

December 15, 2009

Accounting

Quick Reference Guide to the FASB Codification

The FASB Accounting Standards Codification was launched on July 1, 2009 becoming the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), other than guidance issued by the SEC. Although the Codification is not intended to change GAAP, it represents a significant change in the way accounting issues are researched and U.S. GAAP is referenced. The Codification was effective in the third quarter for calendar year-end companies (for financial statements ending after September 15, 2009).

The Codification is available via the FASB's Web site using their online research system, accessible through the free Basic View or a paid subscription to the Professional View, as well as through various vendors. McGladrey & Pullen, LLP has published *The Codification at a Glance*, a one-page reference tool to assist users in navigating the Codification by providing a comprehensive listing of Codification Topics and Sections, and cross-referencing some commonly used accounting standards. *The Codification at a Glance* is available on our Web site at http://mcgladrey.com/Resource_Center/McGladrey_Pullen_Quick_Reference_Guide_FASB_Codification.pdf.

Proposed Deferral of Statement No. 167 for Investment Fund Managers

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) recently affirmed their decision to jointly develop guidance for consolidation of all entities, including entities currently considered variable interest entities (VIEs). The IASB closely followed the deliberations that led to the issuance of FASB Statement No. 167, *Amendments to FASB Interpretation 46(R)*. Except for investment funds directed by investment managers, the deliberations of the IASB specific to structured entities (VIEs in U.S. generally accepted accounting principles (GAAP)) appear to yield similar consolidation results for other types of VIEs. However, the IASB's preliminary deliberations seem to result in a different consolidation conclusion for investment funds when compared with the conclusion reached under U.S. GAAP. Accordingly, the FASB decided that the effective date of the amendments in Statement No. 167 should be deferred for investment funds so both Boards could develop consistent guidance on principal and agent relationships as part of the joint consolidation project.

The FASB has issued a proposed Accounting Standard Update, which if finalized, would defer the requirements in Statement No. 167 for an investment manager's interest in an entity (1) that has the attributes of an investment company or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The proposed deferral would not apply in situations in which a reporting entity has the explicit or implicit obligation to fund actual losses of an entity that could potentially be significant to the entity. The proposed deferral also would not apply to interests in securitization entities, asset-backed financing entities, or entities formerly considered qualifying special-purpose entities. In addition, the proposed deferral would apply to a reporting entity's interest in an entity that is required to comply or operate in

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accordance with requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. An entity that qualifies for the deferral would continue to be assessed under the overall guidance on the consolidation of VIEs in Subtopic 810-10 (before its amendment by Statement No. 167) or other applicable consolidation guidance, such as the guidance for the consolidation of partnerships in Subtopic 810-20. The amendments in the proposed Update would not defer the disclosure requirements in Statement No. 167. Accordingly, both public and nonpublic companies would be required to provide the disclosures included in Statement No. 167 for all VIEs in which they hold a variable interest, including those VIEs that qualify for the deferral.

The amendments in the proposed Update also would clarify that for entities that do not qualify for the proposed deferral, related parties should be considered when evaluating each of the criteria in Statement No. 167 for determining whether a decision maker or service provider fee represents a variable interest. In addition, the requirements for evaluating whether a fee is a variable interest in situations in which a decision maker or service provider holds another interest in the related VIE would be modified to clarify that a quantitative calculation should not be the sole basis for evaluating whether the other variable interest is more than insignificant.

The amendments in the proposed Update would be effective as of the effective date for Statement No. 167 (*i.e.*, as of the beginning of a reporting entity's first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period). The proposed Update is available for comment until January 6, 2010 at [FASB Exposure Documents](#).

SEC

Updated Financial Reporting Manual Available

The SEC's Division of Corporation Finance recently updated its *Financial Reporting Manual*, which is available online. Although the Manual is intended only to provide general guidance to Division staff, it contains helpful information to auditors and preparers of issuer financial statements. Topics discussed in the Manual include the following, among others:

- Registrant's financial statements
- Other financial statements required
- Pro forma financial information
- Independent accountant's involvement
- Smaller reporting companies
- Related-party matters
- Non-GAAP measures of financial performance, liquidity, and net worth
- Management's discussion and analysis of financial position and results of operations
- Reverse acquisitions and reverse recapitalizations
- Effects of subsequent events on financial statements required in filings
- Employee stock benefit plans

The updated *Financial Reporting Manual* is available in full at <http://www.sec.gov/divisions/corpfin/cffinancialreportingmanual.pdf>.

International

Amendment to IFRIC 14

In July 2007, the International Accounting Standards Board (IASB) issued IFRIC 14, *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, to provide general guidance on how to assess the limit in International Accounting Standard (IAS) 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. IFRIC 14 also explains how the pension's asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

As a result of this Interpretation, in some circumstances entities were not permitted to recognize as an asset some prepayments for minimum funding contributions. To correct this unintended consequence of IFRIC 14, the IASB recently published *Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14*. This amendment applies only in those situations where an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

The amendment is effective date for annual periods beginning on or after January 1, 2011, with early adoption permitted. The amendment must be applied retrospectively to the earliest period presented.

IFRIC Issues Guidance on Extinguishing Financial Liabilities with Equity Instruments

The International Financial Reporting Interpretations Committee (IFRIC) recently issued IFRIC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*. This Interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments (*i.e.*, debt-for-equity swaps). The Interpretation clarifies the requirements of International Financial Reporting Standards (IFRS) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. It does not address the accounting by the creditor.

IFRIC 19 clarifies that:

- The entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability.
- The equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.
- If only part of the financial liability is extinguished, the entity must assess whether some of the consideration paid relates to a modification of the terms of the liability that remains outstanding. If so, the entity must allocate the consideration paid between the part of the liability extinguished and the part of the liability that remains outstanding.
- When only part of the liability is extinguished, the entity must determine whether the terms of the remaining debt have been substantially modified. If so, the entity would account for the extinguishment of the remaining old liability and the recognition of a new liability.
- The difference between the carrying amount of the financial liability (or part) extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

The Interpretation is effective for annual periods beginning on or after July 1, 2010 with earlier application permitted, and is to be applied retrospectively from the beginning of the earliest period presented. An entity may not apply IFRIC 19 to transactions in situations where:

- The creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder.
- The creditor and the entity are controlled by the same party or parties before and after the transaction, and the substance of the transaction includes an equity distribution by, or contribution to, the entity.
- Extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

Proposed Amendment to IFRS 1

The International Accounting Standards Board has issued a proposed amendment to International Financial Reporting Standard (IFRS) 1, *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (proposed amendment to IFRS 1)*. If finalized, the amendment would provide first-time adopters of IFRS with the same relief available to those already applying IFRSs when they first apply *Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)* issued in March 2009. The proposal would allow an entity to not provide comparative information for the disclosures required by the amendments to IFRS 7 if the entity’s first IFRS reporting period starts earlier than January 1, 2010. If finalized, the amendment would be effective for annual periods beginning on or after July 1, 2010 with earlier application permitted.

The Exposure Draft is available for comment until December 29, 2009 at <http://www.iasb.org/NR/rdonlyres/A63B3B4E-AB71-457A-B910-00CF5F873A33/0/EDAmendmentsIFRS1Nov09.pdf>.

Borrowing Costs: IFRS vs. U.S. GAAP

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

The standard under IFRS that deals with borrowing costs is International Accounting Standard (IAS) 23, *Borrowing Costs*. Under U.S. GAAP the same topic is addressed in FASB Accounting Standards Codification (ASC) Topic 835, *Interest* (formerly FASB Statement No. 34, *Capitalization of Interest Cost*). In accounting for borrowing costs, there is convergence in principle between IFRS and U.S. GAAP; however, differences still remain, some of which are summarized below.

	IFRS	U.S. GAAP
Definition of borrowing costs	IAS 23 uses the term “borrowing costs.” Borrowing costs reflects the broader definition in IAS 23, which encompasses interest and other costs, such as amortization of ancillary costs incurred in connection with the arrangement of borrowings.	Topic 835 uses the term “interest costs.”

	IFRS	U.S. GAAP
Definition of a qualifying asset	IAS 23 defines a qualifying asset as one that takes a substantial period of time to get ready for its intended use or sale. IAS 23 excludes from its scope qualifying assets measured at fair value.	Topic 835 does not include the term “substantial” in its definition of a qualifying asset. Topic 835 does not address assets measured at fair value.
Measurement	When an entity borrows funds specifically for the purpose of obtaining a qualifying asset, IAS 23 requires an entity to capitalize the actual borrowing costs incurred on that borrowing. IAS 23 requires an entity to deduct any income earned on the temporary investment of actual borrowings from the amount of borrowing costs to be capitalized.	Topic 835 states that the amount capitalized is determined by applying the capitalization rate to the average amount of accumulated expenditures for the asset. Topic 835 does not generally permit the deduction of income earned on investment of borrowings, unless certain tax-exempt borrowings are involved.

Based on specific facts and circumstances, other differences may exist. Disclosure requirements also are not fully aligned. For further information, please contact Bob Dohrer (robert.dohrer@rsmi.com) or Marco Marcellan (marco.marcellan@rsmi.com) in our International Assurance Services Group.