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BDO Seidman, LLP
Accountants and Consultants

Financial Reporting

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Accounting Challenges: 2009

BDO Seidman, LLP prepared this *Financial Reporting* letter to help our clients respond to changes and challenges in accounting and financial reporting.

After a year of wrenching change in the financial markets and the economy, accountants must now prepare for a year of change in accounting standards. Many of the accounting pronouncements issued in 2008 take effect for first quarter 2009 amidst the already formidable reporting challenges associated with an economic recession. Over the years, accountants have learned that lower profits, stock market declines, and tight credit conditions all pose their own challenges, and this recession is no exception.

The top challenges for this year include:

- Accounting for areas affected by the economic slowdown.
- The need for more disclosures and greater transparency.
- A tidal wave of first quarter effective dates.
- Myriad changes related to financial instruments.
- The FASB's accounting standards codification and 2009 US GAAP taxonomy.
- The changing regulatory environment.

To help guide you through the year ahead, this *Financial Reporting* letter summarizes recent accounting and reporting changes, identifies areas that may merit additional focus for first quarter reporting, and highlights the trends to monitor as the year proceeds. We hope you find the report useful.

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Top Accounting and Reporting Challenges

Tight credit conditions, a broad-based economic slowdown, and a heavy dose of new accounting standards create tough challenges for management and directors in 2009.

As the events of 2008 and early 2009 unfolded, each one seemed to bring a new set of challenges. Financial markets froze. Global economies slowed. Companies announced layoffs. Bankruptcies spiked. Turbulence became the new norm. And the FASB rushed to adapt its accounting standards accordingly. Following is our analysis of the greatest challenges for financial reporting in 2009. It highlights areas on which management and directors should focus their attention and offers practical tips to help manage the risks.

1. Areas Affected by the Economic Slowdown

Tight credit conditions and a broad-based economic slowdown can affect financial reporting in unpredictable ways. For example, they can cause changes in underlying estimates and assumptions, trigger impairment tests, or lead to unusual non-recurring decisions or transactions. Chief among the areas that may require additional care in this regard are the following:

- **Investments in securities.** When the fair value of a security falls to a level lower than its cost basis at the measurement date, this should trigger a test to determine if the impairment is other than temporary. Currently, an impairment is considered temporary (and no write-off is needed) if, among other things, the reporting entity has the intent and ability to hold the security for a period of time that is sufficient for an anticipated recovery in fair value. But the determination of other-than-temporary impairment typically requires judgment and consideration of all the relevant indications, both positive and negative. For a review of the applicable guidance, see FASB Staff Position FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and the Application to Certain Investments" and FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." In recognition of the expanded GAAP guidance, SEC Staff Accounting Bulletin 111 now excludes debt securities from the scope of Topic 5.M.

- **Goodwill and intangible assets.** FASB Statement 142, *Goodwill and Other Intangible Assets*, requires an interim period impairment test of the goodwill of a reporting unit if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit or indefinite-lived intangible below its carrying amount. The triggers (or warning signs) include: (a) a decline in market capitalization and/or recent cash or operating losses due to market conditions (with the expectation that the declines or losses may continue), (b) weakness in a particular industry segment, such as the automobile industry, (c) downward revisions to future period profit forecasts, and (d) restructuring activities such as layoffs or plans to dispose of a reporting unit or a significant portion of it.

- **Long-lived assets.** Long-lived assets, such as fixed assets, can also become impaired in an economic slowdown. FASB Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires that these assets be tested to determine whether any changes in circumstances indicate the company will be unable to recover the carrying amount of the asset group through future operations of the asset. This test is important now because it is likely to involve cash flow projections based on revenue growth and cost assumptions that may vary with market and economic conditions.

- **Deferred tax assets.** If a company has a pattern of operating losses, it may need to reevaluate the realization of its deferred tax assets. FASB Statement 109, *Accounting for Income Taxes*, requires that companies consider all the positive and negative evidence is making these assessments. However, the evidence is weighted according to the extent to which it can be objectively verified, with the result that a projection of future taxable income will generally not be sufficient to overcome a history of recent losses.

- **Financial instruments carried at fair value.** Valuations of financial instruments may require significant judgment at times like this, particularly if they are not actively traded or are sold in distressed transactions. The accounting for these instruments has generated significant controversy and even calls for suspension of fair value accounting requirements. Companies will likely need to continue to focus significant attention on these valuations in today's turbulent markets and consider all the facts and circumstances to evaluate the fair values of their financial instruments. In early April 2009, the FASB provided additional guidance in FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly."

- **Retirement plans.** Companies may need to reconsider the assumptions and/or asset values used in their accounting for retirement plans for several reasons: (1) Falling interest rates can trigger changes in the assumptions for discount rates,

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resulting in an increase in the present value of pension obligations, or (2) declines in share prices can shrink the fair value of retirement plan assets, resulting in greater expenses or charges to other comprehensive income and ballooning deficits that require greater cash contributions to defined benefit pension plans. For a review of the accounting guidance, see FASB Statements 87, *Employers' Accounting for Pensions,* and 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.*

- **Foreign exchange gains and losses.** The effects of turbulence in the currency markets can trigger exchange losses. It can also increase a company's focus on hedging of foreign exchange exposures, leading to greater use of forward contracts, futures, and options. In some cases, companies may find that as a result of the economic slowdown, their revenues estimates were overly optimistic and therefore their incomes overhedged. The need to unwind overhedging can adversely affect corporate earnings and create accounting challenges.

- **Employee termination benefits.** Many companies have downsized in response to the economic slowdown and the layoffs may have been accompanied by termination benefits. The accounting for the related expense and liability can be challenging because it requires identification and application of the appropriate accounting standard. In some cases, it can be hard to choose among FASB Statement 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* Statement 112, *Employers' Accounting for Postemployment Benefits,* or Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

- **Issues related to consolidation.** Management's efforts to protect the assets of an unconsolidated entity or to provide an entity with some sort of liquidity support can cause the entity to become a variable interest entity (VIE), with the result that the support provider may need to consolidate the entity under FASB Interpretation 46R, *Variable Interest Entities*. In some cases, actions may lead to reconsideration of implicit variable interests under this standard. Examples of actions that may require careful assessment include: (a) making capital contributions, (b) providing financial guarantees on assets or debt, (c) providing standby letters, or (d) providing other forms of relief when not legally obligated to do so (e.g., rebates or lower service fees).

Early consultations with external auditors can help to identify areas where additional analysis is warranted.

2. Liquidity Concerns and Fears of Failures

The unraveling of several very large companies made the headlines in 2008. It was a year marked by one of the largest public company bankruptcies ever – Lehman Brothers. Although less widely publicized, many smaller companies are struggling as well.

- **Factors to consider.** A slump in consumer spending, combined with risk-averse creditors and difficult-to-obtain financing, have taken a heavy toll on many companies, raising liquidity concerns and fears of corporate failures. At least one rating agency, Standard & Poor's, is predicting a massive increase in corporate bond defaults in 2009, and this is likely to fuel more bankruptcies as well. In difficult times like these, management's assessment of the company's ability to continue as a going concern can be especially challenging. This assessment must take into account a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing.

- **Sources of guidance.** The requirements and guidance for evaluating an entity's ability to continue as a going concern are provided by the AICPA's auditing standards codification in AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,* and in the comparable standard adopted and amended by the PCAOB.

In October 2008, the FASB started the process for incorporating the requirements into the accounting literature through the release of an exposure draft of a proposed Statement of Financial Accounting Standards on "Going Concern." The FASB's proposal would retain the guidance in AU 341 and add a few modifications to conform to international standards.

The going concern assessment can be especially challenging.

- **Reporting requirements**. The current guidance sets the following requirements:

  – Financial statements should be prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so.

  – Companies should disclose material uncertainties about events or conditions that may cast substantial doubt on the company's ability to continue as a going concern, along with related information such as any possible discontinuance of operations and management's plans to mitigate the effect of the uncertainties.

  – If a company's financial statements are not prepared on a going concern basis, the company should disclose that fact, together

with the basis on which it prepared the financial statements and the reason why the company is not considered a going concern.

Financial statements must be prepared on a liquidation basis when liquidation appears imminent – a determination that can require considerable judgment and needs to be made in time to prepare the financial statements on a liquidation basis.

3. Disclosures: The Need for More Transparency

The severity of the recent losses in the financial markets took many investors by surprise, fueling concerns about the transparency of financial reporting. To help restore confidence in reporting, the FASB rushed out an unusually heavy dose of disclosure requirements in 2008. More are expected in 2009. Many of the new requirements focus attention on risks, and companies may also need to pay special attention to some of the existing disclosure requirements related to risks and uncertainties in light of the current liquidity concerns.

Suggested areas of focus include the following:

- **Off-balance sheet entities.** Public companies need to make more extensive disclosures about such matters as the assumptions used and judgments made in deciding whether to consolidate a VIE and the nature of any risks associated with the company's continuing involvement with the VIE. For a complete list of the new requirements, see FSP FAS 140-4 and FIN 46R-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Interests in Variable Interest Entities." This FSP was issued in December 2008.

- **Derivatives and collateralized debt obligations (CDOs).** FASB Statement No. 161, *Disclosures are Derivative Instruments and Hedging Activities*, was issued in March 2008. It requires significant additional disclosures about the reasons for using derivatives and the related risks. In addition, FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees," was issued in September 2008. It adds disclosure requirements for sellers of derivatives and requires added disclosures about the current status of the payment and performance risk of a guarantee.

- **Retirement plan assets.** Employers must provide more transparency around the risks associated with the various types of assets in defined benefit pension or other postretirement plans. For details, see FSP FAS 132-1, "Employers Disclosures about Postretirement Benefit Plan Assets," which was issued in December 2008.

- **Loss contingencies.** Class action lawsuits spiked in 2008 as angry investors filed legal proceedings. Investors have complained that they do not have adequate information to assess the likelihood, timing and amount of future cash flows associated with loss contingencies. Additional guidance for disclosures was proposed by the FASB in 2008. Most notably, the FASB proposed that companies disclose more information about matters likely to be resolved in the next twelve months, if they could have a significant effect on the financial statements. This proposal is currently being redeliberated. The FASB expects to issue a revised proposal that, if adopted as a final standard, will take effect for calendar year 2009 financial statements.

- **Certain financial assets.** Risks associated with certain financial assets may call for additional disclosures. The FASB is concerned that investors may have difficulty assessing the risks associated with the effects of financial and economic turmoil on financial assets that are not measured at fair value. In April 2009, the Board issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP increases the frequency of the existing disclosures of fair value from annual reporting periods to both annual and interim reporting periods, starting with periods ending after June 15, 2009.

The FASB rushed out an unusually heavy dose of disclosure requirements in 2008.

- **Risks and uncertainties.** As a reminder, although the standards for risks and uncertainties were not issued or revised recently, these areas may merit extra attention in times of economic uncertainty. The applicable standards are AICPA Statement of Position No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties,* and related FSP SOP 94-6-1, "Terms of Loan Products That May Give Rise to a Concentration of Credit Risk."

The requirements:

– Among other things, SOP 94-6 requires disclosures about significant estimates when it is at least reasonably possible that an estimate will change materially within one year of the date of the financial statements.

– SOP 94-6 also requires disclosure of concentrations of risk, such as reliance on a single major customer or supplier.

– The related FSP clarifies the need for disclosures about concentrations of credit risk. These can occur as a result of certain loan products that can increase a company's exposure to credit risk. Examples might include loans with terms that subject the borrower to significant

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payment increases, loans with terms that permit negative amortization, and loans with high loan-to-value ratios.

For additional information about recent or proposed disclosure requirements, see BDO's Client Advisory 2009-1, "Improving Transparency in Turbulent Times," February 27, 2009.

4. New Accounting for Noncontrolling (Minority) Interests and Business Combinations

Two Statements issued by the FASB in late 2007 take effect in 2009. The changes they bring can create challenges this year, even for companies that are not negotiating or contemplating a business combination in 2009. The two Statements are FASB Statement 141R, *Business Combinations*, and FASB Statement 160, *Noncontrolling Interests in Consolidated Financial Statements.*

Highlights of changes and challenges are as follows:

- **Changes that apply to deals.** Statements 141R and 160 overhaul the US accounting standards to bring them into closer alignment with the international accounting standards. Among the key changes are the following:

– Statement 141R changes the definitions for several key terms, including date of acquisition, business, and business combinations. Because of these changes, more transactions may qualify as business combinations and the timing of deals will be more important starting in 2009.

– More assets will need to be accounted for at fair value. This expanded use of fair values can have a significant effect on business combinations that are achieved in stages, (i.e. step acquisitions).

– The new requirements may have a significant effect on earnings, both in the year of acquisition and subsequently due to changes in the accounting for acquisition-related costs, restructuring costs, and in process research and development (IPR&D).

– Because more items are measured at fair value, changes in these values in subsequent periods are likely to make future period earnings more volatile and difficult to predict.

– Statement 160 requires presentation of minority interests in the consolidated balance sheet within equity, but separate from the parent's equity. This presentation could affect key financial ratios.

The new M&A accounting can affect companies in 2009, even if they make no new deals.

- **Potential changes for companies with no new deals.** Companies that are not negotiating or contemplating business combinations may be affected in the following ways:

– The financial statement presentation of minority interests will change. Investments by minority shareholders will be reported as equity, rather than in the mezzanine between liabilities and equity. Net income will now include earnings attributable to both the controlling and noncontrolling interests, rather than representing only the parent's share.

– Under the expanded definition of a business, more components may qualify as reporting units. For example, a development stage enterprise may qualify as a reporting unit.

– Under the expanded definition of a business, companies that sell groups of assets may find some of these transactions qualify as sales of businesses.

– Any adjustments to tax uncertainty reserves and reductions in valuation allowances from prior acquisitions will affect earnings, rather than goodwill.

For more information, see BDO's Client Advisory No. 2008-1, "New Accounting for M&A Affects Earnings and Deals" available at www.bdo.com/download.aspx?id=725.

5. Fair Value or Mark-to Market Reporting

The use of fair values in financial reporting has been at the center of a storm of controversy during the credit crisis. Although fair values have been used for some time in financial statements prepared in accordance with US generally accepted accounting principles (US GAAP), FASB Statement 157, *Fair Value Measures*, is relatively new. For calendar-year companies, it became effective for financial assets and liabilities in 2008, and it will become effective for nonfinancial assets and liabilities in 2009.

- **A storm of controversy.** Statement 157 establishes a uniform framework for measuring fair value in all the standards in which it is required. Under this framework, measures based on observable inputs, (such as a quoted market price), are generally considered preferable to measures based on unobservable inputs, (such as a cash flow model based on the company's assumptions), since the former appear to be more objective while the latter are more subjective and require more judgment. To meet the requirements

for the use of subjective measures, some companies may find they need to hire more outside expertise, (i.e., valuation specialists).

Much of the controversy centers around the use of fair value measures for financial assets and liabilities in markets that are not active (meaning there are relatively few transactions) and sales that are distressed (meaning the transactions may represent forced sales). Critics say the use of fair value in these circumstances creates a downward spiral that accelerates the declines in asset values and stock prices.

The outcry from those who believe they have been adversely affected by this trend has reached the ears of Congress, resulting in a mandated report from the SEC on its recommendations on mark-to-market accounting for financial instruments, followed by Congressional hearings and the introduction of several proposed laws designed to either suspend the use of fair value accounting or create an oversight board to review the FASB's decisions.

- **Interpretive guidance.** In response to the mounting concerns about the use of fair value in illiquid markets and its application in other situations, the FASB has established a valuation resource group, and both the FASB and the SEC have issued guidance over the past year as summarized below.

  – *FSPs.* The SEC and FASB staffs released a joint announcement and series of questions and answers in September 2008, and FSP FAS 157-3 "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active" was released in October 2008. These releases are discussed further in the section of this letter on Recent Accounting Pronouncements. In early April 2009, the FASB provided additional guidance in FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly."

  – *VRG.* The Valuation Resource Group has discussed a number of issues. Updates are available on the FASB's website at http://www.fasb.org/project/valuation_resource_group.shtml.

- **Fair values of nonfinancial assets and liabilities.** The application of Statement 157 to nonfinancial assets and liabilities is likely to present additional challenges in 2009. Here are a few areas that will benefit from advance planning and discussion:

  – *Market participants*. Because few nonfinancial assets and liabilities are actively traded, companies may find it difficult to meet Statement 157's requirements to value these assets and liabilities based on how a market participant would use them and what a market participant would pay.

  – *Goodwill writeoffs.* The fair values of indefinite-lived intangibles may decrease under the principles of Statement 157, and this is turn could drive even greater write-offs of goodwill than were reported in 2008.

  – *Internal controls.* Companies will need to develop appropriate expertise and controls over the use of fair value for nonfinancial assets and liabilities.

6. A Tidal Wave of First Quarter Effective Dates

Altogether, there are nineteen accounting pronouncements with provisions that take effect in fourth quarter 2008 or later. Some are buried in complex transition provisions of major accounting standards. Others are EITF Issues and FSPs that take effect in first quarter 2009.

- **Effective in 2009.** The standards that take effect in first quarter 2009 for calendar year companies include the following:

  – FASB Statement 141R, *Business Combinations*.

  – FASB Statement 157, *Fair Value Measurements,* (application of requirements for non-financial assets and liabilities).

  – FASB Statement 160, *Noncontrolling Interests in Consolidated Financial Statements.*

  – FASB Statement 161, *Disclosures about Derivative Instruments and Hedging Activities.*

  – FASB Statement 163, *Accounting for Financial Guarantee Insurance Contracts.*

  – FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (application by nonpublic companies).

  – EITF Issue 07-1, "Accounting for Collaborative Arrangements."

  – EITF Issue 07-4, "Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships."

  – EITF Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock."

  – EITF Issue 08-3, "Accounting by Lessees for Maintenance Deposits Under Lease Arrangements."

  – EITF Issue 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement."

  – EITF Issue 08-6, "Equity Method Investment Accounting Considerations."

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– EITF Issue 08-7, "Accounting for Defensive Intangible Assets."

– EITF Issue 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount that is Based on the Stock of an Entity's Consolidated Subsidiary."

– EITF Topic D-98, "Classification and Measurement of Redeemable Securities."

– FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)."

– FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities."

– FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions."

– FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets. "

- **Elective for first quarter 2009.** In addition, in early April 2009, the FASB issued three other FSPs that are effective for interim and annual periods beginning after June 15, 2009, but that companies may voluntarily adopt in the first quarter:

– FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly."

– FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments."

– FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments."

- **Effects on private companies.** Private companies with contractual requirements (for example, in loan agreements) to present interim financial statements prepared in accordance with GAAP will need to apply many of these pronouncements in their first quarter of 2009 financial statements. Failure to do so could constitute a default under the contract. The only one that is effective for annual (rather than interim periods) is EITF Issue 08-7, "Accounting for Defensive Intangible Assets."

- **Time-consuming pronouncements.** Some pronouncements will be more time-consuming than others to reflect in the financial statements because they must be applied retrospectively. These include EITF Issue 07-1, FSP APB 14-1 and FSP EITF 03-6-1. EITF Issue 07-5 may also be time-consuming because it must be applied to all instruments in its scope as of the effective date. Companies affected by these pronouncements may wish to discuss any questions with the external accountants earlier rather than later.

All the pronouncements mentioned in this section are discussed in greater detail in the applicable sections of this letter on Recent Accounting Pronouncements.

7. International Financial Reporting Standards

The reasons vary for the unusually large number of accounting pronouncements that take effect in 2009. Some address new business or financial trends, others respond to the turmoil in the financial markets, and still others were issued to adjust for implementation problems encountered in connection with recently issued standards, especially the standards on business combinations, noncontrolling interests and fair value measures.

Cutting across the various reasons for the increased volume in both new standards and related implementation guidance, a significant emerging trend is that many have resulted from the FASB's efforts to expedite the convergence with or conversion to international accounting standards. A September 2008 update to a memorandum of understanding (MoU) between the FASB and the International Accounting Standards Board (IASB) indicates the targeted completion date is 2011.

Preparers and auditors may need to deal with a continuous stream of major pronouncements.

The MoU indicates that the Boards have decided to overhaul standards rather than pursue the initial approach to convergence (i.e., eliminating differences between US and International Financial Reporting Standards, or IFRS).

Toward this end, the timetable set in the MoU calls for major new standards by 2011 in the following areas:

– Financial statement presentation
– Leases
– Liabilities and equity distinctions
– Revenue recognition
– Consolidations
– Derecognition
– Post-employment benefits (including pensions)

If the FASB continues down this path, preparers and auditors will likely need to deal with a continuing stream of both major new pronouncements and interpretive guidance in 2009 and over the next few years.

However, as discussed under No. 10 below, the changing regulatory environment in the US may slow the momentum underway in the area of

international convergence or conversion.

The MoU is available at www.fasb.org/intl/MOU_09-11-08.pdf.

8. Financial Instruments: Myriad of Challenges

The FASB has expressed its intention to undertake a long-term project to reduce complexity in reporting for financial instruments. The precise timeline has not yet been announced. Some changes may be earmarked as short-term changes, while others will be long-term.

- **Big-picture issues and answers.** At a series of roundtable discussions about the financial reporting issues arising as a result of the financial crisis, some participants called for fundamental changes in the standards for financial instruments. For example, some felt that the FASB should reexamine the role of fair value measurement for financial instruments, including the issues of improving the impairment requirements, classification issues, fair value option, and transfers between the various categories of financial instruments.

A key issue involves the number of ways that are available under existing accounting standards to measure and account for different kinds of financial instruments. Under International Accounting Standard (IAS) 39, there are at least 20 ways that final classification is determined taking into accounting measurement choices, including accounting for impairment. This wide array of choices creates complexity for users and may impair the usefulness of the information.

The principal measures are:

– Fair value, as defined by FASB Statement 157.

– Other remeasurement approaches using discounted cash flow.

– Amortized cost (i.e., cost adjusted for amortization of items, such as premiums, discounts, and transaction costs) with testing for impairment.

Accountants differ in their views on which approach is best. Some think all financial instruments should be measured at fair value and this would eliminate the need for guidance about impairment or reclassifications of financial assets. Others think that such a fair value requirement with associated remeasurements would result in unnecessary volatility and could lead to instability in the market place. They would prefer other measurement models, such as discounted cash flows or amortized cost, accompanied by an appropriate level of guidance for such matters as what discount rate should be used and how risk and uncertainty should be factored into the calculations.

The outcome of the FASB's project could have a significant effect on future financial statements.

- **Near-term challenges.** In the meantime, the FASB has issued a few pronouncements that can present challenges for companies with convertible, participating or equity-linked securities as summarized below.

– *Convertible debt.* The accounting for cash-settled convertible debt has changed under FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion." Under prior accounting guidelines, these instruments were accounted for entirely as debt and the interest expense was based on the stated value of the instrument (even though a comparable instrument without the convertible feature would need to offer a much greater yield). FSP APB 14-1 levels the playing field by requiring that these convertible debt instruments be split into debt and equity components based on the value of comparable debt without the convertible feature. In effect, this means companies with these instruments will need to record more interest expense, making cash-settled convertibles less attractive from an accounting standpoint. Further, the accounting changes will need to be applied retrospectively, which can add to financial reporting burdens for the first quarter. This accounting change does not affect traditional types of convertible debt that are not settled in cash upon conversion.

– *Participating securities.* FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," can have the effect of reducing earnings per share (EPS), and it must be applied retrospectively. This FSP clarifies the conditions under which instruments granted in share-based payment transactions can meet the definition of participating securities prior to vesting. Specifically, an award can meet this definition prior to the requisite service having been rendered if it contains *nonforfeitable* rights to dividends or dividend equivalents. Instruments that meet this definition need to be included in the earnings allocation under the two-class method of computing EPS.

– *Equity-linked securities.* EITF Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock," was issued to help companies determine whether an equity-linked security is required to be classified as an asset or liability and marked to market through earnings. This guidance will result in fewer instruments

being classified as equity and more being classified as derivatives and as liabilities. In particular, this guidance may require reclassification of common stock warrants and convertible debt instruments with settlement provisions, such as certain "anti-dilution" or "price protection" provisions that protect the investor from subsequent share price declines.

9. Accounting Standards Codification and 2009 XBRL Taxonomy

During 2009, the FASB expects to issue the Accounting Standards Codification, and the SEC expects to issue the 2009 XBRL taxonomy. Both could bring new challenges for companies.

Codification

The target date is July 1, 2009, for the FASB's approval of the Accounting Standards Codification as the single source of authoritative US accounting and reporting standards. At that time the Codification will supersede all the non-SEC accounting and reporting standards.

The expected protocol for conversion to and use of the Codification is as follows:

- All guidance in the Codification will have the same authority, and any non-SEC literature not in the Codification will be viewed as nonauthoritative. To implement these changes, the FASB has issued proposed amendments to recently issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*.
- The FASB expects to maintain a free website version of the Codification, as well as a print edition.
- After the Codification is live, the FASB plans to continue to issue new standards as a way to provide background information, such as the basis for conclusions, and a way to update the Codification.

The Codification does not change GAAP, but it does change the references to individual accounting requirements. In anticipation of the transition, preparers may wish to begin to convert the references in their filings and internal accounting manuals to the new Codification format. The Codification can be previewed at http://asc.fasb.org.

It is not clear at this time how the Codification will fit into the FASB's plans to converge US GAAP with IFRS in 2011. The Board has indicated they are looking into this and other practical considerations of switching over to the Codification.

2009 US GAAP taxonomy

On January 30, 2009, the SEC issued a final rule making XBRL reporting a reality for public companies - both U.S. and foreign private issuers.

For public companies, interactive data financial reporting will occur on a phased-in schedule beginning in 2009.

- The largest companies who file using U.S. GAAP with a public float above $5 billion will be required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2009. This will cover approximately 500 companies.
- The remaining companies who file using U.S. GAAP will be required to file with interactive data on a phased-in schedule over the next two years.
- Companies reporting in IFRS issued by the International Accounting Standards Board will be required to provide their interactive data reports starting with fiscal years ending on or after June 15, 2011.

Importantly, companies will be able to adopt interactive data earlier than their required start date, and they may provide interactive data at their discretion until required by the SEC. Many will want to get some early experience with this new reporting now that the SEC has eased the legal liability requirements.

Many companies will want to get some early experience with XBRL.

To comply with the XBRL reporting requirement, companies will need to apply the 2009 US GAAP taxonomy which is expected to be released in the second quarter of the year.

The application of the GAAP taxonomy typically raises questions about which tags are best for the company's financial statement line items and whether the taxonomy needs to be extended by the addition of new tags. This learning process can take time, and companies are advised to get familiar with the taxonomy sooner rather than later.

It is not clear at this time when the taxonomy will be updated to reflect the Codification references. This could be a challenge for companies who fall within the Phase 1 filing group or who opt to comply voluntarily.

The SEC's final rule clarifies that companies may seek voluntary assurance from auditors.

Links to helpful information are available on BDO's website at www.bdo.com/services/assurance/xbrl/links.aspx.

10. An Uncertain Regulatory Environment

Companies may wish to closely monitor the changing regulatory environment following the 2008 Presidential election in the U.S. A trend toward greater regulation and oversight seems clear. But it will take time to sort out the effects on accountants and financial reporting. The influential players will include the SEC, the G-20, and the U.S. Congress.

The SEC's Influence

Newly appointed SEC Chair Mary Schapiro takes the helm amidst proposals for a broad overhaul of the US regulatory system. She will have the challenges of navigating the sea of proposed changes, steering the Commission and its staff in the right direction, and positioning the Commission in the new World Order.

- **Roadmap to IFRS.** One area in which the SEC's decisions could have a significant impact is the future use of international accounting standards by US companies. In November 2008, the SEC released a proposed roadmap with a timeline for moving US public companies to International Financial Reporting Standards (IFRS). The roadmap proposes 2014 as the beginning of a potential mandatory phased-in transition. It also proposes 2011 as a key milestone date when the SEC will reexamine progress to date and determine the final roadmap.

Under the proposed roadmap, the criteria for moving forward would include:

– Improvement in IFRS accounting standards.

– Changes in the governance structure of the IASB that demonstrate it can secure stable financing and function independently.

– An increase in IFRS education and training in the US.

– Improved IFRS capabilities with regard to the use of XBRL.

- **Changing political climate.** The political climate is changing as a result of the credit crisis and economic slowdown, and there is less certainty that the roadmap will proceed along the proposed path. Among other things, critics say that IFRS is in effect a younger version of US GAAP and the world would be better served particularly in a time of crisis by: (a) tried and true US standards, and (b) processes that have weathered such storms in the past and are appropriately integrated with the U.S. regulatory and judicial system. The U.S. system is unusual because it supports sophisticated capital markets in a country where the majority of the population is invested in the markets.

The G-20's Influence

The US is working with other nations in a group known as the Group of 20 (G-20) to deal with the financial crisis and lay foundations for reform on a global level. On November 15, 2008, former U.S. President Bush met with world leaders in Washington DC, and the group agreed on an action plan that involves oversight of accounting standards as part of a plan to promote stability in the financial markets.

- **G-20's Action Plan.** The plan calls for accounting standard-setters to accomplish the following actions by March 31, 2009:

– Enhance guidance for valuation of securities, taking into account the valuation of complex, illiquid products, especially during times of stress.

– Address weaknesses in accounting and disclosure standards for off-balance sheet vehicles.

– Work with regulators to enhance the required disclosure of complex financial instruments by firms to market participants.

It also calls for the following medium-term actions:

– Work intensively toward the objective of creating a single high-quality global standard.

– Work with regulators, supervisors, and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.

Congressional Hearings

The FASB has been working with the IASB on a coordinated response to the credit crisis. But Congressional hearings in March 2009 and the introduction of several bills intended to increase the level of oversight over the FASB's actions seem to indicate that US lawmakers are not satisfied with the progress being made in this regard. It is not clear at this time what role the current U.S. Administration will play in the G-20 or what positions will be taken. If supported by the U.S., the G-20's pacts and actions plans seem to have the potential to greatly influence the pace and direction of US accounting standards.

Future *Financial Reporting* letters and Client Advisories will provide updates as the year progress.

The G-20's plan is available at www.g20.org/Documents/g20_summit_declaration.pdf
and http://georgewbush-whitehouse.archives.gov/news/releases/2008/11/20081115-1.html .

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Recent Accounting Pronouncements

Adding to the challenges of reporting amidst economic and financial crises, a new wave of accounting standards is scheduled to take effect in 2009.

This section contains summaries of FASB Statements and Interpretations that: (a) were issued in 2008 or the first quarter of 2009, or (b) were issued before April 1, 2009 and are effective for periods beginning after Nov.15, 2008 or later.

FASB Statements

FASB Statement No. 163 Accounting for Financial Guarantee Insurance Contracts

In May 2008, the FASB released Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts*. This Statement addresses the accounting for financial guarantee insurance contracts issued by insurance companies. Examples of the types of financial obligations that may be covered by financial guarantee contracts include municipal bonds and asset-backed securities.

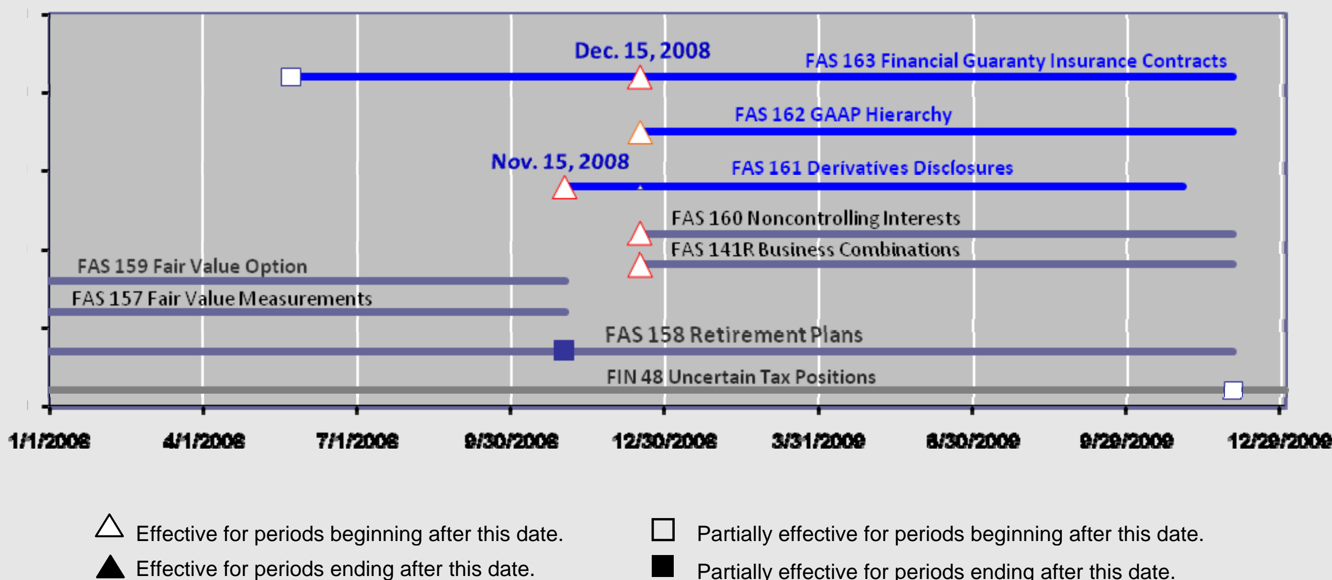
The requirements of Statement 163 make significant changes in the way insurance companies account for premium revenue and claim liabilities.

Exhibit 1

Effective Dates at a Glance

Timelines for FASB Statements and Interpretations

The FASB issued three new Statements of Accounting Standards in 2008. Statements 161, 162, and 163 are all fully effective for calendar year 2009 financial statements.



As shown in Exhibit 1, Statement 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all interim periods within those years. Some disclosures took effect for third quarter 2008.

FASB Statement No. 162 The Hierarchy of Generally Accepted Accounting Principles

The FASB issued Statement No. 162, The *Hierarchy of Generally Accepted Accounting Principles,* in May 2008. This Statement redefines the framework for ranking the sources of generally accepted accounting principles in order of authority (i.e., the GAAP hierarchy), and it moves the hierarchy from the U.S. auditing literature to the accounting literature.

The hierarchy established by Statement 162 consists of the following sources, ranked in order of authority from the most authoritative to the least authoritative sources:

– FASB Statements of Financial Accounting Standards and Interpretations, FASB Statement 133 Implementation Issues, FASB Staff Positions, and American Institute of Certified Public Accountants (AICPA) Accounting Research Bulletins and Accounting Principles Board Opinions that are not superseded by actions of the FASB.

– FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position. (Cleared means the FASB does not object to issuance.)

– AICPA Accounting Standards Executive Committee Practice Bulletins that have been cleared by the FASB, consensus positions of the FASB's Emerging Issues Task Force (EITF), and the Topics discussed in Appendix D of *EITF Abstracts.*

– Implementation guides (Q&As) published by the FASB staff, AICPA Accounting Interpretations, AICPA Industry Audit and Accounting Guides and Statements of Position not cleared by the FASB, and practices that are widely recognized and prevalent either generally or in the industry.

Although not specifically mentioned in the hierarchy, SEC rules and interpretive releases are considered sources of category (*a*) accounting principles for SEC registrants. The SEC staff issue Staff Accounting Bulletins (SABs) that represent practices followed by the staff in administering SEC disclosure requirements, and they use EITF Appendix D Topics and Observer comments in EITF Issues to publicly announce their views on certain accounting issues for SEC registrants. In addition to the SEC staff, the FASB staff have used EITF D Topics to publicly announce their views on certain accounting issues. Both the SEC staff and the FASB staff announcements are considered category (*c*) accounting principles.

The FASB does not expect that Statement 162 will result in a change in current practice. But transition provisions are provided as a contingency for unexpected circumstances. The Statement was effective 60 days after the SEC's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." As indicated on Exhibit 1, the SEC approved the amendments on September 16, 2008.

FASB Statement No. 161 Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued Statement 161, *Disclosures about Derivative Instruments and Hedging Activities* to help investors cut through the complexities and better understand the effects of certain derivative instruments on a company's financial position, results of operations and cash flows. These disclosures are extensive and are required for interim or annual periods beginning after November 15, 2008. Some of the more significant include:

– Additional information about the qualitative disclosures, (i.e., the objectives for holding or issuing derivatives, the context needed to understand those objectives, and the strategies employed to achieve the objectives). These disclosures now should be distinguished by each instrument's primary underlying risk exposure, (e.g. foreign exchange rate, interest rate, credit, interest rate and foreign exchange rate, or overall price). In addition, derivatives not designated as hedges under Statement 133 should be broken out between those used for risk management purposes and those used for other purposes. Finally, an entity should disclose information about the volume of its derivatives activity.

– A table showing the location and fair value amounts of derivative instruments reported in the balance sheet. The fair value amounts should be separately disclosed for derivatives that qualify as hedges under Statement 133 and those that do not, and within each of those two broad categories further segregated by type of contract (e.g., foreign exchange contracts, interest rate contracts, equity contracts, commodity contracts, or credit contracts).

– A table showing the location and amount of gains and losses

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reported in the income statement (including other comprehensive income, or OCI). Gains and losses should be presented separately for derivatives that qualify as fair value hedges and the related hedged items, that qualify as cash flow and net investment hedges, and that do not qualify for hedge accounting. The gains and losses on qualifying cash flow and net investment hedges should be further divided into the effective portion of gains and losses that is recorded in OCI, the amount reclassified from accumulated OCI to income, the amount of ineffectiveness, and the amount excluded from the assessment of effectiveness. This information about gains and losses should be further segregated by type of contract, like the balance sheet amounts in the preceding bullet point.

– An explanation of the existence and nature of any contingent contractual features related to credit risk, including the circumstances in which those features could be triggered in derivative instruments that are in a net liability position at the end of the reporting period, and the fair value of those instruments. The amount of collateral already posted at the end of the reporting period and the additional amounts that would need to be posted as collateral or that would be necessary to settle the instruments, if the contingent features had been triggered at the end of the reporting period.

In addition, Statement 161 amends FASB Statement No. 107, *Disclosure about Fair Value of Financial Instruments*, to make it explicit that the disclosures of concentrations of credit risk should include derivative instruments.

As shown on Exhibit 1, these disclosures are required for interim or annual periods beginning after November 15, 2008.

FASB Statement No. 141 (revised 2007), Business Combinations

In December 2007, the FASB issued Statement 141R, *Business Combinations*. This Statement makes significant changes to the accounting for mergers and acquisitions.

Key areas of change include the definitions of an acquirer and the acquisition date, along with the initial and subsequent accounting by the acquirer for certain items acquired in the business combination and the accounting for goodwill and gains resulting from bargain purchases, as well as amendments to other accounting guidance.

- **Definitions.** The Statement defines the acquirer as the entity that obtains control of one or more business in the business combination, and it establishes the acquisition date as the date that the acquirer achieves control.

- **Initial accounting.** The accounting requirements for acquirers are revised as follows:

– The acquirer must recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement.

– In a business combination achieved in stages (sometimes referred to as a *step acquisition*), the acquirer must recognize the identifiable assets and liabilities as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with the Statement).

– The acquirer must recognize contingent consideration arrangements as of the acquisition date, measured at their acquisition-date fair values.

– *Goodwill and bargain purchases.* Statement 141R changes the requirements for recognition and measurement of goodwill and gains from bargain purchases as follows:

– The acquirer is required to recognize goodwill as of the acquisition date, measured as a residual, which in most types of business combinations will result in measuring goodwill as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired.

– A bargain purchase is defined as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, and requires the acquirer to recognize that excess in earnings as a gain attributable to the acquisition.

In April 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," that generally restores the prior accounting from FASB Statement No. 141 for these items.

Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The effective date of this Statement is the same as that of the related FASB Statement No. 160,

Noncontrolling Interests in Consolidated Financial Statements.

FASB Statement No. 160 Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB released Statement 160, *Noncontrolling Interests in Consolidated Financial Statements*. This Statement was issued concurrently with Statement 141R, *Business Combinations*.

Statement 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. The changes introduced by Statement 160 will affect two types of entities: (1) those with an outstanding noncontrolling interest in one or more subsidiaries and (2) those that deconsolidate a subsidiary.

Statement 160 requires parent companies to:

– Report a noncontrolling interest in a subsidiary as equity in the consolidated financial statements.

– Report consolidated net income at amounts that include the amounts attributable to both the parent and the noncontrolling interest.

– Disclose on the face of the consolidated statement of income the amounts of consolidated net income attributable to the parent and to the noncontrolling interest.

– Account for changes in an ownership interest in a subsidiary that do not result in deconsolidation as equity transactions if the parent retains its controlling financial interest in the subsidiary

– Recognize a gain or loss in net income when a subsidiary is deconsolidated, including both the portion sold and the portion, if any, retained.

– Make expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the non-controlling owners of a subsidiary.

The expanded disclosures include a reconciliation of the beginning and ending balances of the equity attributable to the parent and the noncontrolling owners and a schedule showing the effects of changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent.

BDO has published a separate *Client Advisory* on Statements 141R and 160. The advisory is dated January 31, 2008, and is available at www.bdo.com/download.aspx?id=725.

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FASB Statement No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued Statement 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.*

Statement 158 requires that companies with single-employer defined benefit pension plans or other postretirement benefit plans recognize the funded status of their plans as a net asset or net liability. Prior to Statement 158, these amounts were reported in the footnotes to the financial statements. It also introduces added disclosure requirements.

The funded status is one of the most important pieces of information about retirement plans. It represents the difference between the fair value of a plan's assets and its benefit obligation. Under the preceding balance sheet guidance in FASB Statements (No. 87 for defined benefit pension plans and No. 106 for other postretirement benefit plans), the prepaid asset or accrued liability on the balance sheet represented the cumulative difference between the expense under generally accepted accounting principles and the cash disbursements for funding a plan or paying benefits.

Because of the way expense was computed under Statements 87 and 106, the difference between the funded status and the amount on the balance sheet is made up of three items that may seem difficult to understand and less important than the funded status. The three items are:

– Unrecognized (deferred) gains and losses from experience different from assumptions and from changes in assumptions.

– Unrecognized prior service cost from plan amendments that give participants retroactive credit for prior years of employee service.

– Unrecognized transition amounts from the adoption of Statement 87 or 106.

Statement 158 requires that these three items be shown instead on the balance sheet as adjustments to shareholders' equity. A summary of the other key provisions and requirements of Statement 158 is provided in Table 1.

Subsequent Guidance

In February 2007, the FASB issued FSP FAS 158-1, Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides. This FSP is effective as of the effective date of Statement 158. It does not change any provisions of Statement 158 or provide any additional implementation guidance. However, it updates the illustrations in the appendices of Statements 87, 88, and 106 to conform with the requirements of Statement 158 to recognize the funded status of defined benefit postretirement plans in an employer's balance sheet. It also amends and supersedes the following Special Reports.

– "A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions."

– "A Guide to Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits."

– "A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions."

Portions with Delayed Effective Dates

For employers without publicly traded equity securities, the requirement to recognize the funded status of a benefit plan and the disclosure requirements took effect in calendar year 2007.

The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position (paragraphs 5, 6, and 9) is effective for fiscal years ending after December 15, 2008.

Statement No. 157 Fair Value Measurements

FASB Statement No. 157, *Fair Value Measurements,* was issued in September 2006. Both before and after the Statement was issued, the use of fair value in financial statements has fostered much controversy over the why's, how's and what's of its use. Statement 157 introduced a major change in mindset about how to measure fair value. This change has had far-reaching effects because it crosses many areas of accounting and financial reporting for which accounting standards permit or require fair value accounting.

Statement 157 does not extend the use of fair value to additional assets or liabilities beyond those required or permitted under other existing accounting standards. Examples of assets and liabilities for which measurement at fair value is currently required (or permitted) include the following:

– Investment securities accounted for under FASB Statement No. 115.
– Certain assets and liabilities acquired in a business combination.
– Impaired assets, (e.g., those accounted for under FASB Statement No. 144).

Items not covered include share-based payment transactions and revenue recognition transactions that are measured based on vendor-specific objective evidence of fair value.

At the core of the new mindset is a uniform definition of fair value as the amount that would be received upon selling an asset or paid to transfer a liability (an exit price). Within this definition, there are gradations of subjectivity and reliability. To help investors identify the level of subjectivity, Statement 157 requires that companies categorize fair value measurements according to a hierarchy of inputs. The three tiers are:

– *Level 1*. The top level includes observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

– *Level 2.* The middle level includes inputs other than those in level 1 that reflect observable market data.

– *Level 3.* The bottom level includes unobservable inputs, such as a company's own data.

The Statement uses these levels as the basis for added disclosures about the reliability of fair value measures. It also introduces and redefines a number of key terms and adds a hierarchy of inputs to fair value measurement. This guidance forms the basis for the new disclosures about the reliability of the measures.

The key terms include fair value, market participants, orderly transaction, and measurement date.

– *Fair value.* Statement 157 defines fair value as "…the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Note that fair value is measured based on an "exit value" perspective—how much would be received from selling an asset or how much would be paid to settle a liability.

– *Orderly transaction*. An orderly transaction reflects the market conditions in place at the measurement date. It excludes forced sales, liquidation transactions, and distress sales.

– *Market participants.* The market participants are buyers and sellers in the principal (or the most advantageous) market for the asset or liability. The participants need to be knowledgeable parties who are willing and able to contract and who are not related parties.

– *Measurement date.* The measurement dates are set by the existing accounting standards that require or permit the use of fair values. Currently, there are more than 40 standards of this type.

The new definition of fair value has some surprising effects on measurement, in particular immediate gains and losses on certain transactions. Under an "exit value" approach, fair value excludes transaction costs, so for assets measured at fair value, transaction costs are generally charged to expense as incurred rather than added to the asset. On the other side, a dealer in derivatives might enter into a derivative with a corporate customer based on pricing in the "retail" market and be able to receive a fee from assigning the derivative to another dealer in the dealer ("wholesale") market. Under certain circumstances, the dealer could record an immediate gain from adjusting the derivative to the price at which it could be settled with another dealer.

Subsequent Guidance

As companies began to prepare to apply this new standard, a number of implementation issues surfaced, leading to subsequent deferrals and amendments that scale back the scope of the standard and partially defer its effective date.

The FASB provided the following guidance and deferrals in 2007 and early 2008:

– The paragraph 32 disclosures are not required for pension and other postretirement plan assets in employers' financial statements. (Source: November 14, 2007 FASB Board meeting minutes.)

– Leasing transactions covered by FASB Statement No. 13, *Accounting for Leases,* are excluded from the scope of Statement 157. (Source: FSP FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13.")

– The effective date is deferred by one year for nonfinancial assets and liabilities that are not recognized or disclosed on a recurring basis, such as the assets and liabilities acquired in a business combination. (Source: FSP FAS 157-2, "Effective Date of FASB Statement No. 157.")

On September 30, 2008, in response to the deepening credit crisis, the SEC staff and FASB staff released an announcement acknowledging that the current environment has made questions surrounding the determination of fair value particularly challenging for preparers, auditors, and users of financial information. In response, the two bodies issued a series of questions and answers (Q&As) designed to address practice issues where there is a need for immediate additional guidance.

The Q&As include the following:

– Can management's internal assumptions (e.g., expected cash flows) be used to measure fair value when relevant market evidence does not exist?

– How should the use of "market" quotes (e.g., broker quotes or information from a pricing

service) be considered when assessing the mix of information available to measure fair value?

– Are transactions that are determined to be disorderly representative of fair value? When is a distressed (disorderly) sale indicative of fair value?

– Can transactions in an inactive market affect fair value measurements?

– What factors should be considered in determining whether an investment is other than-temporarily impaired?

The Q&As were intended as a source of immediate guidance until the FASB could issue additional interpretive guidance on the application of fair value. The announcement concludes by emphasizing that fair value measurements and the assessment of impairment may require significant judgments. As a result, clear and transparent disclosures are critical to providing investors with an understanding of the judgments made by management. In addition to the disclosures required under existing U.S. GAAP, including Statement 157, the SEC's Division of Corporation Finance recently issued letters in March and September to provide real-time guidance for issuers to consider in enhancing the transparency of fair value measurements to investors.

The Q&As are available at http://www.fasb.org/news/2008-FairValue.pdf). The letters are available at http://www.sec.gov/divisions/corpfin/guidance/fairvalueltr0308.htm and http://www.sec.gov/divisions/corpfin/guidance/fairvalueltr0908.htm

The FASB issued the additional guidance in October 2008 as FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active." This FSP stresses the need for judgment and describes the key considerations in measuring the fair value of a financial asset when there is little or no market activity at the measurement date. The expectation is that the guidance will reduce the differences in opinion that have developed in the face of financial markets described as inactive, disorderly, dislocated and/or dysfunctional. It also provides interpretive guidance on consideration of observable transaction prices, acceptability of Level 3 inputs, and consideration of third-party pricing quotes.

In addition, in early 2008, the FASB had proposed changes to address concerns about the measurement of a liability in the absence of any observable markets or inputs. (Proposed FSP FAS 157-c, "Measuring Liabilities Under FASB Statement No. 157.")

Despite the added guidance, the use of fair values remains a work in progress as it continues to stir controversy and to result in reporting challenges, particularly in inactive markets.

– On December 30, 2008 the SEC staff issued the results of the Congressionally mandated study on mark-to-market accounting. Among other things, the study recommends that improvements could be made to the fair value standards. The areas for improvement include accounting for impairments, fair value measurements in inactive markets, further analysis of the utility of incorporating credit risk in fair value measurements of liabilities, and presentation and disclosures.

– In 2009, legislation was introduced in the US Congress to suspend the use of fair value. Amidst the continuing controversy, in April 2009 the FASB issued additional interpretive guidance on fair value accounting and other-than-temporary impairment in FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2.

The current status is that Statement 157 is effective for fiscal years beginning after November 15, 2007, (i.e., 2008 for calendar year companies). The effective date of Statement 157 was deferred for one year for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis, such as those acquired in a business combination. The Statement takes effect for these types of assets and liabilities for fiscal years beginning after Nov. 15, 2008. (See FSP FAS 157-2, "Effective Date of FASB Statement No. 157" as discussed above.)

For more information, please our letter on *Fair Value Measurements* at http://www.bdo.com/download.aspx?id=261

FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

FASB Interpretation 48 defines a tax position as any position taken (or not taken) in a tax return (either previously filed or future) that affects the accounting for income tax assets and liabilities (either current or deferred).

Prior to the issuance of Interpretation 48, there was diversity in the way companies accounted for uncertain tax positions. Interpretation 48 (known as FIN 48) brings more consistency. It requires that companies recognize the benefit of a tax position only if it is "more likely than not" that the position will be sustained in a determination

based solely on the technical merits of the position by a taxing authority with full knowledge of all relevant information.

FIN 48 also introduces added disclosure requirements.

Effective Date and Subsequent Guidance

For public companies, the Interpretation is effective for years beginning after December 15, 2006. For nonpublic companies, the Interpretation is effective for years beginning after December 15, 2008, with early adoption permitted.

Subsequent to the issuance of Interpretation 48 the FASB issued several FSPs related to the standard:

- **FSP FIN 48-1**

In June 2006, the FASB released FSP FIN 48-1, "Definition of *Settlement* in FASB Interpretation No. 48." This FSP replaces the original FIN 48 term "ultimately settled" with the new term "effectively settled" and clarifies its meaning. The FSP provides three conditions that should be met for a tax position to be considered effectively settled with the taxing authority:

1. The taxing authority has completed its examination procedures, including all appeals and administrative reviews that the taxing authority is required and expected to perform for the tax position.
2. The company does not intend to appeal or litigate any aspect of the tax position included in the completed examination.
3. The likelihood is remote that the taxing authority would examine or reexamine any aspect of the tax position.

In addition, the FSP reminds companies that if a taxing authority completes an exam and fails to identify an uncertain tax position in that year's tax return, the potential settlement of the tax position for that tax year provides no new evidence about the technical merits of similar tax positions in other years' tax returns.

This guidance is effective upon initial adoption of FIN 48.

- **FSP FIN 48-2**

In February 2008, the FASB released FSP FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." This FSP deferred the effective date of Interpretation 48 for nearly all standalone nonpublic companies until annual periods beginning after December 15, 2007.

FSP FIN 48-2 was effective upon issuance, and the effective date of Interpretation 48 was further extended by FSP FIN 48-3.

- **FSP FIN 48-3**

In December, 2008, the FASB released FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," This FSP delays the effective date of Interpretation 48 for nonpublic companies within its scope to annual financial statements for fiscal years beginning after December 15, 2008. The scope excludes nonpublic companies that are consolidated entities of a public company that applies US GAAP and those that have issued a full set of annual financial statements before the issuance of the FSP using the recognition, measurement, and disclosure requirements of Interpretation 48.

Companies that elect to take the deferral made available by the FSP must disclose this fact and their accounting policies for evaluating uncertain tax positions for each set of financial statements to which the deferral applies. The intent of the deferral is to give the FASB time to develop additional guidance on the application of the Interpretation to pass-through entities and not-for-profit organizations.

Once effective, Interpretation 48 should be applied as of the beginning of the nonpublic company's fiscal year. This includes the application of the Interpretation to acquired income tax positions in Statement 141, *Business Combinations*.

EITF Issues and Topics

This section contains summaries of EITF Issues and Topics that: (a) were issued in 2008 or the first quarter of 2009, or (b) are effective for periods beginning after December 15, 2008 or later, and (c) are not discussed elsewhere in this *Financial Reporting* letter.

Issue No. 07-1, "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option"

This Issue addresses the accounting for arrangements in which entities seek partners to jointly develop and commercialize intellectual property. Such collaborative arrangements are common in the biotechnology and pharmaceutical industries and also exist in other industries, such as the motion picture, software, and computer hardware industries.

Included in the scope of this Issue are collaborative arrangements that are conducted without the creation of a separate legal entity for the arrangement. For these types of arrangements:

– The results of third-party transactions, (that is, revenue generated and costs incurred by participants from transactions with parties outside of the collaborative arrangement), should be reported gross or net on the appropriate line item in each participant's respective financial statements pursuant to the guidance in Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent."

– The equity method of accounting under APB Opinion 18, *The Equity Method of Accounting for Investments in Common Stock*, should not be applied to an arrangement that is conducted by the participants without the creation of a separate legal entity for the arrangement.

The Issue also establishes annual disclosure requirements regarding such matters as the nature and purpose of a company's collaborative arrangements, its rights and obligations under these arrangements, and the stage of the life cycle of the underlying endeavor, as well as information about income statement classification and amounts attributable to transactions between participants to the collaborative arrangement.

Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128, *Earnings per Share*, to Master Limited Partnerships"

This Issue addresses questions that arise when calculating earnings per share (EPS) for master limited partnerships (MLPs) using the two-class method. The two class method is a formula for allocating earnings. Under this formula, EPS are determined for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings.

Today's publicly traded MLPs often issue multiple classes of securities that may participate in partnership distributions according to a formula specified in the partnership agreement. Typically, the capital structure for an MLP consists of publicly-traded units held by limited partners, a general partner interest, and incentive distribution rights (IDRs).

A key issue is how the current period earnings of an MLP should be allocated to the general partner, limited partners, and, when applicable, holders of IDRs.

Issue 07-4 establishes these principles:

– Undistributed earnings should be allocated to the general partner, limited partners and any holders of IDRs using the contractual terms of the partnership agreement.

– When cash distributions are in excess of current-period earnings, net income (or loss) should be reduced (or increased) by distributions to the general partner, limited partners, and holders of IDRs. The resulting excess of distributions over earnings is allocated to the general partner and limited partners based on their respective sharing of losses (that is, the provisions for allocation of losses to the partners' capital accounts) specified in the partnership agreement.

EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"

This Issue addresses questions that can arise when determining whether an instrument (or an embedded feature) is indexed to an entity's own stock. This determination is important because it is one of several conditions that, when taken together, could result in a conclusion that an instrument or embedded feature is not a derivative. As compared to prior guidance, the consensus on Issue 07-5 will result in fewer instruments being classified as equity and more being classified as derivatives and as liabilities.

The Issue establishes that certain types of instruments are not considered indexed to the entity's own shares, (i.e., instruments with a strike price denominated in a currency other than the issuer's functional currency and market-based employee option valuation instruments, such as ESOARS.)

For other types of instruments, the EITF reached a consensus that entities should apply a two-step approach for determining whether the instrument or embedded feature is indexed to an entity's own stock.

- *Step 1*. Evaluate the instrument's contingent exercise provisions, if any. When conducting this step, companies should look to the guidance in EITF Issue 01-6, "The Meaning of 'Indexed to a Company's Own Stock.'" This guidance provides conditions under which contingent exercise provisions preclude an instrument or embedded feature from being indexed to an entity's own stock. If this step does not indicate any precluding factors, then the analysis would proceed to Step 2.

- *Step 2*. Evaluate the instrument's settlement provisions taking into account several tests explained in the Issue. If the instrument's settlement provisions incorporate certain inputs or contain features such as leverage factors, then the instrument would not be considered indexed to the entity's own shares. For example, if an instrument has any of the following features that result in a settlement price reset, the instrument will fail the second test of step 2 and will not be considered indexed to the company's own stock:

  – Settlement price resets for a decline in the stock price not directly linked to a specific action by the company.

  – Settlement price resets as a result of company sale of common stock at a lower price (that is equal to fair value at the time of sale).

  – Settlement price resets as a result of company failure to meet a revenue milestone.

Issue No. 08-3, "Accounting by Lessees for Maintenance Deposits Under Lease Arrangements"

This Issue addresses the accounting for certain lease arrangements that require the lessee to pay maintenance deposits to ensure that it properly maintains the leased asset. The maintenance deposits in the scope of this Issue are refunded to the lessee if the specified maintenance activities are performed.

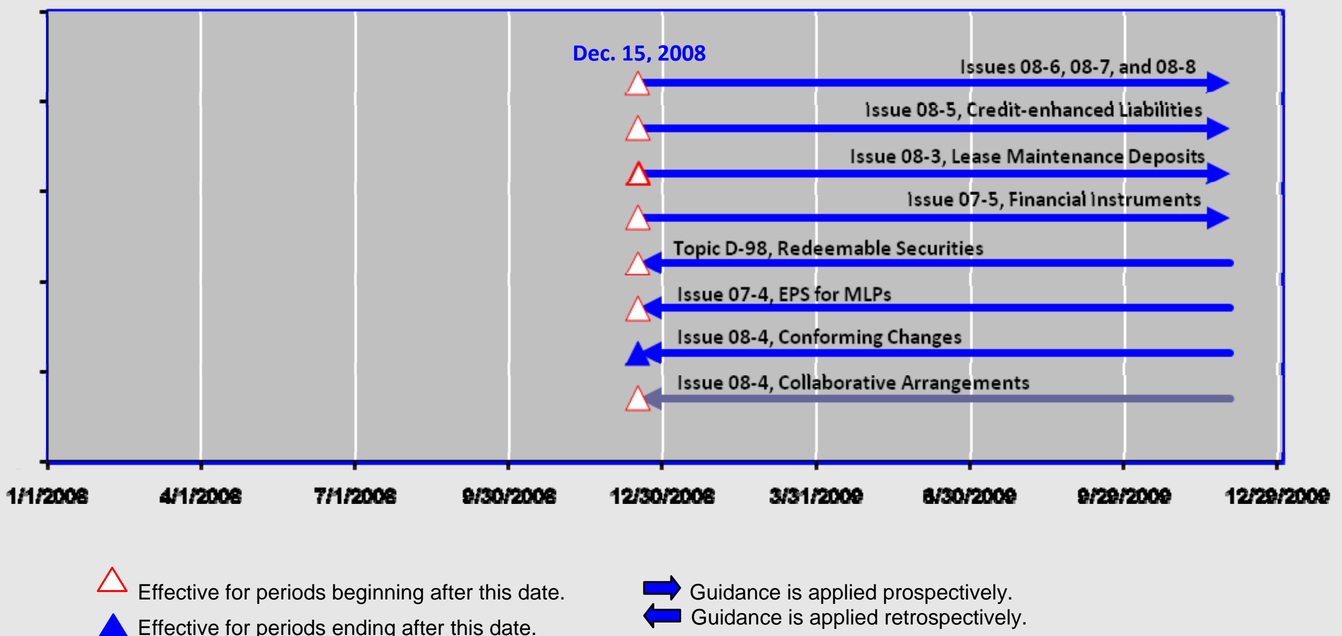
The consensus reached by the EITF indicates that maintenance deposits in the scope of this Issue should be accounted for as a deposit asset. When the underlying maintenance is performed, the costs should be expensed or capitalized consistent with the lessee's maintenance accounting policy.

Exhibit 3

Effective Dates at a Glance

Timelines for EITF Issues and Topics

This chart shows the effective dates for EITF Issues and Topics finalized in 2008. Please refer to the accompanying text for the exact titles. Issues 08-6, 08-7 and 08-8 are discussed in the section on statements and interpretations.



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Any amounts on deposit that are less than probable of being returned should be recognized as additional expense.

Issue No. 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5"

This Issue amends EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" for changes made by EITF Issue No. 00-27, " Application of Issue No. 98-5 to Certain Convertible Instruments," and FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*.

While Issue 00-27 and Statement 150 were issued several years ago, Issue 98-5 was never updated to reflect the effect of those two standards and some entities continued to apply the superseded guidance in Issue 98-5.

Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement"

This Issue addresses questions about how to measure the fair value of debt instruments with inseparable third-party credit enhancements. For example, a company may issue debt with a contractual guarantee by a third party to meet the payment obligations of the issuer, if the issuer defaults. These guarantees are typically purchased by the issuer who then combines them with the debt and issues the combined securities to investors.

At issue is whether the fair value of the instrument should take into account the third-party credit enhancement – or if it should consider only the issuer's risk of non-performance.

Issue 08-5 establishes the following guidance:

– The unit of accounting for the debt does not include the third-party credit enhancement, and the issuer of a liability with an inseparable third-party credit enhancement should not include the effect of the third-party credit enhancement in the fair value measurement of the liability.

– An entity that has an outstanding liability within the scope of Issue 08-5 should disclose the existence of the credit enhancement.

– This Issue does not apply to credit enhancements provided by the government or governmental agencies, (e.g., deposit insurance).

Issue No. 08-6, "Equity Method Investment Accounting Considerations"

This Issue addresses questions about the accounting for equity method investments. The questions arose following the issuance in 2007 of FASB Statements No. 141R, *Business Combinations*, and No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*.

Statements 141R and 160 do not directly address the accounting for equity method investments, but questions arose because the standards amended, (i.e., Statement 141 and ARB 51), contained certain provisions that were used in applying the equity method.

Issue 08-6 provides the following clarifications:

– The initial carrying value of an equity method investment should be measured at cost in accordance with paragraphs D3-D7 of Statement 141R.

– Subsequent to the initial measurement, equity method investors are required to recognize their share of other-than-temporary impairments of equity method investments in accordance with APB Opinion 18. They are not required to do any separate impairment testing of the investee's underlying assets (including its underlying indefinite-lived intangible assets). But they must also consider the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge.

– If the equity method investee issues shares, the equity method investor should account for the issuance as if it had sold a proportionate share of its investment, with the resulting gain or loss recognized in earnings.

– If the equity method investor changes to the cost method, it should continue to apply the guidance in paragraph 19(1) of APB Opinion 18 that addresses such changes.

Issue No. 08-7, "Accounting for Defensive Intangible Assets"

This Issue addresses questions that have arisen in anticipation of the complexities involved in applying Statements 141R and 157, *Fair Value Measurements*, to certain types of intangible assets (known as defensive intangible assets) acquired in a business combination or asset acquisition.

Defensive intangible assets are intangible assets that are not being actively used, but are held to prevent another entity from using them. An example might be a trade name of an acquired entity that the acquirer does not intend to use itself. An asset of this type is defensive because it is a "locked-up" asset. Such an asset is

likely contributing to an increase in the value of other assets owned by the acquiring entity.

Typically, in the past, when a company acquired an asset of this type, it allocated little or no value to the asset. However, this practice will change when Statements 141R and 157 become effective and intangible assets must be recognized at a value that reflects the asset's highest and best use based on market participant assumptions. The new standards have raised questions about how defensive assets should be accounted for subsequent to their acquisition.

Issue 08-7 provides the following guidance:

– A defensive asset should be accounted for as a separate unit of accounting. It should not be included as part of the cost of the acquirer's existing intangible assets because the defensive asset is separately identifiable.

– The useful life of the defensive asset should reflect the period over which the entity consumes the expected benefits of the asset, (i.e., by estimating the period over which the defensive intangible asset will diminish in fair value).

– It would be rare for a defensive asset to have an indefinite life.

– A defensive intangible asset cannot be considered immediately abandoned.

– The scope of this Issue excludes all research and development intangible assets. These assets should be accounted for in accordance with paragraph 16 of Statement 142 as amended by Statement 141R.

Issue No. 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount that is Based on the Stock of an Entity's Consolidated Subsidiary"

This Issue addresses questions that have arisen about the accounting for certain financial instruments following the issuance of Statement 160. At issue are instruments (and embedded features) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary. An example would be warrants to purchase shares of a consolidated subsidiary.

The questions relate to consistency with current guidance. Currently, EITF Issue No. 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary," indicates that instruments issued by an entity based on the equity of one of the entity's consolidated subsidiaries are not equity instruments of the consolidated entity, with the result that they are typically treated as derivatives and recognized at fair value each reporting period.

Some accountants have questioned whether the guidance in Issue 00-6 is consistent with that provided in Statement 160. After the effective date of Statement 160, the noncontrolling interest in a subsidiary's stock will be classified in the equity of the consolidated entity. Therefore, instruments in the scope of Issue 08-8 will no longer be treated as derivatives, provided they are not required to be classified as liabilities, (e.g., under Statement 150 or Issue 00-19.)

Issue 08-8 provides the following clarifications:

– Instruments based on the stock of a subsidiary are not precluded from being considered indexed to the company's own stock in the consolidated financial statements of the parent.

– An equity-classified instrument within the scope of Issue 08-8 generally would be presented as a component of noncontrolling interest in the consolidated financial statements, whether the instrument was entered into by the parent or the subsidiary.

– If an equity-classified instrument within the scope of Issue 08-8 is entered into by the parent and expires unexercised, the carrying amount of that instrument would be reclassified from the noncontrolling interest to the controlling interest.

As a result of these clarifications, certain instruments linked to subsidiary stock that were previously accounted for as derivatives may be included in equity consistent with FASB Statement 160, if they meet other requirements to be classified as equity, such as EITF Issue 00-19, and if the subsidiary is substantive.

Topic No. D-98, "Classification and Measurement of Redeemable Securities"

During 2008, the SEC Observer made several announcements resulting in revisions to Topic D-98. The revisions explain the interaction between the SEC staff's views on the classification and measurement of redeemable securities (codified as EITF Topic D-98) and FASB's releases on noncontrolling interests (Statement 160) and certain convertible debt instruments (FSP APB 14-1).

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(1) Noncontrolling Interests

The SEC staff revised Topic D-98 to conform with FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements.* Statement 160 requires noncontrolling interests in consolidated subsidiaries to be classified and accounted for as equity in the consolidated financial statements. The revisions clarify that Topic D-98 applies to redeemable noncontrolling interests and requires them to be classified outside of permanent equity (temporary equity or mezzanine).

As revised, Topic D-98 provides guidance for situations where classification of an equity security in temporary equity is no longer required, (e.g., when the redemption feature expires or the terms of the security are modified). When this classification is no longer required, the equity security should be reclassified to permanent equity at its carrying amount on the date of reclassification. Reversals of previous adjustments to the carrying amount of the equity security would be inappropriate.

Additionally, the SEC staff revised Topic D-98 to provide guidance on measuring the gain or loss that is recorded when a parent deconsolidates a subsidiary. Previous adjustments to the carrying amount of noncontrolling interests should be eliminated by recording a credit to the parent's equity (because the previous adjustments to the carrying amount were recorded as debits to the parent's equity). This will have the effect of reducing the gain, or increasing the loss, upon deconsolidation. The SEC staff encourages disclosure of the amount credited to equity.

Finally, the SEC staff provided the following guidance for calculating the effect of redeemable noncontrolling interests on earnings per share:

– For noncontrolling interests in the form of preferred shares, if the redemption feature is issued or guaranteed by the parent, the entire adjustment to the carrying amount of the noncontrolling interest reduces (or increases) income available to common shareholders of the parent.

– For noncontrolling interests in the form of preferred shares, if the redemption feature is not issued or guaranteed by the parent, the adjustment to the carrying amount of the noncontrolling interest reduces (or increases) the subsidiary's income available to common shareholders, which then affects parent company earnings per share.

– For noncontrolling interests in the form of common shares redeemable at fair value, the carrying amount should be adjusted each period to the redemption amount, but the adjustments have no effect on earnings per share.

– For noncontrolling interests in the form of common shares redeemable at other than fair value, the adjustments to the carrying amount may adjust: (a) net income attributable to the parent, or (b) income available to common shareholders of the parent.

(2) Convertible Debt

The SEC Observer announced the SEC's views on the interaction between Topic D-98 and the FASB's recent guidance on certain convertible debt provided in FSP APB 14-1, "Accounting for Convertible Debt Instruments that may be settled in Cash upon Conversion (including Partial Cash Settlement)."

If the equity-classified component of the instruments covered by the FSP is considered redeemable, then a portion of it would be classified as temporary equity. That portion is calculated as the excess of: (1) the amount of cash or other assets that would be required to be paid to the holder upon redemption or conversion, over (2) the current carrying amount of the liability-classified component of the convertible debt instrument.

FASB Staff Positions

This section contains summaries of FASB Staff Positions (FSPs) that: (a) were issued in 2008 or the first quarter of 2009, or (b) are effective for periods beginning after December 15, 2008 or later, and (c) are not discussed elsewhere in this *Financial Reporting* letter.

FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)"

The FASB released FSP APB 14-1 on May 9, 2008. This FSP changes the accounting for convertible debt instruments that permit or require the issuer to pay cash upon conversion.

Under the FSP, the issuer will no longer account for the convertible debt entirely as a liability. Instead, the issuer will allocate the proceeds from the issuance of the instrument between liability and equity. The resulting debt discount, (i.e., the difference between the principal amount of the debt and the amount allocated to the liability component), is subsequently amortized to earnings over the instrument's expected life using the interest method, (i.e., the discount is charged to interest expense).

In effect, this accounting treatment eliminates the perceived accounting benefits these instruments have enjoyed compared with similar instruments, namely lower interest expense and a less dilutive effect on earnings per share.

FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"

FSP EITF 03-6-1 was released on June 16, 2008. It clarifies the conditions under which instruments granted in share-based payment transactions can meet the definition of participating securities prior to vesting. Instruments that meet this definition need to be included in the earnings allocation under the two-class method of computing earnings per share (EPS).

Participating securities are defined in FASB Statement No. 128, *Earnings per Share*, as. "...securities that may participate in dividends with common stocks according to a predetermined formula…" The FSP clarifies that a share-based payment award could meet this definition prior to the requisite service having been rendered if it contains nonforfeitable rights to dividends or dividend equivalents. In contrast, awards would not meet the definition of a participating security if the holder will forfeit the rights to dividends or dividend equivalents if the award does not vest.

FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20"

The FASB released FSP EITF 99-20-1 on January 12, 2009. This FSP addresses concerns about losses recorded in illiquid markets by companies with beneficial interests in securitized financial assets subject to EITF Issue 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets."

A key concern is the lack of comparability with the accounting for other instruments. In some cases, companies may have taken impairment losses that would not have been recorded if the securities had been subject to the impairment test in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

This FSP is likely to affect banks more so than other companies.

FSP FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"

FSP FAS No. 117-1 was released on August 6, 2008. It affects not-for-profit organizations. The FSP provides guidance on the net asset classification of donor-restricted endowment funds under the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). It also requires enhanced disclosures by all not-for-profit organizations that have endowments (whether donor restricted or not). These disclosure requirements apply regardless of whether the organization is currently subject to UPMIFA, a model act that has not yet been adopted by all states.

FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets"

FSP FAS 132(R)-1 was released on December 30, 2008. It requires additional disclosures by employers that sponsor defined benefit pension or other postretirement plans. The disclosures provide more information about plan assets, investment decisions, and related risks.

The specific added disclosure requirements include the following:

- Information about how investment allocation decisions are made, including factors that provide an understanding of investment policies and strategies.
- Information about asset categories, including significant concentrations of risk within plan assets.
- Information about the fair value measurements of plan assets, including their levels within the

fair value hierarchy and the effect of fair value measurements using significant unobservable inputs (level 3 measures) on changes in plan assets for the period, (that is, a roll forward of level 3 assets).

FSP FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161"

As the credit crisis deepened in 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees," on September 12, 2008. This FSP requires companies to provide more information about events that will trigger payouts by sellers, and it aligns the requirements for two similar kinds of contracts involving guarantees: (a) contracts that meet the definition of a derivative or embedded derivative, and (b) guarantee contracts that do not meet the definition of a derivative.

The specific disclosure requirements include:

- An indication of the current status of the payment and performance risk associated with credit derivatives and guarantees.
- Descriptions and explanations of events and circumstances that will trigger payments by sellers of derivatives in accordance with contractual requirements.
- Information about the maximum amount of potential future payments, the fair values of the instruments, and any related recourse or collateral provisions that would allow sellers to recover amounts previously paid in connection with credit derivatives.

The FSP also clarifies that the disclosures required by Statement 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008.

FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions"

FSP FAS 140-3 was released on February 20, 2008. It addresses questions that have arisen about the accounting for a repurchase agreement that relates to a repurchase financing.

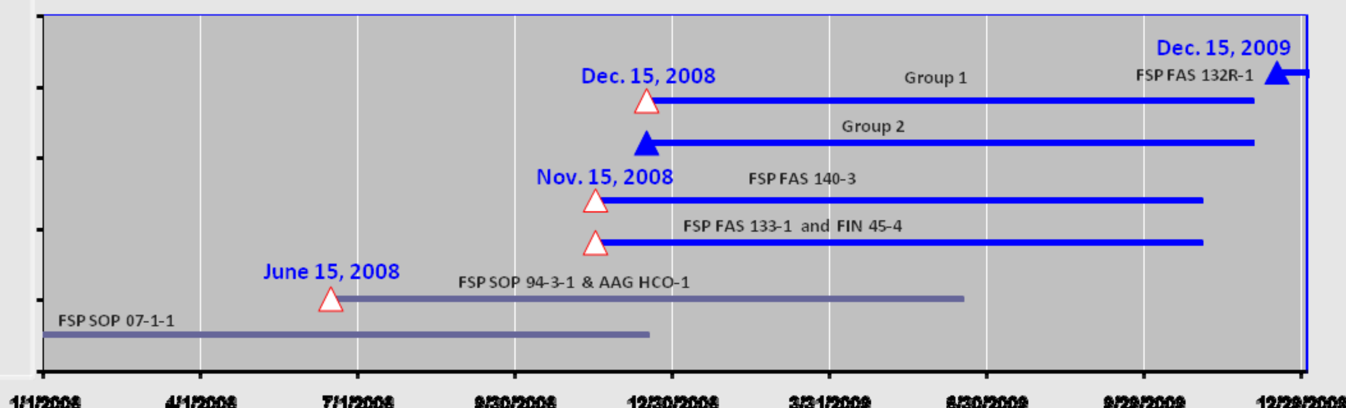
Repurchase financings are repurchase agreements that relate to a previously transferred asset, are between the same counterparties, and are entered into contemporaneously with, or in contemplation of, the initial transfer.

Exhibit 3

Effective Dates at a Glance

Timelines for FASB Staff Positions

This chart illustrates the effective dates for FSPs that are not effective upon issuance, (such as FSP SOP 90-7-1) and that are not discussed in the section of this letter on statements and interpretations.



△ Effective for periods beginning after this date. ▲ Effective for periods ending after this date.

Group 1 = FSP APB 14-1, FSP FAS 142-3, and FSP EITF 03-6-1.

Group 2 = FSP FAS 117-1, FSP FAS 140-4 and FIN 46R-8, and FSP EITF 99-20-1.

For updated timelines throughout the year, see **www.bdo.com/assurance**.

The FSP discusses transactions in which the initial purchase and repurchase agreements are treated separately and others in which the two transactions are linked and may meet the definition of a derivative under FASB Statement 133.

FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities"

FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities," was released on December 11, 2008. It increases the disclosure requirements for public companies.

The full list of requirements is extensive. Among other things, companies must provide information about:

- The assumptions used and judgments made in deciding whether to consolidate a variable interest entity (VIE).
- The nature of any risks associated with the company's involvement in VIEs, including information about events or circumstances that could expose a company to a loss and how the company calculates its maximum exposure to such losses.

FASB Staff Position FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets"

The FASB released FSP FAS 142-3 on April 25, 2008. This FSP revises the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

A key concern involves the useful lives of longer-lived intangible assets with renewal or extension terms, particularly when the terms are not explicit in the arrangement.

The FSP indicates that companies should consider their own historical experience in renewing or extending similar arrangements. If there is no track record, then the company should consider the assumptions that market participants would make about renewal or extension. In either case, the results should be adjusted for certain company-specific factors outlined in Statement 142. The expectation is that this will result in greater consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under Statement 141R, *Business Combinations*.

The FSP also establishes additional disclosure requirements.

FSP SOP 07-1-1, "Effective Date of AICPA Statement of Position 07-1-1"

The FASB issued FSP SOP 07-1-1 on February 14, 2008 to delay the effective date of SOP 07-1 for an indefinite period of time. The purpose of the deferral is to allow more time for the resolution of implementation issues.

The FSP does not affect FSP FIN 46(R)-7, "Application of FASB Interpretation No. 46(R) to Investment Companies." FSP FIN 46(R) is effective only upon initial adoption of SOP 07-1.

FSP SOP 90-7-1. "An Amendment of AICPA Statement of Position 90-7"

The FASB released FSP SOP 90-7 on April 24, 2008 to resolve this conflict in the accounting literature between AICPA Statement of Position (SOP) 90-7-1, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," and the growing number of accounting standards that expressly prohibit early adoption.

The FSP removes the requirement that entities must adopt concurrently with their adoption of fresh start accounting any changes in accounting principles that will be required within the twelve months following their adoption of fresh start accounting.

FSP SOP 94-3-1 and AAG HCO-1, "Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations"

FSP SOP 94-3-1 and AAG HCO-1 was released on May 19, 2008. It makes several changes to the guidance on consolidation and the equity method of accounting in AICPA Statement of Position (SOP) 94-3, "Reporting of Related Entities by Not-for-Profit Organizations," and the AICPA Audit and Accounting Guide, "Health Care Organizations."

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Summaries of Other Technical Resources

In addition to the pronouncements summarized in the preceding pages, other technical resources may be helpful for purposes of financial reporting. Noteworthy resources issued in 2008 and the first quarter of 2009 are summarized below. This section includes documents issued by the Financial Accounting Standards Board (FASB), American Institute of CPAs (AICPA), Center for Audit Quality (CAQ), XBRL US organization, and Governmental Accounting Standards Board (GASB).

FASB Codification

FASB Accounting Standards Codification

The FASB's Accounting Standards Codification is expected to go live on July 1, 2009. The Codification reorganizes the thousands of US GAAP pronouncements into approximately 90 topics. This new online system will supersede the existing collection of FASB Statements, Interpretations, Staff Positions, and Technical Bulletins, APB Opinions, AICPA Statements of Position, EITF consensuses, and related literature and will be recognized as the single source of authoritative nongovernmental U. S. GAAP, (excluding guidance issued by the SEC). While the substantive requirements will be the same, the form and organization will be radically different.

Once the Codification is live, all accounting standards (other than SEC guidance to be included in the content) will be superseded and any accounting literature not included in the Codification will be considered nonauthoritative (with the exception of the SEC and any grandfathered guidance).

To review the Codification, register at **http://asc.fasb.org**.

FASB Convergence

2008 Update of FASB Memorandum of Understanding with IASB

In September 2008, the FASB and the International Accounting Standards Board (IASB) published an update of their 2006 Memorandum of Understanding (MoU). The update provides a progress report on projects completed since 2006, and it sets a goal of completing the Boards' major projects by 2011.

The MoU is based on these principles:

- Convergence of accounting standards can best be achieved through the development of high-quality, common standards over time.
- Trying to eliminate differences between two standards that are in need of significant improvement is not the best use of the FASB's and IASB's resources. Instead, the Boards should focus on the development of new common standards.
- Replacing standards in need of improvement with new jointly developed standards will serve the needs of investors.

The MoU contains a listing and status report of major projects and estimated completion dates. It is available at http://www.fasb.org/intl/MOU_09-11-08.pdf

AICPA Guides

Airlines Audit and Accounting Guide

In December 2008, the AICPA issued a new edition of the "Audit and Accounting Guide for Airlines."

This Guide addresses a number of new transactions and issues that have emerged over the years, including frequent flyer programs, electronic ticketing, revenue breakage, power-by-the-hour maintenance arrangements, amendable labor contracts, and airline intangible assets, just to name a few.

The Guide also includes separate chapters dedicated specifically to air cargo and regional carriers.

AICPA Technical Practice Aids

TIS 1100.15. Liquidity Restrictions

This TPA provides examples of potential accounting implications that may arise as a result of the placement of restrictions by a fund or its trustee on an entity's ability to withdraw funds from a money market fund or other short-term investment vehicle. The accounting implications include a potential change in the balance sheet classification of the assets and the triggering of additional disclosure requirements.

TIS 1900.01 Condensed Interim Financial Reporting by NonIssuers

This TPA states that, in the absence of established accounting principles for form and content in preparing condensed interim financial statements, nonissuers may analogize to the guidance in Article 10 of SEC Regulation S-X. The condensed interim financial statements should include a note saying the financial information should be read in conjunction with the entity's latest annual financial statements, and the latest annual financial statements should either accompany the condensed statements or be made readily available by the entity.

TIS 6300.36. Prospective Unlocking

This TPA states that insurance companies are not permitted to "unlock" certain assumptions made in

FASB Statement 60, *Accounting and Reporting by Insurance Enterprises*, except in the premium deficiency situations described in Statement 60.

In response to a specific question about premium rate increases, the TPA indicates that such increases after the inception of the contract would not be a valid reason to unlock the assumptions**.**

TPA 6910.25-.28. Investment Companies TPAs.

In May 2008, the AICPA issued a series of TPAs related to Investment Companies. The TPA numbers and titles are as follows:

- 6910.25, "Considerations in Evaluating Whether Certain Liabilities Constitute 'Debt' for Purposes of Assessing Whether an Investment Company Must Present a Statement of Cash Flows."
- 6910.26, "Additional Guidance on Determinants of Net Versus Gross Presentation of Security Purchases and Sales/Maturities in the Statement of Cash Flows of a Nonregistered Investment Company."
- 6910.27, "Treatment of Deferred Fees."
- 6910.28, "Reporting Financial Highlights, Net Asset Value (NAV) Per Share, Shares Outstanding, and Share Transactions When Investors in Unitized Nonregistered Funds Are Issued Individual Classes or Series of Shares."

TIS 6910.29. Allocation of Unrealized Gain (Loss), Recognition of Carried Interest, and Clawback Obligation

This TPA deals with financial statements of investment partnerships in which capital is reported by investor class. The TPA indicates that, if a nonregistered investment partnership reports capital by investor class, cumulative unrealized gains (losses), carried interest, and clawback provisions would be reflected in the equity balances of each class of shareholder or partner at the balance sheet date, as if the investment company had realized all assets and settled all liabilities at the fair values reported in the financial statements, and allocated all gains and losses and distributed the net assets to each class of shareholder or partner at the reporting date consistent with the provisions of the partnership's governing documents.

TPA 6995. Credit Unions

TPA 6995.01 addresses accounting questions related to certain actions taken by the National Credit Union System and National Credit Union Share Insurance Fund in January 2009. The actions were taken to stabilize the corporate credit union system. Among other things, these actions involve the assessment of an insurance premium. The TPA considers when and how the obligation for the insurance premium should be recognized for financial reporting purposes.

TPA 6995.02 addresses how a corporate credit union should evaluate its membership capital shares and paid-in capital in the U.S. Central Federal Credit Union for other-than-temporary impairment at December 31, 2008.

Other AICPA Releases

Draft Issues Paper on Valuation of Interests in Alternative Investments

In January 2009, the AICPA's Accounting Standards Executive Committee and the Alternative Investments Task Force issued a nonauthoritative draft Issues Paper on *FASB Statement No. 157, Valuation Considerations for Interests in Alternative Investments*. The paper focuses on issues related to estimating fair value for investments that are not traded in active markets, including how the following should be considered in estimating fair value:

- Net asset values.
- Transactions in principal-to-principal or brokered markets.
- Features of the alternative investment, such as lock-up periods, holdbacks, and the lack of a redemption option.
- Expected future cash flows.

CAQ Alerts

The Center for Audit Quality (CAQ) was created in January 2007 as a policy and information forum to foster confidence in the audit process and to aid investors and the capital markets. The Center is affiliated with the AICPA and issues periodic alerts, some of which are available to the general public. For more information, visit http://thecaq.aicpa.org/.

Highlights of the CAQ's publicly available alerts are summarized below.

CAQ Alert No. 2009-08. Frequent SEC Comment Letter Issues for Smaller Registrants

In January 2009, the CAQ issued an Alert describing aspects of financial reporting that are frequently incorporated in SEC comment letters to smaller registrants. According to the alert, the areas of accounting that are frequent subjects of comment letters include:

- Disclosures, including revenue recognition policy disclosures, compliance with EITF Issue No. 00-21, "Revenue with Multiple Deliverables," and compliance with EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent."

- Business combinations, including classification of transactions as acquisitions of business or assets, purchase price allocations under FASB Statement No. 42, *Goodwill and Other Intangible Assets,* reverse acquisitions and recapitalizations, entities under common control, separate financial statements of an acquired business, and disclosures under Statement 141, *Business Combinations*.
- Fair value determination, and disclosures regarding fair value.
- Embedded conversion options and warrants.

XBRL US

US GAAP Taxonomy

In November 2008, the XBRL US organization released for public comment a draft of the 2009 release of the US GAAP Taxonomy. The first release was issued in April 2008.

XBRL stands for eXtensible Business Reporting Language, a computer format that facilitates a form of reporting the SEC calls interactive data. The US GAAP Taxonomy is intended for use with the SEC requirements for XBRL reporting.

The SEC's final rule, "Interactive Data to Improve Financial Reporting," was released on January 30, 2009 and will take effect in 2009 for certain public companies according to a phased-in schedule.

- The largest companies who file using U.S. GAAP with a public float above $5 billion will be required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2009. This will cover approximately 500 companies.
- The remaining companies who file using U.S. GAAP will be required to file with interactive data on a phased-in schedule over the next two years.
- Companies reporting in IFRS issued by the International Accounting Standards Board will be required to provide their interactive data reports starting with fiscal years ending on or after June 15, 2011.

The US GAAP taxonomy will enable public companies to make quarterly and annual financial reports available in interactive data form instead of text form. This will allow investors and analysts, as well as the companies themselves to more easily locate and analyze desired information. The comment period for the 2009 US GAAP taxonomy ended on January 15, 2009.

GASB Pronouncements

This section contains selected releases of the Governmental Accounting Standards Board (GASB).

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

Statement 43 establishes accounting guidance for OPEB plans that are included as trust funds in the financial reports of plan sponsors or employers, or issued in standalone financial reports.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

Statement 45 provides guidance on how to account for and report the costs and obligations related to postemployment healthcare and other forms of OPEB. The accounting requirements are based on actuarial-determined amounts similar to requirements for pensions. The OPEB cost is generally the actuarial-determined amount that, if paid on an ongoing basis, would provide sufficient resources to pay benefits as they come due.

GASB Statement No. 47, *Accounting for Termination Benefits*

Statement 47 establishes accounting standards for termination benefits. Key points:

- In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for *voluntary* termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated.
- A liability and expense for *involuntary* termination benefits (for example, severance benefits) should be recognized when three conditions are met: (a) a plan of termination has been approved by those with the authority to commit the government to the plan, (b) the plan has been communicated to the employees, and (c) the amount can be estimated.
- In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.
- Healthcare-related termination benefits that are provided as the result of a large-scale, age-related program, (e.g., an early-retirement incentive program that affects a significant portion of employees), should be measured at their discounted present values based on

projected total claims costs (or age-adjusted premiums approximating claims costs) for terminated employees, with consideration given to the expected future healthcare cost trend rate.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*

Statement 49 provides guidance on the accounting for pollution remediation obligations. These are obligations to address the current or potential detrimental effects of existing pollution by participating in remediation activities, such as site assessments and cleanups.

The Statement establishes five events and circumstances that obligate the government to analyze its expected future outlays for pollution remediation and consider which components should be set up as liabilities.

The triggering factors include being compelled to take action because of an imminent endangerment, violating a pollution prevention-related permit or license, being named as a responsible party or potentially responsible party, being named in a lawsuit to compel participation in pollution remediation, and commencing or legally obligating itself to commence pollution remediation.

Pollution remediation outlays may be capitalized in limited circumstances under the standard, but most pollution remediation outlays will not qualify for capitalization and should be accrued as a liability.

GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*

Statement 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and requires the disclosure of additional information in notes to financial statements or in a presentation of required supplementary information (RSI) by pension plans and by employers that provide pension benefits.
The disclosure requirements include the following information:

– Notes to financial statements should disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to RSI.

– If the aggregate actuarial cost method is used to determine the annual required contribution of the employer (ARC), notes to financial statements should disclose the funded status of the plan, and a schedule of funding progress should be presented as RSI, using the entry age actuarial cost method. Plans and employers also should disclose that the purpose of doing so is to provide information that serves as a surrogate for the funded status and funding progress of the plan.

– Notes to financial statements should include a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in RSI.

– If applicable, notes to financial statements should disclose legal or contractual maximum contribution rates. In addition, if relevant, they should disclose that the maximum contribution rates have not been explicitly taken into consideration in the projection of pension benefits for financial accounting measurement purposes.

– If an actuarial assumption is different for successive years, notes to financial statements should disclose the initial and ultimate rates.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*

Statement 51 establishes accounting and financial reporting requirements for intangible assets to reduce diversity in practice. It requires that:

– All intangible assets not specifically excluded by its scope provisions must be classified as capital assets.

– An intangible asset should be recognized in the statement of net assets only if it is considered identifiable.

– Outlays associated with the development of internally-generated intangible assets should be expensed as incurred rather than capitalized until certain criteria are met.

Statement 51 also establishes guidance for amortization of intangible assets, including guidance on determining the useful lives of intangible assets whose lives are limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset should be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*

Statement 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required

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to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, as well as other information that they currently present for other investments reported at fair value.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

Statement 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. Its main requirements:

- Substantially all derivatives within the scope of the Statement must be reported at fair value. An exception is made for synthetic guaranteed investment contracts that are fully benefit-responsive.
- Changes in fair value of derivative instruments that are used for investment purposes, or that are reported as investment derivative instruments because of ineffectiveness, are reported within the investment revenue classification.
- Changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals. By definition, derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging instruments.

The Statement also provides guidance on how to evaluate the effectiveness of hedges and establishes disclosure requirements.

GASB Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting*

Concepts Statement 5 amends Concepts Statement No. 2, *Developing Reporting Standards for SEA Information,* to reflect the results of research conducted by the GASB and others into the practice of reporting service efforts and accomplishments (SEA).

SEA reporting refers to the communication of selected measures of a government's performance results. The reporting of SEA performance information is viewed as an important method of demonstrating accountability for the resources raised by a government. Currently, such reporting is voluntary rather than required. Proponents of SEA say it does a better job than traditional financial statements of providing decision-useful information about a government's efficiency and effectiveness in providing services to its citizens

The GASB expects this updated Concepts Statement will be helpful in establishing proposed suggested guidelines for voluntary reporting of SEA performance information by state and local governmental entities.

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit [OPEB] Expenditures/Expense and Liabilities by Cost-Sharing Employers*

Technical Bulletin 2004-2 provides guidance on questions that may arise in applying GASB Statements 27, *Accounting for Pensions by State and Local Governmental Employers*, and 45 to cost-sharing employers. Cost-sharing refers to the practice of pooling by employers of their benefit obligations and assets under a pension or OPEB plan.

GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*

Technical Bulletin 2006-1 provides guidance on questions that may arise in connection with the accounting for a retiree drug subsidy (RDS) received under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The payments are made by the federal Department of Health and Human Services to the employer (in the case of a single-employer plan) or the plan (in the case of a multi-employer arrangement).

The Technical Bulletin clarifies that an RDS should be accounted for as a voluntary nonexchange transaction, with an asset and revenue recognized in accordance with GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*.

GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postretirement Benefits*

Technical Bulletin 2008-1 clarifies the requirements for calculating the annual required contribution adjustment under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Guide to Implementation of GASB Statements 43 and 45 on *Other Postemployment Benefits*.

This GASB's Implementation Guide on Statements 43 and 45 on *Other Postretirement Benefits* provides the answers to over 250 questions.

Topics include:

– Differences between OPEB benefits and other forms of employee benefits, such as compensated absences, termination benefits, and pensions.

– The timing and frequency of actuarial valuations associated with OPEB, selection of methods and assumptions, and application of criteria related to the projection of benefits for employers that participate in community-rated plans.

– Treatment of implicit rate subsidies that arise when retirees are insured in a group with current employees.

The guide also includes questions and answers, along with expanded illustrations, for certain employers and plans with small plan memberships.

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Table 1

Listing of Recent Pronouncements

The following summary was prepared for reference purposes using excerpts from the pronouncements about their effective dates wherever practicable. It includes pronouncements that were issued or effective after December 15, 2008, and related guidance.

Pronouncement	Title and Dates (Issued and Effective
FASB Codification	The FASB announced in December 2008 that it expects to officially launch the FASB Accounting Standards Codification on July 1, 2009. Previously, FASB was targeting an April 1, 2009, launch date.
FASB MOU with IASB	The FASB and IASB in September 2008 published an update to their 2006 memorandum of understanding (MOU). The update reports on the Boards' progress since 2006 and sets a goal of completing their major joint projects by 2011.
FASB Statement No. 141R	FASB Statement No. 141R, *Business Combinations*, was issued in December 2007. It is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.
FASB Statement No. 157	FASB Statement No. 157, *Fair Value Measurements,* was issued in September 2006. It was generally effective for fiscal years beginning after November 15, 2007, except for application to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The effective date for these assets and liabilities was extended to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Related guidance: 1. In September 2008, the FASB and SEC staffs jointly released a series of questions and answers about the application of Statement 157 when determining the fair value of illiquid financial instruments. 2. During 2008, the FASB also issued the following FASB Staff Positions: • FSP FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13," • FSP FAS 157-2, "Effective Date of FASB Statement No. 157," • FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," The effective dates of the FSPs are discussed in a later section of this Table.
FASB Statement No. 158	FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,* was issued in September 2006. It was generally effective for public companies as of the end of the fiscal year ending after December 15, 2006, and for private companies as of the end of the fiscal year ending after June 15, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending

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	after December 15, 2008. Related guidance: During 2007, the FASB issued the following FASB Staff Position: • FSP FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides." The conforming amendments in FSP FAS 158-1 are effective as of the effective date of Statement 157.
FASB Statement No. 160	FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* was issued in December 2007. It is effective for annual and interim periods beginning after December 15, 2008. This Statement is applied prospectively as of the beginning of the fiscal year in which it is initially applied, except that the presentation and disclosure requirements are applied retrospectively for all periods presented.
FASB Statement No. 161	FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, was issued in March 2008. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This Statement encourages but does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In years after initial adoption, this Statement requires comparative disclosures only for periods subsequent to initial adoption. Related guidance: During 2008, the FASB revised the following Statement 133 Implementation Issues to conform with Statement 161: • Issue I1, Interaction of the Disclosure Requirements of Statement 133 and Statement 47. • Issue K4, Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded from the Assessment of Hedge Effectiveness
FASB Statement No. 162	FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, was issued in May 2008; Its requirements are effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The SEC approved the amendments on September 16, 2008.
FASB Statement No. 163	FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts*, was issued in May 2008. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, except for the disclosure requirements about the insurance enterprise's risk-management activities which were effective for the first period (including interim periods) beginning after May 23, 2008.
FASB Interpretation No. 48	FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, was issued in July 2006. It was generally effective for fiscal years beginning after December 15, 2006. The effective date was extended for nonpublic enterprises (as defined in paragraph 289, as amended, of Statement 109), except for nonpublic consolidated entities of public enterprises that apply US GAAP, For these entities, Interpretation 48 is effective for annual financial statements for

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	fiscal years beginning after December 15, 2008. Related guidance: In 2007 and 2008, the FASB issued the following FASB Staff Positions: • FSP FIN 48-1, "Definition of *Settlement* in FASB Interpretation No. 48" • FSP FIN 48-2. "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," • FAS FIN 48-3, , "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," The effective dates of the FSPs are discussed in a later section of the Table.
EITF Issue No. 07-1	The FASB ratified the EITF's consensus on Issue No. 07-1, "Accounting for Collaborative Arrangements," on December 12, 2007. It is effective for fiscal years beginning after December 15, 2008. The effects of applying this Issue should be reported as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date.
EITF Issue No. 07-4	The FASB ratified the EITF's final consensus on Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships, in March 2008. It is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance in this Issue is to be applied retrospectively for all financial statements presented
EITF Issue No. 07-5	The FASB ratified the EITF's final consensus on Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock," in June 2008. It is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The guidance in this issue should be applied to all instruments in its scope that are outstanding as of the effective date.
EITF Issue No. 08-3	The FASB ratified the EITF's final consensus on Issue 08-3, "Accounting by Lessees for Maintenance Deposits Under Lease Arrangements." in June 2008. It is effective for financial statements issued for years beginning after December 15, 2008, and interim periods within those years. The effect of the guidance in this Issue should be recognized as a change in accounting principle as of the beginning of the fiscal year in which this consensus is initially applied for all arrangements existing at the effective date.
EITF Issue No. 08-4	The FASB ratified the EITF's final consensus on Issue 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5," in June 2008. It is effective for financial statements issued for fiscal years ending after December 15, 2008. Conforming changes made to Issue 98-5 that resulted from Issue 00-27 and Statement 150 are effective for financial statements issued for fiscal years ending after December 15, 2008. The effect, if any, of applying the conforming changes is presented retrospectively with the cumulative-effect of the change being reported in retained earnings as of the beginning of the first period presented.
EITF Issue No. 08-5	The FASB ratified the EITF's final consensus on Issue 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement," in September 2008. It is effective on a prospective basis in the first reporting period beginning on or after December 15, 2008.

EITF Issue No. 08-6	The FASB ratified the EITF's final consensus on Issue 08-6, "Equity Method Investment Accounting Considerations," in November 2008. It is effective in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The consensus should be applied prospectively.
EITF Issue No. 08-7	The FASB ratified the EITF's final consensus on Issue 08-7, "Accounting for Defensive Intangible Assets," in November 2008. It is effective for intangible assets acquired on or after the first annual reporting period beginning on or after December 15, 2008. The guidance is applied prospectively.
EITF Issue No. 08-8	The FASB ratified the EITF's final consensus on Issue 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount that is Based on the Stock of an Entity's Consolidated Subsidiary," in November 2008. It is effective for fiscal years and interim periods within those years beginning on or after December 15, 2008. The consensus applies to outstanding instruments as of the beginning of the fiscal year in which this Issue is initially applied. The fair value of an outstanding instrument that was previously classified as an asset or liability shall become its net carrying amount at that date (that is, the current fair value). The net carrying amount shall be reclassified to noncontrolling interest. Gains or losses recorded during the period that the instrument was classified as an asset or liability shall not be reversed.
EITF Topic No. D-98	The SEC Observer made several announcements in 2008 to explain the interaction between the SEC staff's views on the classification and measurement of redeemable securities (codified as EITF Topic D-98) and the FASB's releases on noncontrolling interests (Statement 160) and certain convertible debt instruments (FSP APB 14-1). The guidance related to Statement 160 should be applied for fiscal years beginning after December 15, 2008 (the effective date of Statement 160).
FASB Staff Position **FSP APB 14-1**	The FASB released FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" in May 2008. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance should generally be applied retrospectively to all periods presented, With the cumulative effect of the change in accounting principle on periods prior to those presented being reported in the opening balance of retained earnings at the beginning of the first period presented. An exception is made for instruments within the scope of the FSP that were not outstanding during **any** of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. Therefore, an entity shall not reclassify amounts between its opening equity accounts for those instruments.
FASB Staff Position **FSP EITF 03-6-1**	The FASB released FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," in June 16, 2008. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented are adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP.
FASB Staff Position **FSP EITF 99-20-1**	The FASB released FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20," in January 12, 2009. It is effective for interim and annual reporting periods ending after December 15, 2008, and is applied prospectively. Retrospective application to a prior interim or

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	annual reporting period is not permitted.
FASB Staff Position **FSP FAS 117-1**	The FASB released FSP FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds," in August 2008. It is effective for fiscal years ending after December 15, 2008.
FASB Staff Position **FSP FAS 133-1 and FIN 45-4**	FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161," clarifies the disclosures required by Statement 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. This clarification was effective upon issuance of the FSP in September 2008. The provisions that amend the disclosure requirements of Statement 133 and Interpretation 45 are effective for reporting periods (annual or interim) ending after November 15, 2008. The FSP encourages that the new disclosures be presented for periods earlier than the effective date to facilitate comparisons at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption.
FASB Staff Position **FSP FAS 140-3**	The FASB released FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions," in February 2008. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. This FSP is applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after the beginning of the fiscal year in which this FSP is initially applied.
FASB Staff Position **FSP FAS 140-4 and FIN 46(R)-8**	The FASB released FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities," in December 2008. It is effective for the first reporting period (interim or annual) ending after December 15, 2008, with earlier application encouraged, and it applies for each annual and interim reporting period after the effective date. A public entity is encouraged, but not required, to disclose comparative information in periods earlier than the effective date for the new disclosures. In periods after initial adoption, comparative disclosures for those new disclosures are required only for periods subsequent to the effective date.
FASB Staff Position **FSP FAS 142-3**	The FASB released FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets, "in April 2008. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance for determining the useful life of a recognized intangible asset is applied prospectively to intangible assets acquired after the effective date. The disclosure requirements in paragraphs 13–15 are applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.
FASB Staff Position **FSP FAS 132(R)-1**	The FASB released FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," in December 2008. The disclosures about plan assets required by this FSP are provided for fiscal years ending after December 15, 2009. The disclosures are not required for earlier periods that are presented for comparative purposes.
FASB Staff Position **FSP FAS 157-1**	The FASB released FSP FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease

	Classification or Measurement under Statement 13," on February 14, 2008. FSP FAS 157 is effective upon the initial adoption of Statement 157. An enterprise that applied Statement 157 in a manner consistent with the provisions of this FSP would continue to apply the provisions of this FSP from the date of the initial adoption of Statement 157. An enterprise that did not apply Statement 157 in a manner consistent with the provisions of this FSP should retrospectively apply the provisions in this FSP to the date of the initial adoption of Statement 157.
FASB Staff Position FSP FAS 157-2	The FASB released FSP FAS 157-2, "Effective Date of FASB Statement No. 157," on February 12, 2008. FSP FAS 157-2 is effective upon issuance. It delays the application of Statement 157 for nonfinancial assets and liabilities that are not measured or disclosed on a recurring basis. The delay is optional, and an entity is encouraged to early apply Statement 157 for nonrecurring measurements made for nonfinancial assets and nonfinancial liabilities, provided that the entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that year. However, if an entity early applies Statement 157 for nonrecurring fair value measurements made for nonfinancial assets and nonfinancial liabilities, it must do so consistently for all items that are within the scope of this FSP.
FASB Staff Position FSP FAS 157-3	The FASB released FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," in October 2008. It is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate (FASB Statement No. 154, Accounting Changes and Error Corrections, paragraph 19). The disclosure provisions of Statement 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application.
FASB Staff Position FSP FIN 48-1	The FASB released FSP FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48" in May 2007. It should be applied upon the initial adoption of Interpretation 48. An enterprise that applied Interpretation 48 in a manner consistent with the provisions of this FSP would continue to apply the provisions in this FSP from the date of initial adoption of Interpretation 48. However, an enterprise that did not apply Interpretation 48 in a manner consistent with the provisions of this FSP is required to retrospectively apply the provisions in this FSP to the date of the initial adoption of Interpretation 48.
FASB Staff Position FSP FIN 48-2	The FASB released FSP FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," on February 1, 2008. It was effective upon issuance.
FASB Staff Position FSP FIN 48-3	The FASB released FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," in December 2008. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises included within this FSP's scope to the annual financial statements for fiscal years beginning after December 15, 2008. Once effective, Interpretation 48 should be applied, including its application to acquired income tax positions in FASB Statement No. 141 (revised 2007), Business Combinations, as of the beginning of the enterprise's fiscal year. The FSP was effective upon issuance.
FSP Staff Position	The FASB released FSP SOP 07-1-1, "Effective Date of AICPA Statement of Position 07-1," on February 14, 2008. It is effective as of December 15,

FSP SOP 07-1-1	2007. If an entity that early adopted the provisions of SOP 07-1 voluntarily rescinds its early adoption as permitted by this FSP, that entity shall account for that change according to the provisions of FASB Statement No. 154, Accounting Changes and Error Corrections.
FASB Staff Position **FSP SOP 90-7-1**	The FASB released FSP SOP 90-7-1,"An Amendment of AICPA Statement of Position 90-7," in April 2008. It is effective for financial statements issued subsequent to the date of issuance of this FSP.
FASB Staff Position **FSP SOP 94-3-1 and AAG HCO-1**	The FASB released SOP 94-3-1 and AAG HCO-1, "Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations," in May 2008. It is effective for o fiscal years beginning after June 15, 2008, and to interim periods therein.
Statement 133 Implementation Issue No. I1	The FASB revised Statement 133 Implementation Issue No. I1, "Interaction of the Disclosure Requirements of Statement 133 and Statement 47" in April 2008 to conform with FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities.*
Statement 133 Implementation Issue No. K4	The FASB revised Statement 133 Implementation Issue No. K4," Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded from the Assessment of Hedge Effectiveness," in April 2008 to conform with FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities.*
GASB Statement No. 43	The GASB released Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* in April 2004. The requirements of GASB Statement 43 for OPEB plan reporting are effective *one year prior* to the effective date of the related Statement for the employer (single-employer plan) or for the largest participating employer in the plan (multiple-employer plan). The requirements of the related Statement are effective in three phases based on a government's total annual revenues, as defined in that Statement, in the first fiscal year ending after June 15, 1999. This means the effective dates for Statement 43 are as follows: – Plans in which the sole or largest participating employer is a *phase 1 government* (those with total annual revenues of $100 million or more) are required to implement this Statement in financial statements for periods beginning after December 15, 2005. – Plans in which the sole or largest participating employer is a *phase 2 government* (total annual revenues of $10 million or more but less than $100 million) are required to implement this Statement in financial statements for periods beginning after December 15, 2006. – Plans in which the sole or largest participating employer is a *phase 3 government* (total annual revenues of less than $10 million) are required to implement this Statement in financial statements for periods beginning after December 15, 2007. If comparative financial statements are presented, restatement of the prior-year financial statements is required. Early implementation of this Statement is encouraged.
GASB Statement No. 45	The GASB released Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* in June 2004. GASB Statement 45 generally provides for prospective implementation—

	that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation is required in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. The definitions and cutoff points for that purpose are the same as those in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This Statement is effective for periods beginning after December 15, 2006, for *phase 1 governments* (those with total annual revenues of $100 million or more); after December 15, 2007, for *phase 2 governments* (those with total annual revenues of $10 million or more but less than $100 million); and after December 15, 2008, for *phase 3 governments* (those with total annual revenues of less than $10 million). Earlier implementation is encouraged.
GASB Statement No. 47	The GASB released Statement No. 47, *Accounting for Termination Benefits,* in June 2005. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. Earlier application is encouraged. In the initial year of implementation, the requirements of this Statement should be applied to any previous commitments of termination benefits that remain unpaid at the effective date of the Statement. The cumulative effect of applying this Statement should be reported as a restatement of beginning net assets (or equity or fund balance, as appropriate). Financial statements for prior periods are not required to be restated.
GASB Statement No. 49	The GASB released Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* in November 2006. GASB Statement 49 is effective for financial statements of periods beginning after December 15, 2007, with earlier adoption encouraged. Governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods should apply the provisions of this Statement retroactively for all such prior periods presented. Governments that do not have that information should apply the provisions of this Statement as of the effective date. In that case, pollution remediation liabilities should be measured at the beginning of that period so that beginning net assets can be restated. In the period Statement 49 is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.
GASB Statement No. 50	The GASB released Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27, in May 2007. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged.

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GASB Statement No. 51	The GASB released Statement No. 51, Accounting and Financial Reporting for Intangible Assets, in July 2007. It is effective for financial statements for periods beginning after June 15, 2009.
GASB Statement No. 52	The GASB released Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* in November 2007. It is effective for financial statements for periods beginning after June 15, 2008. Governments that wish to implement earlier than that date are encouraged to do so.
GASB Statement No. 53	The GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* in June 2008. It is effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged.
GASB Concepts Statement No. 5	The GASB issued Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting* (an amendment of GASB Concepts Statement No. 2) in December 2008.
GASB Technical Bulletin No. 2004-2	The GASB released Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit [OPEB] Expenditures/Expense and Liabilities by Cost-Sharing Employers,* in December 2004. For pension transactions, GASB Technical Bulletin 2004-2 is effective for financial statements for periods ending after December 15, 2004; earlier application is encouraged. Foe OPEB transactions, the provisions of GASB Technical Bulletin 2005-2 should be applied simultaneously with the requirements of Statement 45.
GASB Technical Bulletin No. 2006-1	The GASB released Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* in June 2006. GASB Technical Bulletin 2006-1 was effective immediately upon issuance, except for portions of answers pertaining specifically to measurement, recognition, or required supplementary information requirements of Statement 43 or Statement 45. Those provisions should be applied simultaneously with the implementation of Statement 43 or Statement 45.
GASB Technical Bulletin No. 2008-1	The GASB issued GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, in November 2008. With regard to pensions, the provisions of this Technical Bulletin are effective for financial statements for periods ending after December 15, 2008. With regard to OPEB, the provisions of this Technical Bulletin are effective for financial Statements for periods ending after December 15, 2008, or simultaneously with the initial implementation of Statement 45, whichever is later. Earlier application is encouraged.

Accounting Challenges: 2009

A *Financial Reporting* letter

For More Information

If you would like further information or to discuss the implications of the matters discussed in this *Financial Reporting* letter, please contact the BDO Seidman engagement partner serving you or one of the following partners: Ben Neuhausen or Wayne Kolins.

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Material discussed in this *Financial Reporting* letter is meant to provide general information and should not be acted upon without first obtaining professional advice appropriately tailored to your individual circumstances.

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