



Financial Reporting

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Accounting Year in Review: 2009

MFA has prepared this **Financial Reporting** letter to help our clients respond to changes and challenges in accounting and financial reporting.

“WHAT GOES UP, MUST COME DOWN”

While the housing collapse started as early as 2006, the US recession wasn't declared official until December 2008. In financial reporting circles, the FASB and the SEC have been at the center of the discussion throughout the credit crisis. Both bodies issued new guidance, some of which responded directly to criticism of existing US GAAP that was spurred by the downturn. That theme is visible in a number of pronouncements discussed below. To assist you with closing the books on 2009, this Financial Reporting letter provides a reminder of several practice issues in light of the economic slowdown. Next, we discuss guidance that had to be adopted or permitted early adoption in 2009 and then peek forward to standards that will be adopted in 2010. We've also included a comprehensive list of recently issued accounting standards as an appendix.

But before diving into the details, you'll note numeric references throughout this letter to the accounting literature such as Accounting Standards Codification (ASC) 105-10-05. To explain, the FASB Codification became the single source of authoritative nongovernmental U.S. generally accepted accounting principles (US GAAP) last year. The Codification is effective for interim and annual periods ending after September 15, 2009. All previous level (a)-(d) US GAAP standards issued by a standard setter were superseded. All other accounting literature not included in the Codification is considered nonauthoritative. The codification is the result of a major five-year project, with a topical structure that is significantly different from the structure of previous standards (FASB Statements, EITF Issues, etc.). New standards are now issued in the form of Accounting Standards Updates (ASUs). The purpose of the Codification is to centralize, organize and simplify access to all US GAAP. It may be accessed online at <http://asc.fasb.org/>.

2009 Reminders

In our last annual review, we indicated tight credit conditions and economic difficulties can have far-reaching, and perhaps unanticipated, impacts on financial reporting – something that didn't change in 2009.

Accounts Receivable and Revenue Recognition

In order to recognize revenue, the customer's consideration must be realizable, i.e., collection must be reasonably assured. Some vendors may have extended their customary payment terms to customers with outstanding balances, or issued rebates and concessions after the initial transaction. Consequently, if management plans to continue issuing rebates and concessions, it should carefully evaluate the impact of this practice on the realizability of future transactions before concluding they should be recognized in revenue. Further, if management records a bad debt expense in the same period that revenue was initially recorded, it may call into question whether it was proper to recognize revenue for the affected transaction in the first place.

Investments in Securities

When the fair value of a security falls to a level lower than its cost basis at the measurement date, this should trigger a test to determine if the impairment is other than temporary. The FASB changed the approach for making this assessment for debt securities in 2009 (see below), while there was no revision to the method for assessing equities. As companies manage their cash needs, one option may be to liquidate their investments. The FASB's new model requires an impairment to be recorded if management either intends or will be required to sell an underwater security before its recovery. The option to sell underscores the importance of a

thorough other-than-temporary impairment analysis since a sale may represent a source of much-needed cash.

Financial Instruments Carried at Fair Value

Valuations of financial instruments may require significant judgment at times like this, particularly if the instruments are not actively traded or are sold in distressed transactions. The accounting for these instruments has generated significant controversy and even calls by some for suspension of fair value accounting. Companies should consider all of the relevant facts and circumstances to evaluate the fair values of their financial instruments. In 2009, the FASB provided additional guidance (see below) for estimating fair value when markets become inactive and for identifying distressed transactions.

Inventory

As companies assess whether an adjustment is necessary to reduce the cost of inventory to market, the economic downturn may have contributed to an accumulation of slow-moving or obsolete products that should be evaluated. In addition, excess overhead arising from production decreases must be charged to earnings instead of being capitalized as part of inventory.

Goodwill and Intangible Assets

US GAAP requires an interim period impairment test of the goodwill of a reporting unit if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Similarly, indefinite-lived intangible assets must be tested on an interim basis if events or changes in circumstances indicate they might be impaired. The impair-

ment triggers (or warning signs) for goodwill and indefinite-lived intangibles can include: (i) a decline in market capitalization and/or recent cash or operating losses due to market conditions with an expectation that the declines or losses may continue, (ii) weakness in a particular industry segment, such as the financial institution and automobile industries, (iii) downward revisions to future period profit forecasts, and (iv) restructuring activities such as layoffs or plans to dispose of a reporting unit or a significant portion of it. As discussed below, new accounting guidance for business combinations may cause companies to redefine their reporting units, which in turn, could increase the likelihood of a goodwill impairment charge.

Long-Lived Assets

Long-lived assets, such as fixed assets, can also become impaired in an economic slowdown. US GAAP requires that these assets be tested to determine whether any changes in circumstances indicate the company will be unable to recover the carrying amount of the asset group through future operations of the asset. This test is important now because it is likely to involve cash flow projections based on revenue and cost assumptions that may be adversely affected by market and economic conditions.

Deferred Tax Assets

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

As part of this evaluation, companies should consider the Worker, Homeownership and Business Assistance Act of 2009 (the “Act”), which was signed into law on November 6, 2009. A key provision of the Act is the expansion of certain net operating loss carryback provisions to all taxpayers. However, companies should also be mindful of the guidance in US GAAP that requires changes in the tax law to be reflected in the period that includes the enactment date. As an example, calendar year-end companies that prepare interim financial statements would reflect the tax law change in the fourth quarter.

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

Retirement Plans

Companies may need to reconsider the assumptions and/or asset values used in their accounting for retirement plans for several reasons: (i) Falling interest rates can trigger changes in the assumptions for discount rates, resulting in an increase in the present value of pension obligations, and (ii) declines in share prices can shrink the fair value of retirement plan assets, resulting in greater expenses or charges to other comprehensive income and ballooning deficits that require greater cash contributions to defined benefit pension plans.

Foreign Exchange Gains and Losses

The effects of turbulence in the currency markets can trigger exchange losses. They can also increase a company’s focus on hedging foreign exchange exposures, leading to greater use of forward contracts, futures, and options. In some cases, companies may find that as a result of the economic slowdown, their revenue estimates were overly optimistic and therefore their incomes were overhedged. The need to unwind overhedging can adversely affect corporate earnings and create accounting challenges.

Consolidation

Management’s efforts to protect the assets of an unconsolidated entity or to provide an entity with some sort of liquidity support can cause the entity to become a variable interest entity (VIE), with the result that the support provider may need to consolidate the entity. In some cases, these actions may lead to a reconsideration of whether implicit variable interests exist. Examples of actions that may require careful assessment include: (i) making capital contributions, (ii) providing financial guarantees on assets or debt, (iii) providing standby letters, or (iv) providing other forms of relief when not legally obligated to do so (e.g., rebates, lower service fees or converting short term receivables into long term receivables). Further, all companies will soon need to reassess their involvement with VIEs for potential consolidation under the revised VIE accounting model that the FASB issued in 2009.

Debt Restructurings

Many borrowers have faced pending debt maturities or other borrowing terms that they would have difficulty meeting. As a result, companies have negotiated new or amended financing arrangements.

Because of the significantly different accounting treatments, borrowers should first consider whether such transactions fall within the scope of accounting literature covering troubled debt restructurings or induced debt conversions before moving onto the modification vs. extinguishment analysis.

Going Concern

Management’s assessment of the company’s ability to continue as a going concern must take into account a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. The existing requirements and guidance for evaluating an entity’s ability to continue as a going concern are provided only in the auditing literature by the AICPA’s auditing standards codification in AU Section 341, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, and in the comparable standard adopted and amended by the PCAOB. In October 2008, the FASB started the process for incorporating the requirements into the accounting literature through the release of an exposure draft. The project has moved slowly, and current plans are to finalize the new guidance by the end of June, 2010.

New in 2009

Business Combinations

In 2009, the accounting for mergers and acquisitions (M&A) changed significantly under ASC 805 (formerly FAS 141R). Although the activity in the M&A market was slow during most of 2009, there has been a recent up-tick in acquisition activity as financially stronger entities acquire weaker ones. Additionally, some sellers concluded they wouldn’t receive a higher price by holding out further.

Key areas of change in accounting for M&A include:

- Assets acquired and liabilities assumed are recognized at their acquisition-date fair values, with limited exceptions.
- Acquisition costs such as fees paid to investment bankers, lawyers, accountants, valuation specialists and other consultants are generally expensed as incurred. Note, fees directly attributable to capital raising activities are still treated either as debt issuance costs (capitalized) or a reduction of equity proceeds received.
- Restructuring costs that the acquirer expects to incur with exit activities, involuntary terminations or relocating acquired employees are also expensed when incurred in the post-combination financial statements.
- Goodwill associated with both the acquirer's interest and the noncontrolling (minority) interest is recognized at the acquisition date in a business combination. That is, step-acquisition accounting no longer applies.
- When a business combination is achieved in stages (e.g., steps), the acquirer remeasures its previously held equity interest in the acquiree at fair value when it obtains control. Any resulting gain or loss is recognized in earnings.
- The measurement date for consideration transferred, including equity securities, is the acquisition date. This is generally the closing date when control is obtained.
- Contingent consideration is measured at its acquisition-date fair value, and subsequent changes in fair value are recognized in earnings if the arrangement is classified as a liability. In con-

trast, equity-classified arrangements are not remeasured.

- In-process research and development is measured at fair value using market participant assumptions and capitalized as an intangible asset, rather than expensed immediately.
- Acquired intangible assets that the acquirer does not intend to use are nevertheless measured using market participant assumptions. The FASB also clarified that these intangibles must be recorded apart from other intangibles and amortized over the period management expects their fair value to diminish, which is usually not indefinite.
- During the measurement period, adjustments to provisional amounts to reflect new information obtained about facts and circumstances that existed at the acquisition date are applied retrospectively. That is, the acquirer should revise comparative information for prior periods presented in current financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.
- The definition of what constitutes a "business" was expanded, widening the scope of transactions subject to acquisition accounting. A business is now defined as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants." In light of the phrase "capable of," the number of a company's reporting units may grow if components that did not meet the previous definition of a business do so now. If goodwill is allocated across a greater

number of reporting units, this could increase the likelihood of impairment.

After the new business combination rules were issued but before they went into effect, preparers, auditors, and members of the legal profession raised concerns about the new accounting for certain acquired contingencies, such as contingent losses arising from litigation. As a result, the FASB reinstated most of the original recognition and measurement criteria for acquired contingencies in FAS 141. Specifically, assets acquired and liabilities assumed in a business combination that arise from pre-acquisition contingencies are recognized at fair value at the acquisition date, if fair value can be determined during the measurement period. If the acquisition date fair value cannot be determined, contingent assets and liabilities are still recognized at the acquisition date if the criteria in ASC 450 (formerly FAS 5 and FIN 14) are met: (i) information available before the end of the measurement period indicates that it is probable that the contingency existed at the acquisition date and (ii) the amount of the contingency can be reasonably estimated. In addition, contingent consideration arrangements of an acquiree are treated as contingent consideration of the acquirer.

The FASB also updated ASC 350-30-35-1 (formerly FSP FAS 142-3) to revise the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent was to improve the consistency between the useful life of a recognized intangible asset under ASC 350-30 (formerly FAS 142) and the period of expected cash flows used to measure the fair value of the asset under ASC 805.

Equity Method Investments

The new business combination rules also prompted questions about equity method investments. The FASB clarified in ASC 323 (formerly EITF 08-6) that: (i) the initial carrying value of an equity method investment is measured at cost, (ii) subsequent to initial measurement, the equity method investors must recognize their share of other-than-temporary impairments of equity method investments in accordance with ASC 323 (formerly APB 18) and (iii) an investor in an equity method investee must account for the issuance of new shares by the investee as though the equity method investor had sold a proportionate share of its investment with the related gain or loss recognized in earnings.

Consolidation

Changes to ASC 810 (formerly FAS 160) created notable differences in the presentation of net income and stockholders' equity. In the past, parent companies deducted minority interest expense in order to arrive at net income, which was closed out to retained earnings. Net income is no longer reduced for such amounts. Rather, net income is attributed to the controlling and noncontrolling (minority) interests, both of which are presented as separate components of total equity. This change had obvious implications for common financial ratios such as return on equity and debt covenants. However, EPS continues to be calculated on the basis of the parent's share of earnings or loss.

Other elements of the new guidance require:

- Consistent accounting for changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary. A parent's ownership interest in a sub-

subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are accounted for similarly, as equity transactions.

- The recognition of a gain or loss when a subsidiary is deconsolidated based upon the (i) fair value of the consideration received, (ii) the fair value of any retained noncontrolling investment in the subsidiary, and (iii) the carrying amount of any noncontrolling interest in the former subsidiary that exists at the date of deconsolidation. The sum of items (i), (ii) and (iii) is compared to the carrying amount of the former subsidiary's assets and liabilities to determine the amount of the gain or loss. After deconsolidation occurs, any retained noncontrolling equity investment in the former subsidiary is initially measured and recorded at fair value.

During the implementation of these provisions, constituents raised concerns that the guidance appears to conflict with the gain or loss treatment or derecognition criteria of other US GAAP, such as the guidance for sales of real estate, transfers of financial assets, conveyances of oil and gas mineral rights, and transactions with equity method investees. Additionally, some were concerned with form-based structuring opportunities, e.g., the possibility that different accounting could result for the same underlying assets depending on whether they were transferred by themselves or within a separate legal entity formed for that purpose.

The FASB issued ASU 2010-02 to address these concerns. The ASU amends ASC 810-10 and related guidance to clarify that the scope of the decrease in ownership provisions applies to the following:

- A subsidiary or group of assets that is a business or nonprofit activity
- A subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture
- An exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity, including an equity method investee or joint venture.

The amendments also clarify that the decrease in ownership provisions do not apply to the following transactions even if they involve businesses:

- Sales of in substance real estate. Companies should continue to apply the sale of real estate guidance in ASC 360-20.
- Conveyances of oil and gas mineral rights. Companies should continue to apply the mineral property conveyance and related transactions guidance in ASC 932-360.

If a decrease in ownership occurs in a subsidiary that is not a business or nonprofit activity, companies first need to consider whether the substance of the transaction is addressed in other US GAAP, such as transfers of financial assets, revenue recognition, etc., and apply that guidance. If no other guidance exists, an entity should apply ASC 810-10.

Lastly, the ASU expands existing disclosure requirements for transactions within the scope of ASC 810-10, and adds several new ones that address fair value measurements and related techniques, the

nature of any continuing involvement after the transaction, and any related party involvement.

In connection with the new noncontrolling interest guidance, questions were asked about the accounting for certain types of convertible debt and warrants with a settlement amount that is based on the stock of a consolidated subsidiary. Those questions are now addressed in ASC 815-40-15-5C and ASC 815-10-15-77 (formerly EITF 08-8). The guidance indicates certain types of instruments that previously were marked-to-market through earnings are now included in equity and are not remeasured. This is consistent with ASC 810's treatment of noncontrolling interests. However, other conditions in ASC 815 (formerly, EITFs 07-5 and 00-19) must also be satisfied to avoid mark-to-market accounting.

For SEC registrants, when noncontrolling interests are redeemable based on events outside of the issuer's control, they must be classified outside of permanent equity as mezzanine equity. Registrants should be mindful of the revised guidance in ASC 480-10-S99-3A (formerly EITF Topic D-98) on how to measure and classify these types of securities. The revisions also include new earnings per share (EPS) guidance for noncontrolling interests, with differing treatment of common vs. preferred securities and whether redemption occurs at fair value or some other amount. Accordingly, companies should carefully consider the form and features of their equity securities when applying the new guidance.

Fair Value

ASC 820 (formerly FAS 157) provides a framework for all fair value measurements, and its disclosure requirements provide users with information about how management develops its estimates.

For most entities, ASC 820 has been effective since January 1, 2008. However, the FASB provided a deferral for nonfinancial assets and liabilities that are recognized and disclosed on a nonrecurring basis (e.g., impairment charges). For calendar year-end companies, that deferral ended on January 1, 2009. This may prove to be a challenge as companies will be required to contend with hypothetical markets and develop valuations from the perspective of a market participant.

ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." This "simple" definition has raised many implementation issues, which led to additional guidance.

For example, the FASB addressed the measurement of liabilities with a third-party credit enhancement (e.g., a guarantee) in ASC 820-10-25-1 (formerly EITF 08-5). It clarifies that the unit of account for the debt does not include the third-party credit enhancement, and as a result, the issuer should not include the effect of the credit enhancement in the fair value measurement of the liability.

Constituents asked more questions about measuring liabilities and the FASB responded with ASU 2009-05. It affirms that if a quoted price in an active market for an identical liability is available, it should be used. Otherwise, the ASU requires that the fair value of the liability be measured using one or more of the following techniques: (i) the quoted price of the identical liability when traded as an asset (e.g., bonds), (ii) quoted prices for similar liabilities or similar liabilities when traded as assets, or (iii) another valuation technique that is consistent with the principles of ASC 820, such as

an income approach or a market approach. When using the quoted price of an identical liability when traded as an asset, an entity should adjust for factors specific to the asset that are not applicable to the fair value measurement of the liability. For example, the quoted price of the asset may include the effect of a third-party credit guarantee, which should be excluded from the liability's measurement. Adjustments are not required or permitted for restrictions that prevent the liability from being transferred.

In late 2008 near the apex of the fair value accounting debate, the FASB updated Topic 820 (formerly FSP FAS 157-3) to stress the need for judgment. This guidance describes the key considerations in measuring the fair value of a financial asset when there is little or no market activity at the measurement date. It also addresses the consideration of observable transaction prices, the acceptability of Level 3 inputs, and the consideration of third-party pricing quotes.

In 2009, Topic 820 was updated again (formerly FSP FAS 157-4) in response to questions on how to estimate the fair value of assets and liabilities that have experienced a decrease in trading activity. The guidance affirms that even with a significant decrease in the volume and level of activity for an asset or liability, fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Entities are required to evaluate specific circumstances based on the weight of all available evidence to determine whether a transaction is orderly, as opposed to a forced liquidation or distressed sale. The guidance includes a sampling of indicators that entities should consider to determine whether a significant decrease in the vol-

ume or level of activity has occurred. If so, it may be necessary for companies to significantly adjust transactions or quoted prices to arrive at their final estimate of fair value.

Some investors invest in entities that permit redemption and/or provide distributions at specified times. Many of these investments do not have a readily determinable fair value because they are not listed on national exchanges or over-the-counter markets. Examples include hedge funds, private equity funds and venture capital funds. In ASU 2009-12, the FASB allowed these investors to use net asset value (NAV) per share as a practical expedient for measuring the fair value of their investments, if certain conditions are met. The accommodation applies to investors with investments that are required or permitted to be measured or disclosed at fair value on a recurring or nonrecurring basis. In addition, the investment must not have a readily determinable fair value, and the investment must be held in an entity that meets the definition of an investment company under ASC 946-10-15-2 (formerly, the AICPA Investment Company Guide). If one or more of the attributes under the investment company definition are not present, the investment must be in an entity for which it is industry practice to use the measurement principles in the investment company guidance.

However, an investor cannot use the practical expedient when it is probable that the investor will sell the investment for an amount different from NAV, and the ASU provides criteria for determining whether a sale is considered probable.

Throughout 2008 and 2009, the FASB received extensive input from constituents on financial reporting issues related to the measurement and impairment of financial instruments. Most users indicated that measuring financial instru-

ments at fair value is more relevant than other measurements like amortized cost in helping to assess the effect of current economic events on a timely basis. Others asserted that fair value is not as relevant when financial markets are inactive or distressed. To quickly address the concerns raised about the lack of comparability resulting from the use of different measurement attributes for financial instruments, the FASB decided that increasing the frequency of the disclosures about fair value would improve the transparency and timeliness of information provided to financial statement users. Therefore, the FASB updated ASC 820-10-50 (formerly FSP FAS 107-1 and APB 28-1) to expand current disclosure requirements about the fair value of financial instruments for interim reporting periods. It also requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions, if any, during the period.

Impairment of Debt Securities

As noted earlier, under ASC 320 (formerly FSP FAS 115-2 and FAS 124-2) when the fair value of a debt security falls to a level lower than its amortized cost basis at the balance sheet date, a company must assess whether the impairment is other than temporary (OTTI). In 2009 the FASB amended the OTTI guidance for debt securities. Under prior guidance a company was required to assert, among other considerations, that it had the intent and ability to hold a debt security until recovery in order to conclude that an impairment was temporary. Under the new model, an OTTI is triggered if: (i) an entity has the intent to sell the security, (ii) it is more likely than not that it will be required to sell the security before recovery, or (iii) it

does not expect to recover the entire amortized cost basis of the security.

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

The new guidance does not amend the existing recognition and measurement model for OTTI of equity securities in ASC 320-10-S99 (SAB Topic 5.M. and SAB 111). For equity securities, the current assertions of intent and ability to hold until recovery remain in place. However, the presentation and disclosure requirements of the ASU apply to investments in both debt and equity securities. Further, the SEC staff also indicated in a letter to the FASB that perpetual preferred securities possessing significant “debt-like” characteristics may be evaluated under the OTTI model for debt securities, unless there is evidence of deterioration in the credit quality of the issuer.¹ In that case, we understand ASC 320-10-S99 would continue to apply. Even though it was written prior to the FASB’s new guidance, the SEC staff’s letter continues to be relevant since

these instruments are not addressed elsewhere in US GAAP.

Of particular interest to banks and other financial institutions, the FASB updated ASC 325-40 (formerly FSP EITF 99-20-1) to address concerns about losses recorded in illiquid markets by entities with beneficial interests in securitized financial assets. These securities were subject to a different impairment test than the OTTI approach described above. Specifically, ASC 325-40 used to require market participant assumptions about future cash flows, which could not be overcome by management's judgment of the probability of collecting all cash flows previously projected. The FASB replaced this market participant approach with an assessment of whether it is probable, based on current information and events, that there has been an adverse change in estimated cash flows. The amendment was made to make the OTTI model for beneficial interests consistent with the method used for other debt securities.

Revenue Recognition

Under ASC 605-25 (formerly EITF 00-21) many companies' sales arrangements are often characterized by transactions with multiple deliverables. For example, in the technology industry, hardware, software and professional services may be sold together as part of the same customer arrangement. In the biotechnology industry a single arrangement may include an intellectual property license, as well as research and development services. A standard equipment manufacturer may sell multiple products under the same purchase order that are delivered at different times, or provides installation services in addition to delivery of products.

In October 2009, the FASB issued ASU 2009-13, which allows companies to allo-

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

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

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

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

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

The ASU requires robust transition disclosures. It also expands ongoing disclosures about any significant judgments that were made.

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

Convertible Debt

The FASB updated ASC 470-20 (formerly FSP APB 14-1) to eliminate the perceived accounting benefits that certain convertible instruments have enjoyed. The scope of the new guidance includes convertible debt that may be settled, either partially or entirely in cash or other assets upon conversion, and for which the conversion option is not

¹ See <http://www.sec.gov/info/accountants/staffletters/fasb101408.pdf>.

required to be bifurcated from the debt host under ASC 815. In the past, the conversion options on these instruments were not separated from their hosts and the treasury stock method of EPS calculation was allowed for the conversion spread. Consequently, prior accounting for these instruments resulted in a lower amount of interest expense and a less dilutive effect on EPS compared with other similar instruments. Now, the liability component is measured first at the fair value of a similar liability without the conversion option. The difference between the proceeds received and the fair value of the liability without the conversion option represents the residual equity component, which is set up as a discount to the debt and amortized to interest expense.

For public companies subject to the new convertible debt guidance, the SEC staff updated ASC 480-10-S99-3A to address whether mezzanine classification of the equity component is required. If the registrant's debt is convertible or redeemable at the current balance sheet date for cash, then a portion of the equity component may be required to be classified in mezzanine equity. This is the case if the conversion or redemption amount is greater than the carrying amount of the liability component at the balance sheet date. The amount reported in mezzanine equity should be the difference between the conversion or redemption amount and the carrying amount of the liability. For example, if at the balance sheet date, the convertible debt is currently redeemable for \$1,000, and the liability component is \$950, \$50 of the equity-classified component should be presented as mezzanine equity.

During 2009, some companies had to entice potential convertible debt investors by entering into share-lending arrangements. Under these contracts, the borrower (issuer) loans its own shares to a

third party such as an investment banker and receives a nominal fee for the share loan. In turn, the investment banker is able to facilitate a lender's (investor's) short position on the borrower's stock to offset the long position represented by the conversion option in the debt. As a result, the borrower is able to negotiate a lower interest rate, or perhaps access capital that it might not otherwise have been able to obtain.

On October 13, 2009, the FASB issued ASU 2009-15, to provide accounting guidance on share-lending arrangements and the related effects on EPS. In the past, these arrangements had not typically been given accounting recognition. The ASU significantly changes practice by requiring companies to recognize the share-lending arrangement at fair value as a debt issuance cost with an offset to equity, and it is subsequently amortized to interest expense. The new guidance indicates that when it becomes probable the loaned shares will not be returned, the company should recognize an expense, net of probable recoveries, equal to the then fair value of the unreturned shares. The company is also required to re-measure the fair value of the unreturned shares each period (also offset to equity) until the arrangement consideration payable by the counterparty becomes fixed. In addition, loaned shares are excluded from basic and diluted EPS unless default of the share-lending arrangement occurs, at which time they are incorporated into the denominator of EPS.

Derivatives and Hedging

In 2009, the FASB enacted an abundance of new disclosures – both qualitative and quantitative – to provide information about derivative instruments and hedging activities in ASC 815-10-50 (formerly FAS 161). Companies are required to provide enhanced disclosures about

(i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. These disclosures are required for both interim and annual periods.

In response to the credit crisis, FASB amended Topic 815 (formerly FSP FAS 133-1 and FIN 45-4) to enhance disclosures provided by sellers of credit derivatives and guarantors by requiring them to provide more information about events that will trigger payouts.

Separately, the FASB revisited what it means for a derivative contract to be indexed to the issuing company's own stock in ASC 815-40 (formerly, EITF 07-5). This question is an important part of a larger analysis to determine whether the contract can be excluded from market-to-market accounting. The revised guidance provides a two-step approach for this analysis. Management must first assess the contract's contingent exercise provisions, if any, and second, its settlement provisions. The guidance has particular relevance for issuers of convertible securities and warrants, as well as purchasers in a business combination who enter into contingent consideration arrangements that may require the delivery of equity interests based on whether future events occur or conditions are met, such as a performance target.

Uncertain Tax Positions (UTPs)

Since its issuance, the accounting model for UTPs has proved challenging for certain nonpublic companies, particularly pass-through entities and not-for-profit organizations. Consequently, the FASB deferred the effective date for eligible entities on two occasions. The FASB recently

ended the deferral by issuing ASU 2009-06. In addition, the ASU (i) clarified that an entity's tax status is a tax position that must be considered, (ii) provided guidance for determining whether income taxes paid by the entity are attributable to the entity or its owners, and (iii) indicated entities must consider the tax positions of all entities within a related group (e.g., a consolidated group) regardless of the tax status of the reporting entity itself. The ASU's implementation guidance applies to financial statements of all entities.

The ASU also eliminated two disclosure requirements for nonpublic entities, without changing the rules for public entities. Nonpublic entities are no longer required to disclose the tabular reconciliation of total unrecognized tax benefits or the total amount of unrecognized tax benefits that would affect the effective tax rate.

Subsequent Events

In May 2009, the FASB issued new guidance in ASC 855 (formerly FAS 165) on accounting for and disclosure of subsequent events—events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new guidance is based on the same principles as those that previously existed in the auditing standards. However, entities are required to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or, for private companies, the date the financial statements were available to be issued.

Subsequent to its issuance, constituents informed the FASB that the requirement to disclose the date that the financial statements are reissued potentially conflicts with some of the SEC's guidance. As a result, the FASB issued a proposal in late

December 2009 to address the interaction of the requirements in Topic 855 with the SEC's requirements and certain other matters. The FASB expects to resolve these issues during the first quarter of 2010.

Earnings Per Share

The FASB addressed several issues related to EPS that impact 2009 reporting. The FASB clarified in ASC 260-10-45-60 that unvested share based payment awards which contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of EPS pursuant to the two-class method.

ASC 260-10-45-1 (formerly EITF 07-4) was designed to improve the comparability of earnings per unit calculations for master limited partnerships with incentive distribution rights that are required to make incentive distributions when certain thresholds are met. It addresses the application of the two-class method of computing earnings per unit in structures in which the incentive distribution rights are considered separate from the general partner interest, as well as when they are considered embedded in the general partner interest.

In 2009, diversity in practice emerged in the way certain real estate investment trusts (REITs) accounted for distributions to shareholders that offer them the ability to elect to receive the entire distribution in cash or shares of an equivalent value with a potential limit on the amount of cash that shareholders can elect to receive in the aggregate. Some entities treated the stock portion as a stock dividend which is reflected retrospectively in EPS, while others treated it as a stock issuance that is reflected prospectively in EPS. The FASB issued ASU 2010-01 to clarify that the stock por-

tion of these arrangements should be treated as a stock issuance, improving comparability of EPS across companies who make such distributions, which are not necessarily limited to REITs.

Oil and Gas Disclosures

Even though it wasn't delivered until January, the FASB issued ASU 2010-03 to update and improve oil and gas disclosure requirements that affect December 31, 2009 reports. The objective is to align the oil and gas reserve estimation and disclosure requirements of ASC 932 with the requirements of the SEC's final rule, *Modernization of the Oil and Gas Reporting Requirements*, which was issued on December 31, 2008. The ASU's provisions (i) expand the definition of "oil and gas producing activities" to include the extraction of certain saleable hydrocarbons, and (ii) amend the definition of proved oil and gas reserves to indicate that companies must use the average first day price of each month in the year, rather than the year-end price, when determining whether reserve quantities are economical to produce. A number of other disclosure requirements were also added or revised based upon existing standards.

Other Changes in 2009

Collaborative Arrangements

ASC 808 (formerly EITF 07-1) addresses situations in which entities enter into arrangements without the creation of a separate legal entity to participate in a joint operating activity. These activities might include the development and commercialization of intellectual property, a drug candidate, software, computer hardware, or a motion picture. The new literature provides guidance on the income

statement presentation of costs incurred and revenue generated from third parties, as well as payments between the participants in the collaborative arrangement. A number of disclosures are also required.

Escrowed Share Arrangements

In EITF Topic D-110, the SEC staff updated its views on arrangements in which shareholders of a company place a portion of their shares in escrow in connection with an initial public offering or other capital-raising transaction. The escrowed shares are released back to the shareholders only if certain performance targets are met. Historically, the SEC staff believed these arrangements were compensatory, equivalent to a reverse stock split followed by the grant of a restricted stock award under a performance-based plan. When evaluating the substance of the transaction and whether the presumption of compensation can be overcome, the staff believes an arrangement in which the shares are forfeited if employment terminates is compensation. Otherwise, if the escrowed shares will be released or canceled without regard to continued employment, the facts and circumstances may indicate that the arrangement is in substance an inducement made to facilitate the transaction on behalf of the company. In such cases, the staff now believes that the arrangement should be recognized and measured as a reduction of the proceeds allocated to the newly-issued securities. Further, the staff observed discounts on debt securities are amortized using the effective interest method, while discounts on common equity are not generally amortized.

Financial Asset Transfers

ASC 860-10 (formerly FSP FAS 140-3) was updated to address questions about

the accounting for a repurchase financing, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties, that is entered into contemporaneously with, or in contemplation of, the initial transfer. The guidance discusses whether the initial transfer and related repurchase financing should be evaluated jointly or separately for sale accounting under ASC 860. If they must be evaluated jointly and do not qualify for sale accounting, then the linked transactions may meet the definition of a derivative under ASC 815.

Financial Asset Transfers and Interests in VIE Disclosures

As an interim measure prior to its revision to the accounting models for securitizations and off-balance sheet entities (see “2010 Developments” below), the FASB amended its disclosure guidance on these topics (formerly FSP FAS 140-4 and FIN 46(R)-8) to expeditiously meet user requests for greater transparency into financial asset transfers and an entity’s involvement with certain off-balance sheet entities.

Financial Guarantee Insurance

ASC 944 (formerly FAS 163) was updated to address inconsistent recognition and measurement of claim liabilities because of differing views about when a loss has been incurred. ASC 944 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies the accounting for financial guarantee insurance contracts, including the recognition and measurement of premium revenue and claim lia-

bilities. Lastly, it enhances the disclosures about financial guarantee insurance contracts.

Leases

Leases increasingly include maintenance deposits to ensure that the leased asset is properly maintained. ASC 815-10-05-9A (formerly EITF 08-3) clarifies that the lessee should treat the payment as a deposit asset, and either expense or capitalize the cost of maintenance at the time the maintenance is performed, consistent with the lessee’s maintenance accounting policy.

Not-for-Profit Organizations (NFPs)

In ASC 958-205, the FASB provided guidance on the net asset classification of donor-restricted endowment funds under the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). It also requires enhanced disclosures by all NFPs that have endowments (whether donor restricted or not) and regardless of whether the organization is currently subject to UPMIFA.

Pension Disclosures

ASC 715-10-50 (formerly FSP FAS 132(R)-1) now requires additional disclosures by employers that sponsor defined benefit pension or other postretirement plans, which provide more information about plan assets, investment decisions, and related risks.

2010 Developments

Financial Asset Transfers and Consolidation of Variable Interest Entities

On June 12, 2009, the FASB issued two new standards that will have a significant impact on many enterprises beginning in 2010. Under ASC 860 (formerly FAS 166), companies will have to meet more stringent criteria in order to treat the transfers of financial assets, such as trade receivables and loans, as sales rather than secured financings. Under ASC 810 (formerly FAS 167), more special purpose entities (SPEs) and variable interest entities (VIEs) will be consolidated.

ASC 860 and 810 were updated to address concerns of Congress, the SEC, and users of financial statements regarding the accounting for transfers of financial assets and a perceived lack of visibility into off-balance sheet arrangements that were previously exempt from consolidation. Although FASB deliberations centered on the accounting by financial institutions, the changes apply broadly, not just to financial institutions. Significant changes to ASC 860 include:

- Elimination of the QSPE – Qualifying special purpose entities (QSPEs) are passive entities designed by companies to facilitate securitizations. In the past, financial assets transferred to a qualifying special-purpose entity were not recorded on the financial statements of the transferor. The new standard eliminates the QSPE concept. In addition to prospective transactions, all existing QSPEs will be subject to the new consolidation requirements in ASC 810 and, as a result, many will be consolidated by the transferor.

- Restrictions on transfers of portions of financial assets – The new guidance narrows the circumstances in which portions of a financial asset transfer can be treated as a sale. An asset cannot be divided into component parts unless all of the component parts meet the definition of a participating interest. The derecognition criteria must be applied to transfers of an entire financial asset, groups of entire financial assets, or transfers of a participating interest. A participating interest is defined as a portion of a financial asset with all the following characteristics: (i) it is a proportionate ownership right in an entire financial asset; (ii) all cash flows from the asset, except for compensation paid for servicing activities, are divided among the participating interest holders in proportion to their share of ownership; (iii) it is not subordinate to other interests and it has no recourse to the transferor or other participating interests; and (iv) no party has the right to pledge or exchange the entire asset unless all participating holders agree to pledge or exchange the entire financial asset.
- Legal isolation – All arrangements made in connection with a transfer be considered in the legal isolation analysis. In addition, the new standard clarifies when a transferor should obtain a true sale opinion from its attorneys and that the financial asset must be isolated, not only from the transferor, but also from its consolidated affiliates other than those that are bankruptcy-remote.
- Transferee's ability to pledge or exchange a transferred asset – The transferor must surrender control of the transferred assets to be eligible for sale treatment. To meet this condition, the transferees must be able to freely sell or pledge the assets. Because the new standard eliminates the notion of

QSPEs, it requires a transferor to look through a SPE when the SPE is solely engaged in asset-backed financings or securitizations. If the transferor determines that the transferee or beneficial interest holder does not have the right to sell or pledge the asset, derecognition/sale treatment would be prohibited.

- Initial measurement of a transferors' beneficial interest – All beneficial interests or other assets obtained and liabilities incurred in transfers accounted for as sales are initially recognized at fair value. On transfer of a participating interest that qualifies for sale accounting, the guidance requires that the portion of a financial asset retained by the transferor be initially measured on the basis of a relative fair value allocation of the previous carrying amount of the asset transferred.
- Transfers of mortgage loans to a guaranteed mortgage securitization – Prior to the update to ASC 860, a transferor was permitted to reclassify a loan to a security, even if the transfer did not meet the conditions for sale accounting under ASC 860. The revisions eliminate the ability of a transferor to reclassify a mortgage loan to a security when the guaranteed mortgage securitization does not meet the criteria for derecognition.
- Additional Disclosures - The new standard requires additional disclosures aimed at improving the transparency of any continuing involvement with transfers of financial assets, the nature of any restrictions on the transferor's assets that relate to a transferred financial asset, and how a transfer of financial assets affects the company's balance sheet, earnings and cash flows.

ASC 810 was updated to improve financial reporting by enterprises involved with variable interest entities. It addresses the

impact of the elimination of QSPEs under ASC 860 and constituent concerns about the application of ASC 810, including those relating to the determination of which enterprise (if any) is the primary beneficiary, the frequency of reconsideration events, and the sufficiency of disclosures regarding an enterprise's involvement with a VIE. The update to ASC 810 retains many of the principles in the variable interest consolidation model, but there are some significant changes:

- Elimination of the QSPE – As noted above, the concept of a QSPE was eliminated by the update to ASC 860. One of the changes to ASC 810 was to remove a scope exception that excluded QSPEs from a consolidation analysis. Upon adoption, the new guidance requires that existing QSPEs be re-evaluated to determine whether entities are VIEs and consolidation is required.
- Identifying the primary beneficiary – Previously, companies often assessed their involvement with a VIE by determining if they would absorb a majority of the VIE's expected losses and/or residual returns, which is a quantitative method that is difficult to apply. The new guidance requires a qualitative assessment when determining the primary beneficiary. This assessment will require judgment and consideration of all facts and circumstances. If the enterprise has the (i) power to direct the activities that most significantly impact the economic performance of the VIE, and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be potentially significant to the VIE, then it would be considered the primary beneficiary. In performing the analysis, only substantive contractual and noncontractual terms, transactions, and arrangements need to be consid-

ered. Kick-out rights and substantive participating rights are ignored unless the rights are held by a single enterprise.

- Previously, if more than one party in a related party group had a variable interest and, as a group, they would be considered the primary beneficiary of a VIE, the enterprise most closely associated with the VIE would consolidate it. Under the revised model, if one party in the related party group individually meets the primary beneficiary conditions, that party consolidates the VIE. Only when an enterprise concludes that neither it nor its related parties has both characteristics, but the related party group as a whole does, does the party within the group that is most closely associated with the VIE become the primary beneficiary. When determining whether an enterprise has the power to direct the activities of a VIE, an enterprise is still required to assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed.
- Shared power – Under the revisions to ASC 810, if the power to direct the most significant activities of a VIE is shared with unrelated parties, there is no primary beneficiary and no party consolidates the VIE. Power is considered shared if two or more unrelated parties together have the power to direct the activities that most significantly impact the VIE's economic performance and if decisions about those activities require the consent of each of the parties. If multiple parties have power over the same significant activities (such as multiple loan servicers for a single trust), but the power is not shared, the party (if any) with the power over the majority of the activities has power over the VIE. If power is not shared and multiple unre-

lated parties have power over different activities, the party with power over the activities that most significantly impact the entity's economic performance has the power over the VIE.

- Ongoing assessments – ASC 810 previously required an enterprise to reassess whether an entity is a VIE and whether it is the primary beneficiary only upon the occurrence of a specific events. The new guidance requires ongoing assessments of which enterprise is the primary beneficiary of the VIE. Reconsideration of VIE status is still based on the occurrence of specified events. However, when considering whether the entity is a VIE, the new guidance adds an additional reconsideration event that requires enterprises to determine if changes in facts or circumstances cause the holders of the equity at risk, as a group, to lose the power to direct the activities that are most significant to the economic performance of the entity. The new guidance also eliminates the exemption for reconsideration of status as a VIE or determination of the primary beneficiary upon a troubled debt restructuring.
- Fees paid to decision makers and service providers – The revised variable interest model combines and changes the criteria that determine whether fees paid to decision makers or service providers are variable interests. Under ASC 810, such fees used to be evaluated under separate criteria to determine if they were variable interests in an entity. The most significant change relates to cancellation provisions and kick-out rights. It is no longer necessary to consider whether kick-out rights exist to determine that fees paid to a decision maker are not variable interests. The requirement to consider customary cancellation provi-

sions in other service contracts is also eliminated.

- Additional disclosures – The updated guidance requires additional disclosures that are designed to illustrate an enterprise's involvement with VIEs and any significant changes in risk exposure due to that involvement. The disclosures also require an enterprise to explain any significant judgments and assumptions made in the consolidation analysis.
- Presentation – An enterprise must separately present on the face of the balance sheet (i) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, and (ii) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary.

After the updates to ASC 810 were issued but prior to their adoption, several users of financial statements of investment managers continued to express concerns about the usefulness of those statements if the fund managers were required to consolidate the funds they manage. In addition, there was a conflict with the International Accounting Standards Board (IASB)'s deliberations to date on evaluating principal and agent relationships that would result in a different consolidation conclusion for investment funds compared with US GAAP. Since the FASB and the IASB have a joint project to develop a single converged accounting standard on consolidation policy, the FASB decided that the effective date of the amendments should be deferred for the affected investment funds so both Boards could develop consistent guidance on a joint basis. An exposure draft was issued in December 2009 for this purpose, which the FASB plans to resolve in the first quarter of 2010.

Mergers and Acquisitions of NFP Entities

The FASB issued guidance in 2009 that takes effect in 2010 which determines whether a combination is a merger or an acquisition, and applies the carryover method in accounting for a merger. Alternatively, it applies the acquisition method for an acquisition. It also amends the guidance in ASC 350 (formerly FAS 142) to make it fully applicable to NFPs.

On the Horizon

The pace of change in 2009 shows no signs of slowing in 2010. When we went to press, the FASB's agenda was comprised of 16 joint projects with the IASB, 12 stand-alone projects and 10 Emerging Issues Task Force (EITF) projects. Details of the FASB's agenda are available on its website. The credit crisis spurred a number of these efforts and marketplace developments continue to stoke the demand for more detailed accounting guidance.

If you would like to discuss the content of this Financial Reporting, please call:

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Appendix of Effective Dates¹

PRONOUNCEMENT	EFFECTIVE DATE
ASC 105, Generally Accepted Accounting Principles	
FAS 168, <i>The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FAS 162</i>	Effective for FS issued for interim and annual periods ending after 9/15/09, except for nonpublic nongovernmental entities that have not followed the guidance included in the AICPA Technical Inquiry Service Section 5100, “Revenue Recognition,” paragraphs 38–76. Those entities should account for the adoption of that guidance as a change in accounting principle on a prospective basis for revenue arrangements entered into or materially modified in those FYs beginning on or after 12/15/09, and interim periods within those years.
ASC 260, Earnings Per Share	
FSP EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities”	Effective for FS issued for FYs beginning after 12/15/08, and interim periods within those years. Retrospective application is required.
EITF 07-4, “Application of the Two-Class Method under FAS 128 to Master Limited Partnerships “	Effective for FS issued for fiscal years beginning after 12/15/08, and interim periods within those FYs. Retrospective application is required.
ASU 2010-01, <i>Accounting for Distributions to Shareholders with Components of Stock and Cash</i>	Effective for interim and annual periods ending on or after 12/15/09. Retrospective application is required.
ASC 320, Investments – Debt and Equity Securities	
FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairment”	Effective for interim and annual reporting periods ending after 6/15/09, with early adoption permitted for periods ending after 3/15/09.
ASC 323, Investments – Equity Method and Joint Ventures	
EITF Issue 08-6, “Equity Method Investment Accounting Considerations”	Effective for FYs beginning on or after 12/15/08, and interim periods within those FYs, consistent with the effective dates of Statement 141(R) and Statement 160.
ASC 325, Investments – Other	
FSP EITF 99-20-1, “Amendments to the Impairment Guidance of EITF 99-20”	Effective for interim and annual reporting periods ending after 12/15/08, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted.
ASC 350, Intangibles – Goodwill and Other	
FSP FAS 142-3, “Determination of the Useful Life of Intangible Assets”	Effective for FS issued for FYs beginning after 12/15/08, and interim periods within those FYs. Early adoption is prohibited. The guidance on determining the useful life of a recognized intangible asset must be applied prospectively only to intangible assets acquired after the FSP’s effective date. Disclosure requirements are applied prospectively.
EITF 08-7, “Accounting for Defensive Intangible Assets”	Effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after 12/15/08.

¹This appendix was prepared with a calendar-year end company in mind. Therefore standards with an effective date in 2008 have been included since many companies applied them for the first time in 2009, e.g., the first interim or annual period beginning on or after December 15, 2008.

PRONOUNCEMENT	EFFECTIVE DATE
ASC 470, Debt	
EITF 08-4, “Transition Guidance for Conforming Changes to EITF Issue No. 98-5, ‘Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios’”	Conforming changes made to Issue 98-5 that resulted from Issue 00-27 and Statement 150 shall be effective for FS issued for FYs ending after 12/15/08, with early adoption permitted. The impact of applying the conforming changes, if any, must be presented retrospectively, with a cumulative effect adjustment to retained earnings as of beginning of the first period presented.
FSP APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”	Effective for FS issued for FYs beginning after 12/15/08, and interim periods within those fiscal years. Retrospective application for all periods presented.
ASU 2009-15, <i>Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing</i>	Effective for FYs beginning on or after 12/15/09, and interim periods within those FYs for arrangements outstanding as of the beginning of those FYs. Effective for new share-lending arrangements entered into in periods that begin on or after 6/15/2009.
ASC 480, Distinguishing Liabilities from Equity	
EITF Topic No. D-98, “Classification and Measurement of Redeemable Securities”	Guidance related to Statement 160 and FSP APB 14-1 should be applied in conjunction with those standards.
ASC 605-25, Revenue Recognition, Multiple-Element Arrangements	
ASU 2009-13, <i>Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force</i>	Effective prospectively for revenue arrangements entered into or materially modified in FYs beginning on or after 6/15/10. Early application is permitted.
ASC 715, Compensation – Retirement Benefits	
FAS 158, <i>Employers Accounting for Defined Benefit Pension and Other Postretirement Plans</i>	Recognition of the asset and liability related to funded status of a plan and disclosures: For entities with publicly traded equity securities, effective for fiscal years ending after December 15, 2006. For all other entities, effective for fiscal years ending after June 15, 2007. For all entities, change in measurement date is effective for fiscal years ending after December 15, 2008. Early adoption is permitted.
FSP FAS 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets”	Effective for FYs ending after 12/15/09.
ASC 740, Income Taxes	
FIN 48, <i>Accounting for Uncertainty in Income Taxes—an interpretation of FAS 109</i>	For public entities FIN-48 was effective for fiscal years beginning after 2/15/06. For certain non-public entities, FSP FIN 48-3 defers the effective date until fiscal years beginning after 12/15/2008.
FSP FIN 48-1, “Definition of Settlement in FIN 48” (Effective for nonpublic entities)	Effective upon the adoption of FIN 48.
ASU 2009-06, <i>Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities</i>	For entities that are currently applying the standards for accounting for uncertainty in income taxes, the guidance and disclosure amendments are effective for FS issued for interim and annual periods ending after 9/15/09. For those entities that have deferred the application of accounting for uncertainty in income taxes in accordance with paragraph 740-10-65-1(e), the guidance and disclosure amendments are effective upon adoption of those standards. The amendments in this Update do not affect the effective date guidance for certain nonpublic entities in paragraph 740-10-65-1.

PRONOUNCEMENT	EFFECTIVE DATE
ASC 805, Business Combinations	
FAS 141(R), <i>Business Combinations</i>	Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 12/15/08 except for not-for-profit entities that are subject to FAS 164.
FSP FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies”	Effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 12/15/08.
EITF 08-7, “Accounting for Defensive Intangible Assets”	Effective for defensive intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after 12/15/08, in order to coincide with the effective date of Statement 141(R).
ASC 808, Collaborative Groups	
EITF 07-1, “Accounting for Collaborative Arrangements”	Effective for fiscal years beginning after 12/15/08, and interim periods within those fiscal years. This issue should be applied retrospectively to all prior periods resented for all collaborative arrangements existing as of the effective date.
ASC 810, Consolidations	
FAS 160, <i>Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51</i>	Effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08. The standard should be applied prospectively. Presentation and disclosure requirements should be applied retrospectively for all periods presented.
ASU 2010-02, <i>Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope clarification</i>	The amendments are effective beginning in the period that an entity adopts FAS 160 (ASC 810-10). If an entity has previously adopted FAS 160 as of the date of the amendments in this Update are included in the Codification, the amendments in this Update are effective beginning in the first interim or annual reporting period ending on or after 12/15/09. The amendments must be applied retrospectively to the date FAS 160 was adopted.
FAS 167, <i>Amendments to FASB Interpretation No. 46(R)</i>	Effective as of the beginning of the first FY beginning after 11/15/09 and for interim periods in those years.
ASC 815, Derivatives and Hedging	
FAS 161, <i>Disclosures about Derivative Instruments and Hedging Activities</i>	Effective for FS issued for FYs and interim periods beginning after 11/15/08.
FSP FAS 133-1 and FIN 45-4, “Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161”	Effective for reporting periods (annual or interim) ending after 11/15/08.
EITF 07-5, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock”	Effective for FS issued for FYs beginning after 12/15/08, and interim periods within those FYs.
EITF 08-8, “Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount that is Based on the Stock of an Entity’s Consolidated Subsidiary”	Effective for FYS beginning on or after 12/15/08, and interim periods within those FYs.
FSP APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”	Effective for FS issued for FYs beginning after 12/15/08, and interim periods within those FYs.

PRONOUNCEMENT	EFFECTIVE DATE
ASC 820, Fair Value Measurements and Disclosures	
ASU 2009-12, <i>Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)</i>	Effective for interim and annual periods ending after 12/15/09. Early application permitted.
ASU 2009-05, <i>Measuring Liabilities at Fair Value</i>	Effective for the first reporting period, including interim periods, beginning after issuance (8/28/2009).
FAS 157, <i>Fair Value Measurements</i> (Effective for nonfinancial assets and liabilities that are recognized and disclosed on a nonrecurring basis)	Generally effective for FYs beginning after 11/15/07, except for application to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the FS on a recurring basis (at least annually). The effective date for these assets and liabilities was extended to FYs beginning after 11/15/08, and interim periods within those FYs. Early adoption is permitted.
EITF 08-5, “Issuer’s Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement”	Effective on a prospective basis in the first reporting period beginning after 12/15/08. Early adoption is permitted.
FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly“	Effective for interim and annual reporting periods ending after 6/15/09, and shall be applied prospectively.
FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active”	Effective as of 10/10/2008, and applicable to prior periods for which financial statements have not yet been issued. Entities must account for revisions to fair value estimates resulting from the adoption of the FSP as a change in accounting estimate under Statement 154, but do not need to provide the disclosures required by that Statement.
FSP FAS 107-1 and APB 28-1, “Interim Disclosures About Fair Value of Financial Instruments”	Effective for interim reporting periods ending after 6/15/09, with early adoption permitted for periods ending after 3/15/09.
ASC 840, Leases	
EITF 08-3, “Accounting by Lessees for Maintenance Deposits Under Lease Arrangements”	Effective for FS issued for years beginning after 12/15/08 and interim periods within those years.
ASC 855, Subsequent Events	
FAS 165, <i>Subsequent Events</i>	Effective for interim and annual periods ending after 6/15/09.
ASC 860, Transfers and Servicing	
FSP FAS 140-3, “Accounting for Transfers of Financial Assets and Repurchase Financing Transactions”	Effective for FS issued for FYs beginning after 11/15/08, and interim periods within those FYs.
FSP FAS 140-4 and FIN 46(R)-8, “Disclosures by public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities“	Effective for the first reporting period (interim or annual) ending after 12/15/08.
FAS 166, <i>Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140</i>	Effective for financial asset transfers that occur in fiscal year beginning after 11/15/09.

PRONOUNCEMENT	EFFECTIVE DATE
ASC 944, Financial Services – Insurance	
FAS 163, <i>Accounting for Financial Guarantee Insurance Contracts</i>	Effective for FS issued for FYs beginning after 12/15/08, and interim periods within those FYs, except for the disclosure requirements about the insurance enterprise’s risk-management activities which were effective for the first period (including interim periods) beginning after 5/23/08.
ASC 958, Not-for-Profit Entities	
FSP FAS 117-1, “Endowments of Notfor-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act”	Effective for FYs ending after 12/15/08. Early application is permitted provided that annual financial statements for that fiscal year have not been previously issued.
FAS 158, <i>Employers Accounting for Defined Benefit Pension and Other Postretirement Plans</i>	Recognition of the asset and liability related to funded status of a plan and disclosures: For entities with publicly traded equity securities, effective for fiscal years ending after December 15, 2006. For all other entities, effective for fiscal years ending after June 15, 2007. For all entities, change in measurement date is effective for fiscal years ending after December 15, 2008. Early adoption is permitted.
FAS 164, <i>Not-for-Profit Entities: Mergers and Acquisitions</i>	Effective for: (a) mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after 12/15/09; (b) acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 12/15/09.
ASC 985-605, Software, Revenue Recognition	
ASU 2009-14, <i>Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force</i>	Effective prospectively for revenue arrangements entered into or materially modified in FYs beginning on or after 6/15/10.