

May 5, 2009

Accounting

SEC Issues Staff Accounting Bulletin No. 111

On April 9, 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, to provide improved guidance for assessing whether an impairment of a debt security is other than temporary, as well as how such impairments are presented and disclosed in the financial statements. On April 13, 2009, the SEC's Office of the Chief Accountant and Division of Corporation Finance announced the release of Staff Accounting Bulletin (SAB) No. 111, *Other Than Temporary Impairment of Certain Investments in Equity Securities*, which amended SAB Topic 5.M., *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*, to exclude debt securities from its scope. The SAB maintains the staff's previous views related to equity securities, which include the requirement that unless evidence exists to support a realizable value equal to or greater than the carrying value of an investment in equity securities classified as available-for-sale, a write-down to fair value accounted for as a realized loss should be recorded. Such loss should be recognized in the determination of net income of the period in which it occurs and the written down value of the investment in the company becomes the new cost basis of the investment. The SAB includes factors to be considered in management's evaluation of the realizable value of its investment in equity securities classified as available-for-sale.

The statements in SABs are not rules or interpretations of the SEC, nor are they published as bearing the SEC's official approval. They represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the federal securities laws.

SAB No. 111 is available in full at <http://www.sec.gov/interps/account/sab111.htm>.

McGladrey & Pullen Comments on Financial Statement Presentation Discussion Paper

In October 2008, the International Accounting Standards Board and the Financial Accounting Standards Board published for public comment a Discussion Paper, *Preliminary Views on Financial Statement Presentation*. Recently, McGladrey & Pullen, LLP issued a letter of comment on this Discussion Paper, which supports the overall goal of the project to improve the usefulness of the information provided in an entity's financial statements to help users make decisions in their capacity as capital providers. However, as discussed in our comment letter, we have certain concerns about the proposed model to be used to accomplish this goal, including the following:

- The Discussion Paper notes that the proposals would not apply to nonpublic entities. We believe that financial reporting as a whole would benefit if nonpublic entities were subject to requirements related to the objectives of financial statements and the overall organization that were similar to those for public entities. However, we also believe a scaled-down version of such requirements would be preferable as we believe some of the information required under the proposed model would be of little benefit to users of the financial statements of nonpublic entities.

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- We support the notion of a cohesive financial picture and agree with requiring entities to present financial information in a consistent manner in the financial statements. However, that notion can be achieved without extending the required presentation to the statement of financial position. We believe entities would incur substantial cost to comply with the requirement to disaggregate assets and liabilities into the proposed categories, and further believe it is likely that entities would eventually be required to make subjective judgments to categorize assets and liabilities because entities do not ordinarily classify their assets and liabilities in such a manner.
- We believe the proposal calls for too much disaggregation. We believe the requirement to disaggregate income and expense items by nature may be inconsistent with the management approach, as we do not believe senior management generally reviews such information. We also believe that requiring this disaggregation to the "nature" level would result in significant costs to entities.
- We do not agree with the proposal to require presentation of the statement of cash flows using the direct method. We believe that adoption of a direct-method cash flow statement would result in a very costly implementation, in many instances requiring new systems.

Our letter of comments is available in full at <http://www.fasb.org/oc/1630-100/54635.pdf>. The Discussion Paper is available at http://www.fasb.org/draft/DP_Financial_Statement_Presentation.pdf.

Auditing

Proposed Standard Regarding Subsequent Events and Subsequently Discovered Facts

In conjunction with its efforts to clarify generally accepted auditing standards for audits of nonpublic companies and to converge such standards with International Standards on Auditing (ISAs), the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants recently issued a proposed Statement on Auditing Standards (SAS), *Subsequent Events and Subsequently Discovered Facts*. This proposed SAS would supersede SAS No. 1, *Codification of Auditing Standards and Procedures*; AU Section 530, *Dating of the Independent Auditor's Report*, as amended; AU Section 560, *Subsequent Events*, as amended; AU Section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, as amended; and SAS No. 58, *Reports on Audited Financial Statements*, paragraphs .71-.73, as amended.

The proposed SAS has been drafted using ISA 560, *Subsequent Events*, as a base. ISA 560 defines *subsequent events* to include both events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report. The ASB's proposed SAS includes separate definitions for *subsequent events* and *subsequently discovered facts* to clearly distinguish the auditor's responsibilities for each. The ASB believes this distinction does not create differences between ISA 560 and the proposed SAS.

In addition to converging with ISA 560, the proposed SAS combines elements of existing standards and considers the impact of accounting guidance related to subsequent events. In particular, the proposed SAS:

- Combines the guidance pertaining to subsequent events and subsequent discovery of facts into one section.
- Incorporates the guidance related to report re-issuances that currently resides in paragraphs .06-.08 of AU Section 530 and in paragraphs .71-.73 of AU Section 508. The proposed SAS includes requirements related to a predecessor auditor's responsibilities when re-issuing the auditor's report on previously issued financial statements of a prior period that are to be presented on a comparative basis with audited financial statements of a subsequent period. ISA 560 does not include such requirements.

- Eliminates the accounting guidance related to subsequent events from the auditing literature. The accounting guidance related to subsequent events will reside in the *FASB Accounting Standards Codification*.

If finalized, the proposed SAS will be effective for audits of financial statements for periods beginning on or after December 15, 2010. This effective date is provisional but will not be earlier than December 15, 2010.

The proposed SAS is available for comment until July 15, 2009 at http://www.aicpa.org/download/auditstd/Subsequent_Events_ED_final.pdf.

Financial Institutions

Credit Unions – Update on Accounting for Recent Regulatory Actions and Financial Results

On March 10, 2009 McGladrey & Pullen's National Office of Audit and Accounting issued a summary analysis of various accounting issues related to the need for credit unions to evaluate their National Credit Union Share Insurance Fund deposits and their investments in corporate credit unions for impairment. On April 9, 2009, we published an update describing recent actions by the National Credit Union Administration and our related guidance. This update, together with our original summary and analysis, are available on our Web site as follows:

- [Credit Unions – April 9, 2009 update on accounting for recent regulatory actions and financial results](#)
- [Credit Unions – March 10, 2009 accounting for recent regulatory actions and financial results](#)

SEC

PCAOB Issues Staff Practice Alert

The Public Company Accounting Oversight Board (PCAOB) has issued Staff Audit Practice Alert No. 4, *Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than-Temporary Impairments*. The purpose of this Alert is to inform auditors of public companies about potential implications on reviews of interim financial information and annual audits of three recently issued Financial Accounting Standards Board Staff Positions (FSPs):

- 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*
- FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*
- FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*

The Staff Audit Practice Alert is available in full at http://www.pcaobus.org/Standards/Staff_Questions_and_Answers/2009/04-21_APA_4.pdf.

Rule Amendments Resulting from the Issuance of Statements No. 141(R) and 160

The SEC has adopted certain technical amendments to various rules, forms, and schedules under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Codification of Financial Reporting Policies to conform them to certain of the provisions in FASB Statements No. 141 (revised 2007), *Business Combinations*, and No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. Some of the changes include:

- Replacing references to "minority interests" with "noncontrolling interests."

- Amending various Rules in Regulation S-X, Items in Regulation S-K, and forms and schedules to distinguish between income attributable to a noncontrolling interest and income attributable to a controlling interest.
- Deleting paragraphs 27 of S-X Rule 5-02, 20 of Rule 7-03, and 18 of Rule 9-03 to eliminate the SEC's current requirement to present equity attributable to the noncontrolling interest outside of the consolidated equity section.
- Rescinding guidance related to business combinations accounted for as "pooling of interests" and updating references to specify which Rules apply to combinations of entities under common control.
- Removing the term "purchase method."
- Amending S-X Rule 3-04 to require a separate schedule in the notes to the financial statements that shows the effects of any changes in the registrant's ownership interest in a subsidiary to the equity attributable to the registrant.

These technical amendments are available in full at <http://www.sec.gov/rules/final/2009/33-9026.pdf>.

Possible Revisions to Standard on Audit Confirmations

The Public Company Accounting Oversight Board (PCAOB) is evaluating its current auditing standard on audit confirmations - AU Section 330, *The Confirmation Process*. As such, it has issued a Concept Release to seek public comment on the potential direction of a standards-setting project that could result in an amendment to this standard or a new auditing standard that would supersede this standard. Some of the possible changes to the standard that the PCAOB is considering include:

- Establishing the presumption to request confirmation of the significant terms of complex or unusual agreements or transactions, and including a requirement to consider confirming other items, such as cash, investments, credit facilities, and debt agreements.
- Including a requirement to test the validity of some or all of the addresses on confirmation requests before they are sent.
- Updating the requirement to maintain control over confirmation requests and responses to address advances in technology that provide additional opportunities for skilled individuals to intercept and revise confirmation responses.
- Explicitly requiring the auditor to investigate exceptions in confirmation responses to determine whether they are indicative of misstatements.
- Including requirements to evaluate circumstances in which management requests the auditor not to confirm certain accounts, transactions, agreements, or other items.
- Requiring auditors to evaluate disclaimers and restrictive language in confirmation responses and determine whether alternative procedures are necessary to obtain sufficient, competent audit evidence.
- Not allowing the use of negative confirmations. If the use of negative confirmations is allowed, the PCAOB is considering whether the auditor should be required to perform other substantive procedures to supplement the use of negative confirmations.

The Concept Release is available for comment until May 29, 2009 at http://www.pcaobus.org/Rules/Docket_028/2009-04-14_Release_No_2009-002.pdf.

McGladrey & Pullen Comments on SEC Roadmap for the Potential Use of IFRS

McGladrey & Pullen, LLP believes the objective of a single set of high-quality global accounting standards is in the interests of the global capital markets and investors. We do not believe the rest of the world will accept U.S. generally accepted accounting principles (GAAP) as a global framework. As such, it is in the best interests of the global economy and investors everywhere for the U.S. to convert to International Financial Reporting Standards (IFRS) for filings with the SEC. Therefore, our Firm generally supports the SEC's *Proposed Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* and the related proposed rule providing certain issuers with the option to prepare their financial statements in accordance with IFRS beginning with SEC filings in 2010.

We also strongly support the efforts of both the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to converge U.S. GAAP and IFRS, and we support the continuation of these convergence efforts into the future.

In our letter of comment on the proposed roadmap, our firm agreed that the SEC should make its decision in 2011 regarding the rulemaking necessary for mandatory adoption of IFRS. However, we also recommended that the SEC carefully monitor and evaluate the progress made after 2011 by issuers as they progress through the IFRS conversion process and consider deferring the mandatory reporting dates beyond 2014, if warranted. Further, we stated our support for the SEC's proposal to permit early adoption of IFRS for filings with the SEC. However, we believe it is not likely that eligible U.S. companies will choose this option because of the uncertainty of a future mandate, the potential for required reversion to U.S. GAAP, and the potential additional requirement to continue to reconcile to U.S. GAAP. If an early adoption program is to be effectively utilized, we believe companies should be given the option of adopting IFRS without the uncertainty surrounding a possible reversion to U.S. GAAP and without the added requirement of reconciling from IFRS to U.S. GAAP on an ongoing basis.

Our comment letter is available in full at <http://www.sec.gov/comments/s7-27-08/s72708-182.pdf>. The SEC's proposed roadmap is available at <http://www.sec.gov/rules/proposed/2008/33-8982.pdf>.

McGladrey & Pullen Comments on Proposed PCAOB Standard on Engagement Quality Review

In March, 2009, the Public Company Accounting Oversight Board (PCAOB) repropose for comment an auditing standard on engagement quality review to provide a framework for an engagement quality reviewer to objectively evaluate the significant judgments made by the engagement team and the conclusions reached in forming an overall conclusion on the engagement. Recently, McGladrey & Pullen, LLP submitted a letter of comment regarding the proposed auditing standard, *Engagement Quality Review*. Our firm supports the issuance of an engagement quality review standard that more clearly articulates the standard of performing an engagement quality review. However, as noted in our letter, we believe certain modifications should be made to the revised proposal to clarify various sections of the standard and enhance its application in practice. Our letter of comment is available at http://www.pcaobus.org/Rules/Docket_025/Comments/All_Reproposal.pdf. The proposed standard is available at http://www.pcaobus.org/Rules/Docket_025/2009-03-04_Release_No_2009-001.pdf.

Public Sector

Guide to Implementation of Statement No. 53

In June 2008, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to address the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Recently, the GASB issued a *Guide to Implementation of Statement 53 on Derivative Instruments*. The Guide provides answers to more than 100 questions on topics related to the implementation of Statement No. 53, including:

- The scope and applicability of Statement No. 53 with special emphasis on the normal purchases and normal sales scope exception;
- The definition of derivative instruments, focusing on the distinguishing characteristics of a derivative instrument - settlement factors, leverage, and net settlement;
- Embedded derivative instruments and when an embedded derivative instrument results in a hybrid instrument;
- Hedge effectiveness criteria and how to apply the methods of evaluating effectiveness - the consistent critical terms, the synthetic instrument, the dollar-offset, and the regression analysis methods; and
- Disclosures.

Statement No. 53 is effective for financial statements for reporting periods beginning after June 15, 2009.

GASB Statement No. 56 Issued

The Governmental Accounting Standards Board (GASB) has issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement incorporates accounting and financial reporting guidance previously contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. Statement No. 56 addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events. The Statement brings existing guidance without substantive changes into the GASB's body of standards, as appropriate for governmental entities. Statement No. 56 was effective immediately upon issuance.

International

Agriculture: IFRS vs. U.S. GAAP

This article is the eighteenth in a series of articles that takes our readers on a journey through International Financial Reporting Standards (IFRS) with a special focus on the standards' quintessential feature: they are principles-based. In this article, we provide an overview of some of the most significant differences between IFRS and U.S. generally accepted accounting principles (GAAP) with regard to agriculture. Actual differences in the accounting treatment between the two frameworks depend on specific circumstances.

International Accounting Standard (IAS) 41, *Agriculture*, is a standard that has been designed to specifically deal with the accounting for agricultural activity. This industry-specific standard has no equivalent in U.S. GAAP. Under U.S. GAAP, historical cost is generally used as the basis for accounting, while IFRS uses fair value extensively. The following table illustrates the approach of IAS 41, which distinguishes between biological assets (living animals or plants) and agricultural produce (the harvested product of the biological assets):

Biological assets (under the scope of IAS 41)	Agricultural produce (under the scope of IAS 41)	Products that are the result of processing after harvest (under the scope of IAS 2 or another applicable standard)
Sheep	Wool	Yarn, carpet
Trees in a plantation forest	Felled trees	Logs, lumber
Plants	Cotton	Thread, clothing
Dairy cattle	Milk	Cheese
Pigs	Carcasses	Sausages, cured hams
Bushes	Leaves	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit

Under IFRS, biological assets are measured upon initial recognition and at the end of each reporting period at fair value less costs to sell. Agricultural produce is measured at its fair value less costs to sell at the point of harvest. Such measurement then becomes the cost at the subsequent date when IAS 2, *Inventories*, or another applicable standard is applied. Gains and losses resulting from the change in fair value are recognized in the period in which they arise. The use of fair value results in benefits being recognized immediately as they occur. Under the historical cost model, benefits are not recognized until the harvest date or sale, which, in certain agricultural sectors such as forestry, can be many years after planting.

The fair value model has been introduced on the basis that usually there are active markets for these types of assets. If an active market does not exist and reference cannot be made to market prices of similar assets or other sector benchmarks, the fair value measurement may require the use of professional judgment. In any case, there is a rebuttable presumption that fair value can be measured reliably. Such presumption can be rebutted only upon initial recognition and only for biological assets for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset must be measured at its cost less any accumulated depreciation and impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity must measure it at its fair value less costs to sell.

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