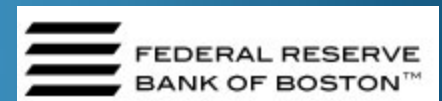


On the Accounting Horizon

Bankers Conference
October 1, 2009

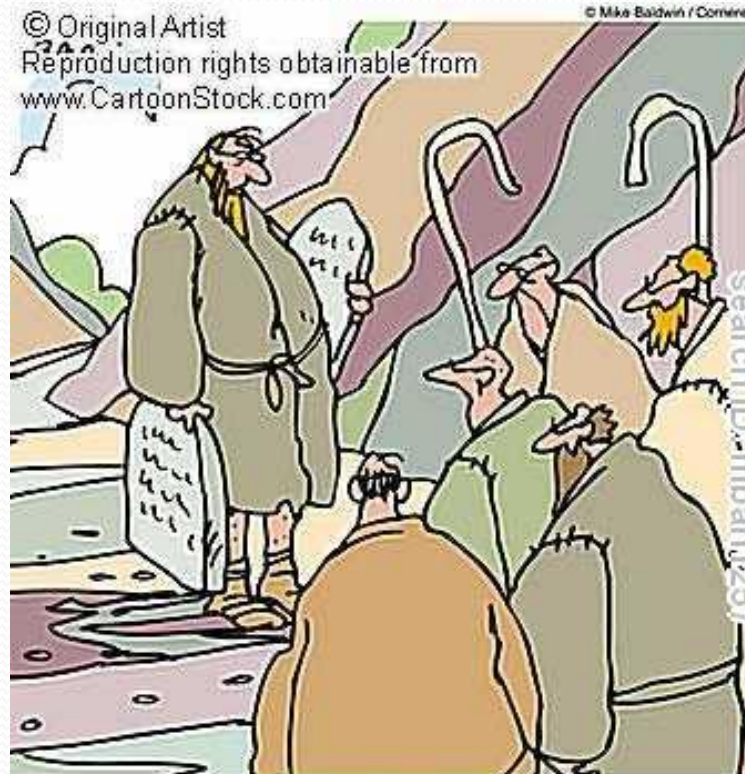
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Disclaimer

The contents of this presentation and views presented today are my own and do not reflect the views or policy of the Federal Reserve Bank of Boston, Federal Reserve Board or Federal Reserve System

Reminder



“The first commandment is: Thou shalt not shoot the messenger.”



Overview



Fair Value Accounting



Off-Balance Sheet Accounting



Financial Statement
Presentation



International Financial
Reporting Standards

Fair Value Accounting

Motivation for Change

- Evolution
 - A
 - In
- Guidance
- Com
- Con



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Fair Value Accounting Debate



- Fair value is a more **relevant** measure for financial instruments providing investors with more transparent, timely and accurate information.
- The current mixed cost measurement model hides or delays the disclosure of important information which produces inefficient market decisions
- A company should be presented as an investment in a collection of assets and liabilities and priced based on net asset value.

Fair Value Accounting Debate



- Fair value can be **unreliable** when markets are illiquid or distressed
- Application of fair value has had unintended consequences
- Assets and liabilities should be presented in terms of a going concern and emphasis placed on realizable returns

Fair Value Accounting

On the Horizon

- Agreement among all standard setters that Fair Value is the only long-term solution to simplify accounting
- Exposure Draft coming in Q1 2010 to recommend that all loans and investment securities including Held-to-Maturity be measured at fair value
- IASB document calling for fair value measurement for all financial instruments except for those with basic loan features that are managed on a contractual yield basis

Off Balance Sheet Accounting

Motivation for Change



Abuse of Special Purpose Entities

Sarbanes-Oxley

Simplified

- 1) Is it accurate?
- 2) Are you sure?
- 3) Can you prove it?

Mike Morley C.P.A.





Sarbanes Oxley - SEC Report to Congress



Financial/Subprime Crisis



Off Balance Sheet Accounting Coming Back On

- Pension Accounting – FAS 158 
- Contingencies - FIN 48, FAS 141(r) 
- Securitizations and participations – FAS 166 
- Off Balance Sheet Entities (SPEs) – FAS 167 
- Lease accounting project

Off Balance Sheet Accounting On the Horizon

- Lease Accounting Project
- Discussion Paper – Lessees must account for their right to use a leased item as an asset and their obligation to pay future rental installments for that item as a liability
- Implications for Banks
 - Balance sheet impacts for operating leases
 - Possible impact to lessor business models
 - Lessor accounting to be addressed in next round of changes

Financial Statement Presentation

Motivation for Change

- A desire to disaggregate recurring from non recurring activity
- A need for better information to project cash flows
- Looking to address questions about the relevance of Net Income and Comprehensive Income

Financial Statement Presentation

On the Horizon

- Joint project with the IASB to revamp the organization and presentation of financial statements
- Three phase project began in 2004
- Phase A – Completed deliberations and issued tentative conclusions in 2007
- Phase B - Discussion Papers issued in October 2008 with 227 comments received
- Phase C – Goal to issue standards by June 30, 2011

Financial Statement Presentation

Discussion Paper

Exhibit 1 Working Format for Presenting Information in the Financial Statements

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business <ul style="list-style-type: none"> • Operating assets and liabilities • Investing assets and liabilities 	Business <ul style="list-style-type: none"> • Operating income and expense • Investing income and expense 	Business <ul style="list-style-type: none"> • Operating cash flows • Investing cash flows
Financing <ul style="list-style-type: none"> • Financing assets • Financing liabilities 	Financing <ul style="list-style-type: none"> • Financing asset income • Financing liability expense 	Financing <ul style="list-style-type: none"> • Financing asset cash flows • Financing liability cash flows
Income Taxes	Income Taxes (related to business and financing)	Income Taxes
Discontinued operations	Discontinued Operations, Net of Tax	Discontinued Operations
Equity	Other Comprehensive Income, Net of Tax	Equity

- Financial Statements should be cohesive at the line-item level
- Classifications would be based on functional activities similar to cash flow statement
- Total Assets/Liabilities, Net Income and Extraordinary Items would be eliminated

International Financial Reporting Standards

Motivating Factors

- Global nature of financial markets
- Push for increased transparency and consistency
- Over 100 countries adopted or moving toward adoption of IFRS

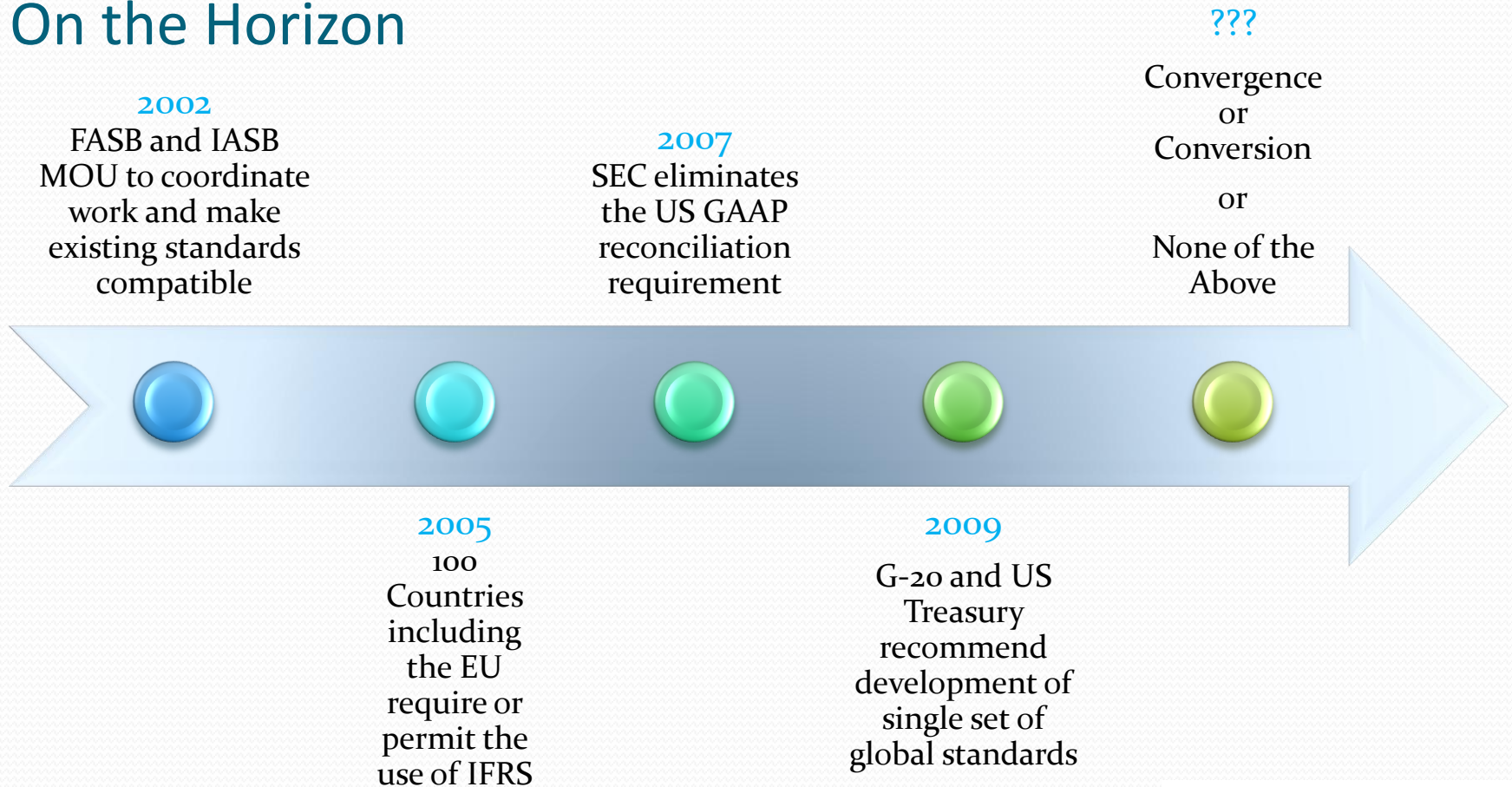
International Financial Reporting Standards

Convergence or Conversion?

- **Convergence** - The development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting achieved through (1) short-term projects to eliminate narrow differences between similar standards, (2) joint long-term projects to develop common standards, and (3) coordinating future technical agendas.

International Financial Reporting Standards

On the Horizon



Questions or Comments?

