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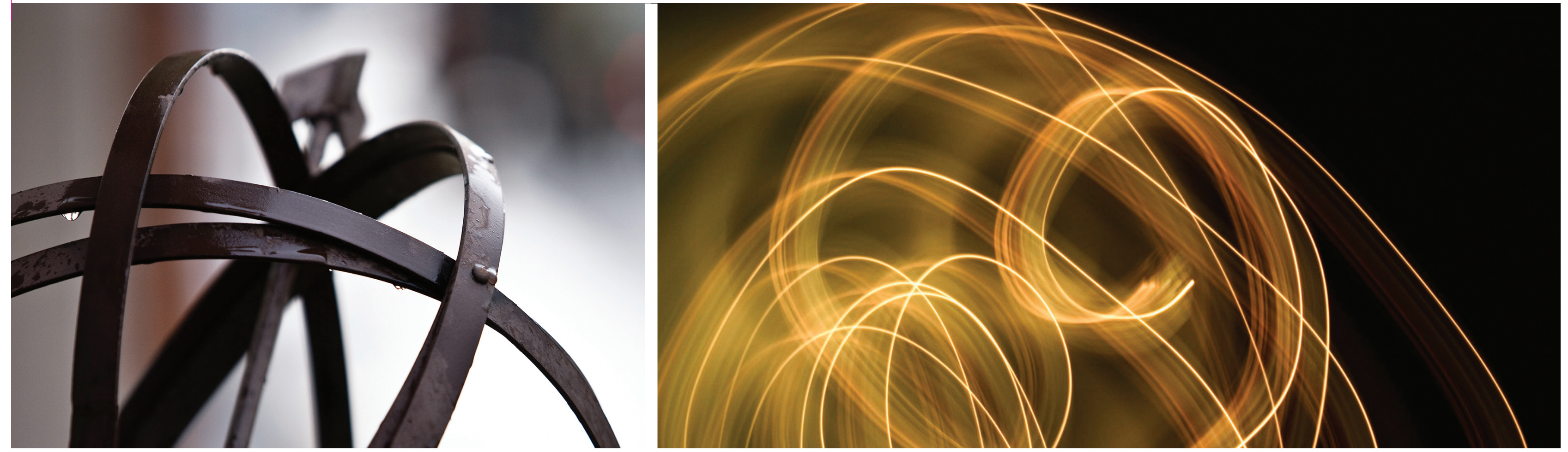

Financial Reporting Alert

Current Accounting Issues and Risks for Financial Management and Reporting—2012/13

Strengthening Financial Management and Reporting

ISBN 978-1-93735-170-0

AFACAI12P

Current Accounting Issues and Risks for Financial Management and Reporting—2012/13

Strengthening Financial Management and Reporting

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ISBN 978-1-93735-170-0

Notice to Readers

This Financial Reporting Alert is intended to provide accountants practicing in business and industry with an overview of recent economic, technical, regulatory, and professional developments that may affect financial management and reporting.

This document has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.

Christopher Cole, CPA, CFE, CFF
Technical Manager
Accounting and Auditing Publications

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How This Alert Helps You

This alert is intended to help you better understand the relevant economic and regulatory factors that affect your financial reporting and identify issues that could result in the material misstatement of your entity's financial statements.

The current economic situation makes financial management more challenging than ever. This Financial Reporting Alert (alert) is designed to be used by members of an entity's financial management and audit committee to identify and understand current accounting and regulatory developments affecting the entity's financial reporting, especially those that are the result of recent economic developments. It is intended to help you achieve a more robust understanding of the current economic environment in which your entity is operating. This alert is also an important tool to help you identify the significant risks that may result in the material misstatement of your entity's financial statements. To help you understand relevant industry, economic, and regulatory factors affecting your financial management and reporting, the AICPA also offers industry- and topic-specific alerts to be used in conjunction with this alert. These alerts can be obtained by calling the AICPA at 888.777.7077 or visiting www.cpa2biz.com. You should refer to the full text of pronouncements, as well as the full text of any rules or publications that are discussed in this alert.

Understanding the Current Economic Environment to Assess Risks for Your Entity

Your entity's financial statements will be subject to specific risks of material misstatement arising from the current economic situation. The nature of your entity, the degree of regulation, or other external forces affecting the entity will vary, but this alert is designed to help you better assess these risks in order to develop appropriate controls.

It is important for members of an entity's financial management or audit committee to have a sufficient understanding of the entity and the current environment in which it operates. This understanding will help you perform not only adequate risk assessment, but also opportunity assessment. A proper risk assessment will assist you in understanding the risk that your entity's financial statements may be misstated. Understanding how the following things affect your entity will provide a basis for your risk and opportunity assessments:

- Current economic conditions
- Nature of the industry in which your entity operates and how it is changing (including effects on your supply chain and competitors)
- Industry, regulatory, and other external factors
- Business objectives and strategies and related risks
- Current, past, and projected financial performance of the entity
- Competitors' financial performance
- Internal control within your entity, which includes the selection and application of accounting policies

Your entity's financial statements are subject to specific risks of material misstatement arising from the nature of the entity, the degree of regulation, or other external forces affecting the entity (for example, political, economic, social, technical, and competitive forces). Just as the external environment changes, the conduct of your entity's business is also dynamic: business strategies and objectives change in response to external developments. Business risks result from (*a*) significant conditions, events, circumstances, actions, or inactions that could adversely affect your entity's ability to achieve its objectives and execute its strategies, or (*b*) the setting of inappropriate objectives and strategies. An understanding of business risks increases the likelihood of identifying, correcting, and preventing risks of material misstatement in your financial statements. Most business risks will eventually have financial consequences and, therefore, an effect on the financial statements. However, not all business risks give rise to risks of material misstatement.

Understanding and properly addressing, as necessary, the matters presented in this alert will help you better assess risks of material misstatement of the entity's financial statements and implement appropriate controls that will strengthen the integrity of your financial management and reporting.

Economic, Legislative, and Regulatory Developments

Determine how current economic conditions and recently issued regulations and guidance from the Department of Treasury, IRS, and the Securities and Exchange Commission affect your entity.

The Current Economy

Toward the end of 2011 and into 2012, the U.S. economy continued to struggle. Domestically, in an unprecedented move, during early August 2011, Standard & Poor's (S&P) downgraded long-term U.S. federal debt from AAA to AA+. Taking similar actions internationally, in the beginning of 2012, S&P downgraded the credit rating of nine European countries, including France and Italy. For entities whose investment portfolios are substantially invested in certain European countries or U.S. treasuries, these downgrades may affect the liquidity or valuation of their portfolio, especially for those portfolios that have a requirement to hold AAA-rated debt.

After a few years of slow, but nevertheless positive, growth, the U.S. economy's growth is showing signs of decelerating. During 2012, consumers continue to spend less, manufacturing continues to remain flat, and job growth continues to decline. From October 2011 to June 2012, there was a steady increase in the S&P 500 and Down Jones Industrial Average (DJIA). However, at the beginning of June 2012, both the S&P 500 and DJIA dropped to the lowest point since the beginning of the year, but by mid-July 2012, they began to slowly rebound. The Chicago Board Options Exchange Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices and is considered by many to be a barometer of investor sentiment, market volatility, and the best gauge of fear in the market. Through the fourth quarter of 2011 and into the first quarter of 2012, VIX showed a steady decline, hitting a closing price in March 2012 of below 15.00. VIX peeked at the end of May 2012, closing at a price above 25.00. By July 2012, there once again was a decreasing trend, and by mid-July, VIX closed just over a price of 16.00. This volatility demonstrates the uncertainties that still plague investors. Much uncertainty continues to exist with the impending 2012 presidential election and the outcome of the budget impasse. In addition, Europe's debt crisis continues to threaten the U.S. economy.

Key Economic Indicators

The following key economic indicators reaffirm the slowdown of the economy during 2012: gross domestic product (GDP), unemployment, and the federal fund rate. The GDP measures output of goods and services by labor and property within the United States. It increases as the economy grows or decreases as it slows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 1.5 percent in the second quarter of 2012, based on the advance estimate (first estimate). This is a decrease of 0.4 percent from the first quarter of 2012. Real GDP increased at an annual rate of 1.9 percent in the first quarter of 2012 (third estimate), compared with an increase of 3.0 percent in the fourth quarter of 2011 (second estimate). The slowdown in real GDP in the second

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quarter of 2012 has been attributed to a deceleration in personal consumption expenditures and residential fixed investments, among other factors.

From July 2011 to July 2012, the unemployment rate fluctuated between 9.1 percent and 8.3 percent, which represents almost 13 million people unemployed. Based on the August 2012 Bureau of Labor Statistics (BLS) *Commissioner's Statement on the Employment Situation*, employment growth averaged 151,000 per month from the beginning of 2012, compared with an average monthly increase of 153,000 in 2011. The slowdown of job growth occurred in most major industries. The annual average rate of unemployment increased from 4.6 percent in 2007 to 9.3 percent in 2009 and stood at 8.9 percent for 2011. Based on the BLS, the number of people employed part time for economic reasons was unchanged at 8.2 million in July 2012, and the average workweek for all private employees had increased 0.1 hour in June 2012, with no increase in July 2012. Together, these statistics illustrate the overall stagnant state of the economy.

The Board of Governors of the Federal Reserve System (Federal Reserve) decreased the target for the federal funds rate more than 5.0 percentage points, from its high of 5.25 percent prior to the financial crisis to less than 0.25 percent, where it remains through July 2012. The Federal Reserve described the current economic recovery in its August 1, 2012, press release as follows:

- Growth in employment has slowed.
- The unemployment rate remains elevated.
- Household spending appears to be rising at a slower pace than earlier in the year.
- The housing sector remains depressed.

In addition, the press release stated that "strains in global financial markets continue to pose significant downside risks to the economic outlook." In order to support a stronger economic recovery, it is expected that the federal funds rate will be kept between 0 and 0.25 percent through late 2014.

Effect of 17-Nation Eurozone Crisis

A contributing factor of the slow economic recovery for the U.S. economy is Europe's current financial crisis. As reported in the *Washington Post*, in mid-July 2012, there continues to be a decrease in investor confidence in the debts of Greece, Portugal, Spain, and Italy. Not only does this 17-nation Eurozone crisis create financial uncertainty, but it has a direct effect because less Europeans are buying U.S. products and services.

In response to the disappointing current economic data, market participants have reported a general pullback from risk-taking investing and a decline in liquidity in a range of financial markets. Adding to the significant market pullback are the economic difficulties in Greece, Ireland, and Portugal, along with other peripheral European countries, as they look to be bailed out of their debt crisis. This could continue to cause significant financial strains on the U.S. economy.

A July 2012 article on Reuters.com reported that in response to the failing Eurozone economy, the European Central Bank (ECB) policymakers decreased their deposit rate to zero to instigate banks to start lending out money. This action was taken right after the ECB reduced its main interest rate, in mid-July 2012, by 0.25 points to a record low of 0.75 percent. Currently, these reductions have not had the positive effects on the economy that the policymakers were anticipating.

Consumer Price Index Trends

The BLS annually publishes its Consumer Price Index for all Urban Consumers (CPI-U). The CPI-U is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI-U is the most widely used measure of inflation and is sometimes viewed as an indicator of the effectiveness of government economic policy. It provides information about price changes in the nation's economy to government, business, labor, and private citizens and is used as a guide when making economic decisions. The table that follows shows the U.S. city annual average CPI-U for the past 5 years. The baseline measurement is 1982–1984=100.

Year	*Annual Average Consumer Price Index for all Urban Consumers*	*Change From Prior Year*
2011	225.7	3.0%
2010	219.2	1.5%
2009	215.9	2.7%
2008	210.2	0.1%
2007	210.0	4.1%

Producer Price Index Trends

The Producer Price Index (PPI) of the BLS is a family of indexes that measure the average change over time in the prices received by domestic producers of goods and services. The PPI measures price change from the perspective of the seller. This contrasts with other measures, such as the CPI, which measures price change from the purchaser's

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perspective. Sellers' and purchasers' prices can differ due to government subsidies, sales and excise taxes, and distribution costs. The table that follows shows the annual average PPI for finished goods for the past 5 years. The baseline measurement is 1982=100.

Year	*Annual Average Producer Price Index—Finished Goods*	*Change From Prior Year*
2011	191.3	4.8%
2010	183.0	3.8%
2009	176.2	4.3%
2008	168.8	–0.9%
2007	170.6	6.3%

Interest Rates for Below Market Rate Loans

The IRS issues the blended annual applicable federal rate each year to provide guidance in relation to Internal Revenue Code Section 7872(e)(2), "Treatment of loans with below-market interest rates—foregone interest" (*Internal Revenue Code, U.S. Code* 26). The term *foregone interest* means, with respect to any period during which the loan is outstanding, the excess of

- the amount of interest, which would have been payable on the loan for the period, if interest accrued on the loan at the applicable federal rate and was payable annually on the day referred to in Subsection (a)(2), over
- any interest payable on the loan properly allocable to such period.

This rate is a useful guide in evaluating interest rates and determining imputed interest for below market rate loans. The following table provides the blended annual rate for each of the previous five years as determined by the IRS.

Year	*Blended Annual Rate*
2011	0.40%
2010	0.59%
2009	0.82%
2008	2.80%
2007	4.92%

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Regulatory Developments

Jumpstart Our Business Startups Act

According to the U.S. Small Business Administration, small companies[1] make up 99.7 percent of all employers and provide jobs for roughly one-half of U.S. workers. However, in the current uncertain economy, many of these companies have had trouble obtaining the funding they need to expand and hire new employees. Thirty percent of owners of privately held businesses believe enhanced access to capital is the optimum way to increase job creation, according to an economic forecast conducted by Dun & Bradstreet and Pepperdine University.

With that in mind, the Jumpstart Our Business Startups (JOBS) Act, signed into law on April 5, 2012, is intended to make it easier for privately held companies to raise capital and relax existing regulations that might have prevented them from going public or expanding their investor pool. Generally speaking, it does so by minimizing or eliminating some disclosure, accounting, and governance requirements that have made some funding options more complicated and costly.

Private company clients, entrepreneurs, and start-ups may turn to their CPAs for advice on how the JOBS Act may apply to them. Considerations for these organizations could include advising them on compliance with the rules for the new category of emerging growth company (EGC) and otherwise preparing to enter into the public market to reach investors but also ensuring that their internal controls and other systems are adequate to function as a public company.

Based on an article on Reuters.com in August 2012, some provisions of the law took effect immediately, but others required Securities and Exchange Commission (SEC) rulemaking. The SEC had 90 days from the date the JOBS Act was signed into law to implement some regulations, but it has not been able to meet that deadline because of the workload from the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) (see "The Dodd-Frank Act" section of this alert). Although final rulemaking associated with the JOBS Act is not yet complete, its provisions have the potential to have a significant impact on the way small companies raise funds:

- It creates a new category of EGC subject to its own unique regulations when going public.

1. The U.S. Small Business Administration defines *small business* as a concern, including its affiliates, that is independently owned and operated; not dominant in the field of operation in which it is bidding on government contracts; and qualified as a small business under the criteria in Title 13 U.S. *Code of Federal Regulations* Part 121.

- It legalizes equity-based crowdfunding that makes it easier for private companies to sell shares to large groups of small investors.
- It allows private companies to sell shares to a larger group of investors than previously allowed before they are required to go public.
- It loosens the rules on advertising for private placements.

Assuming these options enable companies to grow, CPA firms may be called upon to provide controller services, corporate advisory services, technology consulting, wealth management, or a host of other engagements. The law may also open up new strategies for succession planning.

Help Desk: For the full text of the JOBS Act, see www.govtrack.us/congress/bills/112/hr3606/text. In addition, see the new AICPA publication *The JOBS Act of 2012: Tools, Tips, and Tactics*.

The Dodd-Frank Act

The Dodd-Frank Act was signed into law in July 2010 in response to weaknesses in the financial services industry that are believed to have contributed to the economic recession. The main goals of the reform are to lower the systemic risks to the financial system and enhance consumer protections.

The Dodd-Frank Act implements changes that affect the oversight and supervision of financial institutions and creates many new agencies. One of the main changes brought about by the Dodd-Frank Act was the creation of the Financial Stability Oversight Council (FSOC) that oversees financial institutions. The role of the FSOC, which is chaired by the Secretary of Treasury, is to identify risks to financial stability and promote market discipline.

Based on an overview by the Securities Industry and Financial Markets Association (SIFMA), the Dodd-Frank Act requires approximately 250 new regulations to be written between the next 2–5 years by various regulatory agencies. This allows time for both regulators and the industry to meet their individual goals, which is important to the efforts to avoid market disruptions and inadvertently increase systemic risk. Large complex institutions, in particular, and newly regulated entities with new reporting requirements are being challenged to update their systems and data infrastructures. Based on SIFMA, the goal of this rulemaking process is to make sure the "final regulations are balanced, consistent with the intent of the initial legislation, and avoid any potential unintended consequences." At this time, approximately 100 rules have been finalized, but many regulatory agencies have

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missed deadlines in proposing required new regulations or have yet to propose them. The sections in this alert that follow include some of the more significant rules that have been finalized from late 2011 to mid-2012 that may have an effect on your entity.

Federal Deposit Insurance Corporation

The Federal Deposit Insurance Corporation (FDIC) was tasked with a number of projects under the Dodd-Frank Act. This section of the alert identifies some of the more relevant final rules that have been recently issued by the FDIC. Members of management are encouraged to gain an understanding of these final rules in order to identify if their entity is in compliance with the rules that have a direct and material effect on the financial statements. Not only do they need to be in compliance with the rules surrounding the reporting of total assets upon consolidation and fair value measurements, they need to be in compliance with reporting credit exposures between the entity and other significant bank-holding entities or significant nonbank financial entities. In addition, management needs to be aware of the maximum obligation limitations (MOLs) that impose limits on the amount of obligations the FDIC may issue. These rules are discussed in the following sections.

Final Rule Title 12 U.S. *Code of Federal Regulations* Part 381—Resolution Plans and Credit Exposure Reports Required

In September 2011, the FDIC, along with the Federal Reserve, adopted a final rule to implement the requirements regarding resolution plans. In order to promote financial stability, the Dodd-Frank Act requires each nonbank financial entity supervised by the Federal Reserve and each bank holding entity with total consolidated assets of $50 billion or more to periodically submit to the Federal Reserve, the FDIC, and the FSOC a plan for such entity's rapid and orderly resolution in the event of material financial distress or failure. It also requires each covered company to report on the nature and extent of credit exposures to significant bank holding entities and significant nonbank financial entities and on the nature and extent of those credit exposures. The final rule requires a resolution plan that incorporates all the requirements set forth in section 165(d)(1) of the Dodd-Frank Act.

Final Rule Title 12 U.S. *Code of Federal Regulations* Part 360—Resolution Plans Required for Insured Depository Institutions With $50 Billion or More in Total Assets

In January 2012, the FDIC adopted a final rule to implement the requirements regarding resolution plans for insured depository institutions with $50 billion or more in total assets. As of September 30, 2011, the FDIC insured approximately $6.78 trillion in deposits in more than 7,000 depository institutions. To evaluate the potential loss severity and enable the FDIC to perform its resolution functions, these entities are required to periodically submit to the FDIC a contingent plan for the resolution of such institutions in the event

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of their failure. The rule established the requirements for the submission and content of a resolution plan, as well as procedures for review by the FDIC. It became effective April 1, 2012.

Final Rule Title 12 U.S. *Code of Federal Regulations* Part 380—Calculation of MOL

In May 2012, the FDIC and the Departmental Offices of the Department of the Treasury issued the final rule to implement applicable provisions of the Dodd-Frank Act. Title II of the Dodd-Frank Act establishes an Orderly Liquidation Authority (OLA) to resolve a large interconnected financial entity upon the determination that its failure and resolution under otherwise applicable law would have serious adverse effects on financial stability in the United States, and the use of the OLA would avoid or mitigate such adverse effects. The final rule governs the calculation of the MOL as specified in section 210(n)(6) of the Dodd-Frank Act. The MOL limits the aggregate amount of outstanding obligations the FDIC may issue or incur in connection with the orderly liquidation of a covered financial entity.

Help Desk: For more information on the progress the FDIC is making toward completion of projects related to the Dodd-Frank Act, see the FDIC website at www.fdic.gov.

Consumer Financial Protection Bureau

The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB) that consolidates in one place most federal regulation of financial services offered to consumers. The focus for the CFPB is on consumers in the market for financial products and services. Entities in industries that offer credit in the form of mortgages, credit cards, student loans, prepared cards, and other financial products are encouraged to gain an understanding of the new rules. These industries include banks, mortgage lenders and services, credit unions, payday loan entities, debt collectors, and consumer reporting agencies. The following is a listing of some of the projects completed by the CFPB as of July 2012:

- Launched "Know Before You Owe," an effort to combine two federally required mortgage disclosures into a single, simpler form that makes the costs and risks of the loan clear and allows consumers to comparison shop
- Brought together industry representatives, consumer groups, academic representatives, government experts, and others for a conference to review data on how the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit

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CARD Act),[2] coupled with the recession and its aftermath, have affected supply, demand, and pricing within the credit card marketplace

- Released reports on
  — the impact of the Credit CARD Act
  — variation in credit scores sold by certain consumer reporting agencies
  — remittances, specifically remittance exchange rates and the use of remittance histories for credit scores
  — the progress made in building the CFPB
- Issued a notice and request for comment seeking public input on issues relevant to defining a larger participant in certain consumer financial markets

Help Desk: For more information on these projects and additional projects, see the CFPB website at www.consumerfinance.gov/the-bureau/.

SEC

The Dodd-Frank Act contains over 90 provisions that require the SEC to create rules, in addition to other provisions, that give the SEC discretionary rule-making authority. Currently, the SEC has either proposed or adopted rules for more than 75 percent of those provisions. Entities that are subject to SEC rules are encouraged to gain an understanding of rules that have been adopted in order to confirm their continued compliance with the new regulations. In recent months, the SEC has made advancement in the area of derivatives.

Based on the SEC website, Title VII of the Dodd-Frank Act addresses the gap in U.S. financial regulations of over-the-counter (OTC) swaps by providing a comprehensive framework for the regulation of the OTC swaps markets. The Dodd-Frank Act divides regulatory authority over swap agreements between the Commodity Futures Trading Commission (CFTC) and the SEC. Under Title VII, many new rules are required, some of which have been proposed. The following are the most recent final rules that have been adopted related to derivatives. Additional final rules related to derivatives will be finalized in the upcoming months.

2. The two main purposes of the Credit Card Accountability Responsibility and Disclosure Act of 2009 are to (*a*) prohibit certain practices that are unfair or abusive, such as hiking up the rate on an existing balance or allowing a consumer to go over the limit and then imposing an over-limit fee, and (*b*) make the rates and fees on credit cards more transparent, so consumers can understand how much they are paying for their credit card and can compare different cards.

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Rules on Key Terms for Regulating Derivatives

In a July 2012 press release, the SEC stated that it "took another step toward regulating the over-the-counter derivatives market by unanimously approving the rules and interpretations for key definitions of certain derivative products." Based on Release No. 34-67453, the Dodd-Frank Act established a comprehensive framework for regulating the OTC swap markets. In particular, the Dodd-Frank Act provides that the SEC will regulate security-based swaps, the CFTC will regulate swaps, and the CFTC and the SEC will jointly regulate mixed swaps. The SEC action (joint with the CFTC) will add rules under the Securities Exchange Act of 1934 and provide interpretations regarding which products would and would not be considered a swap or security-based swap.

New Procedures for Reviewing Clearing Submissions

In June 2012, the SEC adopted new procedures for reviewing clearing submissions under the Dodd-Frank Act. Based on Release No. 34-67286, these rules establish procedures for the SEC's review of certain clearing agency actions. Under the final rule, a clearing agency will be required to file information with the SEC regarding any security-based swap or any group, category, type, or class of security-based swaps it plans to accept for clearing. The final rule also describes the information that must accompany each submission, so the SEC will be able to determine whether the security-based swap should be subject to mandatory clearing.

Help Desk: For more information on the implementation of the Dodd-Frank Act by the SEC, visit www.sec.gov.

SEC Cyber Attack Disclosures

In October 2011, the SEC instituted a voluntary disclosure plan in an October advisory that addressed when companies should disclose cyber attacks. Recently, the SEC has been communicating with several large companies to further encourage these disclosures. The recipients of the letters made public to date include Google Inc., Amazon.com Inc., Harford Financial Services Group, American International Group, Eastman Chemical Company, and Quest Diagnostics.

These six companies were specifically asked to disclose in future filings that intruders had breached their computer systems. Hacking can have a significant impact on the company's image and can trigger litigation by parties who felt they were harmed by lack of disclosure. Under securities law, companies must disclose material information that could affect an investor's decisions to buy or sell a company's securities. Even if cyber attacks have not had a significant effect on the company's finances, the fact that they occurred is relevant to investors and lenders, the SEC said in October.

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> **Help Desk:** For more information on the cyber security disclosure guidance from the SEC, visit www.sec.gov/divisions/corpfin/guidance/cfguidance-topic2.htm.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 are collectively referred to as the *2010 health care reform legislations*. In June 2012, the Supreme Court upheld the law passed by Congress declaring the 2010 health care reform legislation a key tax provision. The Supreme Court agreed with lawmakers that it does fall under Congress's authority to make changes to the tax code. The overhaul of the health care system will affect individuals, insurance companies, health care providers, and employers.

The three primary goals of the reform are to expand coverage to those without health insurance, reform the delivery system of benefits to improve quality, and decrease the costs of providing health care. The various provisions of the reform will become effective over time, through 2020.

The health care reform laws affect employers and businesses differently, depending on the size of the entity. The new laws contain many changes for employers to consider for financial reporting purposes, in addition to many new tax rules to help offset the overall cost of the reform. CPAs will need to consider the effects of these changes in addressing issues for themselves, their firms, their clients, and their organizations.

The main provisions that are effective for 2012 affect small and midsize entities. Those entities with 25 or less employees providing health care coverage for employees are eligible to claim a credit equal to 35 percent of nonelective contributions the businesses make on behalf of their employees for insurance premiums. The employer must pay at least 50 percent of the premium cost and a uniform percentage for all covered employees. The premium amount taken into account is capped at the amount of the average premium for the small group market in the state (or an area within the state) in which the employer offers coverage.

CPAs may need to help their clients perform an analysis to determine the cost benefits of hitting the percentage benchmarks required to qualify for tax credits at the applicable size tier. The cost versus benefit analysis should be evaluated not only in dollars but also as it relates to attracting human capital talent. Individuals, insurance companies, health care providers, and employers need to be aware that if they do not comply with the health care reform's requirements, a tax may potentially be assessed.

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Help Desk: Health care reform is far-reaching, and much uncertainty exists about how health care reform measures will affect the way health care entities will deliver services to their patients in the future and how they will be compensated for those services.

Much has been written on the topic of health care reform. The following websites provide information that may be helpful to readers:

- The AICPA's health care reform website is at www.aicpa.org/Research/HCR/Pages/HealthCareReform.aspx.
- HealthCare.gov's Affordable Care Act website is at www.healthcare.gov/law/about/order/byyear.html
- The Kaiser Family Foundation's summary of health care reform is at www.kff.org/healthreform/upload/8061.pdf.

Financial Management Issues and Developments

Discover insight and advice from business and finance professionals to guide you through challenging economic conditions.

Operating in this current economic environment produces various challenges for your entity and requires steps to meet those challenges. The following are considerations that may help you plan your short- and long-term business strategy during these trying times.

Strategies to Navigate the Current Business Environment

Entities across the country are struggling with the slow recovery of the U.S. and global economies. Regardless of industry, entities are searching for strategies on how they can maintain profitability during these difficult times. The AICPA Business and Industry Executive Committee has assembled a list of key considerations when reviewing your business strategies:

- Doing nothing may be the best action to take. Make sure your overall cash position and anticipated cash needs are in line with your business's short-term needs, goals, and risk tolerance level.

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- Check the safety of any cash deposits you have. Have you considered a certificates of deposit account registry to spread the risk for short- to medium-term cash you may have invested in certificates of deposit?
- Focus on your broader cash flow planning situation. What are your cash flow needs for the next 90–120 days? Or 120–180 days? Do you have sufficient cash reserves for the next 30–60 days?
- Check with your lenders on the status of your credit lines. Are you in compliance with the terms? Will your bank renew the commitments at similar amounts, rates, and terms?
- Closely monitor your accounts receivables. Look for any new patterns of slow payments and follow up immediately. Review your largest and riskiest accounts to determine the potential effect of credit constraint or economic slowdown on those customers' ability to meet their obligations to you.
- Review inventory management practices if you are a manufacturer. Do you have opportunities to reduce on-hand inventory?
- Make sure you're capturing all your billable hours and are invoicing promptly if you are a service company. Have you billed all your contractual items? How about all your pass-through expenses, including billable third-party services and travel and living expenses?
- Control what you can in your situation. Can you reduce spending in any areas to reduce the burden on your cash flow needs?
- Review all your insurance coverage. Pay particular attention to coverage you have with those companies that have weak balance sheets. Be careful not to surrender a policy because securing new coverage might require underwriting that can affect your coverage.

Your employees are also going to be concerned about the effect of the economy on the health of the entity, the likelihood of continued employment, and the effect on retirement or other benefit plans in which they participate. Regardless of how challenging the particular circumstances of your entity may be, communicating effectively and keeping employees informed about issues with the potential to affect them personally will pay dividends in productivity in the short term and loyalty in the long run.

Assessing Liquidity Risk

Cash flow is essential to any entity. The previous section pointed out several questions you should consider regarding liquidity. Whether you need to pay your employees, purchase

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goods or equipment, pay utility bills, fund research and development costs, or extend credit to customers, every entity needs access to working capital. During this time of economic uncertainty, banks and other sources of financing have severely curtailed or even eliminated many lending programs and lines of credit that are essential to businesses. In some cases, this restriction is due to tighter lending policies by the bank, in others, because the bank's own access to credit is limited. To plan for or avoid an illiquid situation, ask the following questions to determine where your risks lie:

- Does your entity rely on a single lender or group of lenders? Have they shown any signs of financial distress?
- After a review of financial covenants in your debt agreements, are you in jeopardy of default?
- Are any of your key customers or suppliers showing signs of financial distress or an inability to meet their commitments?
- Are the economic assumptions that existed at the time supplier and customer agreements were created still valid? If not, is modification possible?
- Are there concerns about your entity's key insurance providers or their ability to pay claims?
- What role is financing going to play in your plans for future capital improvements, mergers and acquisitions, or other long-term investments? Are these still viable business options?
- After a thorough review of your investment portfolio
  - — is it possible that you will have trouble accessing or liquidating any investments?
  - — have any of your investments been significantly or permanently impaired?
  - — are any of your investments now of higher risk than your investment policy allows?
- Will depressed stock prices put you at risk of a takeover by strategic or financial buyers?
- Have you employed enterprise risk management (ERM) strategies as discussed in the "ERM" section of this alert?
- Have you developed a plan to access alternative sources of liquidity, including the following?
  - — Operating asset sales
  - — Obtaining equity investors
  - — Liquidating investments from your portfolio
  - — Negotiating credit terms with a business partner or supplier

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- How will your strategy to survive economic challenges create additional demands on your cash? For example, downsizing the workforce, business line or plant closures, or benefit plan changes will likely require cash to implement.

Improved Reporting on Service Organizations

Since 1992, Statement on Auditing Standards (SAS) No. 70, *Service Organizations* (AICPA, *Professional Standards*, AU sec. 324), has been the authoritative standard on requirements and guidance for reporting on controls at service organizations and auditing the financial statements of entities that use service organizations to accomplish tasks that may affect their financial statements. This guidance has now been split into an attestation standard and an auditing standard to better reflect the nature of the work being performed. Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization* (AICPA, *Professional Standards*, AT sec. 801), contains the requirements for performance of the examination and reporting on controls at service organizations that are relevant to user entities' internal control over financial reporting. SSAE No. 16 is effective for service auditor's reports for periods ending on or after June 15, 2011, with earlier implementation permitted. SSAE No. 16 was developed in conjunction with International Auditing and Assurance Standards Board's International Standard on Assurance Engagements No. 3402, *Assurance Reports on Controls at a Service Organization*.

To make practitioners aware of the various professional standards available to them for examining and reporting on controls at a service organization and to help practitioners select the appropriate standard and related report for a particular engagement, the AICPA has introduced a series of three different service organization control (SOC) reports (SOC 1, SOC 2, and SOC 3). This series encompasses new SSAE No. 16, which retains the original purpose of SAS No. 70, and adds two new reporting options.

The following table highlights the three reporting options:

	Title	***Description***
SOC 1	*Service Organizations—Applying SSAE No. 16, Reporting on Controls at a Service Organization (SOC 1)*	To be used only in circumstances when the service organization's services and controls affect the internal control over financial reporting for the entities that use the service.
SOC 2	*Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy (SOC 2)*	The purpose is to convey trust and assurance to users of the system that the service organization has deployed an effective control system to effectively mitigate operational and compliance risks that the system may represent to its users.
SOC 3	*Trust Services Report*	These reports are designed to meet the needs of users who want assurance on the controls at a service organization related to security, availability, processing integrity, confidentiality, or privacy of a system but do not have the need for the level of detail provided in an SOC 2 report. These reports are general use reports and can be freely distributed or posted on a website as a seal.

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For further information about the purpose and types of reports available for service organizations, visit www.aicpa.org/InterestAreas/FRC/AssuranceAdvisoryServices/Pages/SORHome.aspx.

Reporting on Sustainability Efforts

Sustainability is the process employed by entities to develop and execute business strategies that ensure success and viability over the long term. Based on results of a recent survey by the AICPA, the Chartered Institute of Management Accountants (CIMA), and the Canadian Institute of Charted Accountants (CICA), compliance with legal and regulatory requirements is the most common driver for sustainability initiatives in both large and small companies. Cost-cutting and efficiency ranked second among smaller companies, and managing reputational risk ranked second as the most significant driver of sustainability efforts among larger companies.

In addition to cost savings and efficiencies, consumers and business customers are increasingly looking to products and companies that are environmentally and socially responsible, creating increased revenue opportunities and driving job creation for companies embarking on the sustainability path. Companies not directly involved in sustainable technologies or products also realize revenue potential by introducing new product lines, modifying existing product offerings, or by highlighting their corporate sustainability efforts.

Companies look to CPAs to provide analysis of the business case and investment return calculations and develop and monitor performance measures or key performance indicators for important sustainability metrics. Unfortunately, although several large companies issue comprehensive sustainability reports and many smaller companies are beginning to do so as well, the AICPA/CIMA/CICA survey results reveal that finance function involvement in sustainability reporting is currently quite limited.

One recent development in the world of sustainability and business reporting that will likely have significant impact on the role of the CPA is the evolution of integrated reporting. In 2010, the Prince's Accounting for Sustainability Project and the Global Reporting Initiative formed the International Integrated Reporting Committee (IIRC) to oversee the creation of a globally accepted, integrated reporting framework that would connect financial and sustainability reporting. *Integrated reporting* is an approach to business reporting that hopes to provide more comprehensive information about company strategy, governance, and performance in a way that considers the social, environmental, and long-term economic context within which the company operates. A discussion paper outlining the proposed IIRC framework was released for public consultation in September 2011. Visit www.theiirc.org/the-iirc/ for this discussion paper, as well as more information about the IIRC.

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ERM

To meet the challenges and risks in today's business environment, many entities have turned to a process called ERM. The purpose of ERM is to address processes, procedures, and risk on an entity-wide basis to enable management to holistically understand the business risks that the entity faces. Some characteristics of the ERM model include strengthening communication; additional training, including cross-training, process, and internal control improvement; and entity-wide participation.

Once implemented, managers of individual business components can make appropriate decisions based on an understanding of the risks that each business component encounters and how those risks affect other components and the entity as a whole. The purpose of this process is not to reduce business risk but rather to provide the knowledge that management needs to effectively assess risks and then plan appropriate strategies to achieve the entity's business objectives. Examples of risks that could affect your entity and could be identified and mitigated through the application of ERM strategies include the following:

- Rising costs and limited availability of raw materials
- Availability of specialized skills labor
- Rising cost and limited availability of short-term financing and liquidity issues
- Increasing transportation costs
- Overseas price competition
- Government regulation
- Product liability lawsuits
- Environmental issues
- Natural or terrorism-related disasters
- Intellectual property theft and data security

The following are seven steps to begin a successful ERM implementation:

- *Explicitly link major risk areas to elements of strategy.* A company's insight into even the most comprehensive public disclosure of risks must extend to the private strategic insights shared only by board directors and senior leadership.
- *Talk substantively about risk at every board meeting.* A company that undertakes a substantive risk review only annually is problematic given today's market volatility and shifting regulatory landscape.

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- *Ask management to clearly articulate risks encountered vs. authorized risk appetite.* With the risk linkages firmly and concretely articulated, the next logical action at the board level is the review of senior leadership's assessment of how the risks actually encountered correlate with the risk appetite of the corporation. Only with this last step can the board be confident the company is pursuing the right risks in the pursuit of performance.
- *Define and deploy early warning indicators.* Only through explicit examinations of large scale organizational risk can leadership anticipate and mitigate the likelihood of large scale hazards.
- *Align risk management and performance management.* Performance management statistics need to encompass concrete measures of risk detection and mitigation in order to create shared accountability from top to bottom.
- *Organize for enterprise-wide risk identification and mitigation.* The allocation of risk-related decision rights and responsibilities gives the board and senior leadership means of understanding who in the organization owns the various risks of the company.
- *Know the core business in concrete terms.* One of the most vexing challenges to corporate leaders today is determining in a reliable way whether the operation of the core business is in alignment with the authorized risk appetite.

Additional information about ERM can be obtained from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) website at www.coso.org/-ERM.htm and www.aicpa.org/ERM.

Report Identifies Global Business Risks

In January 2012, the World Economic Forum released *Global Risks 2012*, its annual report on the most significant and underlying global risks facing the global economy this year and beyond. The report identifies severe income disparity and water supply crises as central risks in the global risk landscape. It further identifies chronic fiscal imbalances and extreme volatility in energy and agriculture prices as containing the seeds of potential future fiscal and financial crises and urges concerted coordinated action to manage them.

Global Risks 2012 highlights three risk clusters of particular concern: the relationship between governments and the citizens during a time of budget shortfalls, unemployment, and an increasing income and skills gap; a set of interconnected risks tied to the lack of existing safeguards protecting the global economy and natural resources, including climate change; and risks related to cyber threats and digital disruptions.

The report also discussed lessons learned from the natural disaster and subsequent nuclear crisis in Japan in 2011. Lastly, *Global Risks 2012* provides insights on a number of emerging risks and outliers to this year's global risk landscape that could surprise us in the future. The full report can be accessed at www3.weforum.org/docs/WEF_GlobalRisks_Report_2012.pdf.

Internal Control and Processes

Entities should continue their focus on internal controls during this economic period. Small business owners and management have long sought ways to better control the organization they manage. A system of internal control is put in place to keep the organization on course toward profitability goals and achievement of its mission and minimize surprises along the way. An effective system of internal control enables you to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal control promotes efficiency, reduces risks of asset loss, and helps ensure the reliability of financial statements and compliance with laws and regulations.

Management Objectives

Internal control includes techniques used by management to achieve its objectives and meet its responsibilities in the following three distinct categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The first category addresses an entity's basic business objectives, including performance and profitability goals and safeguarding of resources. The second relates to the preparation of reliable financial statements. The third deals with complying with those laws and regulations to which the entity is subject. These distinct, but overlapping, categories address different needs and allow a directed focus to meet the separate needs.

Components of Internal Control

Internal control consists of five interrelated components. These are derived from the way management runs an organization and are integrated with the management process. Although the components apply to all entities, smaller organizations may implement them differently than larger ones. Their controls may be less formal and less structured, yet a small organization can still have effective internal control. The five components of internal control are described in the following sections.

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Control Environment

The control environment component is the foundation upon which all other components of internal control are based, and it sets the tone of an organization. A small business can have unique advantages in establishing a strong control environment. Employees in many small businesses interact more closely with top management and are directly influenced by management actions. Through day-to-day practices and actions, you can effectively reinforce the company's fundamental values and directives. The close, working relationship also enables senior management to quickly recognize when employees' actions need modification.

Risk Assessment

Risk assessment, as it relates to the objective of reliable financial reporting, involves identification and analysis of the risks of material misstatement. Establishment of financial reporting objectives articulated by a set of financial statement assertions for significant accounts is a precondition to the risk assessment process. Risk assessment in small businesses can be relatively efficient often because in-depth knowledge of the company's operations enables the owner and management to have first-hand information about where risks exist. In carrying out your normal responsibilities, including obtaining information gained from employees, customers, suppliers, and others, you can identify risks inherent in business processes. In addition to focusing operations and compliance risks, you are positioned to consider the following risks to reliable financial reporting:

- Failing to capture and record all transactions
- Recording assets that do not exist or transactions that did not occur
- Recording transactions in the wrong period, for the wrong amount, or misclassifying transactions
- Losing or altering transactions once recorded
- Failing to gather pertinent information to make reliable estimates
- Recording inappropriate journal entries
- Improperly accounting for transaction or estimates
- Inappropriately applying formulas or calculations

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization at all levels and in all functions. They include a range of activities as diverse as

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approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. When resource constraints compromise the ability to segregate duties, many smaller companies use certain compensating controls to achieve the objectives.

Information and Communication

Information systems identify, capture, process, and distribute information supporting the achievement of financial reporting objectives. Information systems in small businesses are likely to be less formal than in large businesses, but their role is just as significant. Many small businesses rely more on manual or stand-alone IT applications than complex integrated applications. Effective internal communication between top management and employees may be facilitated in smaller companies due to fewer levels of management hierarchy, fewer employees, and greater visibility of the owner. Internal communication can take place through frequent meetings and day-to-day activities in which the owner and other managers participate.

Monitoring

Internal control systems need to be *monitored*, which is a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Managers of many small businesses have first-hand knowledge of company activities, and their close involvement in operations positions them to identify variances from expectations and potential inaccuracies in reported financial information.

COSO

COSO's *Internal Control—Integrated Framework* (COSO framework) is used by virtually all business and governmental entities in the United States and is widely used in major countries across the world. This widespread use is a testament to the quality and ease of use of the COSO framework. The COSO framework is being changed to keep it relevant in the current and future business world, to emphasize its relevance beyond just financial reporting, and to make it easier to use.

In 1992, COSO introduced the first comprehensive framework for internal control following a recommendation of the *Report of the National Commission on Fraudulent Financial Reporting* in 1987 (Treadway Commission). In making the recommendation, the Treadway Commission recognized that internal control is a complex, dynamic, and evolving concept and that research up to that point resulted in various interpretations and philosophies related to internal control. The COSO framework was published in 1992 and constituted a unique framework through its recognition that

- five components of internal control are necessary for effective internal control.

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- internal control is designed to assist the organization in achieving its objectives across operations, financial reporting, and compliance.
- the fundamental concepts of internal control apply to all organizations: large or small, for profit and not for profit, and governmental entities.
- management is responsible for effective internal control, with active oversight by boards and those in governance positions.
- the framework must be fundamentally sound but allow specific internal control processes to evolve with changes in business, technology, and risk.

In December 2011, COSO released for public comment an updated *Internal Control—Integrated Framework* (framework) that is intended to help organizations improve performance with greater agility, confidence, and clarity. Comments were due back in March 2012.

The major objectives of the 2012 "refreshing" of the COSO framework is to update it (*a*) for changes in the nature of organizations, IT, and the impact of new global structures and (*b*) to make it easier to use. The most significant changes are

- the adoption of a principles and attributes approach in the framework, which was first introduced in the 2006 COSO *Internal Control over Financial Reporting—Guidance for Smaller Public Companies*, that provides more detailed guidance for designing and assessing the effectiveness of internal control.
- recognizing that reporting takes place in many different forms and times other than through just the annual financial statements.
- reinforcing the importance of compliance and operations objectives.
- reinforcing the importance and pervasiveness of IT by developing a specific principle related to IT control.
- requiring a specific risk assessment principle related to fraud risk.
- more recognition that operations, compliance, reporting, and the need for internal control often cross boundaries of organizations and countries, whether it be sourcing product, outsourcing of functions, or various types of joint ventures.
- more detailed guidance of alternative ways in which an organization might implement a component of internal control and, thus, accomplish effective internal control.

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The updated framework lists 17 principles across the 5 internal control components to build on the concepts that COSO contributors provided in the original version. The updated COSO framework is expected to be released during the first half of 2013.

Assessing Fraud Risks

All organizations are subject to some degree of fraud risk. Personnel at all levels of an organization, including staff, management, the board of directors, and internal auditors share responsibility for planning for and addressing this risk. The Association of Certified Fraud Examiners published a Fraud Prevention Checklist in its 2010 *Report to the Nations* on Occupational Fraud and Abuse to help organizations test the effectiveness of their fraud prevention measures. The following questions could be helpful to management in assessing the entity's fraud risk areas:

- Is ongoing antifraud training provided to all employees of the organization?
- Is an effective fraud reporting mechanism in place?
- To increase employees' perception of detection, are proactive measures taken and publicized to employees?
- Is the management climate or tone at the top one of honesty and integrity?
- Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?
- Are strong antifraud controls in place and operating effectively?
- Does the internal audit department, if applicable, have adequate resources and authority to operate effectively and without undue influence from senior management?
- Does the hiring policy include past employment verification, background checks, and so forth?
- Are employee support programs in place to assist employees struggling with addictions, mental or emotion health, family, or financial problems?
- Is an open door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?
- Are anonymous surveys conducted to assess employee morale?

The full report and additional information about fraud and fraud prevention can be accessed at www.acfe.com.

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The Role of the Audit Committee

It is important to remember business risks result from significant conditions, events, circumstances, actions, or inactions that could adversely affect an entity's ability to achieve its objectives, execute its strategies, and set appropriate objectives and strategies. This is especially true under difficult economic conditions that affect an entity in a variety of significant ways. Audit committees must continue to address all types of risks with their senior management team in addition to focusing on risks in the financial statements.

The audit committee's role in ensuring accurate and transparent disclosure is more challenging and important today than it has ever been. The following are topics that audit committees should focus on in today's environment:

- *Financial reporting and disclosures.* Audit committees must be aware of financial reporting risks and cannot lose sight of the need to maintain skepticism in light of increased financial statement disclosure requirements and complex accounting standards. Special attention should be paid to disclosures related to the following areas:
  - Issues with investment or credit losses and reliance on credit rating agencies' ratings of investments
  - Understanding balance sheet exposures (cash, accounts receivable, accounts payable, debt agreements, investments, and so on), off balance sheet exposures, and other exposures (ability to access credit and capital, the cost of capital, interest rates, and so on)
  - Understanding the issues associated with a pension plan (for example, valuation of assets, interest rates, discount rates, and other assumptions used)
  - Understanding the effects of the credit crisis or consolidation, or both, on the entity's customers and suppliers
- *Risk management and internal control.* One of the difficulties facing the audit committee is clearly defining its risk responsibility relative to that of the entire board. Although the company's internal control system is designed to help mitigate risk, the audit committee focuses particularly on controls relating to financial reporting, fraud, and compliance.
- *Corporate culture, oversight of internal or external audit, and committee composition.* The audit committee must recognize how critical the right tone at the top of the company is and ensure what it is hearing in the boardroom is what employees are hearing throughout the company. In addition, the committee should continually assess the need for increased communication with internal audit, as well as the company's external auditors, because both groups are in a unique position to provide unfiltered and unbiased feedback about management and the company's

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processes. Lastly, the committee needs to comprise members with the right combination of skills and experience. It also needs a chair with the knowledge and commitment to drive the committee's work.

In addition to the items noted previously, an effective audit committee needs to have in place a charter that documents the committee's purpose, roles, and responsibilities. The AICPA issued *The AICPA Audit Committee Toolkit—Public Companies, 2nd edition*, which contains tools (for example, the audit committee charter, conducting executive sessions, COSO *Internal Control—Integrated Framework*, and COSO *Enterprise Risk Management—Integrated Framework*) that can assist audit committees in their oversight responsibilities regardless of current events. Other audit committee toolkits are available for private companies, not-for-profits, and governments. More information on the AICPA Audit Committee Toolkits can be found at www.aicpa.org/forthepublic/auditcommitteeeffectiveness/toolkits/pages/default.aspx.

Accounting Issues and Developments

Navigate the many new accounting developments to facilitate your entity's compliance.

Given the current economic climate, a number of accounting and financial reporting issues may affect your entity. Accounting pronouncements and related guidance having particular significance are briefly explained here. The following summaries are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable standard.

Troubled Debt Restructuring Effective for Nonpublic Entities

In April 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This ASU applies to all creditors that restructure receivables that fall within the scope of FASB *Accounting Standards Codification* (ASC) 310-40. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

- The restructuring constitutes a concession.
- The debtor is experiencing financial difficulties.

The following guidance included in ASU No. 2011-02 helps the creditor determine whether it has granted a concession:

- If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate, which may indicate the creditor has granted a concession. In that circumstance, a creditor should consider all aspects of the restructuring in determining whether it has granted a concession. In which case, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a troubled debt restructuring.
- A temporary or permanent increase in the contractual interest rate as a result of a restructuring does not preclude the restructuring from being considered a concession because the new contractual interest rate on the restructured debt could still be below the market interest rate for new debt with similar risk characteristics. In such situations, a creditor should consider all aspects of the restructuring in determining whether it has granted a concession. If a creditor determines that it has granted a concession, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a troubled debt restructuring.
- A restructuring that results in a delay in payment that is insignificant is not a concession. However, an entity should consider various factors in assessing whether a restructuring resulting in a delay in payment is insignificant. This ASU includes examples illustrating the assessment of whether a restructuring results in a delay in payment that is insignificant.

The following guidance included in ASU No. 2011-02 helps the creditor determine whether a debtor is experiencing financial difficulties:

> A creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in payment default. A creditor should evaluate whether it is probable that the debtor would be in payment default on any of its debt in the foreseeable future without the modification.

Additionally, a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables (FASB ASC 470-60-55-10) when evaluating whether a restructuring constitutes a troubled debt restructuring.

This ASU is currently effective for public entities. It is effective for nonpublic entities for annual periods ending on or after December 15, 2012.

Repurchase Agreements

In April 2011, FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. This ASU removes from the assessment of effective control (*a*) 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 (*b*) the collateral maintenance implementation guidance related to that criterion.

Other criteria applicable to the assessment of effective control are not changed by this ASU. Those criteria indicate that the transferor is deemed to have maintained effective control over the financial assets transferred (and, thus, must account for the transaction as a secured borrowing) for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all the following conditions are met:

- The financial assets to be repurchased or redeemed are the same, or substantially the same, as those transferred.
- The agreement is to repurchase or redeem them before maturity at a fixed or determinable price.
- The agreement is entered into contemporaneously with, or in contemplation of, the transfer.

The guidance in this ASU 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.

Fair Value Measurement

In May 2011, FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which applies to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. The amendments in this ASU result in common fair value measurement and disclosure requirements in accounting principles generally accepted in the United States of America (GAAP) and International Financial Reporting Standards (IFRSs). Consequently, the amendments change the wording used to describe many of the requirements in GAAP for measuring fair value and

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disclosing information about fair value measurements. Some of the amendments clarify FASB's intent about the application of existing fair value measurement requirements, and others change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements.

The amendments that change a particular principle or requirement include the following:

- A reporting entity that holds a group of financial assets and financial liabilities is exposed to market risks and the credit risk of each of the counterparties; certain reporting entities manage these instruments on the basis of their net exposure (rather than their gross exposure). A reporting entity is now permitted to measure the fair value of such instruments at the price that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date.
- In the absence of a level 1 input, a reporting entity should apply premiums or discounts when market participants would do so when pricing the asset or liability, consistent with the unit of account that requires or permits the fair value measurement. Premiums or discounts related to size as a characteristic of the reporting entity's holding (specifically, a blockage factor), rather a characteristic of the asset or liability (for example, a control premium), are not permitted in a fair value measurement.
- Additional disclosures about fair value measurements, including
  - — for level 3 measurements, the valuation processes used by the reporting entity; the sensitivity of the fair value measurement to changes in unobservable inputs; and the interrelationships between those unobservable inputs, if any.
  - — if the highest and best use of a nonfinancial asset differs from its current use, that fact should be disclosed, as well as why that asset is being used in that manner.
  - — categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed.

Some of the disclosures in this ASU that are not required for nonpublic entities include the following:

- Information about transfers between level 1 and level 2 of the fair value hierarchy
- Information about the sensitivity of a fair value measurement categorized within level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs

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- The categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value of such items is required to be disclosed

This ASU is effective for public entities during interim and annual periods beginning after December 15, 2011. It is effective for nonpublic entities for annual periods beginning after December 15, 2011. Early application is not permitted for public entities. Nonpublic entities may early implement during interim periods beginning after December 15, 2011. The guidance should be applied prospectively.

Comprehensive Income

Presentation of Comprehensive Income

In June 2011, FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Under the amendments to FASB ASC 220, *Comprehensive Income*, in this ASU, an entity has 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. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income, and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) when the components of net income and other comprehensive income are presented.

The amendments in this ASU 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 do not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit

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related to the total of other comprehensive income items. In both cases, the tax effect for each component must be disclosed in the notes to the financial statements or presented in the statement in which other comprehensive income is presented. The amendments do not affect how earnings per share is calculated or presented.

The amendments in this ASU should be applied retrospectively. 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.

Deferral of the Effective Date for ASU No. 2011-05

In December 2011, FASB issued ASU No. 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*. In order to defer only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this ASU supersede certain pending paragraphs in ASU No. 2011-05. The amendments are being made to allow 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 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 this ASU. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter.

The amendments in this ASU are effective at the same time as the amendments in ASU No. 2011-05, so entities will not be required to comply with the presentation requirements in ASU No. 2011-05 that this ASU is deferring. For this reason, the transition guidance in FASB ASC 220-10-65-2 is consistent with that for ASU No. 2011-05. The amendments in this ASU are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the

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amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter.

Goodwill

Testing Goodwill

In September 2011, FASB issued ASU No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. Under the amendments in this ASU, an entity has 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 assessing the totality of events or circumstances, 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, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in FASB ASC 350-20-35-4. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in FASB ASC 350-20-35-9. Under the amendments in this ASU, 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.

In reaching its conclusion about whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity should consider the extent to which each of the adverse events or circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount. An entity should place more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets. Also, an entity should consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity has a recent fair value calculation for a reporting unit, it also should include as a factor in its consideration the difference between the fair value and the carrying amount in deciding whether the first step of the impairment test is necessary.

Under the amendments, an entity no longer is permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year, as previously permitted by FASB ASC 350-20-35-29.

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The amendments do not change the current guidance for testing other indefinite-lived intangible assets for impairment. However, on September 7, 2011, the FASB chairman added a separate project to the board's short-term agenda to explore alternative approaches to the manner in which an entity tests other indefinite-lived intangible assets for impairment.

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.

Testing Indefinite-Lived Intangibles

In July 2012, FASB issued ASU No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangibles Assets for Impairment*. Under the amendments in this ASU, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with FASB ASC 350-30.

An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period.

In conducting a qualitative assessment, an entity should consider the extent to which relevant events and circumstances, both individually and in the aggregate, could have affected the significant inputs used to determine the fair value of the indefinite-lived intangible asset since the last assessment. An entity also should consider whether there have been changes to the carrying amount of the indefinite-lived intangible asset when evaluating whether it is more likely than not that the indefinite-lived intangible asset is impaired. An entity should consider positive and mitigating events and circumstances that could affect its determination of whether it is more likely than not that the indefinite-lived intangible asset is impaired. An entity should refer to the examples in FASB ASC 350-30-35-18B(a)—(f) for guidance about the types of events and circumstances it should consider

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in evaluating whether it is more likely than not that an indefinite-lived intangible asset is impaired. If an entity has made a recent fair value calculation that indicated a difference between the fair value and the then-carrying amount of an indefinite-lived intangible asset, that difference also should be included as a factor in considering whether it is more likely than not that the indefinite-lived intangible asset is impaired.

The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public 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.

Retirement Benefits—Multiemployer Plans

In September 2011, FASB issued ASU No. 2011-09, *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan*. The amendments in this ASU require that employers provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans.

For employers that participate in multiemployer pension plans, the amendments in this ASU 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

- significant multiemployer plans in which an employer participates, including the plan names and identifying number.
- level of an employer's participation in the significant multiemployer plans, including the employer's contributions made to the plans and an indication of whether the employer's contributions represent more than 5 percent of the total contributions made to the plan by all contributing employers.
- financial health of the significant multiemployer plans, including an indication of the funded status, whether funding improvement plans are pending or implemented, and whether the plan has imposed surcharges on the contributions to the plan.
- nature of the employer commitments to the plan, including when the collective bargaining agreements that require contributions to the significant plans are set to expire and whether those agreements require minimum contributions to be made to the plans.

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Using the employer identification number, plan name, and, if applicable, plan number, users of financial statements would be able to obtain additional information, including the funded status of the plan(s), from sources outside the financial statements, such as the plan's annual report (Form 5500). For other plans for which users are unable to obtain additional publicly available information outside the employer's financial statements, the amendments in this ASU require the employer to make additional disclosures about the plan, including the following:

- A description of the nature of the plan benefits
- A qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer
- Other quantitative information, to the extent available, as of the most recent date available, to help users understand the financial information about the plan, such as total plan assets, actuarial present value of accumulated plan benefits, and total contributions received by the plan

The current recognition and measurement guidance for an employer's participation in a multiemployer plan requires that an employer recognize its required contribution to the plan as pension or other postretirement benefit cost for the period and recognize a liability for any contributions due at the reporting date. That guidance is unchanged by these amendments. Furthermore, the amendments do not change the requirement that an employer apply the recognition, measurement, and disclosure provisions for contingencies in FASB ASC 450, *Contingencies*, if an obligation due to withdrawal from a multiemployer plan is either probable (accrue a liability and disclose the contingency) or reasonably possible (disclose the contingency).

For public entities, the amendments in this ASU 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.

Derecognition of In-Substance Real Estate

In December 2011, FASB issued ASU No. 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification (a consensus of the FASB Emerging Issues Task Force)*. Under the amendments in this ASU, when a parent (reporting entity) ceases to have a controlling financial interest (as described in FASB ASC 810-10) in a subsidiary that is in-substance real estate as a result of default

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on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance in FASB ASC 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 FASB ASC 810-10, the reporting entity would continue to include the real estate, debt, and 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 in this ASU should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in-substance real estate entities.

For public entities, the amendments in this ASU 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.

SEC Work Plan for Consideration of IFRSs

In July 2012, the SEC published its final staff report *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*. Although the report does not contain information leading to any decision the SEC has made regarding incorporation of IFRSs, it does go into detail on the arguments for and against various forms of adoption. When assessing the implications of incorporating IFRSs in the U.S. financial reporting system, the SEC concluded that although international standards have improved in comprehensiveness, there are still some gaps, especially in the areas of insurance, extractive industries, and rate-regulated industries. The report also points out that industry regulators find that IFRSs lack many industry-specific standards. This drawback can be resolved by increasing the International Accounting Standards Board's (IASB's) use of national standard setters to better understand the intricacies of a number of distinct domestic reporting and regulatory systems. The report also states that the costs of full IFRSs adoption remain to be among the most significant costs required from an accounting perspective and that companies questioned whether the benefits would justify such a full-scale transition. The SEC staff state that although some standards would be easy to convert, others would require issuers to overhaul accounting systems, controls, and procedures. Regardless of the outcome of the SEC's decision on whether to incorporate IFRSs, the staff expects that the SEC and others in the United States will remain involved with the development and application of IFRSs.

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In response to the SEC's final staff report, Barry C. Melancon, AICPA president and CEO, commented

> We applaud the SEC staff for its robust efforts to review IFRS and we urge the Commissioners to consider the staff report with expediency because the world's capital markets know no borders. The participants in those markets need high quality, transparent, and comparable financial information to enable them to make sound investment decisions.

A vast majority of stakeholders who commented on IFRSs incorporation preferred an endorsement process that would involve FASB, according to the report. Under this process, FASB would endorse new or newly modified IFRSs for incorporation into GAAP, allowing FASB to add or modify IFRSs with consideration to the public interest and investor protection. With endorsement, the report states that FASB could act as a strong U.S. voice in the interests of U.S. investors. To prevent too much divergence from the IASB standards in the United States, the SEC staff suggests that the IASB "take U.S. perspectives into greater consideration during the standard-drafting process—resulting in standards that meet the needs of U.S. constituents without the need for modification during the endorsement process."

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

The following table contains a list of recently issued accounting pronouncements and related guidance. For information on accounting standards issued subsequent to the writing of this alert, please refer to the AICPA website at www.aicpa.org and the FASB website at www.fasb.org. You may also look for announcements of newly issued standards in the CPA Letter and Journal of Accountancy.

Recent Accounting Standards Updates	
Presentation Area of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC)™	
Accounting Standards Update (ASU) No. 2011-12 (December 2011)	*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*
ASU No. 2011-11 (December 2011)	*Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*
Assets Area of FASB ASC	
ASU No. 2012-02 (July 2012)	*Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*

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Recent Accounting Standards Updates	
ASU No. 2011-10 (December 2011)	*Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2011-08 (September 2011)	*Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*
Expenses Area of FASB ASC	
ASU No. 2011-09 (September 2011)	*Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan*
ASU No. 2011-06 (July 2011)	*Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force)*
Industry Area of FASB ASC	
ASU No. 2012-01 (July 2012)	*Health Care Entities (Topic 954): Continuing Care Retirement Communities—Refundable Advance Fees*
ASU No. 2011-07 (July 2011)	*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 (a consensus of the FASB Emerging Issues Task Force)*

Recently Issued Technical Questions and Answers

AICPA nonauthoritative accounting and audit and attest technical questions and answers address a variety of practice issues encountered by practitioners. Recently issued questions and answers can be accessed at www.aicpa.org/InterestAreas/FRC/Pages/RecentlyIssuedTechnicalQuestionsandAnswers.aspx.

On the Horizon

Explore current projects and pronouncements to anticipate their effect on your entity.

Presented in the following sections is information about ongoing projects of particular significance or projects that may result in significant changes.

The following table lists the various standard setting bodies' websites, where information may be obtained on outstanding exposure drafts, including downloading exposure drafts. These websites contain much more in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to information provided by the various standard setting bodies for further information.

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Standard-Setting Body	*Website*
AICPA Auditing Standards Board	www.aicpa.org/research/standards/auditattest/asb/pages/auditingstandardsboard.aspx
Financial Accounting Standards Board	www.fasb.org
Governmental Accounting Standards Board	www.gasb.org
Professional Ethics Executive Committee	www.aicpa.org/InterestAreas/ProfessionalEthics/Pages/ProfessionalEthics.aspx
Public Company Accounting Oversight Board	www.pcaob.org
Securities and Exchange Commission	www.sec.gov

Accounting Pipeline

Presented in the following sections are accounting projects and pronouncements currently in progress. Some of the proposed pronouncements discussed in last year's alert have not been finalized as of this writing and, thus, are included again.

Statement of Cash Flows Exposure Draft

In July 2012, FASB issued the proposed ASU *Presentation of Financial Statements (Topic 205): The Liquidation Basis of Accounting*. When liquidation is imminent, the proposed amendments would require an entity to prepare its financial statements using the liquidation basis of accounting. Assets and liabilities in the entity's financial statements would be required to be measured and presented at the amount of cash (or other consideration) that the entity expects to collect or the amount of cash (or other consideration) that the entity expects to pay during the course of liquidation. In addition, during the period of liquidation, an entity would be required to accrue and present separately the costs it expects to incur and the income it expects to earn. This would include any costs associated with the settlement of the assets and liabilities.

The amendments in the proposed ASU would require disclosure about the entities'

- plans for liquidation.
- methods and significant assumptions used to measure assets and liabilities.
- types and amounts of costs and income accrued.
- expected duration of the liquidation.

The effective date will be determined after the board considers the feedback on the amendments in this proposed ASU.

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Financial Instruments Exposure Draft

In July 2012, FASB issued the proposed ASU *Financial Instruments (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk*. Depending on the characteristics of the reporting entity, the amendments in the proposed ASU would be to provide users of financial statements with additional useful decision-making information about the entity-level exposures to both liquidity and interest rate risk. The board is looking to address the needs of users of financial statements with respect to both liquidity and interest rate risk. The effective date will be determined after the board considers the feedback on the amendments in this proposed ASU.

Business Combinations Exposure Draft

In April 2012, FASB issued the proposed ASU *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. The amendments in the proposed ASU state that when a reporting entity recognizes an indemnification asset (in accordance with FASB ASC 805-20) as a result of a government-assisted acquisition of a financial institution and, subsequently, a change in the cash flows expected to be collected on the indemnification asset, the reporting entity would be required to subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value would be limited to the contractual term of the indemnification agreement.

The proposed amendments would be applied prospectively to any new indemnification assets acquired and to changes in expected cash flows of existing indemnification assets arising from a government-assisted acquisition of a financial institution occurring on or after the date of adoption. Early adoption would be permitted. The effective date will be determined after the task force considers stakeholder feedback on the proposed ASU.

Government Loans (Proposed Amendments to IFRS 1) Exposure Draft

The IASB issued this exposure draft in October 2011 to require that first-time IFRSs adopters apply certain requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to loans entered into on or after the date of transition to IFRSs. If an entity obtained the information necessary to apply these requirements to a government loan as a result of a past transaction, it may choose to apply the requirements in IAS 20 retrospectively to that loan.

Revenue From Contracts With Customers Exposure Draft

This exposure draft was issued in November 2011 to reexpose proposals in the original exposure draft published in June 2010 due to the importance to all entities of the financial reporting of revenue and the desire to avoid unintended consequences of the final standard

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on revenue recognition to be issued as a result of the current revenue project being worked on by FASB and the IASB. Proposed amendments include required disclosures to be included in interim financial reports, as well as recognition and measurement requirements for the recognition of a gain or loss on the transfer of certain nonfinancial assets that are not an output of an entity's ordinary activities. A final revenue standard, when issued, will not be effective earlier than for annual reporting periods beginning on or after January 1, 2015.

Transition Guidance: Proposed Amendments to IFRS 10 Exposure Draft

In December 2011, the IASB issued this exposure draft to clarify the transition guidance, as well as the board's intention of issuing IFRS 10, *Consolidated Financial Statements*, in May 2011. Under the proposed amendments, the board explains that the date of initial application in IFRS 10 means the beginning of the annual reporting period in which IFRS 10 is applied for the first time. The proposed amendments also provide clarification on retrospective application guidance in IFRS 10. The effective date of these proposed amendments would be aligned with the effective date of IFRS 10, which is for annual periods beginning on or after January 1, 2013.

FASB and IASB Memorandum of Understanding—Accounting Convergence

In April 2012, FASB and the IASB jointly published an update to their 2008 Memorandum of Understanding (MoU) to report on the progress they have made since 2011 in their continued commitment to developing common, high-quality standards. The MoU identifies 12 convergence topics:

- Business combinations
- Derecognition
- Consolidated financial statements
- Fair value measurement
- Postemployment benefits
- Financial statement presentation—other comprehensive income
- Insurance contracts
- Financial instruments with characteristics of equity
- Intangible assets
- Financial instruments

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- Leases
- Revenue recognition

During 2011, the boards regularly updated project completion dates as difficulties in completing projects arose. Some projects (for example, income taxes) were removed from the convergence schedules when the boards agreed that convergence was unlikely to be achieved in the short time available. Other projects have reached the exposure draft milestone initially set. Each board believes that these standards, when completed, will improve the quality, consistency, and comparability of financial information for investors and capital markets around the world.

The April 2012 progress report noted that the boards are close to completing the MoU projects. The report highlighted the following topics:

- Short-term projects were either completed or are close to completion.
- Of the long-term projects that have not been completed, three of the remaining MoU projects covering accounting for financial instruments, leases, and revenue recognition have not been finalized.

The following is a discussion of the three priority MoU projects and their current status:

- *Accounting for financial instruments.* The boards' efforts to reach a common solution have been complicated by differing requirements that pushed their respective timetables out of alignment. The IASB has been replacing its financial instrument requirements in a phased approach, whereas FASB developed a single proposal. Differing development timetables and other factors have impeded the ability of the boards to publish joint proposals on a number of important technical issues, including classification and measurement, impairment, hedge accounting, and balance sheet netting of derivatives and other financial instruments. In January 2012, the boards agreed to work together to seek to reduce differences in their respective classification and measurement models for financial instruments. Both impairment and classification and measurement are expected to be exposed during the fourth quarter of 2012.
- *Revenue recognition.* In June 2011, the IASB and FASB agreed to reexpose their revised proposals for a common revenue recognition standard. This approach provided interested parties with an opportunity to comment on revisions the boards have undertaken since the publication of an exposure draft on revenue recognition in June 2010. In November 2011, the boards issued a revised exposure draft. The comment period ended in March 2012. The boards began redeliberations in

June 2012 and plan to discuss the next step, which is identifying the separate performance obligations in the contract. Redeliberations will continue throughout 2012, with substantial redeliberations expected to be completed in 2012 and the final standard to be issued in early 2013.

- *Leases.* The IASB and FASB announced in July 2011 their intention to reexpose their revised proposals for a common leasing standard. Reexposing the revised proposals will provide interested parties with an opportunity to comment on revisions the boards have undertaken since the publication of an exposure draft on leasing in August 2010. The boards intend to issue a revised exposure draft during the fourth quarter of 2012.

AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities

In May 2012, the AICPA announced plans to develop a financial reporting framework (FRF) to meet the needs of some privately held small- and medium-sized entities (SMEs), as well as the users of the financial statements of these entities. The *Financial Reporting Framework for Small- and Medium-Sized Entities* (*FRF for SMEs*) will be a less complicated and a less costly alternative system of accounting to GAAP for SMEs that do not need GAAP financial statements.

The *FRF for SMEs* will be a self-contained, other comprehensive basis of accounting intended for use by privately held SMEs in preparing their financial statements. The *FRF for SMEs* will draw upon a blend of accrual income tax methods and other traditional methods of accounting. The framework is being developed by a working group of experts and staff who have years of experience serving smaller- to medium-sized owner-managed entities. The *FRF for SMEs* will be exposed for public comment to solicit broad stakeholder input.

The *FRF for SMEs* is being developed for smaller- to medium-sized owner-managed for-profit entities that need reliable financial statements in circumstances when internal or external users have direct access to the owner-manager, and GAAP financial statements are not required. The *FRF for SMEs* can be used by entities in every industry group and by unincorporated and incorporated entities. The framework will be a cost-beneficial solution for owner-managers and others who need financial statements that are prepared in a consistent and reliable manner in accordance with a framework that has undergone public comment and professional scrutiny. The accounting principles comprising the framework are intended to be the most appropriate for the preparation of SME financial statements based on the needs of the financial statement users and cost-benefit considerations. Accounting principles in the *FRF for SMEs* will be responsive to the well-documented issues and concerns stakeholders currently encounter when preparing financial statements for SMEs.

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The AICPA expected to expose the *FRF for SMEs* for public comment in fall of 2012 and to issue the final framework in the first half of 2013. For more information, please visit www.aicpa.org.

Resource Central

Discover additional tools to increase your ability to serve your entity's financial reporting needs.

The following are various resources that you may find beneficial.

Publications

You may find the following publications useful with respect to recent financial accounting, reporting, and management developments:

- Financial Reporting Alert *Not-for-Profit Entities: Accounting Issues and Risks—2012* (product no. AFANFP12P [paperback] or AFANFP12E [eBook])
- *The Small Business Jobs Act of 2010: Tools, Tips, and Tactics* (product no. 091052HS [CD-ROM])
- *U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure Accounting Trends & Techniques* (product no. ATTATT12P [paperback] or WAT-XX [online])
- *IFRS Accounting Trends & Techniques—U.S. Edition* (product no. 0099111 [paperback] or WIF-XX [online])
- Checklists and Illustrative Financial Statements *Corporations* (product no. 0089311 [paperback] or WCP-CL [online])

AICPA's Online Professional Library: Accounting and Auditing Literature

The Online Professional Library includes everything you need to prepare your annual financial statements, as well as ensure compliance with accounting and auditing standards. It addresses financial reporting and audit issues for public and private companies and includes, among other things, the AICPA's *Professional Standards*, *PCAOB Standards and Related Rules*, and full access to the FASB Codification. To subscribe to this essential online service for accounting professionals, visit www.cpa2biz.com.

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Continuing Professional Education

The AICPA offers a number of continuing professional education (CPE) courses that are valuable to CPAs working in industry and public practice, including the following:

- *AICPA's Annual Update for Accountants and Auditors Workshop (2012–2013 Edition)* (product no. 730098 [text] or 180098 [DVD and manual]). Designed for those in business and industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *SEC Reporting* (product no. 736779 [text]). Confidently comply with the latest SEC reporting requirements with this comprehensive course. This course clarifies new, difficult, and important reporting and disclosure requirements while giving you examples and tips for ensuring compliance.
- *International Versus U.S. Accounting: What in the World is the Difference?* (product no. 745941 [text] or 181663 [DVD and manual]). With the fast pace of the convergence project, understanding the differences between IFRSs and GAAP is becoming more important for entities of all sizes. This course outlines the major differences between IFRSs and GAAP.
- *IFRS Certificate Program* (product no. 159770 [On-Demand]). Using a scenario-based series of courses with audio, video, and interactive exercises and case studies, this program will guide you through the concepts of each area of IFRSs.

The following courses are specifically related to the current economic state and fair value. They are useful for both members of business and industry and auditors:

- *Surviving and Growing Your Company in Difficult Times: Essential Skills for the Finance Team* (product no. 753663 [text]). This course identifies and teaches you the skills that will be required for success in today's business environment. Implement specific methods and techniques in areas of planning, budgeting, cash management, and capital investment that will have an immediate and long-term impact on the bottom line.
- *Plug Your Profit Leaks: Ways to Significantly Save Time and Money* (product no. 733824 [text]). This course gives you specific ways to immediately affect an organization's bottom line. These proven techniques for plugging the most overlooked profit leaks come from specific strategies for lowering costs, improving productivity, or gaining efficiencies.
- *Lean Accounting and Management: Improving Profitability by Streamlining Operations* (product no. 731278 [text]). Learn how to minimize waste and create wealth

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in your organization through a lean accounting and management approach that improves profitability by streamlining operations. Develop an action plan for accomplishing the transition to this lean accounting and management approach within your organization.

- *Fair Value Accounting: A Critical New Skill for All CPAs* (product no. 733305 [text]). The course covers the conceptual and practical issues that arise when fair value measurement is implemented under existing FASB standards and provides examples of these issues.

Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

AICPA CPExpress, offered exclusively through CPA2Biz, is AICPA's flagship online learning product. AICPA members pay $209, and nonmembers pay $435 for a new subscription. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning about a wide variety of topics. Some courses of special interest to practitioners in business and industry include the following:

- Accounting & Auditing Quarterly Updates
- Accounting & Auditing Annual Updates
- Fair Value Accounting: A Critical New Skill for All CPAs
- Bottom Line Management Accounting: Practical Solutions to Real World Problems
- Plug Your Profit Leaks: Ways to Significantly Save Time and Money
- Controllers: AICPA's Annual Update
- Lean Accounting
- Lean Management

To register or learn more, visit www.cpa2biz.com.

Quarterly Webcasts and Other Resources

Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high quality, two-hour CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available on CD-ROM.

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CFO Quarterly Roundtable Series

The CFO Quarterly Roundtable Series, brought to you each calendar quarter via webcast, covers a broad array of "hot topics" that successful organizations employ and subjects that are important to the CFOs' personal success. From financial reporting, budgeting, and forecasting to asset management and operations, the roundtable helps CFOs, treasurers, controllers, and other financial executives excel in their demanding roles.

SEC Quarterly Update Webcast Series

The SEC Quarterly Update Webcast Series, brought to you each calendar quarter, showcases the profession's leading experts on what is "hot" at the SEC. From corporate accounting reform legislation and new regulatory initiatives, to accounting and reporting requirements and corporate finance activities, these hard-hitting sessions will keep you "plugged in" to what is important. A must for preparers in public companies and practitioners who have public company clients, this is the place to be when it comes to knowing about the areas of current interest at the SEC.

IFRS Quarterly Webcast Series

The IFRS Quarterly Webcast Series, brought to you each calendar quarter, is part of a multistep educational process to get practitioners, financial managers, and auditors up to speed on all aspects of IFRSs implementation. Over the course of the quarterly series, IFRSs will be covered in depth. International harmonization is quickly approaching, and this series will help both accountants and auditors stay abreast of the developments and changes they will need to implement.

AICPA Business and Industry Economic Outlook Survey

The AICPA Business and Industry Economic Outlook Survey is a leading indicator of U.S. economic growth and contraction that is based on CPA financial executives' evaluation of corporate prospects, tangible performance data, and first-hand knowledge of company staffing, spending, and financing plans. The survey is conducted quarterly, polling AICPA members in business and industry holding executive positions in both public and privately-owned organizations of all sizes and across a broad spectrum of industries.

Member Service Center

To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at 888.777.7077.

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Hotlines

Accounting and Auditing Technical Hotline

Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. You can reach the Technical Hotline, available from 9 a.m. to 8 p.m. on weekdays, at 877.242.7212 or at www.aicpa.org/research/technicalhotline/pages/technicalhotline.aspx.

Ethics Hotline

In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 888.777.7077 or by e-mail at ethics@aicpa.org.

Conferences

The AICPA offers a number of conferences for practitioners in business and industry that include the most recent developments affecting the profession:

- The AICPA Fair Value Measurements Workshop is a 2-day interactive, in-depth workshop that addresses fair value concepts, using examples of measuring fair value of individual assets as prepared by a valuation specialist. This conference will be held in New York, NY, September 27–28, 2012.
- The AICPA sponsors a 2-day Controllers Workshop. The Controllers Workshop is a conference developed by controllers for controllers. Controllers, accounting and financial managers, treasurers, CFOs, and CEOs are all encouraged to attend. The 2012 Controllers Workshop will take place in Atlanta, GA, November 8–9, 2012.
- The AICPA National CFO Conference provides the opportunity to learn from expert speakers and fellow practitioners who will share insights and practical examples on how they are managing now and in the future. The focus of this conference will be on understanding the economic outlook, developing strategic plans, maximizing organizational efficiencies, and improving leadership skills. This conference will be held in Marina del Rey, CA, May 16–17, 2013.

For further information about AICPA conferences or to register, call 888.777.7077 or visit www.cpa2biz.com.

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Services for AICPA Members in Business, Industry, and Government

The AICPA provides a number of centers and services directed at its members in business and industry, including the Business, Industry & Government interest area, the Audit Committee Effectiveness Center, and the Audit Committee Matching System. These centers and services can be accessed by visiting www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Pages/BIGHome.aspx.

In addition, the AICPA recently created the Financial Reporting Center to help CPAs meet the challenges of providing high quality financial reporting. This center provides financial reporting information for topics important to specific industries, while keeping you informed of changes to accounting standards. Visit www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/Pages/AccountingFinancialReporting.aspx for more information.

AICPA Business, Industry & Government

The Business, Industry & Government interest area serves CPAs working in business, industry, and government and is designed to provide financial managers and executives with tools and resources to move entities forward.

Audit Committee Effectiveness Center

Realizing that financial statement integrity and reliability depends upon balancing the pressures of multiple stakeholders, including management, regulators, investors, and the public interest, this center provides guidance and tools to make audit committee best practices actionable. Several audit committee toolkits are offered through this center, including public company, not-for-profit, and government toolkits.

Audit Committee Matching System

The Audit Committee Matching System was designed (*a*) to provide members with opportunities to serve on boards of directors, and (*b*) as a public service to provide a list of qualified, credentialed candidates to serve on boards of directors and, presumably, the audit committees of those boards.

* * *

This Financial Reporting Alert replaces *Current Economic Instability: Accounting Issues and Risks for Financial Management and Reporting—2011*.

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We hope you find this alert helpful to you and your entity. We would greatly appreciate your feedback on this Financial Reporting Alert. You may e-mail these comments to ccole@aicpa.org or write to

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Appendix—Additional Web Resources

Here are some useful websites that may provide valuable information to accountants.

Website Name	*Content*	*Website*
AICPA	Provides summaries of recent auditing and other professional standards, as well as other AICPA activities	www.aicpa.org www.cpa2biz.com
AICPA Financial Reporting Executive Committee (formerly known as the Accounting Standards Executive Committee)	Summaries of recently issued guides, technical questions and answers, and practice bulletins containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/Pages/FinREC.aspx
Economy.com	Offers analysis, data, forecasts, and information on the United States and world economies	www.economy.com
The Federal Reserve Board	Presents key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summarizes recent accounting pronouncements and other FASB activities	www.fasb.org
Government Accountability Office	Offers policy and guidance materials, reports on federal agency major rules	www.gao.gov
Governmental Accounting Standards Board (GASB)	Summarizes recent accounting pronouncements and other GASB activities	www.gasb.org
International Accounting Standards Board	Summarizes International Financial Reporting Standards and International Accounting Standards	www.iasb.org
International Auditing and Assurance Standards Board	Summarizes International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Presents information on standard-setting activities in the international arena	www.ifac.org
Public Company Accounting Oversight Board (PCAOB)	Provides information on accounting and auditing the activities of the PCAOB and other matters	www.pcaob.org
Securities and Exchange Commission (SEC)	Offers information on current SEC rulemaking and the Electronic Data Gathering, Analysis, and Retrieval database	www.sec.gov
USA.gov	Acts as a portal through which all government agencies can be accessed	www.usa.gov
SBA.gov	Provides comprehensive resources for small business, small business owners, and prospective business owners	www.sba.gov