BDO

EXCERPTS OF RECENT MEDIA COVERAGE

ASSURANCE PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q4 2013

▶COMPLIANCE WEEK

WILL FASB'S GOING CONCERN WARNING RULE WORK IN THE REAL WORLD?

October 8, 2013

After years of batting around ideas for an early warning to investors that a company is in trouble, consensus is growing that management should be responsible for raising a red flag. That consensus crumbles, however, when the conversation turns to exactly how to produce a rule that can work in practice.

The Financial Accounting Standards Board will wrestle with those issues in the coming months as it sifts through feedback to its proposal to require companies to issue new disclosures about whether there's a risk that a company will not be able to continue operating as a going concern.

FASB published its proposal in June and accepted written comments through late September. The majority of those who submitted comments agree that, in theory, if someone is going to be in charge of warning investors that the company is in trouble, it should be management...

FASB also likely will have to take a second look at the exception it provides for private companies in its proposal, who would not be required to make a definitive disclosure that they have "substantial doubt" about their ability to stay in business. That requirement would exist for public companies only. "This is really the third

rail in this proposal," says **Chris Smith, a partner with BDO USA**. "A lot of people are trying to understand the theoretical basis for that."...

▶ACCOUNTING TODAY

BDO TOPS SEC AUDIT WINS IN Q3

Mergers mean major client gains for Chicago firm

October 18, 2013

BDO USA once again took the top spot among major firms in our quarterly ranking of new Securities and Exchange Commission audit clients, this time with a whopping 36 net new clients -- the result, largely, of a number of major mergers the firm completed over the summer.

In late June, the Chicago-based firm, which ranks No. 8 on *Accounting Today's* Top 100 Firms list, announced three major additions, bringing on board Alaska-based Mikunda, Cottrell & Co., Minneapolis-based Moquist Thorvilson Kaufmann LLC, and a number of members of the banking practice of Northeast Top 100 Firm ParenteBeard. The mergers, which were all effective July 1, were expected to bring the firm to around $800 million in revenue, and also gave it a huge bump in SEC clients. The group from ParenteBeard brought in over 20 new clients alone -- all, obviously, banks and other financial institutions.

▶ Read more

BDO USA ASSURANCE PRACTICE

BDO USA's Assurance Practice delivers comprehensive, independent, efficient, and effective audits of financial statements, including those that are integrated with an audit of internal controls. We also provide quality assurance services to help ensure that our clients' financial statements meet the complex regulatory and business requirements under which they function.

At the core of our service philosophy is a commitment to proactively communicate with our clients and their audit committee, or others charged with corporate governance, about issues and information that impact their company and industry.

For non-audit clients, we provide a broad range of advisory services including assistance with internal audit, risk advisory, internal control design and testing, and other accounting services.

Among the other major firms (see "*Q3 2013 Client Gains & Losses*"), Deloitte, Marcum and BKD all followed up **BDO**, with two net SEC clients each....

COMPLIANCE WEEK

THE AGE OF THE BILINGUAL ACCOUNTANT

November 19, 2013

The accounting convergence movement may be waning, but that doesn't mean international accounting rules are any less relevant in the United States. In fact, their importance is growing, according to those who say companies should be as committed as ever to learning and understanding the international rule book...

After the Financial Accounting Standards Board and the International Accounting Standards Board complete their cornerstone convergence projects to reduce differences between U.S. and international rules in revenue recognition, leasing, financial instruments, and insurance, the boards will pursue further improvements to their respective accounting standards independently. Neither board is prepared to take up new projects in tandem with the other.

FASB Chairman Russ Golden has said in recent speeches that FASB needs to evolve beyond the bilateral convergence process and focus its efforts on improving GAAP for the sake of GAAP users. "I envision a long-term, global standard-setting environment in which FASB, IASB, and other major capital market standard setters co-exist and cooperate with the stated goal of issuing converged standards, while also addressing the specific needs of the capital markets for which they set standards," he said...

All of this is not to say that the convergence movement will be dead forever, once the

major standard setters finish the current slate of convergence projects. **Lee Graul, a partner at BDO USA**, is convinced that the convergence movement will eventually catch its second wind. "At some point in the future, we will come back to this concept that one GAAP around the world would be a good idea," says **Graul**. "The world is getting smaller all the time."...

REUTERS

ACCOUNTING & COMPLIANCE ALERT

GAAP's Measurements for Financial Instruments May not Match Up with IFRS

Saying a key piece of the joint classification and measurement model it was developing with the IASB was too complicated to work, the FASB on December 18, 2013, abandoned this part of the project and took steps to develop something new.

The decision was part of the board's effort to complete what once was a global effort to promote consistent measurement of increasingly sophisticated financial assets and liabilities—a top priority in the wake of the 2008 financial crisis. If the FASB finalizes its December 18 decision, however, it is unlikely a worldwide accounting standard will come to fruition.

"I don't think there's any real chance of convergence right now," said **Adam Brown, national assurance partner at BDO USA, LLP**.

The FASB's main stumbling block with the joint classification and measurement effort was the very problem the project sought to combat: Complexity.

The proposal grouped financial instruments into three measurement categories—amortized cost, fair value with changes recorded in net income, and fair value with changes recorded in other comprehensive income. Instruments are assigned to categories based upon their cash-flow characteristics and the business model they serve. The December 18 decision dealt with the cash-flow characteristics test.

The test sounds simple, but banks and auditors told the FASB that the test would be impossible to implement in real life, given the way it's described in Proposed Accounting Standards Update (ASU) No. 2013-220, *Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*...

COMPLIANCE WEEK

GOODWILL IMPAIRMENTS SPIKED LAST YEAR

November 26 2013

More companies are finding that they probably paid too much for their past acquisitions.

Charges to reflect business purchases gone south jumped to $51 billion last year, driven by a handful of major calamities with acquired companies and a growing number of smaller ones.

Goodwill impairments appear on corporate balance sheets primarily when companies true up the carrying value of a business they acquired because its value hasn't held up to the purchase price. In accounting parlance, that means the fair value of a reporting unit, or the business acquired, has fallen below the carrying value at which it is held on the books.

A recent study shows 235 public companies took such markdowns in 2012 to the tune of $51 billion, up 76 percent from 2011, when 227 companies recorded impairments totaling $29 billion. The study comes from investment bank Duff & Phelps and Financial Executives Research Foundation. It shows 43 percent of U.S. public companies carried some goodwill on their balance sheets in 2012, and 10.5 percent of those companies wrote down the value...

The study also revealed companies have not eagerly jumped into using a new method provided under accounting rules that was intended to make it easier to identify when an impairment charge might be warranted. The Financial Accounting Standards Board established a qualitative test companies can use to help them determine if they might have a goodwill impairment to record to spare them the more detailed calculations that can lead to a full fair-value analysis. The accounting standard was adopted in late 2011, making the optional test new for the 2012 reporting year.

Read more

The study data says only 16 percent of public companies opted to apply the new test while 45 percent said they preferred the quantitative test and decided to stick with it; 13 percent said they considered the qualitative test but decided it wouldn't be cost effective, and an equal number said they considered it but wanted more guidance....

In some cases, smaller public companies with only a single reporting unit might also find it easier to apply the quantitative test rather than the new qualitative one, says **Adam Brown, a partner with BDO USA**. "Your public stock price is going to be a strong and reliable indicator of what the fair value is compared to the book value," he says. "When you have that, you already have some pretty strong evidence for the quantitative test. It could be more efficient."

Macroeconomic and industry conditions appear to have improved relative to the 2012 Survey. The proportion of respondents citing factors specific to the reporting unit as the reason for taking an impairment has increased from the prior year's survey, nearing 60% of companies in the 2013 Survey.

COMPLIANCE WEEK

PRIVATE COMPANY ACCOUNTING CHANGES SPARK DEBATE OVER SIMPLIFICATION

December 3, 2013

The move to create exceptions to accounting rules for private companies is sparking a debate over simplification, with purists on one side fretting over a dual set of rules, and others pushing for more simplification for public companies too.

The Financial Accounting Standards Board wrote a new chapter in accounting history recently when it approved two changes to Generally Accepted Accounting Standards to provide private companies with exceptions to existing accounting rules related to goodwill and hedging.

The changes, recommended by FASB's new Private Company Council, allow private companies to bypass complex hedge accounting for certain interest rate swaps and to write down goodwill in equal amounts over 10 years in place of complex testing and measurement of goodwill impairment. If testing becomes necessary, private companies will be allowed to apply a much simpler equation to determine whether the writedown should be adjusted....

Differences in how accounting standards are applied might require users of financial statements to take a closer look at each company's accounting policy disclosures, says **Chris Smith, a partner with BDO USA**. "Users will have to be aware of those if they want to compare public company and private company financial statements, and it's not a bad thing to get people focusing more on those disclosures." Yet he's concerned about the burden that public companies will bear. "Private company financial statements have a way of creeping into filings with the Securities and Exchange Commission," he says.

The divergence of rules for public and private companies could also complicate merger and acquisition activity. When a public company is acquiring a private company, or when a private company is an equity-method investee in a public company, those private company financial statements may be needed in SEC filings. "When there are differences between GAAP used by private companies and what is accepted by the SEC, that burden usually falls on the public company to make sure it is converted," **Smith** says...

CONTACT:

JAY DUKE
214-665-0607 / jduke@bdo.com

BRIAN ECCLESTON
212-885-8220 / beccleston@bdo.com

BILL EISIG
301-634-4923 / weisig@bdo.com

ALBERT LOPEZ
305-381-8000/ alopez@bdo.com

FRED ROZELLE
248-244-6544 / frozelle@bdo.com

CHRISTOPHER TOWER
714-668-7320 / ctower@bdo.com

CHRIS SMITH
310-557-8549 / chsmith@bdo.com

LEE GRAUL
312-616-4667 / lgraul@bdo.com

WENDY HAMBLETON
312-616-4657 / whambleton@bdo.com

SUE LISTER
212-885-8375 / slister@bdo.com

www.bdo.com