Welcome to the BDO Board Matters Quarterly Update - Q4 2012

The presentation will begin shortly.

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Q&A FEATURE

• Technical questions may be submitted via the Q&A Feature on your screen. Time permitting, presenters will respond to these at the end of the session.
  • Please submit as much information as possible (e.g., slide number reference, presenter, etc.).
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LEARNING OBJECTIVES

This presentation is a discussion of developing issues of broad interest to board members and those charged with governance and will include an overview of topics relevant to year end board meetings. At the conclusion of this program, participants will be able to:

- Discuss various issues concerning board members
- Interpret how public company board members perceive opportunities and risks surrounding such issues
- Analyze their company’s current position in light of the issues discussed

PRESENTER

Amy E. Rojik
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EXPERIENCE

Amy has spent the past 9+ years within BDO’s National Assurance Department directing the Professional Development Meeting (PDM) and Enhancing Audit Quality (EAQ) training series as well as the Ac’ense® client outreach program. The PDM and EAQ series are technical trainings that provide a venue to keep BDO’s Assurance Professionals up-to-date on current and evolving accounting, auditing and financial reporting matters. Ac’ense® is BDO’s external program designed for executive management and those charged with governance of both public and private companies to keep them informed on technical matters of importance. Amy also serves on the firm’s International Financial Reporting Standards (IFRS) Task Force as well as BDO’s Board Reflections initiative, which is a developing umbrella program dedicated to all matters of corporate governance that are of interest to BDO’s clients and contacts. In collaboration with various leaders within BDO, Amy published BDO’s Effective Audit Committees in the Ever Changing Marketplace and related practice aids.

Prior to joining BDO, Amy spent a combined 11 years with two “big 6” accounting firms. During that time, she served larger public clients in the high technology and commercial and residential building products arenas as well as smaller private companies primarily in the wholesale distribution and biotechnology markets. Her experience includes assisting clients with several public debt offerings and acquisition transactions. Additionally, she provided technical consultation on audit, accounting, and independence issues and developed internal/external technical trainings geared toward public and private companies.

PROFESSIONAL AFFILIATIONS

- American Institute of Certified Public Accountants
- Massachusetts Society of Certified Public Accountants
- National Association of Corporate Directors

EDUCATION

- M.B.A./M.S. in Accounting - Northeastern University
- B.A. in Economics and Psychology - Union College
Wendy Hambleton is the Director of BDO’s National SEC Department. Previously she was a partner in the SEC practice and was the Regional Technical Director for the Midwest region.

Wendy works extensively with the Firm’s clients and engagement teams to prepare SEC filings, communicate with the SEC staff and resolve related accounting and reporting issues. Additionally, she co-authors a number of internal and external publications, including the AICPA’s Guide to SEC Reporting and Warren Gorham & Lamont’s Controller’s Handbook chapter on Public Offering Requirements.

Wendy currently heads BDO’s Board Reflections Initiative, which is a developing umbrella program dedicated to all matters of corporate governance that are of interest to BDO’s clients and contacts. She also heads the firm’s International Financial Reporting Standards (IFRS) Task Force.

Prior to joining the SEC Department, Wendy worked in the Washington, DC office where she specialized in working with both public and private manufacturing and multi-national corporations.

PROFESSIONAL AFFILIATIONS
• Accounting Advisory Board, Mason School of Business, The College of William and Mary
• American Institute of Certified Public Accountants
• BDO Assurance Committee and IFRS Task Force

EDUCATION
• B.B.A., Accounting, The College of William and Mary

Chris Smith
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EXPERIENCE
The Accounting & Audit Professional Practice Leader for BDO USA, LLP, Chris has over 27 years experience in a mixture of public and private industry accounting roles. In his current role, Chris has overall responsibility for the technical and administrative practices of BDO’s National Assurance group. He is actively involved in developing and reviewing BDO’s external responses to standard setting and regulatory proposals, as well as representing BDO through various professional committees and working groups.

Chris also functions as a Regional Technical Director and is responsible for consulting on technical accounting, reporting and audit matters for private and public company clients of the Firm. Chris is a technical liaison for the BDO Seidman Alliance, a network of approximately 150 small to medium size accounting firms. Chris regularly consults with these firms on a wide-range of accounting and reporting issues dealing with their private company client base.

Chris has authored courses on a broad range of technical matters. Chris is an instructor for various BDO technical programs, as well as a frequent lecturer for various professional organizations.

PROFESSIONAL AFFILIATIONS
• American Institute of Certified Public Accountants - Member of Council
• California Society of Certified Public Accountants
• International Auditing Task Force
• Montana State University Accounting Advisory Board

EDUCATION
• M.B.A., Management, University of San Francisco
• B.S., Accounting, Montana State University
AGENDA

- Audit Committee Communications
  - PCAOB AS 16
  - CAQ Auditor Evaluation Practice Aid
  - CAQ Auditor Communications Practice Aid
- Year-End Financial Reporting Considerations
- SEC Rule-Making
- Anti-Fraud Collaboration
- FCPA Guidance
- 2013 BDO IPO Outlook
- Other Resources of Interest

PCAOB AUDITING STANDARD 16 (AS 16), COMMUNICATIONS WITH AUDIT COMMITTEES

- Approved by SEC for fiscal periods beginning after 12/15 2012, with early adoption permissible
- Applies to audits of: (1) public companies, (2) emerging growth companies (EGCs), (3) foreign private issuers (FPIs), and (4) nonissuer brokers and dealers registered with the SEC
- No new auditing procedures; introduces new and/or enhanced required communications designed to promote relevance, timeliness and quality of communications between auditors and audit committees
PCAOB AS 16 - NEW/ENHANCED COMMUNICATIONS

• Evaluation of quality of financial reporting: Focus on results of auditor’s evaluation of, conclusions about, qualitative aspects of the company’s significant and critical accounting policies & practices and development of critical estimates
  • Process, assumptions and significant changes and impact on F/S
  • Evaluation of possible management bias
  • Discussion of impact of new accounting pronouncements, alternative accounting treatments, significant modification to disclosures proposed by auditor that management did not make, etc.
• Significant unusual transactions: (1) significant transactions outside normal course of business or considered unusual due to timing, size or nature and (2) policies & practices management used to account for such transactions - Auditor’s understanding of business rationale
• BDO plans to provide additional training on AS 16 in the coming months - Stay tuned!

CAQ AUDITOR EVALUATION TOOL

Components:
• Assessment process
• Quality of services and sufficiency of resources provided by auditor
• Communication and interaction with the auditor
• Auditor independence, objectivity and professional skepticism
• Input from company personnel
• Overview of relevant requirements and standards

Collaborative effort of organizations dedicated to strengthening audit committee performance and transparency. This tool is scalable and specifically includes an examination of the auditor’s independence, objectivity, and professional skepticism
CAQ PRACTICE AID: AUDITOR COMMUNICATIONS

Purpose: Identify topics ACs may wish to discuss with auditors to gain a better understanding of PCAOB inspections

Elements for discussion:

• Was audit selected for inspection and the progress of that inspection?
• Information about auditor’s responses to findings with respect to issuer’s audit?
• Were any matters described in the public portion of a PCAOB inspection report, including matters not involving issuer’s audit, related to issues and audit approaches similar to those that arose in the issuer’s audit?
• Steps auditor is taking to address issues identified regarding its system of quality control?
• Whether issues described in PCAOB general reports (AKA ‘4010 Reports’) relate to the issuer’s audit, and how auditor is addressing those issues?

YEAR-END FINANCIAL REPORTING CONSIDERATIONS

Questions to ask:

• Does the company’s risk assessment process adequately identify and address risk?
• Do we understand management’s judgment framework with regard to critical estimates?
• Have we considered the effect on the F/S or disclosures of significant accounting policies in controversial areas or areas for which there is a lack of authoritative guidance or consensus, or diversity in practice?
• Have we challenged management on “gray” areas?
• How do footnotes to the F/S read? Are they open, transparent? Do they adequately address risks identified?
YEAR-END FINANCIAL REPORTING CONSIDERATIONS

- SEC leadership changes
- Social objectives:
  - Conflict Minerals
  - Mine Safety
  - Iran Threat Reduction and Syria Human Rights Act of 2012
- Proxy season proposals:
  - Environmental
  - Social
  - Political contributions

SEC RULE-MAKING: PROPOSED RULES AND THOSE ON THE HORIZON

- Listing Standards for Compensation Committees and Advisors
  - SEC Rule 10C-1 adopted in June directed the NYSE and NASDAQ to adopt listing standards related to compensation committees of boards of directors and compensation advisors
  - The NYSE and NASDAQ proposed listing standards to comply with Rule 10C-1 in September; SEC approval by June 2013?
- Dodd-Frank Act rulemaking
- Implementing the Jumpstart Our Business Startups (JOBS) Act

ANTI-FRAUD COLLABORATION

http://www.antifraudcollaboration.org/

Focused on:

• Advancing the understanding of conditions that contribute to fraud
• Promoting additional efforts to increase professional skepticism
• Moderating the risks of focusing only on short-term results
• Exploring the role of information technology in facilitating the deterrence and detection of fraudulent financial reporting

FOREIGN CORRUPT PRACTICES ACT GUIDANCE

FCPA Guidance from DOJ and SEC (November 2012):

• Addresses wide variety of topics
• Multi-faceted approach
  • Statutory requirements
  • Insight into DOJ and SEC enforcement including hypotheticals and examples
• Summaries of case law and DOJ opinions
  • http://www.justice.gov/criminal/fraud/fcpa/guidance/
2013 BDO IPO SURVEY

Survey findings centered on:
- 2013 IPO forecast
- Deal sizes
- Threats to healthy IPO markets
- Industry considerations
- US as compared to the World
- Opinions of the “bulge bracket”
- Impact of the Jobs Act

http://www.bdo.com/download/2432

OTHER RESOURCES OF INTEREST

PCAOB - http://pcaobus.org/
- Observations from 2010 Inspections of Domestic Annually Inspected Firms Regarding Deficiencies in Audits of Internal Control Over Financial Reporting (Dec. 10, 2012)
- Information for Audit Committees About the PCAOB Inspection Process (Aug. 1, 2012)
- Alert No. 10: Maintaining and Applying Professional Skepticism in Audits (Dec 4. 2012)
OTHER RESOURCES OF INTEREST

NACD - http://www.nacdonline.org/
• 2012 National Audit Committee Chair Advisory Council Meeting White Paper

CAQ - http://www.thecaq.org/

COSO - http://www.coso.org/
• Proposals (final documents to be released in late March 2013):
  • COSO Internal Control Integrated Framework
  • COSO Exposure Draft: Internal Control over External Financial Reporting: Compendium of Approaches and Examples (ICEFR)
  • COSO Illustrative Tools

RESOURCES

BDO Board Reflections at:

Ac’senseSM Programs and Website at:
http://www.bdo.com/acsense/
- NOTE: Link to a self-study course of today’s program will be available shortly at:
  http://www.bdo.com/acsense/boardmattersQ42012/
RESOURCES

• Board Matters:
  o Board Matters Quarterly Update - Q3 - September 2012
• FCPA Series: Doing Business Abroad - Spotlight On:
  o Mexico - September 2012
  o China - April 2011
  o Russia - September 2011
• Executive Compensation:
  o 2012 BDO 600 Executive Compensation Survey - October 10, 2012
  o Institutional Shareholder Services (ISS): New Approach to Evaluating Executive Compensation - February 2012
  o Executive Compensation: Impact of the Dodd-Frank Act and Next Steps - February 2011

We welcome suggestions, questions and comments at: Acsense@bdo.com

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Certificates will be processed and will be accessible by participants for printing as follows:

1. Individuals -
   1. Under the Participation tab below before exiting the webcast, OR
   2. By logging onto the http://university.learnlive.com/BDOonline after the session is completed and clicking on My Learning - Completed Items. Under the Certificate column, click the Print button beside the completed webcast.

2. Group participants - After receipt and processing of submitted group sign-in sheets to cpe@bdo.com, group participants will be proctored into LearnLive and will be notified via e-mail when they can retrieve their certificates, following the steps above.

3. Sign-in sheets may be downloaded from the following: https://university.learnlive.com/content/public/1029/accessinstructions/CPE%20Attendance%20Sheet.doc
EVALUATION

We continually try and improve upon our programming and appreciate constructive feedback.

Following the program, we will be sending out a thank you e-mail that contains a link to a brief evaluation.

Thank you in advance for your consideration!

That concludes today’s program.

Thank you for attending!