

# Insights

A biweekly publication from the National Office of Audit and Accounting

November 21, 2006

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## Acquisition in Chicago

McGladrey & Pullen, LLP has successfully completed the acquisition of the assets related to the attest business of Altschuler, Melvoin and Glasser LLP (AMG), a leading Chicago CPA firm that previously had an alternative practice structure with American Express Tax and Business Services. Founded in 1923, AMG provided industry-focused audit services to mid-sized private and public companies, including distribution and wholesale companies, educational institutions, manufacturers, food service companies, not-for-profit organizations, associations and real estate firms. As a result of the acquisition, 60 partners and 63 directors are joining McGladrey & Pullen, LLP. When considered together, McGladrey & Pullen, LLP and RSM McGladrey, Inc. now rank as the third largest provider of accounting, tax and business consulting services in the Chicago area.

## Accounting

### IRS to Help Taxpayers Resolve Uncertain Tax Positions Quickly in Preparation for FIN 48 Disclosures

Financial Accounting Standards Board Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, was issued to prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires management to evaluate every open tax position that exists on the date of initial adoption in every jurisdiction using these new guidelines. This may be a time-consuming process, especially for companies with a significant number of jurisdictions and complex issues. Although FIN 48 is not effective until fiscal years beginning after December 15, 2006, it is important that companies start evaluating all open tax positions soon.

In light of the looming FIN 48 disclosure requirements, the Internal Revenue Service (IRS) has recognized that some taxpayers may wish to request a greatly accelerated examination and resolution of “uncertain tax positions” taken in filed returns and/or expected to be taken in tax returns yet to be filed. According to information received by the American Institute of Certified Public Accountants, the IRS has put procedures in place to quickly respond to taxpayer requests to resolve some uncertain tax positions prior to the end of their current financial statement accounting year. The IRS will use existing procedures in an expedited manner to assist taxpayers that request this service.

The IRS also has established procedures for taxpayers whose returns are not under examination as well as for taxpayers whose returns have not yet been filed. With no measure of the demand for expedited processing, the IRS will make every attempt to provide this service in a way that also achieves substantial compliance. However, because this will require a closing agreement, companies not currently under audit are unlikely to be able to complete the process before January 1, 2007.

## Tentative Guidance on Accounting for Interests in Securitized Financial Assets

FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*, amended FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to, among other things, establish a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Per Statement No. 133, an embedded derivative instrument in which the underlying is an interest rate or interest rate index that alters net interest payments that otherwise would be paid or received on an interest-bearing host contract is considered to be clearly and closely related to the host contract unless either of the following conditions in paragraph 13 of the Statement exist:

- a. The hybrid instrument can contractually be settled in such a way that the investor (holder) would not recover substantially all of its initial recorded investment.
- b. The embedded derivative meets both of the following conditions:
  - (1) There is a possible future interest rate scenario (even though it may be remote) under which the embedded derivative would at least double the investor's initial rate of return on the host contract.
  - (2) For each of the possible interest rate scenarios under which the investor's initial rate of return on the host contract would be doubled, the embedded derivative would at the same time result in a rate of return that is at least twice what otherwise would be the then-current market return (under each of those future interest rate scenarios) for a contract that has the same terms as the host contract and that involves a debtor with a credit quality similar to the issuer's credit quality at inception.

The FASB recently issued tentative guidance in Derivatives Implementation Group Statement 133 Implementation Issue No. B40 (DIG Issue No. B40), *Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets*, to provide a narrow scope exception from paragraph 13(b) of Statement No. 133 for securitized interests that contain only an embedded derivative that is tied to the prepayment risk of the underlying prepayable financial assets. Proposed DIG Issue No. B40 clarifies that a securitized interest in prepayable financial assets would not be subject to the conditions in paragraph (b) above if it meets all of the following criteria:

- a. The right to accelerate the settlement of the securitized interest cannot be controlled by the investor
- b. The underlying financial assets do not contain an embedded derivative that requires bifurcation
- c. The securitized interest itself does not contain an embedded derivative (including an interest rate related derivative) for which bifurcation would be required other than an embedded derivative that results solely from the embedded call options in the underlying financial assets.

The above guidance represents a tentative conclusion. The status of the guidance will remain tentative until it is formally cleared by the FASB and incorporated in a FASB staff implementation guide, which is contingent upon an amendment of Statement No. 133 being issued. The effective date for the guidance in this Issue is upon initial adoption of Statement No. 155. DIG Issue No. B40 is available for comment until December 8, 2006 at <http://www.fasb.org/derivatives/11-08-06.pdf>.

## Public Sector

### Comprehensive Implementation Guide Available

The Governmental Accounting Standards Board (GASB) has published the 2006–2007 edition of its *Comprehensive Implementation Guide*, which consolidates and updates previously issued guides to individual GASB standards and provides current guidance on standards for which no stand-alone guides have been published. The 2006–2007 edition includes for the first time the freestanding Implementation Guide to Statement No. 44, *Economic Condition Reporting: The Statistical Section*, and the Implementation Guide to Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The *Comprehensive Implementation Guide* can be ordered at <http://gasbpubs.stores.yahoo.net/gsig07.html> or by calling 800.748.0659.

## SEC

### New EDGAR Search Tool

A new EDGAR search tool allows users to search the full text of registration statements, annual reports, quarterly reports, and other documents filed electronically with the SEC during the past four years. The full text of a filing includes all data in the filing, as well as all attachments to the filing. Users may search by filing type, company name, Central Index Key code, or Standard Industrial Classification code. The EDGAR full-text search tool is available at [http://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR\\_MainAccess.jsp](http://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR_MainAccess.jsp).

## International

### Guidance Issued for Group and Treasury Share Transactions

The International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board has issued IFRIC 11, *IFRS 2—Group and Treasury Share Transactions*. This Interpretation addresses how to apply International Financial Reporting Standard (IFRS) No. 2, *Share-based Payment*, to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (for example, equity instruments of a parent company). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The Interpretation also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements.

### IAASB Redrafts Three Standards

The International Auditing and Assurance Standards Board (IAASB) is in the midst of a comprehensive program to redraft existing International Standards on Auditing (ISAs), and to develop new and revised standards, following new drafting conventions that are intended to enhance the clarity of the standards. Key elements of the new drafting conventions include: basing the standards on objectives, as opposed to

procedural considerations; using the word "shall" to identify requirements that the professional accountant is expected to follow in the vast majority of engagements; eliminating the present tense to describe actions by the professional accountant; and structural improvements to enhance the overall readability and understandability of the standards. Recently, the IAASB issued the following exposure drafts of proposed ISAs that follow its new clarity drafting conventions:

- ISA 320 (Revised and Redrafted), *Materiality in Planning and Performing an Audit*,
- ISA 450 (Redrafted), *Evaluation of Misstatements Identified during the Audit*, and
- ISA 260 (Revised and Redrafted), *Communication with Those Charged with Governance*.

The proposed redrafted ISAs will not become effective at a date earlier than December 15, 2008 and are available for comment until February 15, 2007 at <http://www.ifac.org/Guidance/EXD-Outstanding.php>.

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