

Insights

A biweekly publication from the National Office of Audit and Accounting

July 29, 2008

By clicking on a heading in the Bookmark section on the left, you will go directly to that subject.

Public Sector

Determining the Annual Required Contribution for Postemployment Benefits

In circumstances in which an employer has one or more past contribution deficiencies or excess contributions to a pension or other postemployment benefits (OPEB) plan in relation to the annual required contribution (ARC), GASB Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, require the use of two adjustments to the ARC in the calculation of annual pension or OPEB cost - an interest adjustment and an ARC adjustment. Each Statement assumes that the ARC adjustment amount is not known and therefore specifies an estimation methodology for calculating the ARC adjustment.

Recently, it has come to the attention of the Governmental Accounting Standards Board (GASB) that some actuaries do track actual known amounts for purposes of calculating the ARC adjustment relating to pensions and OPEB. The GASB therefore has issued a proposed Technical Bulletin, *Determining the Annual Required Contribution for Postemployment Benefits*, to clarify that governments may base the ARC adjustment on the actual amount when it is known. The proposed Technical Bulletin further clarifies that use of the known amount in place of the estimation procedure in Statements No. 27 and 45 is encouraged.

If finalized, the provisions of this Technical Bulletin will be effective for financial statements for periods ending after December 15, 2008. Earlier application will be encouraged. The proposed Technical Bulletin is available for comment until September 30, 2008 at http://www.gasb.org/exp/prop_tb_2008-a.pdf.

Employee Benefit Plans

FAQs Provide Guidance on Schedule C

In November, 2007, the Department of Labor's Employee Benefits Security Administration (EBSA) published final form revisions and a final regulation providing new requirements for reporting service provider fees and other compensation on Schedule C of the 2009 Form 5500, *Annual Return/Report of Employee Benefit Plan*. Recently, EBSA released answers to 40 frequently asked questions (FAQs) to provide guidance to plan administrators and service providers on complying with the new requirements of the 2009 Form 5500 Schedule C. The FAQs also are helpful in understanding the new rules, which are generally effective for plan years beginning on or after January 1, 2009. Issues addressed by the FAQs include the alternative reporting option for eligible indirect compensation, electronic disclosure of fee information by service providers, fee reporting for brokerage window options in participant directed plans, and reporting of gifts, entertainment, and other non-monetary compensation. The FAQs are available in full at http://www.dol.gov/ebsa/faqs/faq_scheduleC.html.

The AICPA Employee Benefit Plans Audit Guide Revision Task Force is discerning how, if at all, the new fee disclosure requirement would impact audits of employee benefit plans and financial reporting by the plans. McGladrey & Pullen, LLP is represented on the Task Force by Josie Hammond and Becky Miller.

Financial Institutions

Audit Committee Guide Available

McGladrey & Pullen, LLP announces the publication of an updated guide to help financial institutions develop effective and efficient audit committees. The *Audit Committee Guide for Financial Institutions* discusses the audit committee charter, audit committee responsibilities, and its role in oversight of the control environment, financial reporting, and the audit process. The Guide also contains sections on selecting an independent audit firm, the Sarbanes-Oxley Act of 2002, and FDICIA compliance, together with additional resources. The appendices include examples of an audit committee charter, questions to ask management in carrying out audit committee responsibilities, and an in-depth questionnaire for use in assessing the effectiveness of the audit committee.

The *Audit Committee Guide for Financial Institutions* is available at [http://mcgladrey.com/Audit Committee Guide for Financial Institutions 2008.pdf](http://mcgladrey.com/Audit-Committee-Guide-for-Financial-Institutions-2008.pdf).

International

IFRS: Understanding a Principles-based Set of Standards

This article is the first in a series of articles that will take our readers on a journey through International Financial Reporting Standards (IFRS) with a special focus on the standards' quintessential feature: they are principles-based.

In a June speech addressed to the Chartered Financial Analysts Institute, SEC Chairman Christopher Cox announced that the SEC expects to release a proposed rule later this summer on whether U.S. issuers will be allowed to prepare their financial statements using IFRS. Previously, at a joint meeting, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) updated their existing *Memorandum of Understanding* on the convergence process between IFRS and U.S. generally accepted accounting principles (GAAP) to incorporate new milestones covering the period to 2011 and, in general, to accelerate the overall convergence process. These are just two examples of significant events that recently have taken place regarding the issue of applying IFRS in the United States.

The debate regarding the use of IFRS in the United States has been around for a few years and has been gaining tremendous momentum since the end of 2007 when the SEC, in a galvanizing move, made the historical decision to remove the required reconciliation to U.S. GAAP for foreign private issuers preparing financial statements using IFRS. That decision has moved the debate to the next level. In other words, things are moving very quickly, and everything appears to indicate that the adoption of IFRS in the United States is no longer a question of "if", but a question of "when". Moreover, it is likely that by the end of this summer the "when" question will be somehow answered.

The first part of the forthcoming article series will focus on the concept of the accounting and reporting environment over which IFRS have been designed, which in many aspects might be significantly different compared to what U.S. preparers and auditors are used to. The following topics will be covered in future articles:

- *Principles vs. Rules*. This article will provide an overview of the concept of a principles-based set of standards (IFRS) as opposed to a rules-based set of standards (U.S. GAAP).

- *A Closer Look at the Convergence Process.* In this article, we will provide an overview of the convergence process between IFRS and U.S. GAAP. In particular, we will analyze how convergence worked in practice with regard to accounting for business combinations in IFRS 3/FASB Statement No. 141(R) and operating segments in IFRS 8/FASB Statement No. 131.
- *Focusing on Differences between IFRS and U.S. GAAP: is this the Right Approach?* This article will take a short excursion into the pros and cons of an approach to IFRS and U.S. GAAP based on the knowledge of one of the two sets of standards and bridging to the other by purely focusing on the differences between them.
- *How Judgment Is Applied in Practice.* In this article, we will explain how the exercise of judgment is not the result of obscure decisions but rather is intended by the IASB to be the result of a thoughtful process that combines two major ingredients: knowledge of principles-based IFRS, and sound and professional business and accounting knowledge.
- *Get up to Speed with IFRS.* This article will provide advice to help professionals in managing the changeover from U.S. GAAP to IFRS.

The second part of this article series will focus on some selected technical topics and, in particular, will approach the challenge of the changeover to IFRS and how U.S. first-time users of IFRS can capitalize on the field-work experience accumulated by European companies when they first moved to IFRS in 2005.

For further information, please contact Bob Dohrer (robert.dohrer@rsmi.com) or Marco Marcellan (marco.marcellan@rsmi.com) in our International Assurance Services Group.

Insights is a biweekly publication of McGladrey & Pullen, LLP and should not be construed as accounting, auditing, consulting, or legal advice on any specific facts or circumstances. The contents are intended for general information purposes only, and you are urged to consult your McGladrey & Pullen, LLP service provider concerning your situation and any specific questions you may have. You may call 1.888.214.1416 for a contact person in your area.

For further information about McGladrey & Pullen or to retrieve archived issues of *Insights*, visit our Web site: <http://www.mcgladrey.com/>. If you do not wish to continue receiving *Insights*, or if you wish to place another person on the distribution list, please contact mpinsights@rsmi.com.