by Ellen M. Heffes

FEI CEO's 2009 Top Challenges for Financial Executives

As financial executives of both public and private companies absorb the events of 2008 and look ahead at what's in store this year, Financial Executives International CEO and President James J. Abel has compiled the following list of the *Top Challenges for 2009* — in no particular order:

■ **Global Economic Crisis.** Top-of-mind will be the continued fallout from the economic crisis that had its early beginnings in the subprime market crisis, which was identified as one of last year's *Top Challenges*. Companies will continue to assess the impact of this situation on their businesses, including the ability to access capital, while speculating how long it will last and what changes will need to be made, if any.

It is also likely that Congress will look to increasing regulation of the financial markets, with the securitization process and credit-rating agencies as potential targets. Regardless of company size or structure, these are challenging times for corporations and individuals, leaving many hoping that the new administration under President Barack Obama will provide solutions.

■ **Fair Value Measurements.** Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), was effective for financial assets and liabilities for fiscal years beginning after Nov. 15, 2007. The standard will become applicable for remaining nonfinancial assets and nonfinancial liabilities, effective for fiscal years beginning after Nov. 15, 2008.

In addition to the implementation of "phase 2" for nonfinancial assets and liabilities, there was continued focus late last year on the significant impact of FAS 157 on the balance sheets of financial institutions and its potential role in the resulting bankruptcies, unprecedented government intervention and numerous resulting mergers.

Additionally, as a result of the Emergency Economic Stabilization Act of 2008, the U.S. Securities and Exchange Commission is reviewing FAS 157 in light of recent market developments to determine what, if any, modifications need to take place to ensure that the application of the standard has not inadvertently created unforeseen consequences. FASB and the International Accounting Standards Board are also holding roundtables and conducting research.

■ **Business Taxation.** Key policymakers initiated dialogue on several high-stakes tax issues last year, and it is likely that tax reform, including a focus on the corporate tax rate, will garner much attention. Individual tax rates, the individual alternative minimum tax and many other tax-policy issues that impact pass-through entities will likely be the subject of debate in Congress as well.

The tax community continues to express concern that Congress may pursue efforts to eliminate or greatly curtail "deferral," the policy that allows U.S. multinationals to defer paying taxes on foreign-source income until it is brought stateside.

Additionally, Congress may pursue other anti-business tax proposals as well to "pay for" individual tax breaks and/or increased government spending. They include: placing deductibility limits on deferred compensation; codifying the economic substance doctrine; and eliminating last-in, first out (LIFO) accounting.

Also, any discussion of tax policy at this time is further complicated by the current economic crisis and record-high federal budget deficit.

■ **XBRL (eXtensible Business Reporting Language) and Other Technology Considerations.** Last year, the SEC issued a proposed rule that would require most U.S. registrants to furnish XBRL-based financial reports and schedules as an exhibit to their registration statements, periodic filings and transition reports. This requirement was drafted to be phased in over three years, with the largest registrants having to comply for periods ending on or after Dec. 15, 2008. At press time, the SEC had yet to finalize the rule, but the commission clearly made XBRL a focus last year. Its future this year will be under great scrutiny.

In mid-2008, the SEC also announced its *21st Century Disclosure Initiative*, which will continue to progress. This project contemplates improvements to the SEC filing and disclosure system, including considering a potential move to an interactive company file system.

■ **Global Convergence of U.S. GAAP and IFRS.** The SEC continued to move ahead last year with acknowledging a potential future for U.S. companies to adopt IFRS by issuing a proposed roadmap for the potential use of financial statements prepared in accordance with IFRS by U.S. issuers.

The document, currently out for public comment by Feb. 19, outlines a timeline for phasing in mandatory IFRS filings by U.S. public companies beginning for years ending on or after Dec. 15, 2014. It also provides for some to "early adopt" IFRS, which presents pros and cons in potentially having to maintain two sets of books (in both U.S. GAAP and IFRS) during the early-adoption period.

"Success" of the roadmap is dependent on progress toward various "milestones," including: improving IFRS; satisfactory accountability and funding of the International Accounting Standards Committee Foundation; progress in education and training; and improved ability to benefit from IFRS reporting in XBRL.

Separately, from the private-company perspective, IASB is finalizing "IFRS for Private Entities," which may be considered by U.S. private companies as well. While questions still remain regarding how the roadmap will evolve, it is a helpful starting point for companies as they consider the path to convergence.

■ **Business Combinations.** The long-anticipated standard — jointly issued by FASB and IASB — on Business Combinations (FAS 141R), becomes effective for calendar year 2009 reporting. Officially, it applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after Dec. 15, 2008.

Among the myriad of changes: contingent assets and liabilities associated with an acquisition would be recognized at the date of the acquisition at fair value, with any subsequent changes reflected in earnings (not as an adjustment to goodwill); research and development costs would be capitalized at the date of acquisition; acquired accounts receivable would be recognized at fair value (that is, no separate allowance for doubtful accounts); and all acquisition-related costs paid to third parties would be expensed as incurred.

Significantly, this standard will be the first test of U.S. acceptance of a major FASB/IASB joint standard. And before even being effective — in light of the focus on the economic crisis as well as concerns regarding fair value measurement — some have requested a formal delay of the effective date.

■ **Financial Statement Presentation.** On Oct. 16, 2008, IASB and FASB jointly published for comment a discussion paper (DP), *Preliminary Views on Financial Statement Presentation*. The comment period ends April 14. This document sets out significant changes to the structure and presentation of the basic financial statements, including a move to organize the components of the statement of financial position, comprehensive income and cash flows by major activities: business, financing, income taxes, discontinued operations and equity.

The new presentation would call for substantial disaggregation, additional reconciliation models and the elimination of the use of the indirect method for calculating cash flows. A final standard is not expected until 2011, but with the significance of the changes being considered, companies should review the DP and provide comments early on in the process before a final standard is released.

■ **Complexity in Financial Reporting.** Last fall, the SEC Advisory Committee on Improvements to Financial Reporting (CIFiR) finalized its recommendations intended to increase the usefulness of financial information to investors as well as reduce the complexity in financial reporting.

Key recommendations include the development of a short executive summary to be included in a company's 10-K filing, development of key performance indicators and further refinements to FASB's standard-setting process. These refinements include: recognizing the pre-eminence of the perspective of the investor; increased use of field-testing; and the use of post-adoption standards reviews.

The report also recommends moving away from bright-line tests and industry-driven guidance, as well as proposed revisions to guidance on materiality and error correction to assist in reducing the occurrence of financial restatements.

Lastly, CIFiR indicated the need for a development of a "disclosure" framework as well as the development of SEC and Public Company Accounting Oversight Board statements on how each evaluates the reasonableness of the use of accounting and audit judgments.

It is expected that the SEC, FASB, PCAOB and others will move ahead this year in the development of rule-making and process changes related to these recommendations.

■ **Controls and Risk Management.** The SEC, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and PCAOB each have on their agendas this year internal control and risk-management issues. This will mark the first year that *Auditing Standard No. 5 on Internal Controls* and related SEC management guidance will be applied by all public companies as nonaccelerated filers will be required for 2009 calendar year-end reporting to include an auditor's attestation of internal controls in their SEC filings.

Also, early this year, COSO is expected to finalize its *Guidance on Monitoring Internal Control Systems*. Lastly, PCAOB has released for public comment a series of seven proposed auditing standards related to the auditor's assessment of and response to risk, with comments due Feb. 18. With its enactment in 2002, Section 404 of The Sarbanes-Oxley Act has created an extensive focus on internal control and risk assessment, which will continue to be of interest.

■ **Employee Benefits Issues.** The current economic turmoil is driving added focus on the rising cost of providing employee benefits such as health-care and retirement plans.

Pension-plan funding considerations in light of the tremendous loss in asset values in most asset categories will be of great concern early this year. The significant market decline will likely have a substantial impact on companies' balance sheets, 2009 minimum funding and income-statement consequences.

Companies will need to prepare for potential additional cash needs for plan funding as well as additional disclosures related to the impact, if material, for their 10-K reporting. Additionally, managing rising health-care and insurance costs will present significant challenges.

■ **Climate Change Legislation and Regulation.** This is a "one-to-watch item." The prospect of U.S. corporations operating in a carbon-constrained economy presents a myriad of considerations. It is likely that many U.S. businesses will have to deal with some level of regulation or legislation on reducing carbon emissions in the future.