

November 13, 2009

Accounting

Client Webcast on FIN 48, *Accounting for Uncertainty in Income Taxes*

FASB Interpretation (FIN) No.48, *Accounting for Uncertainty in Income Taxes*, sets new standards for how an entity must account for and present in its financial statements any uncertain tax positions that it may have taken on its tax returns. FIN 48 is required to be adopted this year by nonpublic entities, including S corporations, LLCs, partnerships, and not-for-profit organizations. To assist our clients in implementing this new standard, McGladrey & Pullen is hosting a 90-minute webinar regarding FIN 48 implementation issues on Wednesday, November 18 beginning at 1 p.m. Central Time. If you are unable to attend the webinar at this time, contact your McGladrey client service representative to obtain a link to a recorded version of this webinar. This webinar is designed to provide an understanding of:

- The scope and application of the new standard;
- Key changes from prior practice; and
- Practical insights on implementing FIN 48.

The webinar is primarily focused on FIN 48 implementation issues for C corporations. However, the webcast will also briefly summarize some common issues that pass-through entities may need to consider, such as a valid Sub-S election, continuing Sub-S status, nexus in states not recognizing pass-through status, built-in-gains tax, *etc.* This webinar is intended for informational purposes and does not provide CPE credit. There is no cost to attend.

Because the audio portion of the webinar is presented via telephone, you will need both computer internet access and telephone access (preferably speaker phone) to participate. Approximately 20 minutes prior to the start of the webinar, log-in to and dial as follows:

- Click the following internet link: [Join Now](#) and then:
 - Dial-in to the following telephone line: 800.314.5944
 - Give the operator the Conference ID: #39160284
 - Give the operator the title of webinar: *FIN 48 Implementation Webinar*

If you are a first-time user of Microsoft Office Live Meeting, you may want to [check your system](#) to make sure it is ready to use Microsoft Office Live Meeting. If you are unable to join the meeting, follow these steps:

- Copy this address and paste it into your web browser: <https://www.livemeeting.com/cc/rsmmcgladrey/join>
- Copy and paste the required information:
Meeting ID: FIN48
Entry Code: NOV182009
Location: <https://www.livemeeting.com/cc/rsmmcgladrey>

If you still cannot enter the meeting, [contact support](#).

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Financial Institutions

FDIC Adopts Guidance on Prudent Commercial Real Estate Loan Workouts

The Federal Deposit Insurance Corporation (FDIC), in coordination with the other member Agencies of the Federal Financial Institutions Examination Council, recently adopted a policy statement supporting prudent commercial real estate (CRE) loan workouts because they recognize that prudent loan workouts are often in the best interest of both financial institutions and borrowers, particularly during difficult economic conditions. The policy statement provides guidance to examiners, and financial institutions that are working with CRE borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. The policy statement:

- Stresses that performing loans, including those that have been renewed or restructured on reasonable modified terms, made to creditworthy borrowers will not be subject to adverse classification solely because the value of the underlying collateral declined.
- Details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision making within the framework of financial accuracy, transparency, and timely loss recognition.
- Includes examples of CRE loan workouts.
- Reiterates existing guidance that examiners are expected to take a balanced approach in assessing institutions' risk-management practices for loan workout activities.

The policy statement is available in full at <http://www.fdic.gov/news/news/financial/2009/fil09061a1.pdf>.

International

IASB Simplifies Certain Related-party Disclosures for Government-controlled Entities

International Accounting Standard (IAS) 24, *Related Party Disclosures*, required entities to provide disclosures about transactions with related parties. However, entities controlled, jointly controlled, or significantly influenced by a government (government-controlled entities) have found it difficult and costly to provide all the required details for transactions with other government-controlled entities. Because the International Accounting Standards Board (IASB) believes that it is possible to omit some of the required details while still providing sufficient information to users of financial statements, a revised version of IAS 24 was issued recently to exempt government-controlled entities from providing full details about transactions with other government-controlled entities and the government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The standard also provides a simplified definition of a related party. The revised standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted.

Foreign Currency Matters: IFRS vs. U.S. GAAP

This article is the thirtieth 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 foreign currency matters. Actual differences in the accounting treatment between the two frameworks depend on specific circumstances.

The primary standard dealing with foreign currency matters under IFRS is International Accounting Standard (IAS) 21, *The Effects of Changes in Foreign Exchange Rates*. Under U.S. GAAP, the literature relating to foreign

currency matters is included in FASB Accounting Standards Codification (ASC) Topic 830, *Foreign Currency Matters*, which codifies FASB Statement No. 52, *Foreign Currency Translation*. The overall approaches under IFRS and U.S. GAAP are very similar. However, there are some differences including, but not limited to, the following:

Topic	IFRS	U.S. GAAP
Indicators to assess the functional currency	IAS 21 includes primary and secondary indicators to be considered in determining the functional currency of a foreign operation.	ASC 830 does not distinguish between primary and secondary indicators.
Change in functional currency	When there is a change in an entity's functional currency, the entity must apply the translation procedures applicable to the new functional currency prospectively from the date of the change.	U.S. GAAP distinguishes functional currency changes between: (1) from reporting currency to foreign currency; and (2) from foreign currency to reporting currency. Different specific requirements apply.
Foreign exchange gains or losses on available-for-sale financial instruments	For an available-for-sale monetary financial asset, the entity recognizes changes in the carrying amount relating to changes in foreign exchange rates in profit or loss, and other changes in the carrying amount in other comprehensive income.	All changes in fair value relating to financial instruments remeasured at fair value through other comprehensive income (available-for-sale) are recognized in other comprehensive income.
First-time adopters of IFRS: treatment of Cumulative Translation Adjustments (CTA)	On the date of transition to IFRS, a first-time adopter of IFRS may elect to reset CTA to zero.	U.S. GAAP does not include a similar provision. Equity is translated using historical rates.

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

IASB Publishes Exposure Draft on the Impairment of Financial Assets

Both International Financial Reporting Standards (IFRS) and U.S. generally accepted accounting principles currently use an incurred loss model for the accounting for impairment of financial assets. An incurred loss model assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value. The global financial crisis has led to criticism of the incurred loss model for presenting an initial, overly optimistic assessment of no credit losses, only to be followed by a large adjustment once a trigger event occurs.

On November 5, 2009, the International Accounting Standards Board (IASB) published for public comment an exposure draft on amortized cost measurement and impairment of financial instruments. This exposure draft, which is applicable to generally all financial instruments, forms the second part of a three-part project to replace International Accounting Standard 39, *Financial Instruments: Recognition and Measurement*, with a new standard to be known as IFRS 9, *Financial Instruments*. Proposals on the first part of the project, classification and measurement of financial instruments, were published in July, with a final standard expected shortly. Proposals on the third part of the project, hedge accounting, continue to be developed.

Under the exposure draft on amortized cost measurement and impairment of financial instruments, expected losses are recognized throughout the life of the loan (or other financial asset measured at amortized cost), and not just after a loss event has been identified. This approach is referred to as the expected loss model. Under this model, a financial asset is initially measured at the discounted amount of the cash flows expected to be derived from that asset. Those expected cash flows are then remeasured at each reporting date. This would avoid the front-loading of interest revenue that currently occurs before a loss event is identified. Therefore, under the proposals, a provision against credit losses would be built up over the life of the financial asset. Extensive disclosure requirements would provide investors with an understanding of the loss estimates.

The IASB expects to finalize this exposure draft in 2010 and expects the IFRS will be required to be applied three years later. The IASB also expects the IFRS may be applied early.

The exposure draft, *Financial Instruments: Amortised Cost and Impairment*, is available for comment until June 30, 2010 at <http://www.iasb.org/NR/rdonlyres/888CC00C-5D55-4A90-9718-372F91D1BD72/0/EDFImpairmentNov09.pdf>.