July 2014

Technical Roundup

The Technical Standards Update of Crowe Horwath International

Joint Projects

Revenue Recognition
On May 28, 2014, the FASB and the IASB jointly issued their converged standard on the recognition of revenue from contracts with customers, IFRS 15 and Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*.

The new standard is intended to substantially enhance the quality and consistency of how revenue is reported while also improving the comparability of the financial statements of companies using U.S. generally accepted accounting principles (GAAP) and those using International Financial Reporting Standards (IFRS). The standard will replace previous U.S. GAAP guidance on revenue recognition in Accounting Standards Codification (ASC) Topic 605. IFRS 15 supersedes the following: IAS 11 and 18, IFRIC 13, 15 and 18 and SIC 31.

The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, a company applies the following five steps:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations (promises) in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the reporting organization satisfies a performance obligation.

The new guidance also addresses the accounting for some costs to obtain or fulfill a customer contract and provides a set of disclosure requirements intended to give financial statement users comprehensive information about the nature, amount, timing, and uncertainty of revenues and cash flows arising from customer contracts.

For public organizations, the guidance in ASU 2014-09 is effective for annual reporting periods beginning after 15 December 2016, including interim reporting periods within that reporting period. Early application is not permitted. For nonpublic entities, the new guidance will be required for annual reporting periods beginning after 15 December 2017, and interim and annual reporting periods after those reporting periods. A nonpublic entity may elect early application but no earlier than the effective date for public entities.

IFRS 15 shall be applied for annual reporting periods beginning on or after 1 January 2017. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.

The FASB published a "FASB in Focus" article and a three-part video series that describe the new standard.

Leases
The FASB and the IASB (the Boards) continue redeliberating the proposals in the May 2013 Exposure Draft, *Leases*, specifically discussing the following topics:

- Subleases - some consensus was reached;
- Lessee Balance Sheet Presentation;
- Cash Flow Presentation.

See the status of the project here.

From the International Accounting Standards Board (IASB)

Turning Back the Clock
On 23 June 2014, Ian Mackintosh, Vice-Chairman of the IASB, reported that the use of IFRS is now required in more than 100 countries. He asked that we protect these hard-fought gains and outlined the dangers of returning to previously failed models of international cooperation in accounting standard-setting. Download the speech, given at the IFRS Foundation conference in London, here: 'Turning back the clock?'

Amendments to IAS 16 and IAS 41 for Bearer Plants
The IASB published amendments that change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. IAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell because of the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, bearer plants, which are used solely to grow produce over several periods are usually scrapped at the end of their productive lives. The only significant future economic benefits they generate come from the agricultural produce they create. As a result, the IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because

their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Exposure Draft: Investment Entities

The IASB published *Exposure Draft: Investment Entities—Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)* on 11 June 2014. The proposed amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* aim to clarify three issues about the application of the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them. The proposed amendments:

- Confirm that the exemption from presenting consolidated financial statements continues to apply to subsidiaries of an investment entity that are themselves parent entities;
- Clarify when an investment entity parent should consolidate a subsidiary that provides investment-related services instead of measuring that subsidiary at fair value; and
- Simplify the application of the equity method for an entity that is not itself an investment entity but that has an interest in an associate that is an investment entity.

The Exposure Draft is available to download from the comment on a proposal section of www.ifrs.org. The comment deadline is September 15.

IFRS Update Published

The latest issue of *IFRS for SMEs Update* (for small and medium-sized entities) is available. The publication is a staff summary of news relating to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

From the International Auditing and Assurance Standards Board (IAASB)

Auditing Disclosures

The IAASB released for public comment proposed changes to the International Standards on Auditing (ISA) to clarify expectations of auditors when auditing financial statement disclosures. The proposals include new guidance on considerations relevant to disclosures—from planning the audit, to evaluating misstatements forming an opinion on the financial statements. Comments on the Exposure Draft, *Addressing Disclosures in the Audit of Financial Statements,* are due 11 September 2014.

Responsibilities Related to Other Information
The IAASB has reproposed International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. The proposed standard introduces new auditor reporting responsibilities and strengthens and makes clear the scope and focus of auditor efforts on information, other than the audited financial statements, included in annual reports. Comments are requested by 18 July 2014. See the full press release here.

From the International Ethics Standards Board for Accountants (IESBA)

Comments are still being accepted by IESBA, on the Exposure Draft (ED), *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients*. released for public comment on 20 May 2014 The proposed changes aim to enhance the independence provisions in the Code of Ethics for Professional Accountants (the Code) by:

- Providing additional guidance and clarification regarding what constitutes management responsibility, including enhanced guidance regarding how the auditor can better satisfy itself that client management will make all judgments and decisions that are the responsibility of management, when the auditor provides non-assurance services to an audit client;
- Providing better guidance and clarification on the concept of "routine or mechanical" services relating to the preparation of accounting records and financial statements for non-public interest entity audit clients; and
- Removing the provision that permits an audit firm to provide certain bookkeeping and taxation services to public interest entity audit clients in emergency situations.

Comments are requested by 18 August 2014.

From the Federation of European Accountants (FEE)

FEE has recently published two Briefing Papers covering specific subjects connected with the European Directive on Statutory Audits of Annual and Consolidated Accounts and the Regulation on Statutory Audit of Public Interest Entities:

- Public Oversight of the Audit Profession: Enhancing Credibility and Supporting Cooperation
- Provision of Non-Audit-Services to Public Interest Entity statutory audit clients: A Need for Clarification and Consistency

With the objective of enhancing consistency of application and implementation throughout the EU as much as possible, the briefing papers provide details about the legislative changes in these specific areas and aim to help Member States and competent authorities implement the changes.

FEE's goal is to publish other Briefing Papers in the coming months in the following areas:

- The Appointment of the Auditor and the Duration of the Engagement
- The Auditor Communication
- The Adoption of ISA

From the Financial Accounting Standards Board (FASB)

ASU 2014-11 - Repurchase to Maturity Transactions
In June 2014, the FASB issued Accounting Standards Update 2014-11 that requires repurchase-to-maturity transactions to be accounted for as secured borrowings rather than as sales with a forward purchase agreement, as they generally are today. It addresses investors' concerns with the financial reporting of repurchase agreements and brings U.S. GAAP accounting for such transactions into closer alignment with IFRS. Under the updated standard, Transfers and Servicing (Topic 860): *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*, these transactions would be accounted for as secured borrowings and require enhanced disclosures that reflect the transferor's obligations and risks. The ASU also eliminates current guidance on "repurchase financings." As a result, entities will evaluate the initial transfer of a financial asset and a related repurchase agreement between the same counterparties separately for derecognition. Under current guidance, the two parts of the repurchase financing are often accounted for as a linked transaction. The ASU also requires new disclosures for transactions accounted for as secured borrowings and transactions accounted for as sales when the transferor retains substantially all of the exposure to the return on the transferred financial assets.

For public companies, the accounting changes under the new standard take effect with the first interim or annual period beginning after 15 December 2014. The disclosure changes for certain transactions accounted for as a sale take effect at the same time. Disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after 15 December 2014, and interim periods beginning after 15 March 2015. For all other entities, the changes take effect with annual periods beginning after 15 December 2014, and interim periods beginning after 15 December 2015.

ASU 2014-12 - Share-Based Payments
Also in June 2014, the FASB issued Accounting Standards Update No. 2014-12, Compensation—Stock Compensation (Topic 718): *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)*.

The new standards are effective for annual periods and interim periods within those annual periods, beginning after 15 December 2015. An entity may apply the standards (1) prospectively to all share-based payment awards that are granted or modified on or after the effective date, or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier application is permitted.

From the American Institute of Certified Public Accountants (AICPA)

ED on Independence Breaches

On 16 June, the Professional Ethics Division issued an Exposure Draft wherein it seeks comments on a proposal, which provides guidance to members in public practice concerning a breach of an independence interpretation. The proposed guidance would help evaluate the impact of an independence breach and determine whether the firm should resign from the attest engagement or whether there are actions that could be taken to satisfactorily address the consequences. However, following the proposed guidance does not preclude a potential investigation or enforcement action. Comments on the Exposure Draft will be accepted until 16 September 2014.

New Audit and Accounting Guides

The AICPA has issued 5 updated Audit and Accounting Guides:

- *Compilation and Review Engagements* was updated March 1 with interpretive guidance on recent revisions to the Statements on Standards for Accounting and Review Services for compilation and review engagements.
- *Construction Contra*ctors was updated as of May 1 and reflects changes from the Auditing Standards Board's (ASB) clarity project and the Professional Ethics Executive Committee's (PEEC) Ethics Codification Project. The ASB reformatted its audit standards and the PEEC restructured its Code of Professional Conduct to make them easier to understand and apply.
- *Investment Companies* was updated May 1 and reflects, among other things, changes from the FASB's ASU No. 2013-08, Financial Services—Investment Companies (Topic 946): *Amendments to the Scope, Measurement, and Disclosure Requirements, the SEC's Release No. 33-9506, Removal of Certain References to Credit Ratings Under the Investment Company Act, and the PCAOB's Auditing Standard (AS 17) No. 17, Auditing Supplemental Information Accompanying Auditing Financial Statements*.
- *Property and Liability Insurance Entities* was updated May 1 and includes changes from the FASB's ASU No. 2011-11, *Balance Sheet Offsetting*, and ASU No. 2013-01, Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, and the revisions to the disclosure requirements in FASB ASC 210-20-50, *Balance Sheet — Offsetting — Disclosure*. The updated information also includes references to accounting issues related to the Patient Protection and Affordable Care Act for assessments and premium stabilization programs.
- *State and Local Governments*, updated as of March 1, addresses requirements in some recent GASB standards, including GASB Statement (GASBS) No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, and GASBS No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.*

The guides can be obtained from the AICPA.

Updated Audit Risk Alert (ARA)
The AICPA updated its ARA *Independence and Ethics Developments*. The alert includes updated definitions, such as partner equivalent and those charged with governance. The alert also contains information on the interpretive guidance for non-attest services and auditor independence. The ARA can be obtained from the AICPA.

From the Public Company Accounting Oversight Board (PCAOB)

Staff Guidance Available for Brokers and Dealers
The PCAOB has released staff guidance to help auditors of brokers and dealers registered with the SEC plan and perform audits in accordance with PCAOB standards as mandated by the Dodd-Frank Act and SEC rules. The SEC amendments and PCAOB standards are effective for fiscal years ending on or after 1 June 2014. Before that date, those broker-dealer audits were performed under generally accepted auditing standards.

“Auditors of broker-dealers are now subject to new requirements, including the requirement to apply PCAOB standards,” said PCAOB chief auditor Martin F. Baumann. This publication discusses how audits can be scaled, based on the size and complexity of the broker-dealer, to apply PCAOB standards and fulfill their important role of helping to protect customers of broker-dealers.”

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