


Accounting, Auditing & Regulatory Technical Update


Presented by:
 Mike Gottlieb, Partner, Americas Leader Restaurant Services
 Marc Blythe, Partner, Audit
 Allen Plass, Executive Director, Tax



TOPICS

- ▶ FASB Statement No. 157, Fair Value Measurement
- ▶ FASB Statement No. 141(R), Business Combinations
- ▶ FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51
- ▶ FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133


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TOPICS (cont.)


- ▶ EITF No. 08-3, Accounting by Lessees for Maintenance Deposits under Lease Agreements
- ▶ FASB – Project Update – Leases
- ▶ FIN 48, Accounting for Uncertainty in Income Taxes
- ▶ Accounting for Gift Cards
- ▶ SOX 404 – Update
- ▶ SEC Update and Hot Buttons
- ▶ International Financial Reporting Standards

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FASB Statement No. 157, Fair Value Measurement (FAS 157) – Issued September 2006


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FAS157 – Overview

- ▶ Provides enhanced guidance to fair value assets and liabilities
- ▶ Expands disclosures on the use of fair value
- ▶ Clarifies fair value objective and framework for developing estimates
- ▶ Existing practicability exceptions to fair value measurements remain

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FAS 157- Revised Definition of Fair Value

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

- ▶ Fair value an exit price (conceptually different from a transaction price which is an entry price)
- ▶ An exit price in principal market (or most advantageous market) in which the reporting entity could transact
- ▶ Transaction considered from perspective of market participants; it not entity-specific
- ▶ Entity's intent and/or ability to sell asset or transfer liability at the measurement date not relevant
- ▶ Contemplates the sale of an asset or transfer of a liability, not a transaction to offset the risks associated with an asset or liability

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FAS 157-Fair Value Hierarchy

Level 1

Quoted prices in active markets for identical assets/ liabilities (unadjusted); no blockage factors (PxQ)

Level 2

Other observable inputs—include quoted prices for similar assets/ liabilities (adjusted) and market-corroborated inputs

Level 3

Unobservable inputs—entity's own assumptions about market participant assumptions

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FAS 157 – Disclosures

- ▶ Expanded disclosures provide additional transparency:
 - ▶ Extent of use of fair value to measure assets and liabilities
 - ▶ Inputs/assumptions used in fair value measurements
 - ▶ Effect of fair value measurements on earnings

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FAS 157 – Disclosures

For assets and liabilities measured at fair value on recurring basis in periods subsequent to initial recognition disclose:

- ▶ Fair values at the reporting date
- ▶ Level in fair value hierarchy
- ▶ For Level 3 fair values, reconcile beginning and ending balances for:
 - ▶ Total gains and losses included in income vs. OCI
 - ▶ Purchases, issuances, and settlements
 - ▶ Transfers in and out of Level 3
- ▶ Amount of total gains/losses in earnings attributed to unrealized gains/losses for Level 3 assets/liabilities still held at the reporting date
- ▶ Fair value valuation technique(s), and if applicable, discuss changes from prior period (annual periods only)

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FAS 157 – Disclosures

For assets and liabilities measured at fair value on a non-recurring basis in periods subsequent to initial recognition, disclose:

- ▶ Level in fair value hierarchy
- ▶ For Level 3 inputs/assumptions used
- ▶ Fair value valuation technique(s), and if applicable, discuss changes from prior periods (annual periods only)

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Fair Value Disclosures

- ▶ Fair value measurements by level in the fair value hierarchy

(\$ in 000's)

Description	Fair Value at Reporting Date			
	12/31/XX	Level 1	Level 2	Level 3
Trading securities	\$115	\$105	\$10	--
Available-for-sale securities	75	75	--	--
Derivatives	60	25	15	\$20
Venture capital investments	10	--	--	10
Total	\$260	\$205	\$25	\$30

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Fair Value Disclosures

- For recurring fair value measurements using significant unobservable inputs (Level 3), a reconciliation of beginning and ending balances

	Derivatives	Venture Capital Investments	Total
Beginning balance	\$14	\$11	\$25
Total gains and losses			
Included in earnings	11	(3)	8
Included in OCI	4		4
Purchases, issuances and settlements	(7)	2	(5)
Transfers in/out Level 3	(2)	0	(2)
Ending balance	\$20	\$10	\$30
Change in unrealized gains or losses in earnings relating to assets still held	<u>\$ 7</u>	<u>\$ 2</u>	<u>\$ 9</u>

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FAS 157 – Effective Date/Transition

- ▶ Effective for fiscal years beginning after November 15, 2007
- ▶ Transition
 - ▶ Limited retrospective application for block discounts and instruments previously measured under EITF 02-3 and FAS 155
 - ▶ Difference between carrying value and fair value (as now defined) at transition recognized as cumulative effect adjustment to opening retained earnings
 - ▶ Prospective transition for everything else

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FAS 157-Implementation Challenges

- ▶ Uncertainty regarding interpretation of some elements
 - ▶ Unit of account (GAAP unclear in many instances)
 - ▶ Significant areas of judgment
 - ▶ Hypothetical exit markets
 - ▶ Market participant assumptions (risk premiums and profit margins)
 - ▶ Hierarchy levels
 - ▶ Identifying restrictions and determining whether they are an attribute of the asset

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FAS 157-Implementation Challenges

- ▶ Disclosures
 - ▶ Much of the aggregation and compilation of data involved manual processes
 - ▶ Similar transactions may be in different levels in the fair value hierarchy
 - ▶ System changes to track hierarchy data
 - ▶ Accounting policy elections
 - ▶ Documenting and testing new disclosure processes and controls
 - ▶ Classification needs to be monitored on an ongoing basis
 - ▶ "Tagging" of inputs into fair value hierarchy levels is a dynamic process

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FAS 157 – Implementation Challenges

- ▶ Management's responsibility for fair value
 - ▶ Past practice of reliance on others for fair value measurements
 - ▶ Now, management needs to understand and assess fair value methodologies of third party valuation specialists
 - ▶ Area of focus for SEC and PCAOB
 - ▶ Enhanced communication with between management, auditors, and valuation specialists

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FAS 141(R) – FASB Statement No. 141, Business Combinations – Issued December 2007

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FAS 141(R) – Overview

- ▶ Applies to all business combinations
- ▶ First major FASB/IASB convergence project
- ▶ Issued December 2007
- ▶ Statement 141(R) will be effective for annual periods beginning after December 15, 2008
- ▶ Prospective adoption
- ▶ Early adoption not permitted for US GAAP

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FAS 141(R) – Scope

- ▶ Applies to all changes in control
- ▶ Excluded from scope:
 - ▶ Joint ventures
 - ▶ Entities under common control
 - ▶ Combinations between not-for-profits
- ▶ For business combinations achieved in stages
 - ▶ Regardless of controlling interest % acquired, total fair values of assets, liabilities, and noncontrolling interest recorded
 - ▶ Cost accumulation model under GAAP is eliminated

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FAS 141(R) – Identifying a Business Combination

- ▶ Purchase of net assets or equity interests of a business
- ▶ Change of control even if no consideration transferred
 - ▶ Contractual arrangement
 - ▶ Lapse of minority veto rights
 - ▶ Investee share buyback
 - ▶ Initial consolidation of a VIE that is a business
- ▶ Definition of a business is broadened
 - ▶ Asset acquisitions
 - ▶ VIE analysis
 - ▶ Determination of a reporting unit

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FAS 141(R) – Marketable Equity Securities of Acquirer/Contingent Consideration

Marketable Equity Securities of Acquirer

- ▶ Measured at the acquisition date
- ▶ EITF 99-12 concept of measurement at “agreement and announcement” date is eliminated
- ▶ Affects amount recorded as goodwill

Contingent Consideration

- ▶ Recognized as consideration transferred at acquisition fair values
- ▶ Subsequent changes in fair value in earnings

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FAS 141 (R) – Exchange of Share-Based Payments

- ▶ If acquirer obligated to issue replacement awards
 - ▶ Fair value of acquirer’s replacement awards is part of consideration transferred by acquirer
- ▶ If replacement awards issued, even though not an obligation of the acquirer
 - ▶ Modification of terms of share-based payment award under FAS 123(R)

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FAS 141 (R) – Preacquisition Contingencies

- ▶ Generally recognized at acquisition-date fair value
- ▶ Subsequently measured as follows:
 - ▶ A liability at the higher of:
 - ▶ Its acquisition-date fair value
 - ▶ The amount that would be recognized if applying FAS 5
 - ▶ An asset at the lower of:
 - ▶ Its acquisition-date fair value
 - ▶ The best estimate of its future settlement amount
 - ▶ Adjustments made only upon receipt of new information
- ▶ Noncontractual preacquisition contingencies that are not more likely than not:
 - ▶ Not recognized at acquisition date
 - ▶ FAS 5 subsequently

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FAS 141 (R) – Deferred Income Taxes

- ▶ Changes in acquirer’s valuation allowance accounted for separately in tax provision
- ▶ Changes after the acquisition date in an acquired entity’s valuation allowance accounted for as adjustments to tax provisions
- ▶ Eliminates prohibition on recording deferred tax asset for excess of tax deductible goodwill over financial reporting goodwill
- ▶ Pressure on accuracy of estimates recorded in purchase price allocation

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FAS 141 (R) – Restructuring Accruals/ In-Process R&D

Restructuring Accruals

- ▶ FAS 146 criteria must be met at the acquisition date
- ▶ EITF 95-3 concept of restructuring post-acquisition nullified
- ▶ Only included in purchase price allocation
 - ▶ Liabilities assumed from the target
 - ▶ Liabilities are substantive

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FAS 141 (R) – Other

Noncontrolling Interests

- ▶ Recorded by acquirer at acquisition-date fair values
- ▶ Consideration transferred by acquirer includes a control premium
- ▶ IASB provides an alternative to recording noncontrolling interests at fair value

Goodwill

- ▶ "Full goodwill" method
- ▶ Allocated between controlling and noncontrolling interests (although not presented separately on B/S)
- ▶ IASB alternative - no recognition of noncontrolling interest's share of goodwill

Bargain Purchase

- ▶ Immediate gain recognized
- ▶ Not extraordinary

Acquisition-Related Costs

- ▶ Generally expenses as incurred
- ▶ Costs incurred to purchase noncontrolling interest – we believe should not be expensed

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FAS 160 – FASB No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 – Issued December 2007

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FAS 160 - Overview

- ▶ Significantly changes consolidation accounting
- ▶ All entities except consolidations of not-for-profit entities are affected
- ▶ Effective for annual periods beginning after December 15, 2008
- ▶ Prospective transition
- ▶ No early adoption permitted

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Noncontrolling Interests- Financial Statement Classification and Presentation

- ▶ Equity holders in consolidated group
- ▶ Reporting of noncontrolling interests in "mezzanine" section eliminated
- ▶ Consolidated group net income will change
 - ▶ Net income reflects consolidated group results
 - ▶ Earnings of parent and noncontrolling interest separately presented on consolidated income statement
- ▶ Calculation of EPS will not change
 - ▶ EPS reflects earnings of parent

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FAS 160 – Attribution Methods

- ▶ Method for allocating earnings and comprehensive income not prescribed
 - ▶ Ownership interest
 - ▶ Substantive contractual arrangements
- ▶ Noncontrolling interest balance could be a debit
- ▶ Prospective application
 - ▶ Significant impact on parents that recognized 100% of entity's losses because noncontrolling interest = zero
 - ▶ Parent unable to later recoup losses attributable – but not charged to – the noncontrolling interests
 - ▶ Year of adoption – pro forma net income reflects credit that would have been recorded

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FAS 160 - Changes in Parent's Ownership Interest in Consolidated Entity

- ▶ Change in parent ownership interest without loss of control = an equity transaction
 - ▶ Purchase accounting not used for further acquisitions of ownership interests after control is obtained
 - ▶ No gains/losses recognized if subsequent dispositions, provided no loss of control
- ▶ With loss of control:
 - ▶ New basis recognition event
 - ▶ Retained interests reported at fair value
 - ▶ Gain or loss recognized upon deconsolidation

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FAS 160 – Presentation and disclosure requirements

- ▶ Applied retrospectively – in prior financial statements
 - ▶ Noncontrolling interest should be reclassified to equity
 - ▶ Net income and comprehensive income should each include the net income and comprehensive income applicable to the noncontrolling interest
 - ▶ All FAS 160 required disclosures should be made

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FASB Statement No. 161, Disclosures about Derivative Instruments and hedging Activities (FAS 161)

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FASB Statement No. 161, Disclosures about Derivative Instruments and hedging Activities (FAS 161)

- ▶ Enhances disclosures
- ▶ New discussion of objectives and strategies for using derivatives for risk management purposes
- ▶ Volume of derivative activity disclosed
- ▶ Tabular disclosure of fair value amounts, gains and losses on derivatives, and related hedged items
- ▶ Limited exemption for derivatives included in trading activities
- ▶ Credit-risk disclosures
- ▶ Effective for calendar-year companies in their first quarter 2009 financial statements

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EITF No. 08-3, “Accounting by Lessees for Maintenance Deposits under Lease Agreements” – Draft Abstract – April 1, 2008

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EITF No. 08-3, “Accounting by Lessees for Maintenance Deposits under Lease Agreements” – Draft Abstract – April 1, 2008

- ▶ The objective of this Issue is to clarify how a lessee shall account for a nonrefundable maintenance deposit under an arrangement accounted for as a lease.
- ▶ Lessees are generally legally or contractually responsible for repair and maintenance of leased asset throughout the lease term.
 - ▶ Deposits are required to financially protect the lessor in the event the lessee does not maintain leased asset

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EITF No. 08-3, "Accounting by Lessees for Maintenance Deposits under Lease Agreements"

- ▶ The Task Force reached a consensus-for-exposure that all nonrefundable maintenance deposits should be accounted for as a deposit.
- ▶ When the underlying maintenance is performed, the deposit is expensed or capitalized in accordance with the lessee's maintenance accounting policy.
- ▶ Once it is determined that an amount on deposit is not probable of being used to fund future maintenance expense, it is recognized as additional rent expense at the time such determination is made.

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EITF No. 08-3, "Accounting by Lessees for Maintenance Deposits under Lease Agreements"

- ▶ Effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.
- ▶ Earlier application is not permitted.
- ▶ Entities should recognize the effect of the change as a change in accounting principle as of the beginning of the fiscal year in which this consensus is initially applied for all arrangements existing at the effective date.
- ▶ The cumulative effect of the change in accounting principle should be recognized as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately.

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Project Update Leases – Joint Project of the IASB and FASB

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Project Update Leases – Joint Project of the IASB and FASB

- ▶ Project Objectives
 - ▶ The objective of the accounting for leases project is to comprehensively reconsider the guidance in FASB Statement No. 13, Accounting for Leases, and IAS 17, Leases, along with subsequent amendments and interpretations, to ensure that financial statements provide useful, transparent, and complete information about leasing transactions to investors and other users of financial statements.
- ▶ Project Plan
 - ▶ The International Accounting Standards Board (IASB) and the FASB are carrying out this project with the help of a joint international working group that will consult on lease accounting issues. Working group members will provide expert advice on staff and Board proposals and implementation issues while offering practical considerations from a variety of perspectives (lessor, lessee, users of financial statements, and auditors).

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Project Update Leases – Joint Project of the IASB and FASB (cont.)

- ▶ Scope
 - ▶ The project will initially focus on the accounting for lease arrangements within the scope of existing lease accounting literature.
- ▶ Analysis of Rights and Obligations in a Simple Lease Contract
 - ▶ A lessee has an asset for the right to use the leased item over the lease term and a liability for the obligation to make payments over the lease term. The lessee's obligation to return the leased item does not meet the definition of a liability; however, asset retirement obligations or requirements to return the equipment in a specified condition may constitute liabilities.
 - ▶ A lessor has an asset for the right to receive payments over the lease term.
 - ▶ Analysis of whether the rights and obligations arising in a lease contract meet the definition of an asset or a liability should be based on the definitions in the existing conceptual framework.

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Project Update Leases – Joint Project of the IASB and FASB (cont.)

- ▶ Analysis of Possible Accounting Models
 - ▶ The staff will continue to develop the right-of-use model; however, future decisions on measurement, presentation, derecognition, recognition, and scope could affect preliminary conclusions.
 - ▶ In the right-of-use model, the lessee recognizes an asset for its right to use the leased item and a liability for its obligation to pay for that item. The lessor recognizes an asset for its right to receive payments from the lessee and its residual interest in the leased item at the end of the lease term; the lessor does not have a liability for its obligation to permit the lessee to use the leased item.

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Project Update Leases – Joint Project of the IASB and FASB (cont.)

- ▶ Measurement of a Lessee's Liability to the Lessor, Measurement of a Lessee's Right-of-Use Asset, and Initial Recognition of Assets and Liabilities in Lease Contracts
 - ▶ The Boards discussed alternative approaches to the initial and subsequent measurement of a lessee's obligation to make payments to the lessor under a simple lease contract. They generally agreed that the lessee's obligation to make payments to the lessor is a financial liability and, therefore, directed the staff to further explore the following approaches:
 - ▶ The lessee would initially measure its obligation to pay for the right-of-use asset at fair value.
 - ▶ The lessee would subsequently measure that liability using the effective interest method; however, the lessee also would have an option to subsequently measure the liability at fair value.

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Project Update Leases – Joint Project of the IASB and FASB (cont.)

- ▶ Other Lessee Obligations
 - ▶ The Boards discussed lease arrangements that give rise to additional obligations of the lessee, including lessee obligations to incur costs to return the leased item, return the leased item in a specified condition, and maintain the leased item.
 - ▶ The Boards considered whether those obligations meet the definition of a liability and, if so, when the liability arises.
 - ▶ The Boards generally agreed that obligations to incur costs to return the leased item are liabilities that exist at the commencement of the lease term. The Boards also considered how to treat the debit arising on the recognition of the liability, how to measure the liability, and whether the obligations give rise to assets for the lessor.

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Project Update Leases – Joint Project of the IASB and FASB (cont.)

- ▶ Variable Lease Payments
 - ▶ The Boards discussed lease payments with a variable factor based on price changes or an index (such as the consumer price index), the lessee's financial or operating performance from the leased item (such as profit-based rentals), and the lessee's use of the leased item (such as excess mileage costs in car leases).
 - ▶ The Boards considered whether these variable lease payments meet the definition of a liability and, if so, when the liability arises and how it should be measured.
 - ▶ The Boards generally agreed that for rentals with a variable factor based on price changes or an index, the lessee has a liability for both the fixed and variable components.

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Project Update Leases – Joint Project of the IASB and FASB (cont.)

- ▶ Options to Extend or Terminate a Lease
 - ▶ The Boards discussed lease contracts that give the lessee an option to extend the lease for an additional period or an option to terminate the lease early, while considering some of the factors that affect whether a lessee will exercise an option to extend or terminate a lease.
 - ▶ The Boards discussed whether the rights and obligations that arise under a simple lease with an option to extend the lease term meet the definitions of assets and liabilities under the conceptual framework.

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Project Update Leases – Joint Project of the IASB and FASB (cont.)

- ▶ Options to Extend or Terminate a Lease
 - ▶ The Boards discussed the following four approaches to accounting for options to extend or terminate a lease but did not reach any decision:
 - ▶ Approach 1—The lessee obtains the right-of-use asset for the period up to the option exercise date and an option to extend the lease.
 - ▶ Approach 2—The lessee obtains the right-of-use asset for the period of the lease including any possible extensions and an option to terminate the lease.
 - ▶ Approach 3—The lessee obtains the right-of-use asset either for the period of the lease including any possible extensions or for the period up to the option exercise date. The assets and liabilities recognized are based on the most probable lease term after considering all of the substantive terms of the lease and the nature of the leased item. Under this approach, options are not separately recognized.
 - ▶ Approach 4—The lessee obtains a right-of-use asset in which measurement is based on the expected value of the payments under the lease. Under this approach, options are not separately recognized.

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FIN 48 Overview: Accounting for Uncertainty in Tax Positions

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FIN 48 Overview: Accounting for Uncertainty in Tax Positions

- ▶ Overview of FIN 48
 - ▶ Objectives
 - ▶ Scope
 - ▶ Initial recognition
 - ▶ Measurement
 - ▶ Tax planning strategies
 - ▶ Subsequent recognition, derecognition, or change in measurement
 - ▶ Change in judgment
 - ▶ Interest and penalties
 - ▶ Classification
 - ▶ Disclosures
 - ▶ Effective date and transition
- ▶ Implementation Considerations

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Objectives of FIN 48

- ▶ Clarify accounting for income taxes
- ▶ Provide greater consistency in criteria used to recognize, derecognize, and measure benefits related to income taxes
- ▶ Establish consistent thresholds, thereby improving relevance and comparability of financial statement reporting

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Scope - FIN 48

- ▶ Applies to all income tax positions including those recorded as a result of business combinations
- ▶ FAS 5 will continue to apply to other contingencies
- ▶ A tax position is defined as a position taken in a previously filed return or expected to be taken in a future return
- ▶ A tax position can result in a permanent reduction of taxes (permanent differences), a deferral of taxes (temporary differences), or a change in the expected realizability of deferred tax assets (tax planning strategies)
- ▶ Also encompasses decisions not to file returns, jurisdictional allocations (i.e., transfer pricing), and characterization of income

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A Two-Step Process

- ▶ The application of FIN 48 requires a 2-step process that separates recognition from measurement
 - ▶ Step One: Recognition threshold
 - ▶ Step Two: Measurement of the benefit

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Step 1: Initial Recognition

FIN 48 reflects the benefit recognition approach

- ▶ A tax benefit is recognized when it is “more likely than not” to be sustained based on the technical merits of the position
- ▶ Appropriate Unit of Account for a tax position is a matter of judgment and requires consideration of:
 - ▶ The manner in which the enterprise prepares and supports its tax return, and
 - ▶ The approach the enterprise anticipates the tax authority will take during exam

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Step 2: Measurement

- ▶ A tax position that meets the “more likely than not” recognition threshold shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized (cumulative probability concept)
 - ▶ Based upon facts and circumstances determined at the reporting date

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Measurement: Scenario 1

Possible Estimated Outcome (\$)	Individual Probability of Occurring (%)	Cumulative Probability of Occurring (%)
\$ 100	5%	5%
\$ 80	25%	30%
\$ 60	25%	55%
\$ 50	20%	75%
\$ 40	10%	85%
\$ 20	10%	95%
\$ 0	5%	100%
	100%	

- ▶ \$60 is the largest amount of tax benefit that is greater than 50% likely of being realized

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Tax Planning Strategies

- ▶ A tax planning strategy must meet the recognition and measurement criteria of FIN 48 prior to being considered
 - ▶ FAS 109 requires consideration of tax planning strategies

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Subsequent Recognition

- ▶ Subsequent recognition occurs when any of the following conditions are met:
 - ▶ The "more likely than not" threshold is met by the reporting date
 - ▶ The tax matter is ultimately settled through negotiation or litigation
 - ▶ The statute of limitations expires

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Subsequent Derecognition or Change in Measurement

- ▶ Derecognize a previously recognized tax position in the first period that it is no longer "more likely than not"
- ▶ Changes in measurement should also be reflected in the period that such change occurs

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Change in Judgment

- ▶ A change in judgment that relates to a position taken in a prior annual period is treated as a discrete item in the period in which the change occurs
- ▶ A change in judgment that relates to a position taken in a prior interim period within the same fiscal year is taken into account over the remaining periods in the fiscal year pursuant to APB 28 and FIN 18
- ▶ Reporting date vs. financial statement issuance date
- ▶ New information vs. new evaluation

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Interest and Penalties

- ▶ Interest is a period cost
- ▶ Accrue statutory penalties when a tax position does not exceed the minimum statutory threshold required to avoid penalties
- ▶ Classification of interest and penalties is an accounting policy election

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Classification

- ▶ Difference between tax benefit as (or to be) reflected in the tax return and the amount recorded in the financial statements should be classified as either:
 - ▶ A tax liability ("FIN48 liability") or
 - ▶ Reduction of NOL carryforward or reduction in refundable income taxes
 - ▶ Classify FIN48 liability as current or non-current liability, based on the expected timing of cash flows
- ▶ Classification for companies with NOL carryforwards
 - ▶ Liability for FIN48 issue that arises in the year an NOL is being generated is "netted against" NOL carryforward
 - ▶ Liability for FIN48 issue that arises in the year an NOL is being absorbed is reflected as a FIN48 liability on the balance sheet (even if no actual tax would be due)

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Classification (cont.)

- ▶ The only liability that should be classified as a deferred tax liability is one that arises from a taxable temporary difference that meets the recognition threshold
 - ▶ Deferred taxes should be calculated based upon FIN48 "more likely than not" concepts, not based upon "as filed" tax positions

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Disclosures

- ▶ At the end of each annual reporting period, disclose:
 - ▶ A tabular rollforward of the total amounts of unrecognized tax benefits at the beginning and end of the period
 - ▶ The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate
 - ▶ The total amount of interest and penalties recognized currently (in the Statement of Operations) and in the aggregate (in the Balance Sheet)
 - ▶ Positions where it is reasonably possible the total amount of unrecognized tax benefit will significantly increase or decrease within 12 months of the reporting date
 - ▶ Description of tax years that remain subject to exam by major jurisdictions
- ▶ Interim disclosures may be required

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Effective Date and Transition

- ▶ Effective date
 - ▶ SEC Registrants - Fiscal years beginning after December 15, 2006
 - ▶ Private Companies - Fiscal years beginning after December 15, 2007 (FSP FIN48 - 2)
 - ▶ Exceptions:
 - ▶ Consolidated entity of an SEC registrant
 - ▶ Entity that issued full GAAP basis financials before FSP finalized on February 1, 2008
- ▶ Transition
 - ▶ The cumulative effect of applying FIN 48 is reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the Balance Sheet)

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Implementation Considerations

- ▶ Determine how to apply the broad scope requirements of FIN 48
 - ▶ Distinguish between "highly certain" and "uncertain" tax positions
 - ▶ Determine documentation requirements and process for identifying each
 - ▶ Consider tax positions that have not been recorded as exposure items in the past

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Implementation Considerations (cont.)

- ▶ Apply FIN 48 using the two-step process
- ▶ Document analysis and conclusions supporting the cumulative effect adjustment
 - ▶ Consider the level of required documentation by jurisdiction, unit of account, etc.
 - ▶ State and foreign tax positions may warrant increased focus
 - ▶ Review tax technical memoranda and opinions that support the accounting treatment under FIN 48
 - ▶ Review implementation of structuring and planning

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Implementation Considerations (cont.)

- ▶ Assess need for changes to present classification
 - ▶ Track "more likely than not" vs. "as-filed" deferred assets and liabilities
- ▶ Consider calculation of interest and penalties
 - ▶ Consider annual tax impact and allocate expense issue by issue
- ▶ Calculate the cumulative effect adjustment
 - ▶ Acquired exposures recorded against purchase accounting
- ▶ Increase focus on training, technology, and processes to assist in implementing and maintaining FIN 48 financial statement and disclosure requirements
- ▶ Communicate FIN 48 implementation results to Financial Management and Audit Committee (e.g., potential volatility in ETR)

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Implementation Considerations Internal Controls

- ▶ Review process and control methodology to assess whether SOX 404 requirements are met, focusing on:
 - ▶ Completeness
 - ▶ Matters underlying significant uncertain income tax positions are analyzed and their effects recognized within the appropriate period
 - ▶ All relevant factors pertaining to uncertain tax positions are gathered and considered
 - ▶ Existence
 - ▶ Tax positions are valid and supportable
 - ▶ Financial statement benefits meet criteria for recognition

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Implementation Considerations Internal Controls (cont.)

- ▶ Valuation and measurement
 - ▶ Appropriate judgments are made
 - ▶ Third party opinions and other bases for judgments are factual, reliable, and current
- ▶ Presentation and disclosure
 - ▶ Assets and liabilities are appropriately classified
 - ▶ Footnote and other disclosures are consistent with underlying data and judgments

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Gift Cards: Opportunities, Issues and Challenges

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Gift Cards—Overview of current state

- ▶ Gift Cards represent one of the fastest growing components of the restaurant landscape
- ▶ Gift cards represent a win-win for restaurants and consumers as they both take the guess work out of gift giving and take up little shelf space
- ▶ It was estimated \$80 billion was spent on gift cards in 2006 and \$97 billion will be spent in 2007, approximately 30% during holiday season
- ▶ Restaurant Sector took 26.8% or \$7.5 billion of the holiday spending, second to Retail Sector's 37.9% share

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Gift Card Accounting

- ▶ Overview of Issues to be discussed:
 - ▶ Escheatment
 - ▶ Expiration dates, dormancy & service fees
 - ▶ Revenue recognition
 - ▶ Accounting for breakage (including SEC views)

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Escheatment

- ▶ Many States have laws related to the escheatment of unclaimed property
- ▶ Most States argue that gift cards and gift certificates/merchandise credits fall into unclaimed property category
- ▶ Boutique firms active in the recovery of unclaimed property for State of Delaware and others (gift cards are high on their radar screens)
- ▶ Some States claim that if customer names are not retained, unclaimed amounts must be remitted to State

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Expiration Dates, Dormancy & Service Fees

- ▶ Some restaurants attach an expiration date to gift cards and certificates, however, as a matter of customer service they are often not adhered to
- ▶ Additionally, dormancy fees are sometimes assessed (as part of gift card terms & conditions) which work to systemically reduce a card's unused balance to recognized revenue
- ▶ Fees such as these are more commonly found with bank card or mail-based cards as opposed to restaurant-specific cards
- ▶ Certain States have banned such fees
- ▶ Many restaurants have eliminated or refrained from such fees as they can be perceived negatively

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Revenue Recognition

- ▶ Upon sale of gift cards, companies record the cash and establish a deferred revenue/liability account
- ▶ When cards are redeemed, the sale is recognized and the liability is relieved
- ▶ On average a large percentage of cards are redeemed in the early months following the original purchase
- ▶ Some percentage remain unredeemed for a long period and some are never redeemed.
- ▶ This amount is termed Breakage. Accounting for breakage has only recently evolved and has drawn the attention of the SEC (often part of inquiries in Comment Letters)

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Revenue Recognition – Tax

- ▶ IRS's view – if you have received cash, they want their fair share. Thus, companies should recognize taxable income upon sale of gift cards/certificates, by "adding back" the deferred liability amount.
- ▶ Two exceptions to the general rule:
 - ▶ 1) Regs. Section 1.451-5 which allows for a two year deferral of advance payments for goods and
 - ▶ 2) Rev. Proc. 2004-34 which allows a one year deferral for advance payments of goods and services.
- ▶ No matter which exception you use, tax cannot defer longer than book, if a company picks up income for financial reporting purposes, i.e., breakage, tax must pick it up as well.

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Revenue Recognition – Tax (cont.)

- ▶ IRS recently issued an Industry Directive to its agents on auditing deferral of gift card income and identified the following areas of risk:
 - ▶ Use of estimates. In order to defer revenue, company must be able to track month/year of gift card sale, month redeemed
 - ▶ Annual Information Schedule must be attached to tax return
 - ▶ Use of Gift Co. Under Regs. Section 1.451-5, taxpayer must be the seller of goods to take advantage of deferral rules. (Not under Rev. Proc. 2004-34)
 - ▶ Other issues have been raised, but not addressed yet: re-loadable gift cards, expiration date, gift cards as refunds, promotional gift cards, etc.

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Accounting for Breakage

- ▶ Breakage represents the dollar amount of gift cards estimated to never be redeemed
- ▶ Accounting/recognition of income for gift card breakage is determined after first giving consideration of escheatment issues discussed previously
- ▶ FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, specifies that a liability may be derecognized only when the obligor is legally released from its obligation—theoretically, this could result in an indefinite deferral of unused gift card balances
- ▶ The SEC staff has stated that it will not object to derecognizing the liability by analogy to FAS 5, when a restaurant has sufficient company-specific customer experience to indicate when it is remote that the customer will require performance, and the amount of the breakage can be objectively and reliably estimated

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Methods to Account for Breakage

- ▶ Breakage is estimated and recognized in income as a normal part of the accounting processes performed each reporting period, based on company-specific historical evidence of customers' redemption rates, using one of the following methods:
 - ▶ The Redemption Recognition method. Restaurants using this method estimate and recognize breakage as the gift cards are used for the purchase of goods and/or services.
 - ▶ The Delayed Recognition method. Restaurants using this method estimate and recognize breakage at a point in time when it is apparent, based on an aging analysis, that the likelihood that outstanding aged gift card balances will be used in the future for the purchase of goods and/or services is remote.
 - ▶ The Immediate Recognition method. Restaurants using this method estimate and recognize breakage upon gift card issuance.

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Methods to Account for Breakage (cont.)

- ▶ SEC's Views in speech given by Staff at AICPA National Conference:
 - ▶ Essentially expressed that the "immediate recognition" method was not believed appropriate in most instances as the restaurant was not relieved at point-of-sale of its requirement to perform
 - ▶ Believes the "redemption recognition" method or use of expiration date as acceptable approaches to recognition of breakage

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Redemption Method

- ▶ Another approach may be to recognize breakage for unused gift card amounts in proportion to actual gift card redemption.
- ▶ The estimated values of gift cards expected to go unused would then be recognized over the period of performance, that is, as the remaining gift card values are redeemed.
- ▶ To utilize this approach, a vendor would be required to not only reasonably and objectively determine the amount of gift card breakage, but also reasonably and objectively determine the estimated time period of actual gift card redemption.
- ▶ Example: using 10% breakage rate, assume an entity issues \$1,000 of gift cards in a certain period and has objective evidence to support that those gift cards would be redeemed on a pro-rata basis over the next twenty-four months. The estimated breakage amount of \$100 would, therefore, be recognized ratably over the twenty-four month redemption period.

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Differences in Application of Methods

Assume a restaurant sells \$1,000 gift cards with no stated expiration date. Company-specific historical rate of customer's nonredemption is 3%. Customers use 90% of the value in first 90 days following sale, and an additional 7% is used in the next 90 days.

Balances after the 180 days go unused.

Accounting at date of sale:

	Method Used:		
	Redemption	Delayed	Immediate
DR Cash	\$1,000	\$1,000	\$1,000
CR Def rev/Gift card liability	1,000	1,000	970
CR Gain (\$1,000 issued *3%)	--	--	30
To recognize the sale of gift cards			

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Differences in Application of Methods (cont.)

Accounting at the end of the first 90 days following the date of sale:

	Method Used:		
	Redemption	Delayed	Immediate
DR Def rev/Gift card liability	\$900	\$900	\$900
CR Revenue	900	900	900
To recognize the redemption of cards for good and/or services			
DR Def rev/Gift card liability	\$27	--	--
CR Revenue (\$900 [1,000*90%]*3%)	27	--	--
To recognize estimated breakage			

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Differences in Application of Methods (cont.)

Accounting at the end of 180 days following the date of sale:

	Method Used:		
	Redemption	Delayed	Immediate
DR Def rev/Gift card liability	\$70	\$70	\$70
CR Revenue	70	70	70
To recognize the redemption of cards for good and/or services			
DR Def rev/Gift card liability	\$3	\$30	--
CR Revenue	3	30	--
To recognize estimated breakage			

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Additional Breakage Considerations

- ▶ Does sufficient company-specific information exist?
- ▶ Are breakage assumptions based on a large population of homogeneous transactions?
- ▶ Is the restaurants historical experience predictive of future redemption rates?
- ▶ Can reliable estimates of breakage be made on a timely basis? Recurring, significant adjustments may be an indicator that management does not have the ability to estimate breakage
- ▶ Is data used to support estimates, and methods management uses to perform analysis, adequate to satisfy audit and SOX 404 requirements (if applicable)

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SOX 404 Update

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The 404 Balancing Act Assessing Choices and Making the Right Decisions

- ▶ Roundtable discussion to share thoughts, stories, and leading practices on maximizing the efficiency and effectiveness of the 404 program – achieving the new 404 balancing act.

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Topics of Discussion

- ▶ Top-down, Risk-based Approach
- ▶ Entity-level Controls
- ▶ Internal Controls
- ▶ Control, Rationalization, and Testing Approaches

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Key Focus Areas to Drive Efficiency

- ▶ Top-Down, Risk-Based Approach and Scoping
- ▶ Right Combination of Controls
 - ▶ Leveraging Effective Entity-Level Controls (ELCs)
 - ▶ Leveraging Effective Information Technology Controls
 - ▶ Controls Rationalization
- ▶ Determine Right Balance of Sufficiency of Evidence/Documentation
- ▶ Challenge Testing Approaches
- ▶ Continuing Alignment With External Auditors

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Risk-Based Scoping

- ▶ Materiality decisions
 - ▶ Assess risk on both quantitative and qualitative factors to avoid over-scoping or improper scoping
- ▶ Start with consolidated accounts
 - ▶ Drill down to "components" that are subject to differing risk
- ▶ Consider using risk assessment criteria
 - ▶ Don't automatically scope out material accounts assessed as lower risk
- ▶ Prioritize risks
 - ▶ Not all risks are created equal – risk prioritization will allow for less persuasive evidence to be gathered in lower risk areas

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Leveraging Effective ELCs Types of ELCs

- ▶ Entity-level controls vary in nature and precision
 - ▶ Those that have an important, but indirect, effect on the likelihood that a misstatement will be detected or prevented on a timely basis
 - ▶ Those designed to identify possible breakdowns in lower level controls, but not at a level of precision that would, by themselves, sufficiently address the assessed risk that misstatements to a relevant assertion will be prevented or detected on a timely basis
 - ▶ Those designed to operate at a level of precision that would adequately prevent or detect on a timely basis, misstatements to one or more relevant assertions

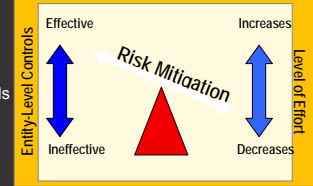
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Leveraging Effective ELCs (cont.)

How Direct ELCs Impact the Testing Effort

- ▶ Controls that exist at the entity-level often have a pervasive impact on business activities undertaken across the organization
- ▶ ELCs can operate at both the Group and Business Unit levels of an organization and, when effective, can mitigate risk identified within processes, transactions or other areas
- ▶ ELCs can therefore influence the level of risk mitigation effort required for an effective internal control structure within an organization



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Leveraging Effective ELCs (cont.)

Leveraging Monitoring Controls

- ▶ Monitoring controls
 - ▶ If sufficiently precise, can be direct ELCs and linked to specific financial reporting risks
 - ▶ A process that assesses the quality of the system's performance over time
 - ▶ Typically detective in nature, fewer in number, more efficient to test
 - ▶ Effective in multi-location environments
- ▶ Effective monitoring controls
 - ▶ Reduces the number of transaction-level controls
 - ▶ Influences risk assessment of other identified controls
 - ▶ Increases efficiency
 - ▶ Lower risk at times of turnover
 - ▶ Potential to focus more on what executives rely on and review regularly to run their business
- ▶ Controls could be in multiple layers within the organization and at different depths – can be all the way from department management to company headquarters

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Leveraging Effective ELCs (cont.)

Evaluating Monitoring Controls

- ▶ Control should directly relate to specific financial reporting risks and related assertions
- ▶ Follow-up on deviations from established thresholds is critical to effective performance
- ▶ Consider precision to the degree necessary

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Leveraging Information Technology (IT) Controls

Top-Down, Risk-Based Approach to Testing IT Controls

- ▶ Efficiency through
 - ▶ Scalability
 - ▶ Aggregated testing
 - ▶ Test-of-one approaches
 - ▶ Benchmarking
 - ▶ Continuous controls monitoring

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Testing Approaches

Use of Self Assessment

- ▶ Testing completed by management
- ▶ Employees do not test own work
- ▶ Employees test work of others, perhaps within same division, group, or segment
- ▶ Investment in education of employees is required initially
- ▶ Excellent cross-training and source of best practices and ideas
- ▶ Scheduling is a key to ensure timing is met and work around month-end closes
- ▶ Auditors, if done effectively, can rely on routine and nonroutine testing
- ▶ Develop a general review function that lies outside of management
- ▶ Test lower-risk controls earlier in the year
- ▶ Early identification of higher-risk controls may result in performing less update or year-end testing of lower-risk controls

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Alignment With External Auditors

- ▶ Although the SEC management guidance does not require alignment with external auditors, consider the following collaboration points
 - ▶ Definition of materiality and determination of material financial reporting elements
 - ▶ Identification of significant accounts and processes, along with relevant locations
 - ▶ Nature, timing, and extent of walk-through and testing procedures
 - ▶ Extent of reliance on the work of others by the external auditors

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SEC Update

- ▶ Final Rules
- ▶ Proposals
- ▶ Hot Buttons

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Final rule: disclosure Simplification for Smaller Reporting Companies

- ▶ Simplifies the disclosure requirements for smaller public companies
 - ▶ Effective 4 February 2008
 - ▶ Creates a new category of issuer, "smaller reporting companies"
 - ▶ Those with public float of less than \$75 million (or less than \$50 million in revenue in the case of companies without publicly traded equity)
 - ▶ Allows smaller reporting companies to use the scaled disclosure and reporting requirements of Regulation S-B, now integrated into Regulation S-K
 - ▶ Eliminates Form 10-QSB, Form 10-KSB and Regulation S-B

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Final rule: Form S-3 Registration for Smaller Reporting Companies

- ▶ Permits "listed" smaller reporting companies to register primary offerings of securities, including shelf registrations, using Form S-3
 - ▶ Effective 28 January 2008
 - ▶ Subject to annual offering limitation of one-third of public float over any twelve-month period

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Final rule: Shareholder Proposals Relating to the Election of Directors

- ▶ December 2007 rule codifies an SEC Staff interpretation with which the US Court of Appeals for the Second Circuit disagreed in its September 2006 ruling
- ▶ Allows a company to exclude from its proxy materials any shareholder proposal that relates to:
 - ▶ A nomination or an election to the company's board of directors
 - ▶ A procedure for such nomination or election
- ▶ Effective January 2008

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Expanded SEC Registration Exemptions

- ▶ Private companies exempted from registration under the 1934 Act solely as a result of issuing compensatory stock options to employees
 - ▶ Effective 7 December 2007
- ▶ Rule 144 revised to shorten the minimum holding period, from one year to six months, before non-affiliates of SEC reporting companies can resell unregistered securities without registration
 - ▶ Effective 15 February 2008
- ▶ Rule 145 revised to allow immediate resales of registered securities issued in business combinations, except those involving blank check or shell companies
 - ▶ Effective 15 February 2008
- ▶ May 2007 proposal would expand the number of securities offerings exempt from registration under Reg. D and shorten the integration safe harbor
 - ▶ The deadline for comment on the proposal has passed

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Proposed Mandate of XBRL Reporting

- ▶ U.S. GAAP XBRL taxonomy and preparers' guide
 - ▶ Period for public comment has passed
 - ▶ Available at <http://usgaap.xbrl.us>
- ▶ On 14 May 2008 SEC voted to publish a rule proposal mandating the use of XBRL for SEC financial reporting
 - ▶ Primary financial statements, notes and financial statement schedules would be required to be formatted in XBRL
 - ▶ Proposed three year phase-in as follows:
 - ▶ For fiscal periods ending on or after 15 December 2008, US public companies and foreign private issuers that (a) file financial statements with the SEC using US GAAP and (b) have a worldwide public float over \$5 billion (approximately 500 companies)
 - ▶ For fiscal periods ending on or after 15 December 2009, all other large accelerated filers using US GAAP
 - ▶ All other filers (including smaller reporting companies and all filers that use International Financial Reporting Standards (IFRS)) would be required to comply for fiscal periods ending on or after 15 December 2010

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Proposed Mandate of XBRL Reporting (cont.)

- ▶ XBRL-tagged financial information would be submitted via EDGAR in addition to, but not as a replacement of, the plain text financial statements
 - ▶ In its first year of compliance, a company could tag notes and schedules in XBRL as blocks of text
 - ▶ In its second year of compliance, a company would be required to provide XBRL tags for the details within its notes and schedules
- ▶ XBRL-tagged financial information submitted to the SEC would be subject to only limited liability
- ▶ XBRL exhibits would be due at the same time as the related EDGAR filing
 - ▶ The SEC is proposing to allow a one-time 30-day grace period for a company's first mandatory XBRL submission
 - ▶ The SEC is proposing to allow an additional 30-day grace period for the first detailed tagging of financial statement notes and schedules

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Section 404(b) Reporting for Non-Accelerated Filers

- ▶ February 2008 proposal would grant a one-year extension for non-accelerated filers of the auditor attestation requirement under Section 404(b) of the Sarbanes-Oxley Act of 2002
 - ▶ Requirements under Section 404(b) would be delayed to fiscal years ending on or after 15 December 2009
 - ▶ Non-accelerated filers are still required to comply with the requirements under Section 404(a) for fiscal years ending on or after 15 December 2007
 - ▶ The deadline for comment on the proposal has passed

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SEC Hot Buttons – Recent Developments

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SEC Hot Buttons – Recent Developments

- ▶ Fair value disclosures
- ▶ Current credit environment
- ▶ Executive compensation
- ▶ Share-based payment assumptions

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SEC hot buttons – recurring themes

- ▶ FIN 48 adoption in 2007
- ▶ Item 4.02 Form 8-Ks
- ▶ Disclosure controls and procedures
- ▶ Financial statement classification
- ▶ Revenue recognition
- ▶ Segments
- ▶ Hedging
- ▶ Warrants and embedded conversion features
- ▶ Non-GAAP measures
- ▶ MD&A
- ▶ Other-Than-Temporary Impairment
- ▶ Legal Contingencies
- ▶ Pensions and Other Postretirement Benefit Plan Disclosures
- ▶ Financial Asset Transfers (Statement 140)
- ▶ FIN 46(R) Variable Interest Entities
- ▶ Inventory
- ▶ Intangible Assets
- ▶ Earnings Per Share
- ▶ Statement of Cash Flows

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International Financial Reporting Standards Awareness

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International Financial Reporting Standards Awareness

- ▶ History and Evolution of IFRS
- ▶ SEC Activities Around IFRS
- ▶ IFRS – An Option for U.S. Issues?
- ▶ Conversion Observation and Challenges
- ▶ Next Steps

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Momentum for a Global GAAP



Enhances
Transparency
and
Comparability

Facilitates
Accounting
and
Reporting

Reduces
Cost of
Capital

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Adoption of IFRS

- ▶ July 2002
 - ▶ EC required EU-listed companies to prepare financial statements using IFRS as endorsed by the EC from 2005 onward
- ▶ Now
 - ▶ About 110 countries require or permit IFRS – or base their local standards on IFRS

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SEC Concept Release and round table discussions

- ▶ On 7 August 2007 the SEC published a Concept Release seeking public comment on possible use of IFRS by domestic registrants
- ▶ The Concept Release highlighted:
 - ▶ A critical mass of non - U.S. companies using IFRS
 - ▶ As more jurisdictions accept IFRS for regulatory filings, subsidiaries of U.S. multinational companies might be permitted or required to prepare their statutory financial statements using IFRS
 - ▶ It might become cost efficient for a U.S. issuer with a large number of foreign subsidiaries to prepare financial statements using IFRS rather than US GAAP
 - ▶ A widely used single set of high quality globally accepted accounting standards might benefit both the global capital markets and investors
 - ▶ More than 80 public comment letters on SEC Concept Release were received
 - ▶ Majority of respondents support the possible use of IFRS by US registrants
- ▶ SEC held Roundtables to discuss the Concept Release on 13 and 17 December 2007
 - ▶ Overwhelming support for move to IFRS/generally a 3-5 year period was discussed
 - ▶ An option should not be granted for an extended period

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Next steps

- ▶ Possible future actions of the SEC
 - ▶ Rule proposal expected soon, but uncertainty exists regarding what will be included in the rule proposal
 - ▶ Option for adoption for IFRS?
 - ▶ Option available to all or only limited companies?
 - ▶ Roadmap to ultimate conversion to IFRS?
 - ▶ Date certain for conversion in the future?
 - ▶ Recently, John White, Director of the SEC's Division of Corporation Finance, stated "We have two systems to consider; U.S. GAAP and IFRS. It is so obvious to those of us deep into this topic that the survivor is not going to be U.S. GAAP. This is not a question of 'if,' it is a matter of 'when.' "

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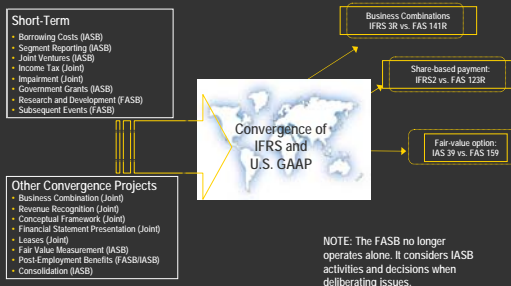
Why US issuers should be familiar with IFRS

- ▶ Local statutory reporting
- ▶ International transaction considerations - merger and acquisition activities
- ▶ Convergence of U.S. GAAP and IFRS

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IASB and FASB convergence efforts



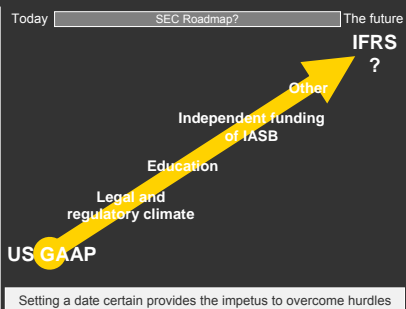
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Ernst & Young's point of view

Key actions to date

- ▶ IASB and FASB convergence efforts
- ▶ FTA relief for FPI's
- ▶ SEC roundtable
- ▶ SEC rule to eliminate GAAP reconciliation
- ▶ SEC concept release
- ▶ SEC roundtable II



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Comment Letters on SEC Concept Release

- ▶ A single set of high-quality, globally accepted accounting standards would benefit both the global capital markets and investors
- ▶ The SEC should make a clear statement that it will require all U.S. issuers to adopt IFRS as of a certain date
- ▶ Changes are necessary in financial reporting, regulatory, and legal systems to successfully achieve the ultimate goal and include:
 - ▶ IASB improvement of existing standards, completion of conceptual framework project, and issuance of industry standards
 - ▶ Global funding mechanisms for IASB
 - ▶ Respect for professional judgment by stakeholders (changes in legal and regulatory environment)

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Diagnostic Review

- ▶ Diagnostic review of financial reporting
 - ▶ Assess accounting policies
 - ▶ IFRS standards are more "principles-based"
 - ▶ More professional judgment is involved
- ▶ Diagnostic review of tax implications
 - ▶ Assess overall tax impact of IFRS conversion to identify issues and opportunities
- ▶ Diagnostic review of IT

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IFRS Conversion: Not Just an Accounting Exercise



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Factors for a Successful Conversion

- ▶ Early planning
- ▶ Strong project leadership
- ▶ Buy-in throughout the entire organization
- ▶ Harmonization of internal and external reporting
- ▶ Identify bottlenecks and develop solutions to alleviate
- ▶ Plan for the disclosures early

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What Should I Be Doing Next?

- ▶ Stay abreast of developments and understand constituents' views on U.S. GAAP vs. IFRS
 - ▶ SEC and other regulators
 - ▶ IASB and FASB
 - ▶ Analysts and investors
 - ▶ Lenders
- ▶ Become educated on IFRS
- ▶ High-level impact analysis
 - ▶ Prepare for questions from board, audit committee, management, analysts, and investor community
 - ▶ Identify costs and benefits of converting to IFRS
 - ▶ Prepare for comment on possible SEC rule proposal

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