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I hope this issue of The Quality Standard finds you rested and relaxed after the recent holiday season. The past year certainly has been action packed with respect to standard setting activity. There were many interesting developments, and their resolution is likely to be the driver for newsworthy items in 2012. Here is a recap of some of the more interesting news from the standard setters.

Accounting Standard Setting

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB)

continued to struggle with the big three accounting standards: revenue recognition, leases and financial instruments. 2011 began with the expectation of issuing all three standards by the end of the year, yet none of them was actually issued. Revenue recognition was significantly revised with improvements and re-exposed for comment in November. The boards expect to finalize deliberations on the lease standard sometime before the end of the second quarter, which will lead to re-exposure of that standard. With respect to financial instruments, the boards continue to struggle with consensus. Stay tuned.

As to the convergence strategy in general, the boards have decided that as a long term strategy it has run its course. They will no longer be working on standards in parallel, seeking common ground. Going forward, they are likely to adopt the so-called “condorsement” approach favored by the SEC. Under condorsement, the IASB will take the lead in standard setting with FASB playing an active role. After issuance by the IASB, the FASB will decide whether the standard is acceptable for the U.S. and endorse it, thus becoming part of U.S. GAAP. The endorsement process will be subject to the FASB’s due process.

Private company accounting standards received quite a bit of attention with the Blue Ribbon Panel issuing its suggestions as 2011 began. The Financial Accounting Foundation (FAF), which is the FASB’s oversight board, evaluated the Blue Ribbon Panel and made its own recommendation in October. The centerpiece of FAF’s proposal is the creation of a Private Company Financial Reporting Improvement Council that will function in much the same way as the Emerging Issues Task Force. The Council will consist of 11-15 members and be chaired by a FASB board member. FASB board members would attend the Council meetings. The Council would undertake deliberations on matters affecting private company standards and make recommendations to the FASB for differences, which would be approved by FASB. The FAF has been seeking comment on their proposal and expects to decide the matter in the first quarter of 2012.

Concurrently, the FASB has established a Private Company Resource Group to work with the FASB staff to develop a framework by which proposed accounting standard differences for private companies could be evaluated. I have had the privilege of serving with the Resource Group and it has provided a wonderful opportunity for ParenteBeard to advocate for the concerns of our many private company clients. The proposed framework is expected to be released for comment sometime after the FASB’s decision about the Council.

Auditing Standards

As discussed in John Malahoski’s column in this issue, the Auditing Standards Board completed its Clarity Project in 2011. Your ParenteBeard partners and team members will spend much of 2012 educating themselves and our clients about the new standards and the expected changes for our 2012 year end audits.

Public Company Accounting Oversight Board

Finally the PCAOB, under the leadership of its new chairman James Doty, has used a bully pulpit to advance several controversial concepts. These include a proposal for radical changes in the standard auditors’ report, designed to improve the communications that auditors have with their ultimate “customer,” the investing public. Ideas already floated are the required and increased use of emphasis of matter paragraphs in the report, which would direct users’ considerations of risky accounts or measurements. Another is for the creation of an auditors’ discussion and analysis (ADA) report, which would be a free form report in which auditors would present their unscripted views of the company. In addition to the auditor report changes, Chairman Doty has also been discussing the issue of auditors’ objectivity and how it might be improved. Notably this may be with the idea of mandatory audit firm rotation, which is an idea that has been discussed periodically for decades. Many believe that the cost of such rotations would far exceed any perceived benefits and in some cases would lead to more risk of audit failures. These controversial topics are likely to receive much more attention in 2012, as the PCAOB decides whether or not to actually propose related auditing standards.

We look forward to covering these developing stories over the next year and providing you with useful information and insight that will help inform your financial reporting decision making. Please reach out to your ParenteBeard professional or any member of our Quality Team with questions, comments or recommendations for future commentary.

Best wishes for a prosperous 2012!



Accounting Standards Update 2011-09 Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80), Disclosures about an Employer’s Participation in a Multiemployer Plan



By Donna M. Massanova, CPA
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Employee Benefit Plans

Multiemployer pension plans are unique in that assets contributed by one employer may be used to provide benefits to employees of other participating employers. This is possible because the assets contributed by an employer are not specifically earmarked to its employees. Therefore, if a participating employer is not contributing to the plan in accordance with its prescribed requirements, the unfunded obligations of the plan may be borne by the remaining participating employers. If a participating employer chooses to stop participating in the plan, the withdrawing employer may ultimately be required to pay a final payment to the plan referred to as the “withdrawal liability.”

Disclosure requirements for reporting employers’ participation in multiemployer pension plans have historically been limited to contributions made to the plan. Transparency as to the employers’ risk or commitment was not a required disclosure nor was the financial health of the pension plan. The Financial Accounting Standards Board (FASB)’s goal is to provide guidance for greater transparency in financial reporting about employers participating in these multiemployer pension plans. This transparency will increase the awareness of the commitments presented due to participation and provide for potential future cash flow implications of participation.

Accounting Standards Update 2011-09 *Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80), Disclosures about an Employer’s Participation in a Multiemployer Plan*, which applies to all nongovernmental entities participating in multiemployer plans, aims to provide this guidance by defining the additional disclosure requirements for employers participating in multiemployer plans.

This Update will require that employers provide additional separate disclosures for multiemployer pension plans, and multiemployer other postretirement benefit plans. Quantitative and qualitative disclosure will be required for these plans. In respect to multiemployer plans where public information of the plan is accessible from outside sources, such as the plan’s annual report (Form 5500), the following detailed disclosure is required:

- > Identify significant multiemployer plans in which the employer participates to include plan names and identifying number
- > Provide level of an employer’s participation, including the employer’s contributions made to the plan and if the employer’s contributions represent more than 5% of the total contributions made to the plan by all contributing employers
- > Disclose financial health of the significant multiemployer plans including funded status, funding improvement plans pending or implemented, and if the plan has imposed surcharges on the contributions to the plan
- > Describe the nature of the employer commitments to the plan to include the collective bargaining agreements that require contributions, when these agreements are set to expire and if minimum contributions are stipulated in these agreements

With respect to multiemployer plans where public information of the plan is not accessible from outside sources, the following disclosures are additionally required:

- > Description of the nature of the plan benefits
- > Qualitative description of the extent to which the employer could be responsible for the obligations of the plan, to include benefits earned by employees of another employer
- > Other quantitative information, such as total plan assets, actuarial present value of accumulated plan benefits and total contribution received by the plan

Unchanged by this Update are current recognition and measurement guidance for an employer's participation in a multi-employer plan that requires recognition of required contributions to the plan as pension or other postretirement benefit cost for the period and also recognize a liability for any contributions due at the reporting date. This Update also does not change the requirement of an employer to apply recognition, measurement and disclosure provisions in Topic 450 if an obligation due to withdrawal from a multi-employer plan is either probable or reasonably possible.

This Update is effective for public entities for fiscal years ending after December 15, 2011 and for nonpublic entities for fiscal years ending after December 15, 2012.

Clarified Auditing Standards

By John J. Malahoski
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The AICPA Auditing Standards Board (ASB) has completed a significant step in its project to clarify auditing standards for auditors of private companies, with its recently issued Statements on Auditing Standards Nos. 122-124 clarifying the majority of auditing standards.

The Clarity Project was undertaken in 2004 to clarify and converge U.S. Generally Accepted Auditing Standards with International Standards on Auditing. In doing so, the ASB decided to make existing U.S. auditing standards easier to read, understand and apply. The redrafted standards are known as the "clarified standards."

The Clarity Project is the first recodification of U.S. professional auditing standards since 1972. The ASB used special drafting conventions to create the new standards. Each standard includes an introduction, objective, definition, requirements and application and other explanatory material sections. Where appropriate, the standards contain special considerations relevant to audits of both smaller, less complex entities and governmental entities.

While existing standards were redrafted and reorganized for clarity, some significant changes will occur. One area is the format of the auditors' report which will require headings that distinguish each section of the report. There will be separate paragraphs describing management's responsibility for the financial statements and the auditor's responsibility. Those responsibilities are currently included within the introduction paragraph. The standard report will contain four paragraphs rather than three: (1) introduction; (2) management responsibilities; (3) auditor responsibilities; and (4) opinion. A fifth paragraph will be required if the report is other than unqualified.

Another significant change will apply to group audits which consist of components audited by other auditors or a different office of the same firm. The clarified standard requires more extensive and separate risk and materiality assessments for each component of a multiple-entity audit.

The clarified standards are effective for periods ending on or after December 15, 2012.



What's On Your Mind?

We're always interested in hearing from you – your ideas for content are a welcome guide for the future direction of The Quality Standard.

Your opinions and/or feedback are important to us.

To share ideas, please email editor Jennifer Goldsmith at Jennifer.Goldsmith@ParenteBeard.com.

Thank you!



Sharing Information with You

At ParenteBeard, we share our business expertise in a wide range of industries in seminars and conferences held throughout the year.

In 2012, you can count on us to continue to provide the ParenteBeard perspective on the issues, challenges and opportunities that matter most to your business.

Stay tuned for more information in coming issues of The Quality Standard. Your ParenteBeard team will also keep you updated on upcoming events of interest.

Readers should not act upon information presented without individual professional consultation.

The Quality Standard is produced by our National Quality Assurance Team

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