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A&A UPDATE

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Fourth Quarter 2011 Reminders

The following discussion is intended to be a reminder of recently issued accounting and auditing standards and other guidance that may affect our clients in the current reporting period. New items appear in **bold**. This discussion is not intended to be all-inclusive.

Accounting and Reporting Matters

Accounting Standards Updates

- ASU 2010-06: *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*. This Update requires additional fair value measurement disclosures including the amount of and reasons for transfers in and out of Level 1 and Level 2 fair value measurements and changes the requirement to disclose purchases, sales, issuances, and settlements in the reconciliation of Level 3 fair value measurements to a gross basis rather than a net basis. In addition, the Update clarifies that the level of disaggregation required for existing fair value disclosures should be provided for each class of assets and liabilities. Disclosures about inputs and valuation techniques should be disclosed for Level 2 and Level 3 fair value measurements. The requirements of this Update are effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in the Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those fiscal years.
- ASU 2010-13: *Compensation – Stock Compensation (Topic 718) - Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades– a consensus of the EITF*. This Update (from EITF Issue 09-J) addresses classification of a share-based payment award where the award is denominated in the currency in which the underlying security trades and that currency differs from the entity's functional currency, the functional currency of the foreign operation for which the employee provides services, and the payroll currency of the employee. The Update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Early adoption is permitted.



- **ASU 2010-15: *Financial Services – Insurance (Topic 944): How Investments Held through Separate Accounts Affect an Insurer’s Consolidation Analysis of Those Investments – a consensus of the EITF.*** This Update (from EITF Issue 09-B) affects insurance entities that have separate accounts that meet the definition of a separate account in paragraph 944-80-25-2 when evaluating whether to consolidate an investment held through its separate account or through a combination of investments in its separate and general accounts. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010, retrospective application to all previous periods presented required. Early adoption is permitted.
- **ASU 2010-16: *Entertainment – Casinos (Topic 924): Accruals for Casino Jackpot Liabilities – consensus of the EITF.*** This Update (from EITF Issue 09-F) requires an entity to accrue a liability and charge a jackpot (or a portion thereof as applicable) to revenue at the time the entity has the obligation to pay the jackpot (or portion), regardless of the manner of payment. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Early adoption is permitted.
- **ASU 2010-17: *Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition – a consensus of the EITF.*** This Update (from EITF Issue 08-9) provides guidance on the application of the milestone method of revenue recognition in arrangements that include research or development deliverables. This update should be applied prospectively to milestones achieved in fiscal years, and interim periods within those fiscal years, beginning on or after June 15, 2010, with earlier application permitted.
- **ASU 2010-20: *Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.*** Issued on July 21, 2010, the Update’s main objective is to provide financial statement users with greater transparency about an entity’s allowance for credit losses and the credit quality of its financing receivables. The Update amends current guidance and will require significant additional disclosures in an entity’s financial statements, including the requirement to provide a greater level of disaggregated data, as it relates to exposure to credit losses. Refer to our [August 2010 A&A Update](#) for additional guidance. Update 2011-01 delayed the effective date for public companies for certain disclosures required by Update 2010-20 relating to troubled debt restructurings (“TDRs”). Update 2011-02, discussed below, requires the entity to disclose the information for TDRs (paragraphs 310-10-50-33 through 50-34) for interim and annual periods beginning on or after June 15, 2011. For non-public companies, the disclosures relating to TDRs are effective for the first annual reporting period ending on or after December 15, 2011.
- **ASU 2010-23: *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure– a consensus of the EITF.*** The amendments of this Update (from EITF Issue 09-L) require that the measurement of charity care for disclosure purposes be based on the direct and indirect costs of providing the charity care. This Update is effective for fiscal years beginning after December 15, 2010.
- **ASU 2010-24: *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries– a consensus of the EITF.*** This Update (from EITF Issue 09-K) clarifies that health care entities should not net insurance recoveries against related claim liabilities. This Update addresses medical malpractice claims or similar contingent liabilities. The reporting entity should evaluate its exposure to losses arising from claims and if appropriate, recognize a liability, apart



from any anticipated insurance recoveries. If the entity is indemnified for losses, it should recognize a receivable at the same time, measured on the same basis as the related liability, subject to the need for a valuation allowance for uncollectible amounts. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010.

- **ASU 2010-26: *Financial Services - Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts***. The amendments in this Update affect insurance entities that are within the scope of Topic 944, that incur costs in the acquisition of new and renewal insurance contracts. This Update specifies that certain costs incurred in the acquisition of new and renewal contracts should be capitalized in accordance with terms included in this Update. These costs include incremental direct costs of contract acquisition, and certain costs related directly to certain acquisition activities performed by the insurer for the contract. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The amendments in this Update should be applied prospectively upon adoption. Retrospective application to all prior periods presented upon the date of adoption also is permitted, but not required. Early adoption is permitted, but only at the beginning of an entity's annual reporting period.
- **ASU 2010-27: *Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers— a consensus of the EITF***. The objective of this Update is to address questions concerning how pharmaceutical manufacturers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The amendments in this Update are effective for calendar years beginning after December 31, 2010, when the fee initially becomes effective.
- **ASU 2010-28: *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts— a consensus of the EITF***. The objective of this Update is to address questions about entities with reporting units with zero or negative carrying amounts because some entities concluded that Step 1 of the test is passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. As a result of that conclusion, some constituents raised concerns that Step 2 of the test is not performed despite factors indicating that goodwill may be impaired. The amendments in this Update affect all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. The amendments in this Update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests 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. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities.



- **ASU 2010-29: *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations— a consensus of the EITF.*** The amendments in this Update affect any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis. The amendments in this Update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted.
- **ASU 2011-01: *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update 2010-20.*** The amendments in this Update temporarily delayed the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay was intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring has been directed by the issuance of Update 2011-02 (see below). For public companies, the disclosures are required for interim and annual periods beginning on or after June 15, 2011, and apply retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption.
- **ASU 2011-02: *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt.*** The Update clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. Note that this Update also addresses the deferral of the disclosures required by Update 2010-20 relating to troubled debt restructurings. For public companies, the new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. For nonpublic entities, the amendments to the Codification in the Update are effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. Early application is permitted.
- **ASU 2011-03: *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.*** The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this Update. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted.



- **ASU 2011-04: *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.*** The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this Update to result in a change in the application of the requirements in Topic 820. The Update also reflects the FASB's consideration of the different characteristics of public and non-public entities and the needs of users of their financial statements. Non-public entities will be exempt from a number of the new disclosure requirements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. Nonpublic entities may apply the amendments in this Update early, but no earlier than for interim periods beginning after December 15, 2011.
- **ASU 2011-05: *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.*** The amendments in this Update allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this Update should be applied retrospectively. **ASU 2011-12, discussed below, delayed the effectiveness of the provisions of this Update requiring the presentation on the face of the income statement of the components of net income that are being reclassified from accumulated other comprehensive income. The remaining provisions of ASU 2011-05 are not being deferred.** For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures.
- **ASU 2011-06: *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers.*** The amendments in this Update specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that is payable. Additionally, this Update indicates that the fee would not meet the definition of an acquisition cost, as defined in ASU 2010-26. The amendments in this update are effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective.



- **ASU 2011-07: *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*.** The amendments in this Update require certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts), as well as to provide enhanced disclosures about policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. For public entities, the amendments in this Update are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011. For nonpublic entities, the amendments are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted.
- **ASU 2011-08: *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*.** The amendments in this Update allow an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessment, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, they will have to perform the first step of the two-step impairment test. Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. This Update includes examples of events and circumstances that an entity should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.
- **ASU 2011-09: *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80)*.** For employers that participate in multi-employer pension plans, the amendments in this Update require an employer to provide additional quantitative and qualitative disclosures. The amended disclosures provide users with more detailed information about an employer's involvement in multiemployer pension plans, including the level of the employer's participation in significant multiemployer plans, the financial health of the plans, including an indication of the funded status, and the nature of employer commitments to the plan. For public entities, the amendments are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for annual periods for fiscal years ending after December 15, 2012, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented.



- **ASU 2011-10: *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate – a Scope Clarification.*** The objective of this Update is to resolve the diversity in practice about whether the guidance in Subtopic 360-20, “Property, Plant, and Equipment -- Real Estate Sales,” of Topic 360, applies to a parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary’s nonrecourse debt. This Update provides that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary’s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary’s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments should be applied on a prospective basis to deconsolidation events occurring after the effective date; with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted.
- **ASU 2011-11: *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.*** The amendments in this Update require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This Update affects all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information is intended to enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. The amendments are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.
- **ASU 2011-12: *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.*** The amendments in this Update are effective at the same time as the amendments in ASU No. 2011-05, so that entities will not be required to comply with the presentation requirements in ASU No. 2011-05 that this Update is deferring. The amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and



other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities are required to apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities are required to apply these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter.

FASB – Other

The 2011 US GAAP Financial Reporting Taxonomy is now available at the FASB's website. The taxonomy contains updates for accounting standards and other improvements since the 2009 taxonomy currently used by issuers filing with the U.S. Securities and Exchange Commission (SEC). FAF/FASB issued proposed improvements to the taxonomy in the Fall, allowing users of the taxonomy to provide feedback on the updates and to provide SEC filers, service providers, software vendors, and other interested parties the opportunity to become familiar with and to incorporate new element names for their filings. We encourage users to read the [release notes](#), which contain the details of these changes.

Questions about using this taxonomy for creating and submitting eXtensible Business Reporting Language (XBRL) tagged interactive data files in compliance with SEC rules should be directed to the SEC Office of Interactive Disclosure. SEC contact details and guidance are available at the [SEC's portal on XBRL](#). The SEC currently supported taxonomies are listed on the "[Standard Taxonomies](#)" page. Reminder that this is effective for Phase 3 filers for periods ending on or after June 15, 2011.

The FASB has released the [proposed 2012 U.S. GAAP Financial Reporting Taxonomy](#) for public review and comment. The proposed 2012 taxonomy contains updates for accountings standards and other recommended improvements. **The final version of the 2012 Taxonomy is expected to be finalized and published in early 2012.**

The IASB and FASB have announced their intentions to re-expose their revised proposals for leasing standards. While the boards have not completed deliberations, the decisions taken to date are sufficiently different from those published in the respective exposure drafts released in 2010. **The boards intend to complete their deliberations with a view to publishing a revised exposure draft in the first half of 2012.**

On November 14, 2011, the FASB and IASB issued for public comment a revised Exposure Draft for revenue recognition (and some related costs) from contracts with customers. The main proposals in this revised Exposure Draft are essentially the same as in the original Exposure Draft issued in 2010, however the proposed application guidance has been modified significantly. The Boards simplified and clarified many of the princi-



ples, including adding criteria to help companies determine when a performance obligation is satisfied over time, and simplifying the criteria for determining whether a good or service is distinct when identifying separate performance obligations, among other items. Comments are requested by March 13, 2012.

SEC

- **IFRS Roadmap** – On August 27, 2008 the SEC issued a proposal that includes a roadmap for potential mandatory adoption of IFRS by US issuers and a rule that would allow optional use of IFRS for certain qualifying US issuers. The SEC is expected to reconvene in 2011 on the mandatory adoption of IFRS proposal to decide whether certain milestones have been achieved by that date. The proposed rule was released by the SEC on November 14, 2008. On February 24, 2010, the SEC issued a statement expressing its commitment to developing a single set of high-quality globally accepted accounting standards. The SEC directed its staff to execute a “Work Plan” to aid it in evaluating the impact of IFRS on the US capital markets and noted that the convergence efforts of the IASB and FASB is important to achieving a global set of accounting standards. The SEC reaffirmed that it intended to decide in 2011 whether IFRS will be incorporated into the US financial reporting system. However, US companies would not be required to report under IFRS before 2015. The SEC has added a section to its web site related to its work plan on its goal to make a determination about whether to incorporate IFRS into the financial reporting system for US issuers. <http://www.sec.gov/spotlight/globalaccountingstandards.shtml>

On May 26, 2011 the SEC published a paper “Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for US Issuers – Exploring a Possible Method of Incorporation.” The Staff Paper explores an approach to incorporating IFRS into the US financial reporting system that is a combination of convergence of US GAAP and IFRS and endorsement of IFRS into US GAAP over a defined time period. The approach in the Staff Paper is consistent with the approach outlined in a speech by Paul Beswick at the December 2010 AICPA SEC and PCAOB Current Developments conference, an approach he called “Con-endorsement.” Under this framework, there would continue to be a US standard setter (the FASB), the SEC would continue to exercise oversight of the development and implementation of accounting standards for US issuers, and US GAAP would be retained. An objective of the framework would be that at the end of the transition period, a US issuer compliant with US GAAP should also be able to represent that it is compliant with IFRS as issued by the IASB.

In November 2011, two additional Staff Papers were published reflecting the SEC staff’s continued analysis under the work plan: “A Comparison of U.S. GAAP and IFRS” and “An Analysis of IFRS in Practice”. On December 5, 2011, speaking at the 2011 AICPA National Conference on Current SEC and PCAOB Developments, SEC Chief Accountant James L. Kroeker noted that the SEC may delay its decision on whether to incorporate IFRS for US users for several months. The decision on adoption was expected in 2011, however Mr. Kroeker said the staff will need more time to complete its work plan and arrive at a decision.

- ***Division of Corporation Finance Financial Reporting Manual.*** This manual was issued in December 2008 and updates what was formerly known as the “Staff Training Manual”. The manual contains insight into how the SEC applies their rules and regulations to various topics, such as pro forma fi-



financial statements, financial statements of acquired businesses, non-GAAP measures, MD&A, and various other topics. The SEC staff continues to update this quarterly. Recent updates to the Manual include updates to Topic 8 – Non-GAAP Measures which includes cautionary remarks regarding giving non-GAAP disclosures greater prominence than GAAP disclosures, including press releases and investor calls, and Topic 9 – MD&A, noting enhanced disclosures for reporting units at risk of failing Step 1 impairment test, and consideration of whether critical accounting estimates require enhanced disclosures for stock compensation in IPOs. **The most recent version of the manual is dated October 6, 2011.**

- Over the past several months, the SEC has been updating its *Compliance and Disclosure Interpretations (CDIs)* relating to numerous Securities Act and Exchange Act questions.
- [Release No. 33-9002, *Interactive Data to Improve Financial Reporting*](#). This rule requires domestic and foreign companies that prepare their financial statements in accordance with U.S. GAAP or IFRS to submit their financial information using XBRL. For registrants with public float of more than \$5 billion, this rule is effective for periods ending on or after June 15, 2009; all other large accelerated filers for periods ending on or after June 15, 2010; and all remaining registrants for periods ending on or after June 15, 2011. XBRL tagging would apply to all periodic quarterly and annual reports, registration statements, and Form 8-K reports that contain updated or revised financial statements that appear in a periodic report. On April 8, 2011, the Division of Corporation Finance and the Office of the Chief Accountant sent a letter to the Center for Audit Quality stating that foreign private issuers filing financial statements in accordance with IFRS as issued by the IASB are not required to submit XBRL data until the Commission specifies on its website a taxonomy for use by such foreign private issuers.
- [Release 33-9144, *Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management's Discussion and Analysis*](#). This interpretive guidance is intended to improve discussion of liquidity and capital resources in MD&A in order to facilitate understanding by investors of the liquidity and funding risks facing the registrant. This interpretive release was issued in conjunction with the proposed rules relating to short-term borrowings that will not be effective for December 31, 2010.
- [Release 34-63241, *Risk Management Controls for Brokers or Dealers with Market Access – Adoption of Rule 15c3-5 under the Securities Exchange Act of 1934*](#). Rule 15c3-5 will require brokers or dealers with access to trading securities directly on an exchange or alternative trading system (“ATS”), including those providing sponsored or direct market access to customers or other persons, and broker-dealer operators of an ATS that provide access to trading securities directly on their ATS to a person other than a broker or dealer, to establish, document, and maintain a system of risk management controls and supervisory procedures that, among other things, are reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, and ensure compliance with all regulatory requirements that are applicable in connection with market access. The effective date of the Rule is January 14, 2011. Broker-dealers then have six months, until July 14, 2011, to comply with the Rule.
- [Release 34-64748, *Risk Management Controls for Brokers or Dealers with Market Access*](#). The SEC is extending the compliance date for certain recently adopted requirements of Rule 15c3-5 under the Exchange Act. Specifically, the SEC extended the compliance date, until November 30, 2011, for all of the requirements of Rule 15c3-5 for fixed income securities, and the requirements of Rule 15c3-5(c)(1)(i) for all securities. The compliance date remained July 14, 2011 for all provisions of Rule 15c3-5 not subject to this limited extension. Effective Date: June 30, 2011.



- Release 34-64976, *Large Trader Reporting*. The SEC is adopting new rules to assist the Commission in both identifying, and obtaining trading information on, market participants that conduct a substantial amount of trading activity, as measured by volume or market value, in the U.S. securities markets. Effective Date: October 3, 2011.
- Release 33-9250, *Technical Amendments to Commission Rules and Forms Related to the FASB's Accounting Standards Codification*. The SEC is adopting technical amendments to various rules and forms under the Securities Act, Exchange Act and Investment Company Act of 1940, necessary to conform those rules and forms to the FASB *Accounting Standards Codification*. Effective Date: August 12, 2011.
- Release 33-9259, *Facilitating Shareholder Director Nominations*. This release provides notice of the effective date of the amendment to Exchange Act Rule 14a-8, the shareholder proposal rules, which will require companies to include in their proxy materials, under certain circumstances, shareholder proposals that seek to establish a procedures in the company's governing documents for the inclusion of one or more shareholder director nominees in the company's proxy materials. Effective Date: September 20, 2011
- Release 33-9232, *Extension of Temporary Exemptions for Eligible Credit Default Swaps to Facilitate Operation of Central Counterparties to Clear and Settle Credit Default Swaps (Interim Final Rule)*. The SEC extended certain expiration dates in previous temporary rules. Effective Date: July 8, 2011.
- Release 34-64832, *Amendment to Rule Filing Requirements for Dually-Registered Clearing Agencies (Interim Final Rule)*. The SEC adopted interim final rules to amend Rule 19b-4 under the Exchange Act, expanding the list of categories that qualify for summary effectiveness under Section 19(b)(3)(A) of the Exchange Act to include any matter effecting a change in an existing service of a clearing agency registered with the SEC that both primarily affects the futures clearing operations of the clearing agency with respect to futures that are not security futures and does not significantly affect any securities clearing operations of the clearing agency or any related rights or obligations of the clearing agency or persons using such service. Effective Date: July 15, 2011.
- **Release 34-65628, *Technical Amendment To Delegation of Authority To The Director of the Division of Trading and Markets***. The SEC is making a technical amendment to the rule that delegates authority to the Director of the Division of Trading and Markets to grant exemptions upon specified terms, conditions, and periods to persons subject to Rule 17f-2 under the Exchange Act. Effective Date: November 2, 2011.
- **Release 34-65742, *Reporting Line for the Commission's Ethics Counsel***. The SEC is amending its rules to reflect that the Commission's Office of the Ethics Counsel is now a stand-alone Office of the Commission and that the head of the Office, the Ethics Counsel, reports directly to the Chairman of the Commission. Effective Date: November 18, 2011.



SEC Dodd-Frank Act Rulemaking Activity

- Release 34-63094, *Reporting of Security-Based Swap Transaction Data.*
- Release 34-63723, *Rules of Practice.*
- Release 33-9175, *Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.*
- Release 33-9716, *Issuer Review of Assets in Offerings of Asset-Backed Securities.*
- Release 33-9178, *Shareholder Approval of Executive Compensation and Golden Parachute Compensation.*
- Release 34-64545, *Implementation of the Whistleblower Provisions of Section 21F of the Securities Exchange Act of 1934.*
- Release IA-3221, *Rules Implementing Amendments to the Investment Advisers Act of 1940.*
- Release IA-3222, *Exemptions for Advisers to Venture Capital Funds, Private Fund Advisers With Less Than \$150 Million in Assets Under Management, and Foreign Private Advisers.*
- Release 34-64913, *Technical Amendment to Commission Procedures for Filing Applications for Orders for Exemptive Relief under Section 36 of the Exchange Act.*
- Release 33-9231, *Exemptions for Security-based Swaps (Interim Final Rule).*
- Release 33-9245, *Security Ratings.*
- Release 34-65148, *Suspension of the Duty to File Reports for Classes of Asset-Backed Securities Under Section 15(d) of the Securities Exchange Act of 1934.*
- Release 33-9175A, *Disclosure for Asset-Backed Securities Required by Section 943 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.*
- Release 34-64874, *Retail Foreign Exchange Transactions (Interim Final Rule).*
- **Release IA-3308, *Reporting by Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF.***
- **Release 33-9273, *Rescission of Outdated Rules and Forms, and Amendments to Correct References.***
- **Release 33-9286, *Mine Safety Disclosure.***
- **Release 33-9287, *Net Worth Standard for Accredited Investors.***



- Release 34-66020, *Extension of Temporary Registration of Municipal Advisors (Corrected to conform to Federal Register version)*.

Auditing Matters

PCAOB

- *Auditing Standards Nos. 8 – 15*. On August 5, 2010, the PCAOB adopted a suite of eight auditing standards related to the auditor's assessment of, and response to, risk in an audit. The suite of risk assessment standards, Auditing Standards No. 8 through No. 15, sets forth requirements that enhance the effectiveness of the auditor's assessment of, and response to, the risks of material misstatement in the financial statements. The risk assessment standards address audit procedures performed throughout the audit, from the initial planning stages through the evaluation of the audit results. These standards supersede six PCAOB interim standards and related amendments. The standards approved by the Securities and Exchange Commission in Release 34-63606 are effective for audits of fiscal periods beginning on or after December 15, 2010.
- *Staff Audit Practice Alert No. 7, Auditor Considerations of Litigation and Other Contingencies Arising From Mortgage and Other Loan Activities*. This practice alert, issued on December 20, 2010, advises auditors that the potential risks and costs associated with mortgage and foreclosure-related activities or exposures, such as those discussed in the SEC staff letters, could have implications for audits of financial statements or of internal control over financial reporting. These implications might include accounting for litigation or other loss contingencies and the related disclosures. Auditors should consider the effect of these matters during their reviews of interim financial information, year-end audits, and attestation engagements on assessments of compliance with servicing criteria. This practice alert further reminds auditors of their responsibilities with respect to auditing loss contingencies, disclosures, and other related topics, and outlines matters for the auditor's consideration.
- On April 6, 2011, the PCAOB entered into a Statement of Protocol with Swiss regulators, establishing a cooperative framework for supervisory oversight of auditors that practice in each country, which will allow the PCAOB to commence joint inspections of accounting firms in Switzerland that audit, or participate in audits, of companies whose securities trade on U.S. Markets.
- On June 14, 2011, the PCAOB adopted a temporary rule to establish an interim inspection program for registered public accounting firms' audits of brokers and dealers. The PCAOB also adopted rules for assessing and collecting a portion of its accounting support fee from brokers and dealers to fund PCAOB oversight of audits of brokers and dealers, consistent with the Dodd-Frank Act. The Board also adopted certain amendments to existing funding rules for issuers.
- On June 21, 2011 the PCAOB issued a concept release to discuss alternatives for changing the auditor's reporting model. The Board is seeking comment on alternatives and other matters presented in the concept release regarding possible enhancements in the auditor's reporting model. The concept release presents several alternatives for changing the model, including an auditor's discussion and analysis, required and expanded use of emphasis paragraphs, auditor assurance on other information outside the financial statements, and clarification of language in the standard auditor's report.
- On August 16, 2011, the PCAOB issued a concept release on auditor independence and audit firm rotation, to solicit public comment on ways that auditor independence, objectivity and professional



skepticism can be enhanced, including through mandatory rotation of audit firms. Comments were due December 14, 2011.

- On September 14, 2011, the PCAOB entered into a cooperative agreement with the Financial Supervisory Authority of Norway for the oversight of audit work performed by public accounting firms that practice in the two regulators' respective jurisdictions.
- **Staff Audit Practice Alert No. 8, *Audit Risks in Certain Emerging Markets*.** This practice alert, issued on October 3, 2011, is intended to increase auditors' awareness of risks when performing audits of companies with operations in emerging markets, especially in those countries where the PCAOB is disallowed from conducting inspections of auditors' work. The practice alert reminds auditors that local business practices and cultural norms in emerging markets may differ from those in more developed markets, therefore they should be alert to the effect of these differences on the risks of material misstatement. The practice alert gives examples of conditions and situations indicating heightened fraud risk in certain companies in emerging markets that they have observed.
- On October 11, 2011, the PCAOB proposed amendments intended to improve transparency through the disclosure of engagement partner and certain other participants in audits. The proposal would require registered accounting firms to disclose the name of the engagement partner in the audit report and on the PCAOB Annual Report form, as well as would require disclosure in the audit report of other accounting firms and other persons not employed by the auditor that took part in the audit. The proposal follows a related Concept Release issued in 2009. Comments are due January 9, 2012.
- During the quarter, the PCAOB entered into several cooperative agreements relating to the oversight of auditors that practice in the regulators' respective jurisdictions. They include Israel, Taiwan, The Netherlands, Dubai and Japan.
- **Staff Audit Practice Alert No. 9, *Assessing and Responding to Risk in the Current Economic Environment*.** This practice alert, issued on December 6, 2011, advises auditors in identifying matters related to the current economic environment that might affect the risk of material misstatement in financial statements and, therefore, require additional audit attention. Many of the matters discussed in Practice Alert 3, *Audit Considerations in the Current Economic Environment*, continue to be critical in current year audits. Several of the standards referenced in that Alert have been superseded by AS Nos. 8-15. Auditors are reminded to be alert to the new requirements contained in the risk assessment standards and how those requirements relate to audits performed in the current economic climate. This alert addresses four main points: 1) Considering the Impact of Economic Conditions on the Audit; 2) Auditing Fair Value Measurements and Estimates; 3) The Auditor's Consideration of a Company's Ability to Continue as a Going Concern; and, 4) Auditing Financial Statement Disclosures.
- On December 20, 2011, the PCAOB re-proposed for comment an auditing standard on Communications with Audit Committees. The standard was initially proposed in March 2010. The proposed auditing standard would supersede PCAOB interim standard AU sec. 380, *Communication With Audit Committees*, and AU sec. 310, *Appointment of the Independent Auditor*, and amend other PCAOB standards. As proposed, the Standard would establish requirements that are intended to enhance the relevance and quality of the communications



between the auditor and the audit committee. In addition, it would better align the communication requirements with performance requirements in other PCAOB standards, including the implementation of the risk assessment standards (Nos. 8-15). It also would include changes made in response to comments received on the original proposal and other refinements. Comments are due February 29, 2012.

AICPA

- *Statement on Quality Control Standards (SQCS) No. 8, A Firm's System of Quality Control (Redrafted)*. This SQCS supersedes SQCS No. 7, and is effective as of January 1, 2012. As with many of the redrafted standards, SQCS No. 8, does not change or expand SQCS No. 7 in any significant respect. Instead certain requirements that are duplicative of broader requirements in SQCS No. 7 have been moved to application and other explanatory material. This is consistent with International Standard on Quality Control No. 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.
- *SSARS No. 20, Revised Applicability of Statements on Standards for Accounting and Review Services*. This SSARS amends paragraph .01 of AR section 90, *Review of Financial Statements*, in AICPA Professional Standards to clarify that SSARSs do not apply when the provisions of SAS No. 100, *Interim Financial Information*, as amended by SAS No. 116, *Interim Financial Information*, and SAS No. 121, *Revised Applicability of Statement on Auditing Standards No. 100, Interim Financial Information (AICPA, Professional Standards, vol. 1, AU sec. 722)*, apply. Effective for reviews for periods beginning after December 15, 2011. Early application is permitted.
- *SAS No. 121, Revised Applicability of Statement on Auditing Standards No. 100*. In February 2009, SAS No. 116, *Interim Financial Information*, amended SAS No. 100, *Interim Financial Information, in AU section 722 of AICPA Professional Standards*, to address the independent accountant's professional responsibilities when the accountant undertakes an engagement to review interim financial information of a nonissuer. The Auditing Standards Board issued SAS No. 121 to further amend SAS No. 100 by amending paragraph .05 of AU section 722 such that AU section 722 would be applicable when the accountant audited the entity's latest annual financial statements, and the appointment of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review. This SAS is effective for interim reviews for periods beginning after December 15, 2011. Early application is permitted.
- *TIS 9520.01-.11, Service Organization Standards and Implementation Guidance*. This series of TPAs provides guidance on various questions related to SSAE No. 16. **(Additional guidance included in TIS 9520.12-26 was issued during the quarter).**
- *TIS 9160.27, Providing Opinion on a Schedule of Expenditures of Federal Awards in Relation to an Entity's Financial Statements as a Whole When the Schedule of Expenditures of Federal Awards is on a Different Basis of Accounting Than the Financial Statements*. This TPA provides guidance on when an "in-relation-to" opinion on a Schedule of Expenditures of Federal Awards ("SEFA") may be provided when the SEFA is prepared using a different basis of accounting than the financial statements.



- TIS 6300.37-.38, *Application of ASU 2010-26*. These TPAs clarify that reasonable estimates may need to be made if it elects to apply the provisions of ASU 2010-26 retrospectively. In addition, the TPA clarifies that the retrospective application must be applied by the entity to all product lines beginning with a single point in time rather than to each product line at separate points in time.
- **TIS 9150.28, *Compilation Engagement When the Accountant Is Performing Management Functions***. This TPA notes that it is permissible for an accountant to compile financial statements for an entity with respect to which the accountant also performs management functions, however it notes that the accountant should consult Interpretation No. 101-3, “Performance of Nonattest Services” regarding independence. If independence is impaired, the accountant would need to disclose this fact in the compilation report.
- **TIS 6931.13-.17, *Financial Statement Reporting and Disclosure – Employee Benefit Plans***. These TPAs address various questions relating to the accounting for and disclosures relating to reimbursements from the Early Retiree Reinsurance Program established by the Patient Protection and Affordable Care Act.
- **TIS 9170.01, *Supplemental Information – Consolidating Information Presented on the Face of the Financial Statements***. This TPA clarifies that an entity may present consolidating information either on the face of the financial statements or outside the basic financial statements, and addresses the auditor’s reporting responsibilities in either situation.
- **TIS 9110.18, *Special Reports – Small Business Lending Fund Auditor Certification Guidance***. Enacted into law in 2010 as part of the Small Business Jobs Act of 2010, the Small Business Lending Fund (SBLF) is a program that encourages lending to small businesses by providing capital to community banks with under \$10 billion in assets. Under the terms of the program, a participating bank is required to calculate and report the amount of its qualified small business lending in a supplemental report. In addition, there is a requirement to receive and submit within 90 days at the end of each fiscal year following the investment date a certification from its external auditors that the processes and controls used to generate the supplemental reports are satisfactory. This TPA addresses how the independent auditor should respond to this requirement. It notes that the requirement may be satisfied by issuing a report following the guidance in paragraph .19-.21 of AU Section 623, *Special Reports*. The TPA provides example report wording.
- **TIS 9530.01-.22 *Service Organization Controls Reports***. This series of TPAs provides guidance on various questions related to the reporting under SSAE No. 16.

CAQ

- The Center for Audit Quality has released minutes of the SEC Regulations Committee for the following meetings. These meetings highlight current financial accounting and reporting topics, and the minutes can be found at the following link: <http://thecaq.org/resources/secregs/highlights.htm>
 - April 6, 2010
 - June 24, 2010
 - September 21, 2010



- March 29, 2011
- June 28, 2011
- **September 27, 2011**

In May 2011, the Center for Audit Quality (CAQ) published the *In-Depth Guide to Public Company Auditing: The Financial Statement Audit*, a “Plain English” guide designed for investors and those interested in understanding the external audit process for public companies and role the audit plays.

In October 2011, the CAQ published *Observations on the Evolving Role of the Auditor: A Summary of Stakeholder Discussions*. This report summarizes observations of various stakeholder discussions exploring the value of the audit and the auditor going forward.

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