

COMPLIANCE WEEK

FASB Guidance; PCAOB Fees Stalled; More

By Tammy Whitehouse — May 8, 2007

The Financial Accounting Standards Board has completed its staff position defining what an “ultimate settlement” is when determining whether a tax position is fully settled with tax authorities. Also, FASB issued a separate final staff position updating and tweaking guidance related to derivatives transactions.



Meehan

The staff position puts to rest some of the uncertainty that surfaced during FIN 48 implementation by establishing that a company need not have formal, legal settlement with a taxing authority to recognize an uncertain tax benefit, says Dan Meehan, a tax partner with J.H. Cohn.

“This FSP clarifies that the legal settlement is not necessarily determinative, but still requires judgment in evaluating whether the tax authorities would further examine the issue,” he says. “It would generally place more reliance on the tax professional to determine based on all relevant information if the matter has reached an effective settlement.”

FASB’s derivative-related position issued last week updates guidance contained in Financial Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, to update derivative terminology, but more importantly to require a consistent approach in the accounting for multiple contracts under master netting agreements, says Thomas Reese, director for FTI Consulting.


Under master netting agreements, entities may have multiple offsetting contracts with one another but can elect to account for them using a net figure instead of gross figures characterizing each contract individually. The recent staff position says if an entity is giving a net figure for its derivatives, it must also use a net figure to describe the related cash collateral, Rees says.


The staff position will have the greatest impact on energy or banking concerns, Rees says, where complex derivatives and master netting agreements are more common. “Ultimately, it more accurately portrays what the credit exposure is from the contracts,” he says. “When a company nets the amounts owed to the derivatives at fair value and comes up with one amount, then it also has to net the cash collateral provided as well.”


Brian Markley, managing director for CFO services firm SolomonEdwards Group, says an increasing number of companies are entering into derivative contracts like swaps over


Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, requires companies to begin showing more clearly in their financial statements where they have some uncertainty about tax positions and whether those positions will hold up under examination. In the final staff position issued last week, FASB says a position is considered settled (and, therefore, certain) if it has been examined by the relevant tax authority, the company has no plans to appeal or litigate the outcome, and the company considers it unlikely the tax authority would revisit the position within the statute of limitations.

RELATED RESOURCES

 Definition Of Settlement In FASB Interpretation No. 48 (May 2, 2007)

 Amendment Of FASB Interpretation No. 39 (April 30, 2007)

 FASB Interpretation No. 48 (June 2006)

 FASB Interpretation No. 39



Markley

the past several years. The new guidance will take away some of the diversity in practice, he says.

(March 1992)

PCAOB Delays Annual Reporting Process To Tweak Rules

The Public Company Accounting Standards Board hasn't yet finished its proposed rules to govern an annual filing and fee collection process for registered audit firms, so the effective dates it originally mapped out in its May 2006 proposal are moot, the Board said in a recent statement.

Currently, firms that want to audit public companies must register with the PCAOB and pay a one-time registration fee. The proposed rules would establish an annual reporting and fee payment process. Sarbanes-Oxley provides that registered accounting firms would submit an annual report to the PCAOB and may be required to report more frequently.

According to the original timeline, the Board would have established an initial filing deadline of June 30, 2007, which would have triggered a fee payment due date of July 31, 2007. The Board didn't establish any new projected effective dates, except to promise it "will set deadlines with sufficient lead time to allow firms reasonably to be able to comply."

Comment letters, submitted primarily by the major audit firms who would be subjected to the reporting requirements, focus largely on the nature of information that firms would be required to provide and the timing related to the reporting period. Firms say some of the information the Board proposes to gather would be redundant, irrelevant, or poorly timed with the firms' typical audit and billing cycles.

As for fees, firms pay a one-time registration fee based on the number of public companies they audited in the previous year. The fee starts at \$250 for firms that audited nothing in the prior year and rises to \$390,000 for firms that audited more than 1,000 public companies in the prior year. Under an annual fee structure, fees likely would be set at some nominal level simply to cover the cost of the reporting and updating process.

RELATED RESOURCES

PCAOB Update: Reporting And Fee Status (April 26, 2007)

Registered Accounting Firms' Periodic Reporting Rules (May 23, 2006)

Commentary On PCAOB's Proposed Rules (August 11, 2006)

PCAOB Seeks Nominations for Standing Advisory Group

The PCAOB is looking for new members to join its Standing Advisory Group beginning in January.

The Board created the advisory group in 2003 to serve as a sounding board for various audit regulatory concerns and to help prioritize where regulators should focus their rule-making attention. The panel takes in professional expertise in accounting, auditing, corporate finance, corporate governance, and investing in public companies.

For 2008, the board seeks to fill 15 positions on the 31-member panel, installing new members under a two-year term. The nomination and appointment process occurs annually and the group meets about three times a year.

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Standing Advisory Group Page


Nominations will be accepted through June 15 with appointments announced in October.

FASB Warns Against Sales Calls Claiming SOX Solutions

Beware the shady sales call promising accounting solutions straight from accounting rule makers themselves.

FASB says someone posing as a staff member is hawking materials that claim to comply with Sarbanes-Oxley. FASB doesn't hire out consulting services to companies or accounting firms, nor does it sell accounting products or software.

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 [FASB Warns Against Sales Calls Claiming SOX Solutions](#)

The Financial Accounting Foundation, which oversees FASB, says it has received calls from companies saying they'd been subjected to the bogus sales calls, so it issued a notice reminding the public that they're not moonlight. "The FAF has brought the matter to the attention of the U.S. Securities Exchange Commission and law enforcement and strongly urges constituents who are subjected to this scheme to contact their local authorities," according to FASB's statement.

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