X
Insured time deposits	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X
Brokered deposits	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X	$X,XXX	X.XX%	X.X

Liquidity & Interest Rate Risk Disclosures

Repricing GAP Analysis

Financial institutions only:

Illustrative Bank Repricing Analysis as of December 31, 20X1

	Q1 20X2	Yield	Q2 20X2	Yield	Q3 20X2	Yield	Q4 20X2	Yield	20X3	Yield	20X4–20X6	Yield	20X7 and Later	Yield	Total Carrying Amount	Yield	Duration
Interest-earning financial assets:																	
Interest-earning deposits with banks	$X,XXX	$XXX%	$X,XXX	XXX%	$X,XXX	XXX%	$X,XXX	XXX%	$X,XXX	XXX%	$X,XXX	XXX%	$X,XXX	XXX%	$X,XXX	XXX%	X.XX
Securities purchased under resale agreements	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Investment securities:																	
U.S. Treasury	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Agency MBS	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Other	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Loans held for sale	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Commercial loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Mortgage loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Consumer loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Total interest-earning assets	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Non-interest-earning financial assets:																	
Equity securities															X,XXX	–	–
Derivatives	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Other financial assets	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Total financial assets	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Other assets															X,XXX	–	–
Total assets															$X,XXX	–	–
Interest-bearing financial liabilities:																	
Demand deposits	X,XXX	XXX%	–	–	–	–	–	–	–	–	–	–	–	–	$X,XXX	XXX%	X.XX
Savings deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Money market accounts	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Brokered deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Other time deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Short-term borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Long-term borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
FHLB advances	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Securities sold under repurchase agreements	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Other borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Total interest-earning liabilities	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Non-interest-bearing financial liabilities:																	
Derivatives	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Other financial liabilities	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Total financial liabilities	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Other liabilities															X,XXX	–	–
Equity															X,XXX	–	–
Total liabilities and stockholders' equity															$X,XXX	–	–

Liquidity & Interest Rate Risk Disclosures

Interest Rate Sensitivity

Financial institutions only:

Hypothetical Yield Curves, December 31, 20X1

	3-Month	6-Month	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	20-Year	30-Year
Yield curve at Dec. 31, 20X1	1.50%	1.60%	1.70%	2.00%	2.50%	3.50%	4.40%	5.00%	5.45%	5.80%
+200 bps	3.50%	3.60%	3.70%	4.00%	4.50%	5.50%	6.40%	7.00%	7.45%	7.80%
+100 bps	2.50%	2.60%	2.70%	3.00%	3.50%	4.50%	5.40%	6.00%	6.45%	6.80%
-100 bps	0.50%	0.60%	0.70%	1.00%	1.50%	2.50%	3.40%	4.00%	4.45%	4.80%
-200 bps	0.00%	0.00%	0.00%	0.00%	0.50%	1.50%	2.40%	3.00%	3.45%	3.80%
100 bp flattening of curve										
Short end	2.50%	2.60%	2.70%	3.00%	2.50%	3.50%	4.40%	5.00%	5.45%	5.80%
Long end	1.50%	1.60%	1.70%	2.00%	2.50%	3.50%	4.40%	4.00%	4.45%	4.80%
100 bp steepening of curve										
Short end	0.50%	0.60%	0.70%	1.00%	2.50%	3.50%	4.40%	5.00%	5.45%	5.80%
Long end	1.50%	1.60%	1.70%	2.00%	2.50%	3.50%	4.40%	6.00%	6.45%	6.80%

Interest Rate Sensitivity, December 31, 20X1

		Estimated Increase/(Decrease) in Net Income			Estimated Increase/(Decrease) in Shareholders' Equity	
Parallel Change in Interest Rates	Net Income	Amount	Percent	Shareholders' Equity	Amount	Percent
+200 bps	$XX,XXX	$X,XXX	X.XX%	$XX,XXX	$(X,XXX)	(X.XX)%
+100 bps	$XX,XXX	$X,XXX	X.XX%	$XX,XXX	$(X,XXX)	(X.XX)%
Yield curve at Dec. 31, 20X1	$XX,XXX	—	—	$XX,XXX	—	—
-100 bps	$XX,XXX	$(X,XXX)	(X.XX)%	$XX,XXX	$X,XXX	XXX%
-200 bps	$XX,XXX	$(X,XXX)	(X.XX)%	$XX,XXX	$X,XXX	XXX%
100 bp flattening of curve						
Short end	$XX,XXX	$X,XXX	X.XX%	$XX,XXX	$(X,XXX)	(X.XX)%
Long end	$XX,XXX	$(X,XXX)	(X.XX)%	$XX,XXX	$X,XXX	X.XX%
100 bp steepening of curve						
Short end	$XX,XXX	$(X,XXX)	(X.XX)%	$XX,XXX	$X,XXX	X.XX%
Long end	$XX,XXX	$X,XXX	X.XX%	$XX,XXX	$(X,XXX)	(X.XX)%

Revenue Recognition

Project Update

Revenue Project

It's been a long journey…but we're in the home stretch!

- 1999 (Dec) SEC Staff Accounting Bulletin No. 101 Issued
- 2000 + Various EITF activity related to revenue recognition
- 2002 (Jan) **FASB discusses revenue recognition project**
- 2002 (May) Revenue recognition project added to FASB's agenda
- 2008 (Dec) FASB Discussion Paper Issued (Preliminary Views)
- 2010 (June) Exposure Draft on Revenue Recognition Issued
- 2011 (Nov) Revised Exposure Draft Issued (comments due March 13th)
- 2013 (1H) Final Standard on Revenue Recognition Expected
- 2015 (?) Effective Date of Final Standard on Revenue

Revenue Project – Summary of Key Provisions

Core Principle and Steps in the Model

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

Identify the contract with a customer

(Step 1)

Identify the separate performance obligations

(Step 2)

Determine and allocate the transaction price

(Step 3 & 4)

Recognize revenue when (or as) performance obligations are satisfied

(Step 5)

Steps in Applying the Revenue Recognition Model

1. Identify the contract with a customer
2. Identify the separate performance obligations in the contract,
3. Determine the transaction price,
4. Allocate the transaction price to the separate performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligations

SOUNDS SIMPLE…RIGHT?

Revenue Project – Summary of Key Provisions

Scope and Step 1: Identify the contract with a customer

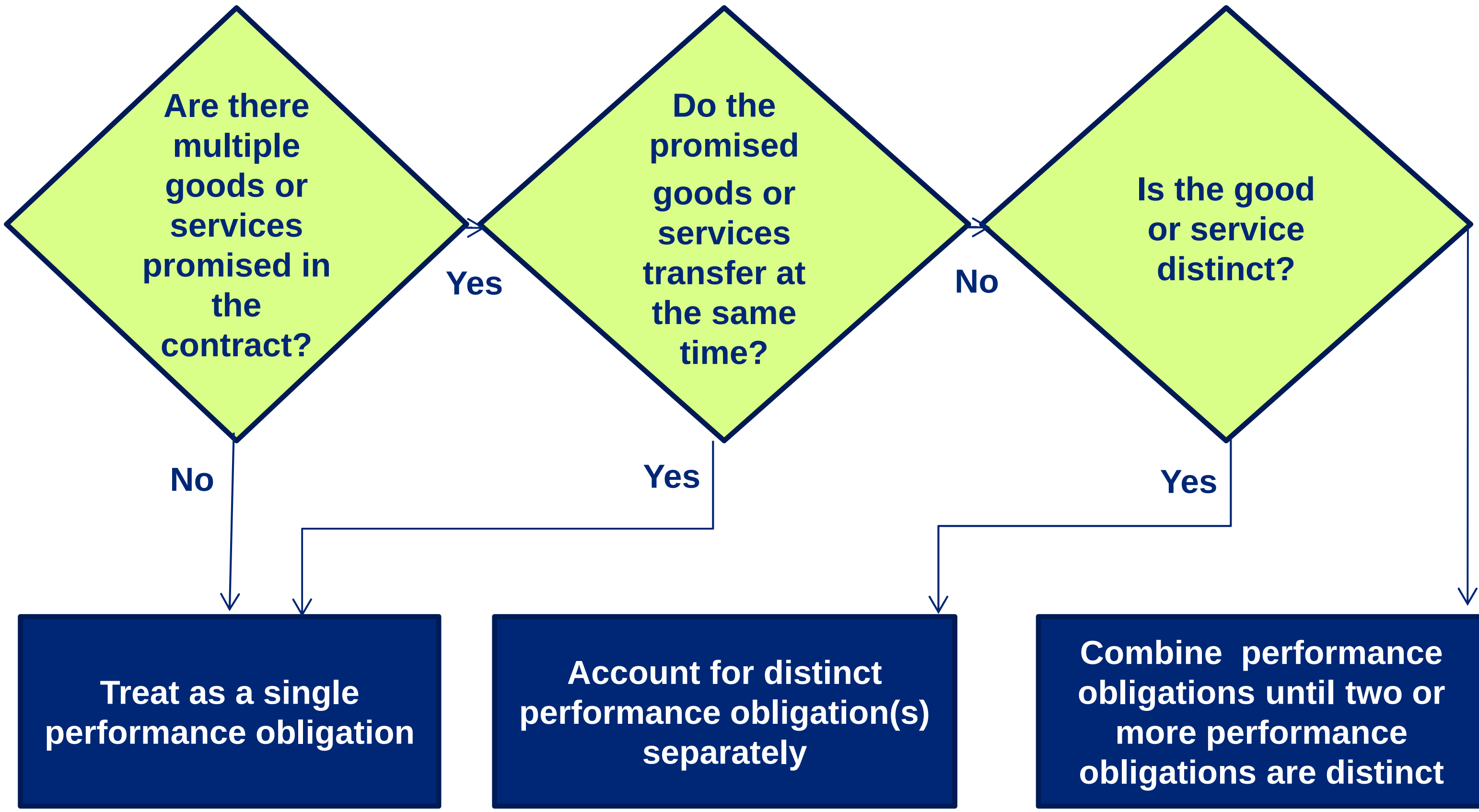
- Applies to an entity's contracts with customers
- Does not apply to:
  - Lease contracts (ASC 840),
  - Insurance contracts (ASC 944),
  - Certain contractual rights or obligations,
  - Guarantees (other than product warranties), and
  - Nonmonetary exchanges whose purpose is to facilitate a sale to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

Revenue Project – Summary of Key Provisions
Step 1: Identify the contract with a customer

- **Contract Combination…**
  - Combine contracts entered into at (or near) the same time with the same (or related) customer if:
    - Single commercial objective,
    - Consideration is interdependent, or
    - Goods or services are a single performance obligation
- **Contract Modification…**
  - A modification is deemed a separate contract when it results in a separate obligation and its price is reflective of the obligation's standalone selling price (open to certain adjustments)
  - Otherwise, reevaluate the performance obligations, reallocate the transaction price (generally prospective), and remeasure progress toward completion (may result in a catch-up entry)

Revenue Project – Summary of Key Provisions

Step 2: Identify the separate performance obligations in the contract



A bundle of distinct goods or services is required to be treated as a single performance obligation when certain criteria are met.

Revenue Project – Summary of Key Provisions

Step 3: Determine the transaction price

Principle: The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer

- Variable consideration: the probability weighted or most likely amount of consideration that the entity is ***entitled to*** from the customer, depending on which method is the most predictive of the amount of consideration the entity ***will be entitled***
- Consideration often varies due to discounts, rebates, refunds, credits, incentives, performance bonus/penalty, contingencies, price concessions, or similar items
- Time Value of Money – transaction price is adjusted for the time value of money if contract includes a significant financing component (variance in amounts, payment timing lag, explicit/implicit interest rate), subject to a one year practical expedient
- Collectibility – initial and subsequent assessments of collectibility presented adjacent to revenue (separate line item)

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 method (if price is highly variable or uncertain) are acceptable
- Allocate consideration (and changes) in the transaction price to all performance obligations (based on initial allocation) unless a portion of (or changes in) the 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 consistent with allocation principle
- Do not reallocate for changes in standalone selling prices

Revenue Project – Summary of Key Provisions

Step 5: Recognize revenue when performance obligations are satisfied

<u>Principle</u>: "An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (that is, an asset) to a customer…when (or as) the customer obtains *control* of that asset..[in] the amount to which the entity is *reasonably assured to be entitled*."

- ❑ Evaluate if control transfers over time and if not, control transfers at a point in time
- ❑ An entity satisfies a performance obligation over time 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 exists…
    - ➢ the customer receives and consumes a benefit as the entity performs,
    - ➢ another entity would not need to reperform the work to date,
    - ➢ the entity has a right to payment for performance to date and expects to fulfill contract

ED Question!

Revenue Project – Summary of Key Provisions

Step 5: Recognize revenue when performance obligations are satisfied

- Measure progress toward completion in a manner that best depicts the transfer of the goods or services to the customer
- If unable to reasonably measure progress, then recognize revenue to match costs (if entity expects to recover costs)
- Indicators of transfer of control at a point in time…
  - The entity has a present right to payment;
  - The customer has legal title;
  - The entity has transferred physical possession;
  - The customer has risks and rewards of ownership;
  - The customer has accepted the asset

Revenue Project – Summary of Key Provisions

Step 5: Recognize revenue when performance obligations are satisfied

- Entities shall recognize revenue from satisfying performance obligations in the amount that the entity is <u>reasonably assured</u> to be entitled

- The amount is reasonably assured when…
  - The entity has experience with similar types of performance obligations (or other evidence); or
  - The entity has experience and the experience is predictive of the outcome (susceptible to factors outside entity's influence, judgment of third parties, risk of obsolescence, etc.)

- Variable consideration based on a customer's subsequent sales to end-customer for a license of intellectual property is not reasonably assured until the customer's subsequent sales occur

<u>Potential change</u>: This criteria may result in a change to current practice when recognizing revenue contingent on a future event

Revenue Project – Other Provisions

Onerous Performance Obligations

- Scope limited to separate performance obligations satisfied over time and over a period greater than one year
- Recognize a separate liability and a corresponding expense for expected losses to satisfy (or settle) performance obligation
- Measure liability based on difference between the allocated transaction price and the lowest costs to satisfy (or settle)
- Update the measurement of the liability at each subsequent reporting date (changes recognized as an adjustment to the expense)

Revenue Project – Other Provisions

Cost of Fulfilling a Contract

- Recognize assets in accordance with other Topics (inventory, PP&E, software, etc), otherwise capitalize costs that…
  - relate directly to the contract (or specific anticipated contract);
  - generate/enhance a resource that will be used to satisfy obligations in the future; and
  - are expected to be recovered
- Assets amortized on a systematic basis consistent with the transfer of the related goods or services (may include future anticipated contracts)

Revenue Project – Other Provisions

Cost of Obtaining a Contract

- Capitalize costs of obtaining a contract if they are **incremental** and **expected to be recovered**
  - Incremental costs include those costs that an would not have been incurred if the contract had not been obtained (such as sales commissions)
  - Costs with an amortization period of one year or less may be expensed (as a practical expedient)
- Assets amortized on a systematic basis consistent with the transfer of the related goods or services (may include future anticipated contracts)

Revenue Project – Other Provisions

Disclosure

- ❑ Disclosure qualitative and quantitative information about…
  - a) Contracts with customers; and
  - b) Significant judgments, of changes to such, in applying the revenue recognition guidance
  - c) Assets recognized from costs to obtain or fulfill a contract
- ❑ Some of the required disclosures include information about…
  - Disaggregation of revenue
  - Contract balance reconciliation
  - Performance obligations
  - Onerous losses
  - Continuous transfer
  - Transaction price
- ❑ Nonpublic entities are provided some disclosure exceptions
- ❑ Proposal includes request for feedback regarding cost-benefit of requiring certain disclosures in interim financial statements

Revenue Project – Other Provisions

Other Considerations

- **Options to acquire additional goods/services** – represents a performance obligation (requiring the deferral of revenue) if it provides a material right that would not have been received
- **Product Warranties** – obligation if option or beyond assurance
- **Customers' Unexercised Rights** – recognize "breakage" in pattern of rights exercised if amount is reasonably assured
- **Other Guidance includes…**
  - Right of Return
  - Principal versus Agent Considerations
  - Consignment Arrangements
  - Bill-and-hold Arrangements
  - Nonrefundable Upfront Fees
  - Repurchase Agreements
  - Breakage on Nonrefundable Payments
  - Licensing and Rights to Use

Revenue Project – Other Provisions

Effective Date and Transition

- Effective Date (TBD)
  - No earlier than 2015 with minimum of one year deferral for nonpublic entities
- Transition
  - Apply retrospectively by applying Topic 250 (with certain optional practical expedients)
  - May need to start applying standard January 1, 2013?

Revenue Recognition

General Comment Letter Themes

Revenue Project – Summary of Key Provisions

Scope and Scope Exceptions

Constituent comments:

- ❑ Application of revised ED to the transfer of a nonfinancial asset
  - Many generally supported the proposal
  - Some noted that it could be inconsistently applied and could result in unintended consequences
  - Others suggested excluding this proposal from the final revenue standard and handling it in a separate project
- ❑ Clarity is needed regarding what constitutes a collaborator or partner and what accounting guidance would be applied to these types of arrangements

ED Question!

Revenue Project – Key Provisions

Step 1. Identify the contract with a customer

Constituent comments:

- Linked contracts with multiple unrelated parties
  - Contracts with multiple unrelated parties that are part of the same transaction should be able to be accounted for together to reflect a transaction's economics
  - Consider expanding the guidance within "contract combination" and "consideration payable to a customer"
- Contract modifications
  - Should not have a different model when a modification is primarily a change in the transaction price but includes an additional good or service that may or may not be significant to the modified contract

Revenue Project – Key Provisions

Step 2. Identify the separate performance obligations in the contract

Constituent comments:

- Clarification is needed regarding the unit of account for repetitive deliveries of the same good or service
- Practical expedient to combine distinct goods or services that have the "same pattern of transfer" needs to be clarified
- Concerns expressed over criteria on bundling otherwise separate performance obligations

Aerospace & Defense, Engineering & Construction, and Software industries were particularly vocal regarding bundling otherwise separate performance obligations.

Revenue Project – Key Provisions

Step 3. Determine the transaction price

Constituent comments:

- Feedback was mixed regarding presentation of a customer's credit risk as contra revenue
  - Support for presentation as proposed
  - Requests for an option to disclose in footnotes
  - Requests to maintain current practice (as an expense)
- Time value of money can be complex and difficult to apply
  - Eliminate requirements or provide more detailed examples

ED Question!

Revenue Project – Summary of Key Provisions

Step 5: Recognize revenue when performance obligations are satisfied

Constituent comments:

- Uncertainty on determining whether an entity's performance creates an asset with an "alternative use"
  - Potential for structuring contracts to meet or not meet the criteria
  - May unintentionally result in the recognition of revenue over time for certain goods
  - Clarify how payment terms affect whether an entity satisfies a performance obligation over time
- Clarify the meaning of the term "reasonably assured" and indicate whether it is meant to refer to a qualitative or quantitative threshold
  - Term "reasonably assured" has different meanings in U.S. GAAP and IFRSs
- Transaction-specific requirements for licenses of intellectual property should be expanded to similar sales-based royalty contracts

ED Questions!

Revenue Project – Other Provisions
Onerous Performance Obligations

Constituent comments:

- Scope should be at the contract-level or higher
- Scope should not be limited to (1) goods or services that are satisfied over time and (2) contracts that are satisfied over a period greater than one year
- Onerous loss guidance should be removed from the ED and instead be addressed separately by the boards

ED Question!

In our letter, we requested that the boards not proceed with the onerous loss proposal in the revised ED and instead evaluate this concept separately in accordance with the main ideas of IAS 37

Revenue Project – Other Provisions
Cost of Fulfilling and Obtaining a Contract

Constituent comments:

- Mixed support for proposal, those that did not support requested…
  - Boards remove guidance from proposed standard
  - Provide an option to capitalize or expense
- Clarify when a future "anticipated contract" should be included within the amortization period of capitalized costs

Revenue Project – Other Provisions
Disclosure

Constituent comments:

- ❑ Proposed interim disclosures would be overly burdensome and costly to prepare
  - Requiring such disclosures would be inconsistent with the current principles in ASC 270
  - May result in inability to meet interim reporting deadlines
- ❑ Principles based approach should be adopted for annual disclosures
- ❑ Consider disclosure requirements in conjunction with disclosure framework project
- ❑ Provide additional implementation guidance for proposed disclosures

ED Question!

Revenue Project – Other Provisions

Effective Date and Transition

Constituent comments:

- Some acknowledged benefits of comparable periods of a retrospective application, while others believe that cost does not meet the benefit and would be impractical
- Others suggested a prospective transition or transition similar to ASU 2009-13
- If retrospective application is required, extend effective date to allow adequate time to understand and apply the final standard

ASU 2009-13 was required to be adopted prospectively to new or materially modified revenue arrangements after the effective date (with certain disclosures), unless an entity elected to adopt it retrospectively.

Revenue Recognition

Industry Comment Letter Themes

Revenue Project – Comment Letter Themes

Aerospace & Defense and Engineering & Construction

- Clarity needed regarding the bundling of otherwise separate performance obligations into a single unit of account
  - A&D entities believe they should combine all performance obligations that are bid, negotiated, and managed as a single arrangement (e.g., a contract to sell 10 tanks)
  - E&C concern that certain performance obligations may get bundled that should be separate (e.g., engineering, procurement, and construction)
- Excluding "wasteful or inefficient" costs when using an input method to measure progress may be difficult to apply
- Requiring entities to recognize revenue to match costs when an entity is not able to reasonably measure the outcome of a performance obligation may result in inconsistent or uneconomical reporting
- Concerned that unpriced change orders may not be able to be accounted for until specifically approved

Revenue Project – Comment Letter Themes
Automotive

- Clarity needed around determining whether or not a specific aspect of a warranty was assurance (cost accrual) or a service (separate performance obligation)
  - Emergency roadside assistance could be viewed as partially assurance and partially as a separate service (beyond assurance)
- Concerns expressed regarding OEM incentives provided to the end-customer for products sold through a third-party dealer
  - Certain incentives may be separate performance obligations requiring the allocation and deferral of revenue

Revenue Project – Comment Letter Themes

Energy and Resources

- Allocating the transaction price based on the forward price curve for products does not represent the contract's economics
  - Allocation should be based on terms negotiated in the contract
- Clarity needed regarding accounting for "blend-and-extend" contract modifications as a separate contract
- Additional guidance needed to resolve diversity in practice for defining the appropriate unit of account and accounting for a contract with a hybrid derivative instrument

Revenue Project – Comment Letter Themes
Financial Services

- Clarify that scoped of revised ED excludes any contract that meets the definition of a financial instrument
- Clarity needed regarding the accounting for credit card transactions and loyalty programs
  - Contracts with a merchant and cardholder are not able to be combined
  - Accounting for loyalty programs may differ depending on nature of award as cash (reduction of revenue) versus non-cash rewards (separate performance obligation)
- Requested certain current U.S. GAAP be retained
  - Performance-based fees similar to Method 2 of ASC 605-20-S99
  - Recognition of broker-dealer underwriting revenue and related expenses as net under ASC 940-605
- Additional guidance needed for real-estate developers regarding ability to recognize revenue over time depending on different types of right to payment

Revenue Project – Comment Letter Themes

Technology and Media

- Uncertainty expressed over impact of bundling criteria with (1) software and implementation/integration services and (2) design, build, and hosting services
- Post-contract customer support (PCS) may need to be separated beyond single performance obligation (e.g., upgrades and enhancement releases, telephone support)
- Licensing and right to use guidance should be amended to allow for recognition of certain licenses over time

Revenue Project – Comment Letter Themes
Telecommunications

- Proposed allocation requirements does not reflect the economics of the transaction for handset and related service
  - Suggested boards adopt a contingent revenue cap or allow the use of the residual method
- Accounting for contract modifications on a contract-by-contract basis may by overly complex and impractical

Leases

Project Update

Overview & Timing

Original Exposure Draft (ED)

Issued in August 2010	Comment period ended December 2010	Over 750 letters received

Redeliberations

Revised ED expected end of 2012

Final Standard

Expected to be issued in 2013

Effective Date

Expected to be no sooner than 2016

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
  - Applies to lessors and lessees
- Income statement impact will depend on the nature of the leased asset (“property” vs. “other than property”)

---------------------------------- Impact ----------------------------------

Financial ratios and key metrics would change; companies will need to explain the changes to external users of their financial data.

Scope - Definition of a Lease

- Discussions have focused on:
  - **Specified asset:**
    - Explicitly or implicitly identified asset
    - Substitution rights must be considered
  - **Control**
    - “Ability to direct the use” and “receive the benefit from use”
    - “Receive benefits” = Rights to substantially all economic benefits from use over lease term
- “Substantially all output” would no longer be determinative.
- Tentative decisions:
  - **Intangible assets** – policy choice – inconsistent with current U.S. GAAP
  - **Inventory** – no longer scoped out – inconsistent with current U.S. GAAP

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 to arranging a lease.
  - Subject to impairment tests.
- Liability: Present value of obligation to make lease payments over the lease term and guaranteed residual value.
- Variable lease payments – generally not included as minimum lease payments, except:
  - In-substance fixed lease payments.
  - Residual value guarantee paid by lessee.
  - Based on index or rate derived payment.

Lease Term – Reassessment

- Companies would need to assess possibility of potential renewals and related motivations to renew.
- Reassessment would be required.
  - Would not reassess for market-based factors.

Initial Determination
Contract
Asset
Entity-specific
Market-based

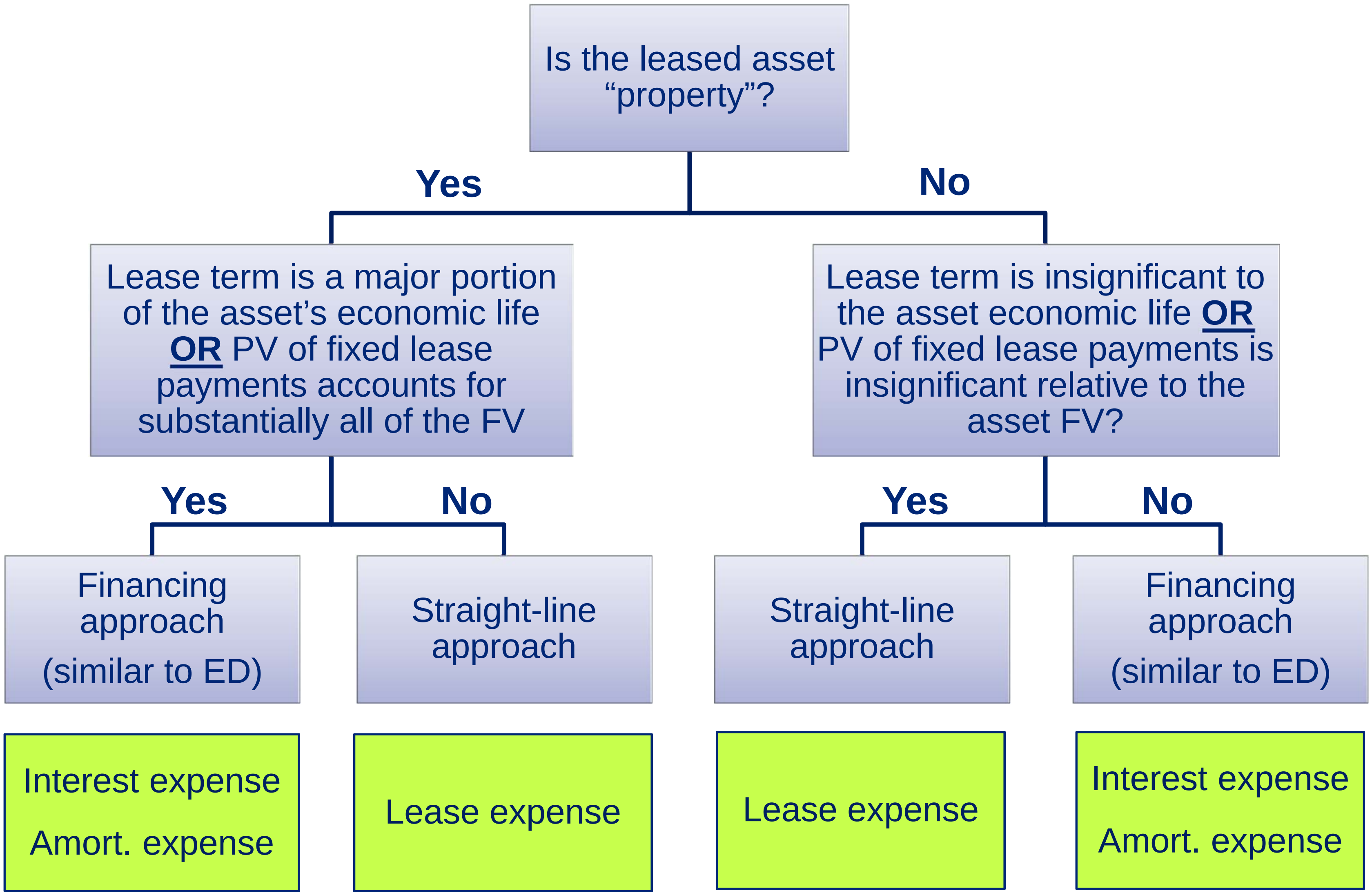
Reassessment
Contract
Asset
Entity-specific

Subsequent Measurement - Lessee

Balance Sheet

- 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.

Subsequent Measurement - Lessee
Income Statement



Subsequent Measurement - Lessee
Income Statement

- Financing approach:
  - Each period, present separate interest expense and amortization expense
  - Liability is amortized using the effective interest method
  - Asset amortization is straight-line or other systematic method
  - Results in an uneven expense pattern over the lease term

Subsequent Measurement - Lessee

Income Statement

- Straight-line approach:
  - Each period, present a total lease expense
  - Liability is amortized using the effective interest method
  - Asset amortization is a “plug” to get to straight-line expense, based on total lease payments over the lease term

Example:

Total lease payments	Lease term	Straight-line expense	Liability amortization	Asset amortization
$24,000	24	$1,000	$910	$90

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)

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'd)

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

Same impact as Financing approach

Ratios:

Debt-to-equity	1.22 : 1	1.66 : 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'd)

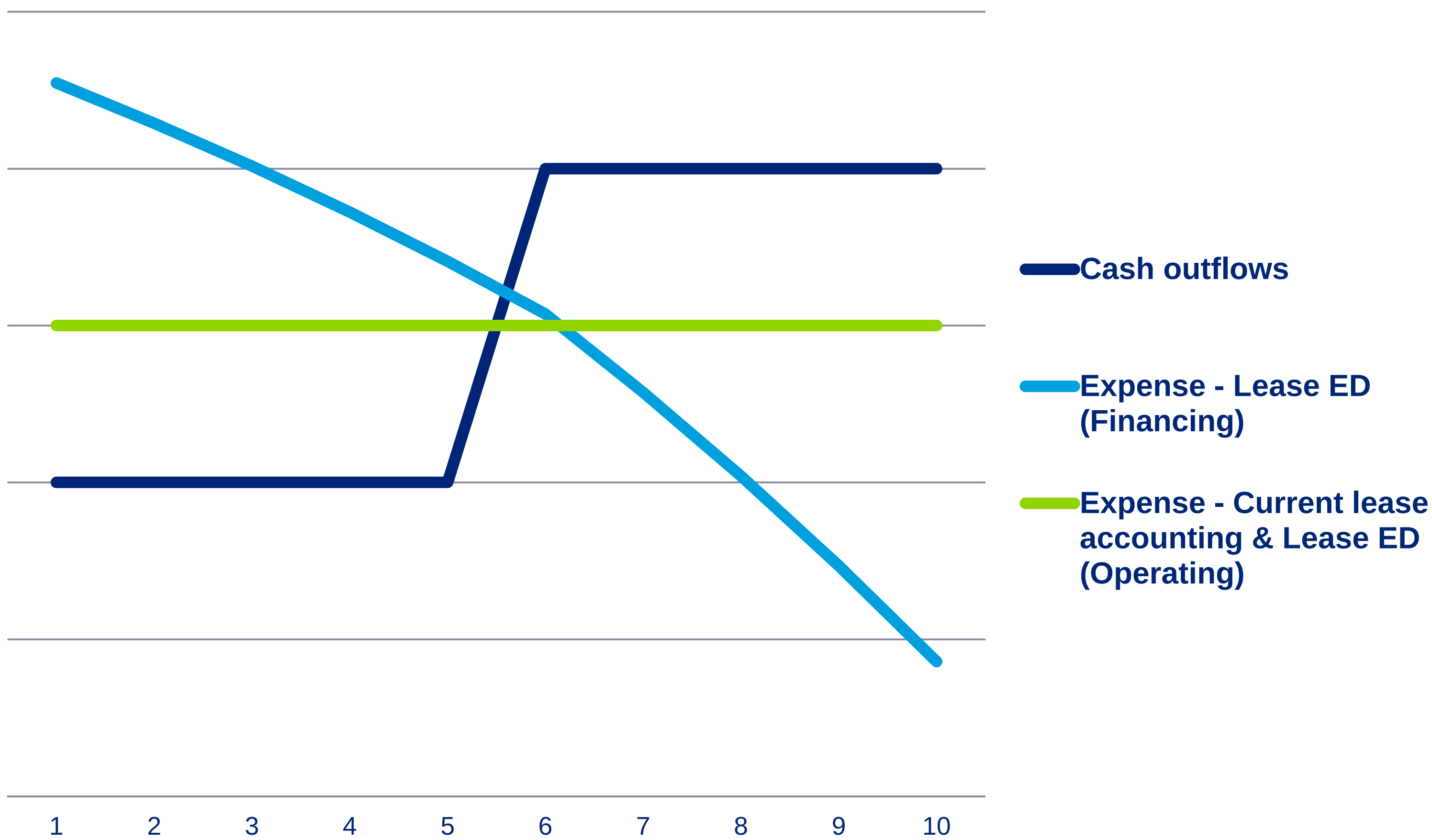
Same impact as current lease accounting

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

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'd)

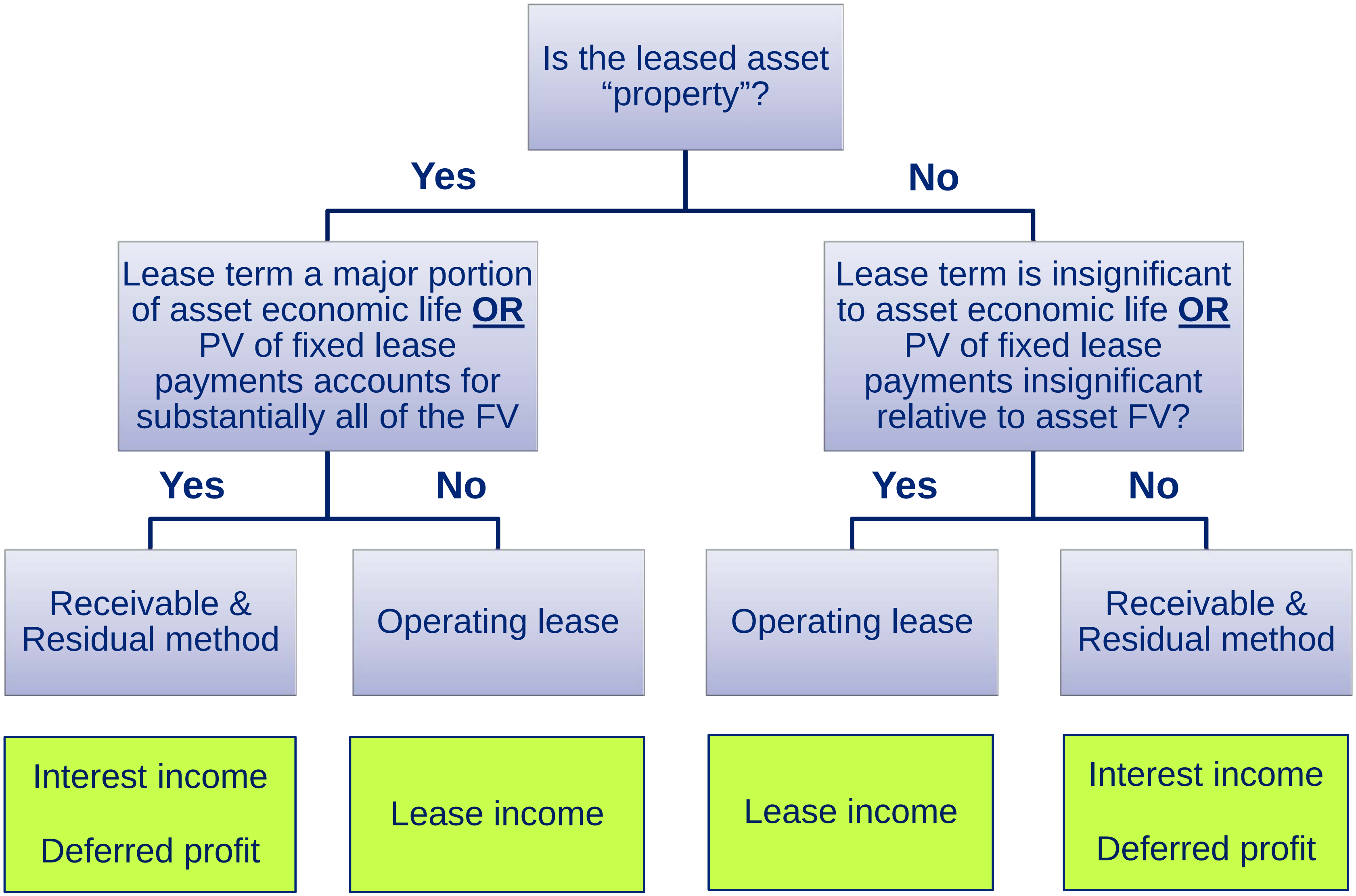
Income Statement



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 — Lessor

Income Statement



Initial & Subsequent Measurement — Lessor

Receivable and Residual Method

- Lease receivable
  - Initial measurement as the present value of lease payments
  - Accreted using effective interest → Interest income
- Residual asset
  - Initial measurement – allocate carrying amount among:
    - Residual asset: Estimated residual value at end of lease, present value
    - Profit is deferred and netted against the residual asset
  - Subsequent measurement:
    - Residual asset: Accrete using effective interest method → Interest income
    - Subject to impairment

Operating Lease Method

- Continue to recognize underlying asset
- Recognize lease income over the lease term

Private Company Council

Improving Standard Setting for Private Companies

Financial Accounting Foundation (FAF)

An Overview – FAF and Standards Setting

- Established in 1972, the FAF is an independent private-sector organization
- Responsibilities include:
  - Establishing and improving financial accounting standards;
  - Overseeing and administering the FASB and GASB, which includes selecting FASB and GASB board members;
  - Educating constituents on application of standards; and
  - Protecting the independence and integrity of the standard-setting process.

------------------------------------- NOTE -------------------------------------

The FASB and GASB, under the watchful eye of the FAF, are responsible for establishing U.S. accounting standards for public and private companies, not-for-profit organizations, and state and local governments.

Financial Accounting Foundation (FAF)

An Overview – FAF and Standards Setting

- Two primary objectives of the FAF:
  - Development of high-quality accounting standards by standard setters it oversees (i.e., FASB and GASB)
  - Ensuring enacted standards reflect financial statement user needs while considering relevance, complexity, and costs versus benefits
- Addressing objectives, for non-public entities especially, has been often challenging:
  - Various studies and recommendations on private company accounting and financial reporting needs have been issued
  - Changing environment has resulted in the needs of public and private company financial statement users moving further apart

Focusing on Private Company Reporting Needs

Common Concerns - Private Company Reporting

- Private company financial statement end-users often require different information than those of public entities
- ‘One-size fits all’ approach often puts strain on private entities that may lack resources of proper implementation
  - Costs associated with implementing new standards for often outweigh the benefit experienced by financial statement users
  - Experience level of accounting staffs often lack the breadth to effectively adopt new standards
- Private company concerns are not considered in the same manner as public company concerns during the standard setting process

Focusing on Private Company Reporting Needs

An Evolution to Where We Are Today…

- Private Company Financial Reporting Committee (PCFRC) established by FASB (2006)
  - Comprised of a chairman and 12 members representing non-public entities
  - Worked towards providing recommendations to the FASB on issues related to standard setting for private companies
- FAF Board of Trustees Listening Tour (2009)
  - Trustees met with various groups across country
  - Constituents expressed concerns on:
    - Cost and complexity of standards for non-public entities
    - Lack of collaboration between FASB and PCFRC
    - Lack of action on developing an agreed-upon framework for considering U.S. GAAP exceptions or modifications for private companies

Focusing on Private Company Reporting Needs

An Evolution to Where We Are Today…

- Blue Ribbon Panel (BRP) on Standard Setting for Private Companies convened (December 2009)
  - Formed by the AICPA, FAF, and the National Association of State Boards of Accountancy
  - Focused specifically on financial accounting and reporting for private U.S. companies
  - Considered how accounting standards can best meet the needs of users of U.S. private company financial statements
- Preliminary findings of BRP:
  - U.S. standard setting system does not do an adequate job of understanding private company financial statement user needs
  - Standard setters have not appropriately considered the cost and benefits of GAAP for private companies
  - Private companies are faced with the certain complexities when applying new standards that users may not find relevant

Focusing on Private Company Reporting Needs

An Evolution to Where We Are Today…

- Final BRP detailing recommendations submitted to FAF(January 2011):
  - Formation of a new, separate authoritative board under the oversight of the FAF
  - Creation of a differential accounting framework for private companies
  - Establishment of a process to review the new board in a three to five year time period to evaluate effectiveness.

Focusing on Private Company Reporting Needs

An Evolution to Where We Are Today…

- FAF ‘Working Group’ formed to evaluate BRP findings (March 2011)
  - Reviewed the process used by FASB to consider reporting for private company and not-for-profits
  - Conducted series of meetings with stakeholders with significant insight into private companies and not-for-profit organizations
  - Met with members of the academic community who had undertaken research in private company and not-for-profit financial reporting
  - Participated in discussions with various FASB advisory groups
  - Reviewed feedback on nonpublic entity reporting in more than 2,800 comment letters

Financial Accounting Foundation Considerations

Key Points on Private Company Standard Setting

- As a result of the working group's outreach and the blue-ribbon panel's report, the FAF Trustees concluded:
  - The FASB and PCFRC ***had not*** achieved the goal of incorporating the needs of private companies into the standard-setting process.
  - A new body should be created to replace the PCFRC.
  - The PCSIC, in conjunction with the FASB, should:
    - Develop criteria for determining whether exceptions or modifications to U.S. GAAP would be warranted for private companies
    - Use the criteria to review existing U.S. GAAP
    - Propose exceptions and modifications to U.S. GAAP when applicable.

Financial Accounting Foundation Considerations

FAF Plan to Establish a Private Company Council

- FAF initial plan and additional outreach:
  - Issued its "*Plan to Establish the Private Company Standards Improvement Council*" (October 2011)
  - Presented an hour-long education session on proposed private company council (November 2011)
  - Hosted four separate roundtables to obtain additional feedback from various constituents, including users, preparers, auditors, regulators, and academics (January 2012 – March 2012)
- Result of outreach analysis was the establishment of the Private Company Council (May 2012)

Private Company Council ("PCC")

Responsibilities, Membership, and Term Limits

- Responsibilities of the PCC
  - Determine whether and when exceptions/modifications to existing US GAAP are warranted
  - Advise FASB on treatment of private company accounting matters on its Technical Agenda
- Membership
  - Council will consist of 9 to 12 members,
  - Will include a chairman (cannot be FASB member) and one or more vice-chairman (if deemed necessary)
  - Would have private company experience and diverse background, including users, preparers, and auditors
- Term Limits
  - Appointed for a three-year term
  - Possible two-year extension
  - Terms will be staggered to allow for stability/continuity

Private Company Council ("PCC")

FASB Interaction and Meeting Considerations

- FASB liaison and FASB support staff
  - FASB liaison
    - FASB board member will be assigned as liaison to PCC
    - Facilitate communication and integration between FASB and PCC
  - FASB support staff
    - FASB Technical director will appoint PCC dedicated technical and administrative staff
    - Staff will be augmented on an ‘as-needed’ basis when FASB technical expertise is needed.
- Meetings
  - Hold at least five meetings a year (may be more, if needed)
  - Deliberative meetings open to public and will include FASB members
  - Non-deliberative meetings may be open to public and may or may not include FASB members (not required)

Private Company Council ("PCC")

Decision-making Framework and Agenda Setting

- Decision-making framework
  - FASB and PCC will first decide on mutually agreed-upon criteria to be considered by a private company decision-making framework
  - Framework will be designed to identify potential exceptions or modifications to existing U.S. GAAP for private companies
- Agenda setting
  - PCC to set its own agenda via two-thirds majority vote
  - Council will consult with FASB and other stakeholders when developing agenda
  - PCC agenda will Initially to focus on existing US GAAP

-------------------------------------- NOTE --------------------------------------

"Because a significant role of the PCC is to advise the FASB on projects under active consideration by the FASB, the PCC *will refrain* from adding separate (competing) projects to its agenda that already are under such consideration by the FASB."

Private Company Council ("PCC")

Process for Considering Exceptions/Modifications

- Process for initial consideration
  - PCC will review exist U.S. GAAP; identify, deliberate and vote on potential exceptions or modifications; and provide proposed changes to FASB for endorsement;
  - FASB will consider proposed exception and modification; can endorse via majority vote; and will then expose proposal to public comment.
- Process for final endorsement and final standard
  - PCC will evaluate stakeholder feedback, deliberate and vote on final exceptions or modifications; and will propose final proposal to the FASB for consideration
  - FASB will consider final proposal; can endorse via majority vote; and will issue a final accounting standards update.

-- NOTE --

If the FASB *does not* endorse the recommended exception or modification during the process for initial consideration or final endorsement, the FASB Chairman is required to provide in writing the reason why endorsement was not provided and potential changes to the proposal that might change the FASB's view, potentially resulting in endorsement. This document would become part of the FASB's public record.

Private Company Council ("PCC")

Oversight

- Private Company Review Committee (Review Committee)
  - Tasked with overseeing PCC for initial three-year period
  - PCC to provide in-person and written reports to the Review Committee during time frame
  - Chaired by FAF Trustee with significant private-company accounting experience
- FAF Board of Trustees
  - PCC required to submit quarterly written reports to FAF board of trustees
  - Trustees will also monitor PCC meeting activities
- FAF Trustees to assess PCC after three years
  - Will determine if objectives of PCC are being met
  - Transfer responsibilities of the Review Committee to the existing *Standard-Setting Process Oversight Committee*
  - Consider if changes to the PCC and the private-company standard setting are warranted

Private Company Council ("PCC")

Next Steps

- FAF will appoint members, the chairman, and vice-chairmen (if deemed necessary)
  - FAF issued a *Request for Nominations to the FAF's Private Company Council* (nominations were due on June 30, 2012)
  - FAF trustees will consider individuals with varying backgrounds and experience including preparers, auditors, and users of private-company financial statements
- On July 31, the FASB issued a 'Discussion Paper' on the proposed private-company decision making framework
  - Framework based on six differential factors between private companies and public companies
  - Provides draft framework for considering private company exceptions or modifications specific to (1) recognition and measurement, (2) disclosure, (3) presentation, (4) effective date, and (5) transition method
  - Constituent comments due October 31, 2012.

Private Company Council ("PCC")
Resources

- FASB Invitation to Comment, *Private Company Decision-Making Framework – A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*
- Deloitte's January 31, 2011 Heads Up, *Blue-Ribbon Panel Reports on Private-Company Accounting*
- Deloitte's October 10, 2011 Heads Up, *Proposed Council to Improve Standard Setting for Private Companies*
- Deloitte's June 5, 2012 Heads Up, *FAF Establishes PCC to Watch Over Private-Company Standard Setting*
- Deloitte's August 7, 2012 Heads Up, *FASB Issues Discussion Paper on Private-Company Decision-Making Framework*

Other Projects and Standards

Presentation of Comprehensive Income

Statement of Comprehensive Income

Accounting Standards Update No. 2011-05[*]

- Comprehensive income now required to be reported in either:
  - A continuous statement of comprehensive income
  - Two separate, but consecutive statements
- The ASU does not change the items that must be reported in other comprehensive income
- Effective dates – under U.S. GAAP:
  - **Public entities:** effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011
  - **Nonpublic entities:** effective for annual periods ending after December 15, 2012
- Full retrospective application is required

NOTE: 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.

* **FASB Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income***

Statement of Comprehensive Income

Accounting Standards Update No. 2011-05 (cont'd)

- ASU 2011-05 required the presentation of reclassification adjustments by component in both the statement where net income is presented and the statement where comprehensive income is presented
  - Prior to ASU 2011-05, entities had an option to present reclassification adjustments in either:
    - The statement in which comprehensive income is reported
    - The notes to the financial statements
- During initial implementation, constituents raised several concerns over this new requirement:
  - Availability of information required at necessary level of detail
  - Potential cluttering effect to financial statements
  - Level of detail required for interim reporting purposes
  - How to apply the provisions to reclassifications out of AOCI that are initially recorded on the balance sheet

Comprehensive Income
*Accounting Standards Update No. 2011-12**

- On December 23, 2011 the FASB issued ASU 2011-12
- Defers the requirement for entities to present reclassification adjustments out of accumulated other comprehensive income (AOCI) by component in both the statement in which net income is presented and the statement in which OCI is presented (for both interim and annual financial statements).
- During the deferral period, entities still need to comply with the existing requirements in ASC 220 for the presentation of reclassification adjustments, which gives entities the option of:
  - (1) presenting reclassification adjustments out of AOCI on the face of the statement in which OCI is presented or (2) disclosing reclassification adjustments in the footnotes to the financial statements.
- Affects both public and nonpublic entities that report items of OCI in any period presented.
  - Same effective dates and transition as ASU 2011-05

* **FASB Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05***

Statement of Comprehensive Income

FASB's Current Project

- June 2012: FASB began redeliberations
  - Tentatively decided <u>not</u> to reinstate the presentation requirements for reclassification adjustments included in ASU 2011-05
  - Instead, FASB will propose new disclosure requirements:
    - Expand ASC 220-10-45-14A "changes in components of AOCI" disclosure to include amounts of such changes attributable to reclassification adjustments
    - In a separate table, disclose, by component, significant items reclassified out of AOCI and corresponding information about the income statement line item(s) affected by the reclassification adjustment
    - Would apply to both public and nonpublic entities, for both annual and interim financial statements
- Next steps:
  - FASB expected to issue an Exposure Draft on the new disclosures in the third quarter of this year
  - Comment period will be 60 days
  - Effective date for final guidance: TBD

Statement of Comprehensive Income
FASB's Current Project (cont'd)

Table presenting the changes in the balances of each component of AOCI*

Sample Entity
Notes to Financial Statements Accumulated Other
Comprehensive Income (AOCI)[(a)] For the Period
Ended December31, 201X

	Gains and Losses on Cash-flow Hedges	Unrealized Gains and Losses on AFS Securities	Defined Benefit Pension Items	Foreign Currency Items	Total
Beginning balance	(1,200)	1,000	(8,800)	1,300	(7,700)
Other comprehensive income (OCI) before reclassifications	3,000	2,500	(3,000)	1,000	3,500
Amounts reclassified from AOCI [(b)]	(1,400)	(1,500)	4,000	-	1,100 [(b)]
Net current-period OCI	1,600	1,000	1,000	1,000	4,600
Ending balance	400	2,000	(7,800)	2,300	(3,100)

(a) Amounts in parentheses indicate debits.

(b) See separate table in next slide for details of these reclassifications.

*This Exhibit was adopted from FASB Meeting Handouts: Reclassifications Out of Accumulated Other Comprehensive Income, June 20, 2012 but does not reflect the views of the FASB or its staff.

Statement of Comprehensive Income

FASB's Current Project (cont'd)

Table presenting details of items reclassified from AOCI and the line items in the financial statement in which these reclassification items are included.

AOCI component	Amount Reclassified from AOCI	Income Statement Line Item
Gains and losses on cash-flow hedges		
Interest rate contracts	2,000	Interest income/(expense)
Credit derivatives	(1,300)	Other income/(expense)
Foreign exchange contracts	3,000	Sales/revenue
Commodity contracts	(2,300)	Cost of sales
	1,400	
Unrealized gains and losses on AFS securities	1,600	Realized gain/(loss) on sale of securities[b]
	(100)	OTTI (credit related losses charged to net income)
	1,500	
Definted benefit pension items		
Prior service costs	(1,000) [c]	
Actual return on plan assets	(1,500) [c]	
Actuarial gains/(losses)	(1,500) [c]	
	(4,000)	
Foreign currency items[d]	-	
TOTAL	(1,100)	

(a) Amounts in parentheses indicate debits.
(b) Some entities may not have a separate line item for realized gains/(losses) on the sale of securities and instead will include this item as part of another line item, for example, other income/(expense).
(c) These AOCI components are included in the computation of net periodic pens
(d) During the reporting period, It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification from AOCI to net income for this period.

*This Exhibit was adopted from FASB Meeting Handouts: Reclassifications Out of Accumulated Other Comprehensive Income, June 20, 2012 but does not reflect the views of the FASB or its staff.

Other Projects and Standards

Impairment of Indefinite-lived Intangible Assets

Impairment of Long-lived Intangible Assets

*Accounting Standard Update No. 2012-02**

Overview

- On July 27, 2012, the FASB issued ASU 2012-02, amending the guidance in ASC 350-302 for testing such assets for impairment.
- ASU has been issued in response to feedback on ASU 2011-08,3 which amended the goodwill impairment testing requirements by allowing an entity to perform a qualitative impairment assessment before proceeding to the two-step impairment test.
- Stakeholders raised concerns about the recurring cost of performing impairment tests for indefinite-lived intangible assets other than goodwill. as they would now be the only category of long-lived assets subject to an annual quantitative impairment testing requirement..
- Similar to the goodwill impairment guidance, Under ASU 2011-08,3, an entity testing indefinite-lived intangible assets for impairment would have the option of performing a qualitative assessment to determine whether it is more likely than not (i.e., a likelihood of more than 50 percent) that the asset is impaired.
- If the entity determines, on the basis of qualitative factors, that it is more likely than not that the carrying amount of an indefinite-lived intangible asset is less than its fair value, the entity would not be required to apply the current guidance in ASC 350-30, under which an entity must calculate the fair value of the asset in order to test if it is impaired.

* **FASB Accounting Standard Update No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment***

Impairment of Long-lived Intangible Assets

Accounting Standard Update No. 2012-02 (cont'd)

Overview (cont.)

- The ASU does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the ASU does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods.
- When performing the qualitative assessment, the entity must evaluate events and circumstances that may affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset.
  - If, on the basis of the qualitative assessment, an entity determines that it is more likely than not that the indefinite-lived intangible asset is impaired, the entity would proceed to the quantitative impairment test in ASC 350-30, under which it would calculate the asset's fair value.
  - Because the qualitative assessment is optional, the entity may proceed directly to the quantitative impairment test and subsequently resume performing the qualitative impairment assessment for any indefinite lived intangible asset in any future period.

Impairment of Long-lived Intangible Assets

Accounting Standard Update No. 2012-2 (cont'd)

Qualitative Assessment Events and Circumstances

- ASC 350-30-35-18B gives the following examples of events and circumstances that an entity may consider in the qualitative assessment that could affect significant inputs used to determine the fair value of the asset:
  - Cost factors such as increases in raw materials and labor that have a negative effect on future expected earnings and cash flows
  - Financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings
  - Legal, regulatory, contractual, political, business, or other factors
  - Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation
  - Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market dependent multiples or metrics, etc.
  - Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, etc.

Impairment of Long-lived Intangible Assets
Accounting Standard Update No. 2012-2 (cont'd)

Other Qualitative Assessment Factors

- The ASU indicates that an entity should also consider the following factors when performing the qualitative assessment:
  - Positive and mitigating events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset.
  - However, positive and mitigating evidence should not be viewed as a rebuttable presumption that an entity does not need to perform the quantitative fair value calculation.
  - The difference between the carrying amount and the recently calculated fair value of the indefinite-lived intangible asset.
  - Whether the carrying amount of the indefinite-lived intangible asset has changed.
- Note that the events and circumstances that have an impact on the inputs used to determine the most recent fair value of the indefinite-lived intangible asset should be evaluated individually and in their totality as a result of weighing the significance of each factor to determine whether it is more likely than not that the asset is impaired.

Impairment of Long-lived Intangible Assets
Accounting Standard Update No. 2012-2 (cont'd)

Evaluating Indefinite-Lived Intangible Assets for Impairment on an Interim Basis

- ASU 2012-02 states that indefinite-lived intangible assets should be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.
- The ASU removed a reference to ASC 360-10-35-21 that included examples of impairment indicators and replaced them with the qualitative assessment factors in ASC 350-30-35-18B (cited earlier).

Impairment of Long-lived Intangible Assets
Accounting Standard Update No. 2012-2 (cont'd)

Disclosures

- The ASU does not require public entities to provide any new or amended disclosures regarding their analysis of indefinite-lived intangible assets for impairment.
- However, it does clarify that nonpublic entities are not required to disclose the "quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 . . . that relate to the financial accounting and reporting for an indefinite-lived intangible asset after its initial recognition."

Impairment of Long-lived Intangible Assets
Accounting Standard Update No. 2012-2 (cont'd)

- **Scope —** The standard applies to all public, private, and not-for-profit organizations that record indefinite-lived intangible assets on their balance sheet.
- **Effective date —** ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted..