

Defining Issues[®]

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FASB Projects Could Bring Major Changes to U.S. GAAP and Require Significant Constituent Involvement in Due Process

The FASB and IASB recently agreed to redouble their efforts to complete the active joint projects described in their Memorandum of Understanding (MoU) and set June 2011 as their targeted completion date.¹ The aggressive schedule and volume of projects related to the MoU as well as the FASB's separate projects mean that constituents will need to significantly increase their involvement in the FASB's due-process efforts while beginning to plan for implementing any new standards that result from these efforts.

While it remains to be seen whether the MoU and other projects will be completed on schedule and how closely the standards on the MoU projects are converged, U.S. entities and other interested constituents could face an avalanche of major new exposure drafts requiring comments over the next six to 12 months.

Financial statement preparers also should begin planning for implementation of new standards that could be issued by the FASB in the next 18 months regardless of whether there is a decision by the SEC to require or permit U.S. issuers to adopt IFRS. The successful completion of the MoU projects, along with other key issues, will be considered in the SEC's decision about whether, how, and/or when to incorporate IFRS into the U.S. financial reporting system.²

This *Defining Issues* summarizes the major agenda issues, discusses their potential impact on financial reporting, and provides their scheduled issuance dates (see work plan on page 12).

MoU Joint Projects	2
Other Joint Projects	7
FASB-Only Projects	9
Conceptual Framework Project	11
Summary	12

¹ FASB and IASB Reaffirm Commitment to Memorandum of Understanding, November 5, 2009; Completing the February 2006 Memorandum of Understanding: A progress report and timetable for completion, September 2008; A Roadmap for Convergence between IFRSs and US GAAP—2006-2008 Memorandum of Understanding between the FASB and the IASB, February 27, 2006; available at www.fasb.org.

² SEC Release No. 33-9109, Commission Statement in Support of Convergence and Global Accounting Standards, February 24, 2009, available at www.sec.gov.

MoU Joint Projects

Financial Instruments

This project intends to comprehensively address all accounting aspects for financial assets and financial liabilities including classification, measurement, impairment, presentation within comprehensive income, and hedging. Through this approach, the FASB believes that it can also simplify many of the accounting requirements. The FASB expects to issue a comprehensive exposure draft by the end of March 2010 and a final standard by the fourth quarter of 2010.

The FASB has developed an approach for the initial recognition and classification of financial instruments into one of three categories:

- Fair value with changes in fair value recognized through earnings (FVTE);
- Fair value with certain changes in fair value recognized through other comprehensive income (FVTOCI); or
- Amortized cost (which may be elected only for the entity's own debt if certain criteria are met).

Measurement using FVTE would be required for instruments including trading instruments, derivatives, certain equity securities, and hybrid financial instruments containing embedded derivatives that are not clearly-and-closely related to the host contract. An entity would be permitted to elect the FVTOCI alternative for investments in debt instruments if its business strategy is to hold the instrument for collection or payment of contractual cash flows and not to sell or settle the financial instrument with a third party.

The realized gains and losses from the sale or settlement of instruments for which changes in fair value were previously recognized in other comprehensive income (OCI) would be reclassified into current earnings. For financial assets in the FVTOCI category, the FASB is continuing to consider whether impairment losses should be determined using an expected-loss or an incurred-loss model.

The FASB has not yet completed its discussions about impairment and hedge accounting or about how changes in the fair value of financial liabilities due to changes in an entity's own credit standing should be reported.

Potential Impact on Financial Reporting. The requirements of the proposed standard will likely impact an entity's financial statements in many ways. Many financial assets and financial liabilities would be measured at fair value in the statement of financial position resulting in the statement of comprehensive income reporting more unrealized gains and losses. If the FASB determines that an expected-loss model should be used, impairments would be recognized sooner than under current U.S. GAAP.

Revenue Recognition

This project aims to create a single standard for revenue recognition that would converge U.S. GAAP and IFRS and apply to all industries and transactions. The development of a single standard for revenue recognition could:

- Simplify U.S. GAAP by reducing the number of revenue-recognition models;
- Remove inconsistencies among existing revenue-recognition standards; and
- Improve comparability of revenue across entities and geographical boundaries.

The Boards issued a Discussion Paper in December 2008 and plan to issue an exposure draft during the second quarter of 2010 and a final standard expected in the first half of 2011.

The Boards have developed a model that involves four steps:

- Identify the contract with a customer;
- Identify performance obligations or contract segments;
- Allocate the transaction price to the performance obligations or contract segments; and
- Recognize revenue when a performance obligation or contract segment is satisfied.

The allocation of arrangement consideration to the performance obligations or contract segments would be similar to the newly-adopted U.S. GAAP requirements for separation of multiple element arrangements and would be based on the relative standalone selling price of the performance obligations.³

Potential Impact on Financial Reporting. For some arrangements, such as software sales, the new standard could result in separation of more contract deliverables and revenue being recognized earlier.⁴ In accounting for long-term contracts, revenue recognition could be delayed compared to current practices. Because collectibility would affect measurement of revenue instead of recognition, some arrangements that currently result in revenue deferral because of questions about collectibility or whether the revenue is fixed or determinable could result in earlier revenue recognition.

While the project largely focuses on the recognition and measurement of revenue, it appears likely that the Boards will also address the accounting for certain contract costs. It is likely that some costs that are currently capitalized may be expensed when incurred under the new model.

Financial Statement Presentation

The Boards intend that this project will address concerns expressed by financial statement users about the way entities aggregate and present information in financial statements. They issued a Discussion Paper in October 2008 and they plan to issue an exposure draft in the second quarter of 2010 and a final standard in the first half of 2011.

The Boards' proposals are based on two core principles for financial statement presentation requiring that the information should be presented in a manner that:

- Disaggregates information so it is useful in assessing the amount, timing, and uncertainty of an entity's future cash flows and
- Portrays a cohesive financial picture of an entity's activities in such a way that the relationship between items across financial statements is clear and complementary.

The disaggregation of information would be accomplished by classifying information by section and category and through extensive footnote disclosures. The sections are business, financing, income taxes, discontinued operations, and equity. The categories are operating, investing, and financing.

³ FASB Accounting Standards Update No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements, available at www.fasb.org.

⁴ FASB ASC Subtopic 985-605, Software—Revenue Recognition, available at www.fasb.org.

Cohesiveness would be accomplished by aligning information across all financial statements using sections and categories starting from the statement of financial position. Classification of assets and liabilities in the statement of financial position would determine the classification of changes in assets and liabilities in the statements of comprehensive income and cash flows. Additional disaggregation of information in the statement of comprehensive income would be required by function and nature. The Boards are expected to propose that the statement of cash flows be presented using the direct method for reporting operating cash flows. The Boards will also propose disclosure requirements in the notes on:

- Liquidity, segments, and reportable segments and
- Changes in the balances of significant asset and liability items.

The Boards have identified six important factors influencing changes in balances of significant assets and liabilities, including changes from cash flows and remeasurements, that would be used to explain the transactions and other events that caused changes in an asset or liability balance during the period.

Potential Impact on Financial Reporting. The Boards' proposals would require major changes in the presentation format of the statements of financial position, comprehensive income, and cash flows and result in dramatic differences from their appearance and content under current U.S. GAAP. Additionally, implementing the disaggregation and cohesiveness core principles could result in additional disclosures. Some entities may find that complying with the presentation and disaggregation requirements will require significant changes to the way financial information is captured by information systems.

Consolidations

This project is expected to build on the recent Statement 167 guidance on the consolidation of variable interest entities (VIEs) by providing comprehensive guidance for the consolidation of all entities, including entities controlled by voting or similar interests.⁵ Statement 167 identifies the variable interest holder (if any) that must consolidate a VIE as the party with (a) the power to direct the activities that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. While the definition of control in the accounting standards for non-VIEs has focused mainly on legal control, the FASB's recent work on consolidation could broaden the meaning of control beyond voting rights. This is an approach that is sometimes referred to as a de facto-control model.

The FASB plans to issue an exposure draft on consolidation policy and procedure that is consistent with the IASB's consolidation proposal, which is based on a de facto-control model.⁶ The exposure draft is planned for the second quarter of 2010 with a final standard in the fourth quarter of 2010. The new standard would replace U.S. GAAP's consolidation standards originally issued as ARB 51 and Statement 167.⁷

⁵ FASB Accounting Standards Update No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)), available at www.fasb.org.

⁶ IASB Exposure Draft 10, Consolidated Financial Statements, available at www.iasb.org.

⁷ FASB ASC Topic 805, Consolidation (Accounting Research Bulletin No. 51, Consolidated Financial Statements), available at www.fasb.org.

The Boards' decisions on control through voting rights would require consideration of options and convertible instruments when determining whether a reporting entity has the power to direct the activities of another entity. A holding of less than half of the voting rights in another entity could meet the control definition if the remaining ownership interests are so widely distributed that it is unlikely the other voting interests could successfully oppose the interests of the dominant minority shareholder. The FASB has yet to decide on issues such as agency relationships and kick-out rights with respect to consolidation of non-VIEs.

Potential Impact on Financial Reporting. A new consolidation standard following these principles could result in entities consolidating additional non-VIEs even when they do not own a majority voting interest, which could have a significant impact on many important financial ratios.

Leases

The FASB plans to address longstanding criticisms that lease accounting results in off-balance-sheet treatment of obligations by lessees and that the U.S. GAAP standards are unnecessarily complex and based on bright-line rules that facilitate the structuring of leasing arrangements to avoid balance sheet recognition by lessees. The FASB and IASB issued a Discussion Paper in March 2009 and plan to issue an exposure draft in the second quarter of 2010. A final joint standard is planned for the first half of 2011.

The Boards plan to propose a single "right-of-use" lease-accounting model for all leases that eliminates off-balance-sheet accounting. The proposed approach would require a lessee to recognize an asset that represents the lessee's right to use the leased property, and a liability, which represents the lessee's obligation to pay rentals for the use of the property. For lessors, the Boards have tentatively decided to propose a performance-obligation approach that would require a lessor to recognize a receivable for its right to receive rental payments from the lessee, and a liability, representing the lessor's obligation to allow the lessee to use the underlying asset (i.e., the lessor's performance obligation). The liability would be recognized as income over the lease term as the lessor satisfies its performance obligation.

Because the Boards are proposing a right-of-use model, it is likely that the exposure draft will contain guidance for determining whether an arrangement is in substance a purchase or a sale, which would not be considered a lease. A simplified model may be allowed for short-term leases (less than 12 months). The simplified model would involve the use of gross amounts for the recognition of the leased asset and liability. Lessors also would have an option to use the simplified model for short-term leases.

Potential Impact on Financial Reporting. The most significant impact of the proposed approach is the likely gross-up of the financial statements for both lessors and lessees; however, the impact likely would be most pronounced for lessees with operating leases.

Financial Instruments with Characteristics of Equity

This project aims to eliminate inconsistencies in U.S. GAAP, reduce its complexity, and converge with IFRS. The FASB issued its Preliminary Views in November 2007 and plans to issue an exposure draft in the second quarter of 2010, which is expected to be largely consistent with international standards.⁸ A final standard is planned for the first half of 2011.

The Boards have tentatively decided that these financial instruments would be classified as equity in their entirety:

- Perpetual instruments issued by an entity without specified limits on their lives;
- Mandatorily redeemable and puttable instruments that either:
 - Require or permit redemption to allow an existing group of equity holders to maintain control of the entity when one withdraws or
 - Require the holder to own the instrument while engaged in transactions with the entity and require redemption when the holder ceases to engage in those transactions;
- A contract that requires an entity to issue for a specified price (or for no future consideration) a specified number of perpetual equity instruments (e.g., a forward or call option to issue a fixed number of common shares); and
- Preferred shares that are required to be converted into a specified number of perpetual equity instruments;

Hybrid instruments, such as convertible debt, would be separated into a liability component and an equity component if convertible at the option of the holder into a specified number of instruments that will be equity in their entirety. All other convertible debt instruments would be classified as liabilities in their entirety and would be subject to the conclusions reached in the financial instruments project.

Potential Impact on Financial Reporting. Based on the tentative decisions, it is possible that companies following U.S. GAAP could see changes in the classification of certain derivative instruments. For example, net share-settleable instruments would be liability-classified. Convertible debt would be subject to a single-bifurcation model instead of multiple models under U.S. GAAP that are based on whether the conversion option is in-the-money at issuance (i.e., a beneficial conversion feature) or potentially cash settleable. “Conventional” convertible debt instruments generally are not subject to bifurcation currently. Because instruments that are classified as liabilities would become subject to the Board’s conclusions in its financial instruments project, the initial classification would significantly affect the subsequent accounting for the instrument or its embedded components.

Fair Value Measurement

The IASB expects to issue final guidance on fair-value measurement for financial reporting. While the IASB’s proposal is based largely on existing U.S. GAAP, there are some differences that may cause the FASB to consider changes in U.S. GAAP requirements.⁹ Based on deliberations to date, it appears that the most significant change to U.S. GAAP would be the extension of the prohibition on using blockage factors in Level 1 fair value measurements to all three levels of the fair value hierarchy.

⁸ International Accounting Standard No. 32, Financial Instruments: Presentation.

⁹ FASB ASC Topic 820, Fair Value Measurements and Disclosures, available at www.fasb.org.

The FASB expects to issue an exposure draft of a proposed amendment to the U.S. GAAP requirements in the second quarter of 2010 with the third quarter of 2010 targeted for a final amendment, which is expected to coincide with the IASB's issuance of its fair-value-measurement standard.

Other Joint Projects

Insurance Contracts

This joint project aims to develop a common standard to address recognition, measurement, presentation, and disclosure requirements for all insurance contracts. The standard is intended to:

- Improve and simplify the financial reporting requirements for insurance contracts;
- Eliminate numerous pieces of U.S. accounting literature that create complexity; and
- Provide investors with more useful information for decision-making.

The FASB issued an Invitation to Comment on the project in August 2007, which was based on the IASB's discussion paper.¹⁰ An exposure draft is planned for the second or third quarter of 2010 with a final standard in June 2011.

Based on the tentative decisions:

- Measurement of an insurance contract would use a value-based measure instead of a cost-based measure and would reflect the present value of unbiased probability-weighted future cash flows under the contract, a risk adjustment for the effects of uncertainty about the future cash flows, and a residual margin that eliminates any gain at inception. The measurement of the components of the contract liability, other than the residual margin, would be updated each reporting period.
- A reinsurer would use the same recognition and measurement approach for reinsurance contracts as insurers use for their contracts, and a cedant would recognize and measure its reinsurance asset using the same recognition and measurement approach it uses for the reinsured portion of the underlying insurance contracts reduced for the impact of possible impairment and coverage disputes.
- Acquisition costs may be required to be expensed as incurred rather than deferred and amortized.

There also are a number of significant decisions to be made before an exposure draft is issued including when to separate contract components, the level of aggregation for measurement of insurance contracts, methods for determining the risk adjustment, how the residual margin will be amortized, measurement of policyholder participation features, financial statement presentation, and the definition of insurance contracts for purposes of determining the scope of the potential standard.

Potential Impact on Financial Reporting. If a new standard is finalized, it is likely to have a significant impact on insurers' and reinsurers' accounting and financial reporting. Significant impacts would include changing the measurement approach from a cost-based model to a value-based model, eliminating deferral of acquisition costs, and changing presentation in the financial statements.

¹⁰ FASB Invitation to Comment, Accounting for Insurance Contracts by Insurers and Policyholders, August 2, 2007, available at www.fasb.org; IASB Discussion Paper, Preliminary Views on Insurance Contracts, May 2007, available at www.iasb.org.

Statement of Comprehensive Income

This project, which was originally part of the financial statement presentation project, is also related to the financial instruments project because of its significant role in that project. The FASB is expected to propose that a single statement of comprehensive income be required instead of the three alternative presentation approaches permitted under U.S. GAAP.¹¹ The FASB expects to issue an exposure draft at the same time as its comprehensive exposure draft on its financial instruments project (by the end of the first quarter of 2010). A final standard is planned by the third quarter of 2010.

Potential Impact on Financial Reporting. In addition to requiring the presentation of comprehensive income in a single, continuous statement that displays total comprehensive income and its components of net income and other comprehensive income, the reclassification between other comprehensive income and net income would be displayed in the same level of detail that the items were originally reported. The project only focuses on display of comprehensive income and would not involve a reconsideration of what items are presented in other comprehensive income because that determination will continue to be made on an individual-standard basis.

Reporting Discontinued Operations

Classification of disposals as discontinued operations also is related to the financial statement presentation project. The FASB and IASB issued a joint exposure draft in September 2008.¹² The Boards are now planning to re-expose revised proposed guidance in the second quarter of 2010 and to issue a final standard in the third quarter of 2010.

The revised exposure draft is expected to propose that a discontinued operation be defined as a component that has either been disposed of, or is classified as held-for-sale, and

- Represents a separate major line of business or geographical area of operations, or
- Is a business that meets the criteria to be classified as held-for-sale at acquisition.

The proposal would retain disclosures about disposals at the component level, however disposals of components would not be classified as discontinued operations as they are currently under U.S. GAAP.¹³ The proposal would eliminate the continuing involvement test required by U.S. GAAP.

Potential Impact on Financial Reporting. The proposed test for determining whether a particular part of an entity's operations is presented as a discontinued operation would be at a significantly higher level than under U.S. GAAP. Conversely, the continuing involvement test that may have precluded certain previous disposals from being classified as a discontinued operation would be eliminated. On balance, we would expect fewer disposal transactions to qualify for discontinued operations classification if the expected proposal is finalized.

¹¹ FASB ASC Topic 220, Comprehensive Income, available at www.fasb.org.

¹² Proposed FSP FAS 144-d, Amending the Criteria for Reporting a Discontinued Operation, available at www.fasb.org; IASB Exposure Draft, Discontinued Operations, available at www.iasb.org.

¹³ FASB ASC Subtopic 205-20, Discontinued Operations, available at www.fasb.org.

Emissions Trading Schemes

This project intends to provide comprehensive guidance on the accounting for emissions trading schemes, including asset recognition and measurement, impairment, liability recognition and measurement, gain and loss recognition, presentation, and disclosure.

Emissions trading schemes are relatively new and originated in government agency programs intended to reduce greenhouse gas emissions. One of the challenges the Boards face in developing a comprehensive model is that there are many different types of trading schemes. Nevertheless, the Boards plan to issue an exposure draft in the third quarter of 2010 and a final standard in the first half of 2011.

The Boards have held several discussions but have not agreed on the model that would be applied. The FASB has decided that before it begins to develop an accounting model, it needs to comprehensively analyze whether a liability exists in the various emission schemes. The Boards have acknowledged that the deliberations on this project will need to be conducted with an eye towards conclusions that are consistent with the joint conceptual framework project and the IASB's project to replace its standard on provisions and contingencies.¹⁴

FASB-Only Projects

Disclosure of Certain Loss Contingencies

In addition to the numerous MoU and other joint projects, the FASB has other projects that could result in more financial statement disclosure in the near term. One of these projects involves the disclosure of certain loss contingencies. The Board has focused primarily on loss contingencies associated with litigation.

The FASB issued an exposure draft in June 2008, and based on the FASB's current project plan, expects to issue a final standard in the second quarter of 2010. However, the proposal may need to be re-exposed before the Board proceeds to a final standard. The Board is expected to expand the existing disclosure requirements but the expansion would be less extensive than the original proposal.¹⁵

The project focuses only on loss contingency disclosures. The Board does not currently intend to reconsider recognition and measurement issues for contingent liabilities; however it is monitoring the IASB's project to replace IAS 37 on provisions and contingencies.

The Board has developed a disclosure objective for loss contingencies, which emphasizes the need for an entity to disclose both qualitative and quantitative information about loss contingencies that would focus on the nature of the loss contingency and its potential timing for settlement and magnitude. The Board has agreed that disclosures about litigation-loss contingencies should:

- Focus on the intentions of the parties, rather than on predictions about the future outcome of the contingency.

¹⁴ International Accounting Standard No. 37, Provisions, Contingent Liabilities and Contingent Assets; IASB Working Draft of International Financial Reporting Standard [X], Liabilities, available at www.iasb.org.

¹⁵ Proposed Statement of Financial Accounting Standards, Disclosure of Certain Loss Contingencies, June 5, 2008; FASB ASC Topic 450, Contingencies, both available at www.fasb.org.

- Be more robust as the likelihood and magnitude of loss increases, and as the contingency progresses toward resolution.
- Provide a summary of information that is publicly available and explain where users can obtain more information.

Disclosures about Credit Quality and the Allowance for Credit Losses

The FASB expects to provide guidance that will lead to improved disclosures by lenders about the allowance for credit losses and the credit risks inherent in the loan portfolio. The FASB issued an exposure draft in June 2009 and based on its current project plan, expects to issue a final standard in the second quarter of 2010.¹⁶ The exposure draft proposed six major categories of disclosures: (1) allowance for credit losses, (2) rollforward schedules of financing receivables, (3) fair value of financing receivables, (4) credit-quality information about financing receivables, (5) impaired financing receivables, and (6) nonaccrual status of financing receivables.

While the project is independent of the financial instruments project, the FASB will consider those developments as it proceeds with its deliberations on the disclosures about credit losses and quality.

Going Concern

The requirements to evaluate an entity's ability to continue as a going concern and make disclosures when there is substantial doubt about its ability to continue as a going concern are found in the auditing literature.¹⁷ This project emphasizes management's responsibility to determine what disclosures are needed when it determines that there is substantial doubt about the entity's ability to continue as a going concern.

The FASB issued an exposure draft in October 2008 and plans to issue a revised exposure draft during the second quarter of 2010 and a final standard in the third quarter of 2010.¹⁸

The FASB has decided to issue a revised proposal based primarily on the going concern guidance found in the auditing literature, but with changes to align the final guidance with IFRS.¹⁹ For example, the FASB has tentatively decided to use the IFRS time horizon that requires an entity to consider "all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period" for its assessment about the entity's ability to continue as a going concern. In contrast, the auditing literature refers to "a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited."

The FASB has also agreed to provide a definition of a going concern and to clarify that the time period for the going concern assessment is not a bright-line of 12 months, but it also is not intended to be an indefinite look-forward period.

Disclosure Framework

This project intends to develop an overarching disclosure framework to make financial statement disclosures more effective, more coordinated, and less redundant. Through

¹⁶ Proposed Statement of Financial Accounting Standards, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, June 24, 2009, available at www.fasb.org.

¹⁷ AU 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, available at www.pcaobus.org.

¹⁸ Proposed Statement of Financial Accounting Standards, *Going Concern*, October 9, 2008, available at www.fasb.org.

¹⁹ International Accounting Standard No. 1, *Presentation of Financial Statements*, paragraphs 25-26.

this project the FASB will develop ways to better integrate information provided in financial statements with information in management's discussion and analysis and other parts of an entity's public financial reporting package. The project will not necessarily develop specific new disclosure requirements. The FASB anticipates issuing a discussion paper on the project in the second quarter of 2010.

The project is expected to express disclosure objectives in light of the objectives of financial reporting and the qualitative characteristics of decision-useful financial information articulated in the FASB's and IASB's joint conceptual framework project.²⁰

The need for a disclosure framework is reflected in recommendations and calls for action from various studies and reports, including those from the SEC Advisory Committee on Improvements to Financial Reporting and the SEC staff.²¹ The disclosure framework project is also viewed by some as an opportunity to derive additional benefits from Extensible Business Reporting Language (XBRL), a computer language.

Conceptual Framework Project

The joint conceptual framework project's purpose is to develop a framework that provides a sound foundation to develop future accounting standards. While the existing conceptual frameworks underlying the development of U.S. GAAP and IFRS are similar in some respects, they have differences, inconsistencies, and are viewed by some as incomplete.²²

The project's goal is to establish comprehensive and clear definitions of fundamental concepts and elements of financial statements to facilitate future standard setting based on consistent principles. The conceptual framework project is divided into several phases, four of which are active:

- Objective and qualitative characteristics;
- Reporting entity;
- Measurement; and
- Elements and recognition.

The Boards expect to issue the finalized chapter on the first phase of the project (objectives and qualitative characteristics) during the second quarter of 2010. They plan to issue an exposure draft on the reporting entity phase of the project in the first quarter and a final chapter in the third quarter of 2010.

In the measurement phase of the project, the Boards intend to provide guidance for when a particular measurement basis (e.g., cost or fair value) should be selected in light of the objectives and qualitative characteristics of financial reporting. The Boards have not yet determined the timing for the development of a discussion paper on this phase of the project.

²⁰ Statement of Financial Accounting Concepts No. 1, Objectives of Financial Reporting by Business Enterprises; Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information; Exposure Draft, An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting, and Chapter 2: Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information; all available at www.fasb.org.

²¹ Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission; SEC Staff Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers, both available at www.sec.gov.

²² SEC Staff Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System, available at www.sec.gov.

The elements and recognition phase of the project intends to refine and converge the Boards' conceptual frameworks with respect to definitions of the elements of financial statements, including assets and liabilities, and the recognition criteria to eliminate differences and provide a basis for resolving issues such as derecognition and unit of account questions. The Boards plan to develop and refine the conclusions about the definition of elements after further deliberations on the financial instruments and financial instruments with characteristics of equity projects. A discussion paper is planned for the third quarter of 2010.

Summary

As the discussion above and the following table indicate, the FASB and the IASB have established a very aggressive work plan for themselves and their constituents. If the Boards are able to meet their schedule, constituents could have as many as 12 significant due-process documents issued in the first half of the year. This would be followed by an even greater number of final documents from July 2010 through June 2011 for which constituents would need to begin to consider implementation issues.

The FASB has indicated that it will look at the effective date of the MoU projects as a package rather than on an individual-standard basis to facilitate a smooth transition regardless of whether it represents a move to IFRS for some issuers or a continuation of their U.S. GAAP reporting.

FASB's Projects in Process Work Plan²³

DP = Discussion Paper
F = Final Standard
ED = Exposure Draft
R = Roundtable Discussions

	2010				2011
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Half 1
MoU Joint Projects					
Financial Instruments	ED		R	F	
Revenue Recognition		ED	R		F
Financial Statement Presentation		ED	R		F
Consolidations		ED	R	F	
Leases		ED	R		F
Financial Instruments with Characteristics of Equity		ED	R		F
Fair Value Measurement		ED	R/F		
Other Joint Projects					
Insurance Contracts			ED/R		F
Statement of Comprehensive Income	ED		F		

²³ Adapted from the FASB's Current Technical Plan and Project Updates, as of March 10, 2010, available at www.fasb.org.



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	2010				2011
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Half 1
Reporting Discontinued Operations		ED	F		
Emissions Trading Schemes			ED		F
FASB-Only Projects					
Disclosure of Certain Loss Contingencies		F			
Disclosure about Credit Quality and the Allowance for Credit Losses		F			
Going Concern		ED	F		
Disclosure Framework		DP			
Conceptual Framework Project					
Objective and Qualitative Characteristics		F			
Reporting Entity	ED		F		
Measurement					
Elements and Recognition			DP		

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