

FEI CEO's 2011 Top Challenges for Financial Executives

As has become custom in this issue, Financial Executives International's President and CEO lists key top-of-mind items for financial executives. Here's Marie N. Hollein's list (in no particular order):

>> Economic Recovery and the U.S. Fiscal Outlook. Economic indicators are improving, according to FEI's latest CFO Outlook survey. But many uncertainties remain, such as the effect of the Federal Reserve's quantitative easing program on businesses, concerns over certain aspects of the global economy and the impact federal regulators will have on industry. Unemployment levels are still high, and though credit is available, requirements to obtain it are more stringent.

Serious mid- and long-term fiscal issues are apparent as the debt level approaches \$14 trillion and the country manages a \$1.4 trillion deficit. The debt and deficit were top issues during the 2010 midterm elections and will play a role in policymaking. In December, President Barack Obama's National Commission on Fiscal Responsibility and Reform issued a report highlighting recommendations to achieve \$4 trillion in deficit reduction by 2020.

The commission's plan would cut discretionary spending, reduce tax rates and broaden the base of taxpayers, cut the Pentagon's budget and reform Social Security and Medicare. While the plan didn't garner the votes to get formally recommended to Congress, expect the report to be referenced in policy debates — the first in early February, when President Obama releases his annual budget proposal.

>> Health Care Law. Health care will continue to be a critical issue as the GOP takes control of the House of Rep-

resentatives and regulators add color to the legislation. Employers have already felt the effects of the law as some had to recognize an accounting charge when the tax deductibility of the Medicare Retiree Drug Subsidy was eliminated, coverage of dependent children was extended to age 26 and a restriction of annual maximum benefit limits was implemented.

That Congress will continue debating the merits of the health care reform law and its impact on more than 16 percent of the U.S. economy seems even more possible, considering that many of the freshman members of Congress were elected in the midterms with an anti-health care law platform. It's likely that one of the first acts of the new House leadership will be a largely symbolic vote to repeal the bill — with enough votes in the House to pass the repeal, but the measure would likely stall in the Senate.

Instead, expect many Republicans to push for a piecemeal approach to dismantling or reforming the legislation. First would be a repeal of the 1099 reporting requirement, which has bipartisan support, but disagreements persist on how to pay for it.

There could also be efforts by Republicans to slash funding for the new law through the appropriations process or repealing controversial provisions that are still years from being implemented but are instrumental to the legislation's funding structure. These include the individual and employer mandate, cuts to Medicare and the excise tax on high-cost health plans — the so-called "Cadillac tax."

>> Financial Regulatory Reform.

Though the sweeping Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted last July, its impact may not be fully understood for some time,

as federal regulators begin issuing and implementing rules authorized under the act on provisions from corporate governance to consumer financial protection. With Republicans controlling the House, Dodd-Frank is certain to face intense scrutiny. While a full repeal is unlikely, implementation by regulators will be carefully monitored, and minor changes may be attempted by lawmakers.

Areas likely to be targeted for oversight and tweaks are funding of the consumer financial protection bureau, credit rating agency liability issues and regulation of over-the-counter derivatives markets.

Ensuring that implementation of the act's provisions do not hinder economic growth will be a major focus. To this end, financial executives should be concerned, for example, with guiding regulators toward maintaining exemptions for corporate end-users utilizing derivatives products to effectively manage business risk.

>> Global Convergence of U.S.

GAAP and IFRS. Though the timeline for convergence projects has slowed, companies are monitoring efforts of the Financial Accounting Standards Board and International Accounting Standards Board. All are waiting for the U.S. Securities and Exchange Commission's next steps on whether or not it will permit International Financial Reporting Standards for U.S. publicly-held companies.

The boards recently issued their 3rd Progress Report on the status of convergence projects outlined in their Memorandum of Understanding, which reiterated the 2011 priorities. Key projects slated for completion are those for which a public exposure draft has been issued: financial instruments, revenue recognition, leases, other comprehensive income and fair value measurement.

Additional projects targeted by IASB for June 2011 completion, if not sooner, are: improved disclosures about derecognized assets and other off-balance-sheet risks (aligning with recently issued U.S. GAAP requirements), consolidations (in relation to structured entities) and insurance contracts.

Lesser priority projects include broader financial statement presentation, financial instruments with characteristics of equity, emissions trading schemes, the reporting entity phase of the conceptual framework, consolidation of investment companies and contingency disclosures.

The boards have a lot on their plates as they redeliberate comments from various 2010 EDs on key projects. Companies will consider how converged final standards are in 2011, especially in such areas as financial instruments. Another factor will be on transition and effective dates on key standards, which will determine how soon companies have to be prepared to report under the new standards — a challenge for companies.

>> Private Company Accounting System Reform. The Blue Ribbon Panel (BRP) proposed a new standard-setting model that follows generally accepted accounting principles with exceptions for private companies and a separate private company standards board. The new board, like FASB and the Governmental Accounting Standards Board, would be under the oversight of the Financial Accounting Foundation (FAF).

The proposal and its implementation processes are still being broadly debated among private company financial executives, FASB committee members and members of some professional organizations, such as AICPA and FEI as well as academia. In December, BRP planned to finalize its recommendations with a detailed discussion of a new board structure and protocols. BRP is expected to issue the report to the FAF Board of Trustees in January and then to the public.

After deliberation, the FAF Trustees' resulting action plan is expected to be subject to further input from constituents, including exposing the plan for public comment prior to implementation.

Regardless of the outcome, this year private companies will face changes on

accounting standards and uncertainties on the accounting models. FASB may defer the effective date of some of the new accounting standards for private companies, such as loss contingencies.

>> Uncertain Tax Positions (UTP).

Last Sept. 24, the Internal Revenue Service finalized Schedule UTP (Form 1120 — Uncertain Tax Position Statement) and issued additional guidance. Under the new guidance, certain companies would be required to include Schedule UTP with returns relating to the 2010 calendar year or fiscal years. Schedule UTP requires reporting a corporation's federal income tax positions for which the corporation or a related party has recorded a reserve in an audited financial statement.

While the recent guidance made substantial improvements to the initial proposal, concerns remain. As the IRS moves into the implementation stage, companies need to be aware of how the changes and requirements will affect them. Concern regarding UTP among financial executives remains, especially as it pertains to expectations to litigate. Numerous FEI committees have actively engaged on this issue, and will continue to do so this year.

>> Business Taxation. While most of the headlines surrounding tax policy in recent months have focused on the extension of the Bush-era tax cuts, there are other substantial issues that could impact businesses and individuals.

The new House leadership and transition to the 112th Congress may make it all too easy to forget about the anti-business proposals offered in recent years including the repeal of the LIFO (last-in, first-out) accounting method, tax code changes that would negatively impact pass-through entities and the reversal of several long-standing international tax rules on foreign source income.

To the contrary, financial executives should vigilantly monitor the proposals in the president's FY 2012 budget expected to be released in February. In the past, this administration's budgets have included suggestions that have been questioned by the business com-

munity. A GOP-led House does not mean everything being proposed is "dead on arrival" — especially when debt and deficits are driving so much policy.

Additionally, financial executives should continue watching for tax "reform" through a piecemeal approach as the deficit commission catapulted the prospects of fundamental tax reform to the forefront. The report took a comprehensive look at the system and recommended, among many other things, that Congress pass legislation to lower the rates, expand the base and simplify the code by doing away with most tax expenditures — including LIFO and other general business credits — and eliminating the ability of individual taxpayers to itemize their deductions.

>> Pending International Business Issues.

The administration may see the incoming Republican majority in the House as an opportunity to facilitate votes on free trade in light of stalled action on deals with Panama, Colombia and South Korea. Just a month after the 2010 elections, the administration completed a free-trade agreement (FTA) with South Korea that would boost U.S. exports and jobs and become an integral part of U.S. foreign policy with Asia. The Korea FTA now requires consideration from Congress.

The 112th will likely continue debate on other aspects of foreign policy with Asia, including the low-value of Chinese currency and the increasing excess of Chinese exports over imports, particularly after the House recently passed legislation proposing to give the U.S. Commerce Department more tools to offset China's undervalued currency.

>> Climate Change. Financial executives should also be aware of the Environmental Protection Agency's rulemaking process on the monitoring of greenhouse gas emissions. In 2007, the Supreme Court determined that the EPA was compelled to regulate greenhouse gases.

While most pundits agree that greenhouse gas regulation is a low priority for the new Congress, the notion that the EPA could usurp this power from lawmakers may spur congressional action.