

Update on Small Business and Financial Reporting Committees

The Financial Reporting Committee and Small Business Financial and Regulatory Affairs Committee are forging ahead on issues important to IMA members and are making a difference.

Since my last update, IMA's Financial Reporting Committee (FRC) and Small Business Financial and Regulatory Affairs Committee (SBC) have been addressing issues that impact the management accounting profession.

FRC Update

In recent years, the Financial Reporting Committee has been composed of 20-25 members from various accounting backgrounds. While the FRC meetings focus predominantly on evolving financial reporting standards, the Committee's March 2009 meeting also included a renewal of the Committee's charter. FRC Chair Mick Homan led the review of the charter, which focused on the size and composition of the Committee along with the primary activities and participation expectations of Committee members. The general consensus among FRC members was that the mix should be a representation of the broader IMA membership. Therefore, they revised the charter to state that the

Committee will seek to have an active membership of 20-25 professionals, with representation from financial statement preparers, auditors, academia, and other experts in the financial reporting or analyst field. Given IMA's demographics, approximately 60% of the Committee members will be from public companies and have financial statement preparation responsibilities, and the balance will be accounting professionals in the other fields.

The Committee also usually gets a technical update from members and staff of the Financial Accounting Standards Board (FASB) at each meeting. In March 2009, FASB members Leslie Seidman and Marc Siegel discussed fair value accounting. Their update was particularly timely because a few weeks later, at an April 2 Board meeting, the FASB voted on the revision of guidance related to fair value accounting when a market isn't active or market transactions are distressed. The proposed revised guidance would amend the original guidance incorporated in Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." The FRC has written various comment letters to the FASB, expressing their

concerns about guidance the Board issued on fair value accounting. You can find these letters on IMA's website at www.imanet.org under External Relations/Professional Advocacy/Financial Reporting Committee.

Leslie and Marc also provided updates about the FASB Codification project. This project focuses on reorganizing the presentation of the FASB's existing standards and related authoritative literature into a topical format, available online, that would help accounting professionals with research capabilities. The one-year verification phase that began in January 2008 ended recently. During the verification phase, constituents were encouraged to review pronouncements and other authoritative literature in the Codification format on the FASB's website (www.fasb.org) and then provide comments. The Codification goes live this month.

FRC members offered their support for the project during their annual meeting with the FASB in September 2008, but they also expressed concern that constituents within the accounting profession weren't provided enough information about the project to feel comfortable with using the mechanism to perform

research projects in a transparent manner. At that meeting, Bruce Pounder, liaison to the FRC and chair of the SBC, announced that he was providing updates to his clients about the project through webinars. That gave me the idea to ask him to talk to members about the project during an IMA “Inside Talk” webinar, which he did in February 2009. You can download the webinar from archived files on IMA’s website under Professional Development/Webinar Library. Bruce also wrote about the Codification project in his Financial Reporting column in the October 2008 issue of *Strategic Finance*.

There are a number of other current and future FASB projects that the FRC will monitor and attempt to influence in a positive manner through future dialogue with the FASB and the submission of comment letters. One such project is about revenue recognition. The FASB and the International Accounting Standards Board (IASB) have issued a joint discussion paper on this topic. The comment period ended June 19, 2009, and the Boards will consider responses to the discussion paper from constituents and develop an exposure draft for a single recognition standard that companies can apply consistently across various industries and transactions. The Boards expect to publish an exposure draft in 2010 that would result in a final standard by 2011.

Another project the FASB is looking into is accounting issues related to leases. The focus will be accounting issues that impact lessees in a lease agreement. Also, there may be some consideration to treat operating leases in a similar

manner as capital leases, which would result in balance sheet accounting treatment for many arrangements currently treated as operating leases. The FASB is concerned about symmetry with lessor accounting as a result of changes being considered for lessee accounting. On March 19, 2009, the FASB and the IASB issued a discussion paper titled “Leases: Preliminary Views.” The comment period ends July 17, and the Board plans to publish an exposure draft in 2010 with a final standard issued by 2011. The FRC and the SBC commented on projects related to revenue recognition and leases.

SBC Update

The Small Business Financial and Regulatory Affairs Committee is committed to expanding its horizon beyond its original initiative of external advocacy.

In general, the SBC has been functioning as an advocate for financial standards, laws, rules, and regulations that don’t burden smaller companies disproportionately. Members address issues that *aren’t* addressed by the FRC and then comment on issues that *are* addressed by the FRC but from a small business perspective. For example, the FRC expressed its views about the FASB’s Codification project, and the SBC wrote a comment letter to the Board about an exposure draft related to the Codification project, “The Hierarchy of Generally Accepted Accounting Principles.” You can read the letter on IMA’s website at www.imanet.org under External Relations/Professional Advocacy/Small Business Financial and Regulatory Affairs Committee.

The Committee also is following the Employee Free Choice Act, which may result in a change in the current labor laws. Some SBC members have expressed concern that small companies could have challenges with union negotiations under the proposed legislation.

During the Committee’s October 2008 meeting, the group discussed whether it should focus on small business issues in addition to external advocacy. The SBC would like to help IMA with its efforts in professional education and identify other services that IMA can provide to members. Based on those discussions, Bruce Pounder selected two Committee members, Cindy Stark-Jones and Marc Palker, to present a proposal to IMA’s Governance Committee explaining how IMA would benefit from the SBC addressing issues related to professional education and other IMA services. Cindy and Marc would chair subcommittees developed in those areas.

Proposals presented to the Governance Committee in December 2008 were approved with the understanding that the SBC will function through three subcommittees: (1) External Advocacy, with Jim Smith as chair; (2) Professional Education, with Cindy Stark-Jones as chair; and (3) Other IMA Services, with Marc Palker as chair. The latter two subcommittees would operate within the SBC for one year to determine if that Committee is the right forum to address issues outside external advocacy.

In addition, earlier this year, Audra Mace was appointed the SBC’s IMA Board liaison. The

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Advocacy

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Committee plans to take advantage of Audra's role by relying on her to tell them about issues addressed by IMA's Board that may impact small businesses.

On another note, the SBC had a strong presence at IMA's Annual Conference & Exposition in Denver last month. Several SBC members served as moderators for Brown Bag discussions and educational sessions that addressed small business issues.

Technical Issues Addressed

The Committees have put IMA on the map as an organization that addresses major issues impacting the management accounting profession by submitting comment letters on the Securities & Exchange Commission's (SEC) roadmap for the application of International Financial Reporting Standards (IFRS) by U.S. companies and the FASB's Financial Statement Presentation Project.

Based on comments the SEC receives from constituents regarding the proposed roadmap, the Commission may make a decision in 2011 on whether the adoption of IFRS would be in the public's best interests and would benefit investors in U.S. companies. The proposed roadmap sets out milestones that, if achieved, could lead to the use of IFRS by U.S. issuers in their filings with the SEC. Some of the milestones include: (1) improvements in accounting standards, (2) independence and funding of the IASB, (3) improvement in the ability to use interactive data (eXtensible Business Reporting Language or XBRL) for IFRS reporting, and (4) potential implementation of mandatory use of IFRS, including consideration of any mandatory use to be phased in among groups of companies based on their market capitalization.

The FASB and the IASB also have been involved in a joint project related to financial statement presentation, whose purpose is to establish a standard that will guide the content and presentation of information in financial statements. The results of this project will directly affect how an entity's management communicates financial statement information to users of financial statements, such as present and potential equity investors, lenders, and other creditors. The Boards' goal is to improve the usefulness of the information provided in financial statements to help users make decisions in their capacity as capital providers.

On October 16, 2008, both Boards published for public comment a discussion paper titled "Preliminary Views on Financial Statement Presentation." The FRC and the SBC submitted comment letters to them in response to the Preliminary Views document. You can read the letters related to this project and the SEC's IFRS roadmap on IMA's website under External Relations/Professional Advocacy under the pages for the Financial Reporting and Small Business Financial and Regulatory Affairs Committees.

SBC Needs You

It's that time of the year to identify IMA members who have an interest in participating in volunteer work on behalf of the organization through committees. There's room on the SBC, which currently has 13 members. The Committee wants IMA members to step in and make the commitment to become full-time SBC members or to serve as a resource to the Committee for its work outside external advocacy. If you are interested in doing work with the SBC, please contact me at lmills@imanet.org. **SF**