



June 2014

Technical Roundup

The Technical Standards Update of Crowe Horwath International

Joint Projects

Leases

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

- Definition of a lease – no decisions have been made. Additional drafts will be provided by the staff to the Boards.
- Separating lease and non-lease components - some consensus was reached.
- Initial direct costs - the Boards decided that only incremental costs should qualify as initial direct costs.

See the status of the project [here](#).

Revenue Recognition

On 28 May 2014, the FASB and the IASB jointly issued a converged Standard on the recognition of revenue from contracts with customers. The Standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. See the full Press Release [here](#).

In addition, the IASB and the FASB announced the formation of the Joint Transition Resource Group for Revenue Recognition (TRG), their first collaboration on such a resource group. The TRG will not issue guidance, but will inform the IASB and the FASB about potential implementation issues. The TRG will also provide stakeholders with an opportunity to learn about the new Standard from others involved with implementation. The group will consist of financial statement preparers, auditors, and users representing a wide range of industries, geographical locations, and public and private companies and organizations. They will hold their first meeting on 18 July 2014. All meetings will be public and co-chaired by FASB Vice Chairman James Kroeker and IASB Vice Chairman Ian Mackintosh. Implementation issues can be submitted for possible discussion at meetings through the websites of FASB and the IASB.

From the International Accounting Standards Board (IASB)

Discussion Paper Published on Macro Hedging

The IASB published a discussion paper, *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*, on 17 April 2014. The paper explores a new approach for entities to better reflect dynamic risk management activities, referred to as “macro hedging,” in entities’ financial statements.

Many entities dynamically manage risks on a portfolio basis rather than on an individual contract basis. The risks such entities face evolve over time, as does the approach to managing those risks. Existing accounting requirements of International Accounting Standard 39, “Financial Instruments: Recognition and Measurement,” generally are considered difficult to apply when accounting for such transactions.

Under a portfolio revaluation approach (PRA):

- Dynamically risk-managed exposures would be revalued for changes in the managed risk through profit or loss.
- Fair value changes arising from risk management instruments (derivatives) used to manage this risk also would be recognized in profit or loss.
- The success of an entity’s dynamic risk management would be captured by the net effect of the measurements in profit or loss.
- Fair valuation of the risk exposures that are dynamically managed would not be required.

Using the PRA, an entity also would be required to provide more comprehensive disclosures concerning macro hedging activities.

[Comments](#) on the discussion paper are due 17 October 2014. The IASB also has published a “Snapshot” document that briefly describes the proposals in the discussion paper.

IASB, in conjunction with the European Financial Reporting Advisory Group (EFRAG), the European Federation of Financial Analysts Societies (EFFAS) and the Association Belge des Analystes Financiers (ABAF), is holding a joint outreach event on how accounting for macro hedging can improve analysis of banks and insurers in Brussels on Monday 7 July 2014 from 13:30 to 19:30.

This is an opportunity for investors, analysts and other users of financial statements to:

- Learn from banking and insurance industry representatives who will explain macro hedging and the related accounting in their organisations;

- Explore analysis of real life examples with Jean-Baptiste Bellon, Banking Analyst and Member of the EFRAG User Panel and Carsten Zielke, Insurance Analyst, Vice-Chairman of the EFRAG User Panel and former member of the EFRAG Technical Expert Group;
- Discuss the IASB's proposals with IASB member Martin Edelmann; and
- Discover EFRAG's preliminary position and provide input to the EFRAG Technical Expert Group's deliberations.

A formal invitation is available [here](#).

IAS Amendments Clarifying Acceptable Methods of Depreciation and Amortisation

The IASB published [amendments](#) to IAS 16, *Property, Plant and Equipment*, and IAS 38 *Intangible Assets* that clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

Exposure Draft: Investment Entities

The IASB will publish *Exposure Draft: Investment Entities—Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)* on 11 June 2014. The Exposure Draft will be available to download from the [comment on a proposal section](#) of www.ifrs.org.

IFRS Updates Published

The latest issues of [IASB Update](#) and [IFRS for SMEs Update](#) (for small and medium-sized entities) are available. The publications summarize recent news and standard-setting activities related to International Financial Reporting Standards (IFRS).

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 repropoed [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](#).

Increasing Use of ISA

IAASB reported recently that with the addition of several African nations, more than 100 jurisdictions are now using, or are committed to using, the clarified International Standards on Auditing (ISA). This important step toward global convergence now means there is significant use of the clarified ISA across six continents.

From the International Ethics Standards Board for Accountants (IESBA)

On 20 May 2014, IESBA, the Ethics Board released for public comment the Exposure Draft (ED), [Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients](#). 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 Financial Reporting Council (FRC)

True and Fair Statement

The Financial Reporting Council (FRC) published a statement reconfirming that the presentation of a true and fair view remains a fundamental requirement of financial reporting. The new statement reflects developments in UK GAAP, the now finalised European audit legislation, the legal advice obtained and published by the FRC in October 2013, and feedback from stakeholders seeking clarity as to the primary requirement to present a true and fair view.

A true and fair view generally will be achieved by complying with accounting standards and by making additional disclosures to fully explain an issue. However, in cases where compliance with an accounting standard would result in accounts being so misleading that they would conflict with the objectives of financial statements, the standard should be overridden. This is the basis on which the FRC will continue to discharge its responsibilities in relation to the monitoring and enforcement of reporting.

From the Federation of European Accountants (FEE)

FEE has recently published a discussion paper, *The Future of Audit and Assurance*. The paper examines some areas of development and poses questions that could result in potential longer-term developments in audit, assurance, and other services.

From the Financial Accounting Standards Board (FASB)

Development Stage Entities

On 10 June 2014, the FASB issued [ASU 2014-10, *Development Stage Entities \(Topic 915\): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*](#). The effective dates of the new standards differ between public business entities and all other entities:

- Public Business Entities - As of the first annual period beginning after 15 December 2014, the presentation and disclosure requirements in Topic 915 will no longer be required. The revised consolidation standards are effective one year later, in annual periods beginning after 15 December 2015. Early adoption of those new standards is permitted.
- All other Entities - As of the first annual period beginning after 15 December 2014, the presentation and disclosure requirements in Topic 915 will no longer be required. The revised consolidation standards are effective two years later, in annual periods beginning after 15 December 2016. Early adoption of those new standards is permitted.

Pushdown Accounting Guidance Proposed

The FASB published an exposure draft of a proposed ASU, [Business Combinations \(Topic 805\): *Pushdown Accounting*](#), on 28 April 2014. Amendments would give an acquired entity an option to apply pushdown accounting in the acquired entity's separate financial statements when an acquirer obtains control of the acquired entity.

An acquired entity electing to apply pushdown accounting would reflect in separate financial statements the new basis of accounting established by the acquirer for the individual assets and liabilities of the acquired entity. Any goodwill resulting from the acquisition would be recognized in the separate financial statements of the acquired entity, but it would not recognize a bargain purchase gain in its separate income statement.

Any acquisition-related debt incurred by the acquirer would be recognized by the acquired entity only if other standards (for example, the guidance on obligations from joint and several liability arrangements) require the debt to be recognized by the acquired entity. Requirements would include disclosures allowing financial statement users to evaluate the effect of pushdown accounting on the current reporting period.

If an acquired entity elects not to apply pushdown accounting in the entity's separate financial statements, it would have to disclose that it had undergone a change-in-control event and elected to prepare its financial statements using its historical basis that existed before the acquirer obtained control of it.

The proposal is significantly different from the current SEC guidance on pushdown accounting. In general, the SEC requires pushdown accounting when 95 percent or more of an entity's ownership is acquired, permits it when 80 percent to 95 percent is acquired, and prohibits it when less than 80 percent is acquired. If the ASU is finalized, the SEC and federal banking agencies would presumably evaluate implications to their existing guidance.

Comments on the proposed ASU are due 31 July 2014.

Not-for-Profit Financial Statements

The FASB met on 14 May 2014, to continue its effort to revise how not-for-profit organizations present their financial statements. The board decided that its upcoming proposal will include a provision requiring all not-for-profit organizations to disclose identifiable, direct external investment expenses in the notes to their financial statements. Organizations also would be required to include the amount of direct internal investment expenses incurred during a reporting period. The FASB plans to release a proposal for public comment by the end of the year.

The FASB also wants to improve the way not-for-profit groups report their access to liquid cash. Members of the accounting board agreed on 28 May 2014, to issue a proposal asking organizations to disclose the cash they have on hand, how much of it is tied up by donor or legal restrictions, and how much is earmarked to cover near-term expenses and liabilities. The FASB plans to continue discussing the project in the coming months and release a proposal for public comment later this year.

Reporting VIE Holdings on the Balance Sheet

The FASB agreed on 6 May 2014, to amend a provision in Topic 810, *Consolidation*, concerning what it calls the related-party, tie-breaker test. The amendment to ASC 810-10-25-44, will affect how companies determine when holdings in variable interest entities (VIE) should be reported on their balance sheets. "Judgment should be applied as to which variable interest holder that is under the control of a common parent would consolidate the VIE," said a memo the staff prepared for the board. The Board has not decided when the final changes should become effective for public and private companies.

Simplification Initiative

The Board added two projects to its agenda to reduce cost and complexity in U.S. GAAP while maintaining or improving the usefulness of the information: *Simplifying the Measurement of Inventory* and *Simplifying Income Statement Presentation by Eliminating Extraordinary Items*.

- The Board decided that inventory should be measured at the lower of cost and net realizable value, thus no longer considering replacement cost or net realizable value less an approximately normal profit margin. The only disclosure required at transition would be the nature of and reason for the change in accounting principle. Entities would provide that disclosure in the first interim and annual period of adoption.
- The Board decided to remove the concept of extraordinary items from U.S. GAAP. Consequently, no item would be presented or disclosed as an extraordinary item, but the presentation and disclosure requirements about items that are unusual or infrequent in Subtopic 225-20 would be retained. Prospective application would be required. No item would be presented or disclosed as an extraordinary item after the date of adoption and prior periods would not be restated. The Board decided that the only required transition disclosure is that an entity would disclose, if applicable, that an item included in profit and loss after adoption relates to an item presented as an extraordinary item before the date of adoption.

A proposed Accounting Standards Update will be drafted by the FASB Staff for vote by written ballot for each project. The comment letter period will be approximately 75 to 90 days. The Board expects that each standard will be effective for annual periods, including interim periods within those annual periods, beginning after 15 December 2015 with early adoption permitted.

Disclosures in Quarterly Reports

The FASB tentatively decided that footnote disclosures in annual financial statements would only be repeated in quarterly reports if there was new information that a “reasonable investor” would view as significantly altering the “total mix” of information available. If finalized, the Board would update Topic 270, *Presentation—Interim Reporting*, to reflect the change.

From the American Institute of Certified Public Accountants (AICPA)

Alert Issued on Broker-Dealers and Futures Commission Merchants Engagements

The Center for Audit Quality (CAQ) and the AICPA issued on 12 May 2014, a member alert outlining regulatory changes that apply to audits and attestation engagements of broker-dealers and futures commission merchants (FCMs), including dually registered entities.

The alert highlights certain auditing considerations in response to SEC and Commodity Futures Trading Commission (CFTC) regulatory changes, as well as related PCAOB guidance and standards.

The alert addresses:

- SEC amendments to Rule 17a-5 and PCAOB Attestation Standards No. 1 and No. 2
- PCAOB Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*
- CFTC customer protection rules for FCMs
- CFTC-registered introducing brokers

In addition, the alert highlights related resources and programs, including: (a) the PCAOB's inspection program and forums on auditing smaller broker-dealers; (b) the AICPA's peer review program; and (c) the AICPA's Stockbrokerage and Investment Banking Expert Panel, which addresses regulatory matters from the perspective of the broker-dealer industry.

Amendments discussed in the alert represent significant areas of change to the annual reporting requirements of broker-dealers and FCMs. The new rules are generally effective for audits and attestation engagements of broker-dealers and FCMs with fiscal years ending on or after 1 June 2014. Other changes in the rules have effective dates prior or subsequent to 1 June 2014; however, the alert is intended to address the major changes effective on 1 June 2014.

New Audit and Accounting Guides

The AICPA has issued the 2014 updates to the following Audit and Accounting Guides:

- *Audit Sampling* – Includes a case study of an internal audit using audit sampling to test revenue recognition.
- *Government Auditing Standards and Circular A-133 Audits* – Includes current information on the single audit for federal payments received by state and local governments, universities, and not-for-profits.

These can be obtained from the AICPA.

New Review Standard

The AICPA's Accounting and Review Services Committee (ARSC) voted to finalize the proposed Statement on Standards for Accounting and Review Services (SSARS) Review of Financial Statements, during its 20-22 May 2014 meeting. The standard won't be issued until the ARSC completes other aspects of its Clarity Project later this year.

Revised Code of Conduct Available

The revised AICPA [Code of Professional Conduct](#) is now available on an electronic platform that allows users to conduct and save basic and advanced searches.

Third-Party Verification Toolkit

Resources are now available to help you make appropriate decisions and inform clients of the responses you can supply and the related services you are able to perform on their behalf. Tools include a letter stating the AICPA's position on providing third-party verifications; articles to educate firm staff and clients; and a PowerPoint presentation for bank/lender meetings. The resources can be accessed [here](#).

Proposed Changes to Peer Review Standards

The AICPA Peer Review Board (PRB) proposed changes to peer review standards to remove inconsistencies and improve the transparency of reports for engagement reviews. The proposal would change the impact to an engagement review report when all of the following occur:

- There is more than one engagement submitted for review;
- The same deficiency occurs on each of the engagements submitted for review; and
- There are no other deficiencies.

Current guidance calls for such firms to receive a “pass with deficiencies” rating in the engagement review report. Under the proposed changes, this scenario would result in a “fail” rating. Comments on the [exposure draft](#) are due 5 July and can be submitted at PR_expdraft@aicpa.org. If approved, the changes would take effect Sept. 1.

From the Securities and Exchange Commission (SEC)

Partial Stay of Conflict Minerals Rule Issued

On 2 May 2014, the SEC issued an order staying the effective date for compliance with portions of Exchange Act Rule 13p-1 and Form SD, known as the conflict minerals rule. The stay was issued in response to a 14 April 2014, decision by the U.S. Court of Appeals for the District of Columbia Circuit that the stayed portions violated the First Amendment by requiring entities to describe their applicable products as having “not been found to be ‘DRC conflict free’” – where “DRC conflict free” means the products do not contain minerals from the Democratic Republic of the Congo (DRC) or adjoining countries.

Keith F. Higgins, director of the SEC Division of Corporation Finance (Corp Fin), issued a public statement on 29 April 2014, indicating that the SEC expects companies to file any reports required under Rule 13p-1 by the due date of 2 June 2014. Form SD and any related conflict minerals reports should comply with and address those portions of Rule 13p-1 and Form SD that are not covered by the stay.

Companies that do not need to file a conflict minerals report should disclose their reasonable country of origin inquiry and briefly describe the inquiry they have undertaken. For companies required to file a conflict minerals report, it should include a description of the due diligence the company has undertaken. If any company products fall within the scope of items 1.01(c)(2) or 1.01(c)(2)(i) of Form SD, the company would not have to identify the products as “DRC conflict

undeterminable” or “not found to be ‘DRC conflict free’”; however, the company should disclose the production facilities used, the minerals’ country of origin, and the efforts made to determine the mine or location of origin.

If a company voluntarily elects to describe any of its products as “DRC conflict free” in its conflict minerals report, it would be permitted to do so – provided it has obtained an independent private-sector audit (IPSA) as required by the rule. Pending further action, a company would not be required to have an IPSA unless the company voluntarily chooses to describe a product as “DRC conflict free” in a filing.

Compliance and Disclosure Interpretations Updated

The staff of Corp Fin has updated several Compliance and Disclosure Interpretations (C&DIs). Published in Q&A format, C&DIs reflect the views of Corp Fin staff about various SEC rules and regulations. C&DIs are intended as general rather than definitive guidance; due to their informal nature, they are not binding. C&DIs in the Securities Act Rules section updated in April 2014, all providing guidance relating to electronic communications, include:

- Section 110 – Communications Not Deemed a Prospectus
- Section 164 – Offers Made in Connection With a Business Combination Transaction
- Section 232 – Conditions to Permissible Post-Filing Free Writing Prospectuses

Disclosure Effectiveness Discussed by Corp Fin Director

Director Higgins addressed disclosure effectiveness in a speech 11 April 2014, at the American Bar Association’s business law section spring meeting. He said that Corp Fin’s goal is to “review specific sections of Regulation S-K and S-X to determine if the requirements can be updated to reduce the costs and burdens on companies while continuing to provide material information and eliminate duplicative disclosures. At the same time, while always mindful of the costs and burdens of our regulation, we will ask whether there is information that is not part of our current requirements but that ought to be.”

Discussing how information is disclosed, Higgins told the audience that Corp Fin will “explore whether the focus and navigability of disclosure documents can be improved using structured data, hyperlinks or topical indexes” and will consider whether certain information that does not change as frequently, such as the business description and certain other company information, could be disclosed in a core document and then supplemented by periodic and current reports.

He directed attention to the spotlight page on disclosure effectiveness on the SEC website and asked for public input on how disclosures can be made more effective.

IFRS for US Financial Markets

SEC Chair Mary Jo White plans to reopen the agency’s dormant debate about what to do with IFRS for the U.S. financial markets. In a speech to the parent organization of FASB and GASB (the FAF), White said, “Today, over 500 companies representing trillions of dollars in aggregate market capitalization report to us under IFRS with no reconciliation. And the SEC staff enforces those standards. By any measure, we have thus demonstrated a major commitment to the use of IFRS in our markets... But, the question remains—what about domestic issuers?” A single set of global standards appears to remain a priority for the SEC.

From the Public Company Accounting Oversight Board (PCAOB)

Related Parties Standard Approved

On 10 June 2014, the PCAOB unanimously approved Accounting Standard (AS 18) No. 18, *Related Parties*. The new standard requires an auditor to perform specific procedures to understand the business ties involving directors, executives, and their family members, along with other deals that create conflicts of interest. The new procedures required by AS 18, including obtaining an understanding of the nature of the relationships and of the terms and business purposes of transactions, will be performed as part of the risk assessment. Although the SEC must first approve the standard under Sarbanes-Oxley, the PCAOB expects AS 18 to be effective for audits done on the financial statements for fiscal years that start December 15, 2014, or later. Auditors should also use the standard when reviewing quarterly financial statements.

Final Auditing and Attestation Standards on Broker-Dealer Audits Published

The PCAOB updated its website on 12 May 2014, with its final auditing and attestation standards and conforming amendments under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) for broker-dealer audits. The standards include:

- Auditing Standard 17, *Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*. These amendments will take effect for reports on supplemental information that accompanies financial statements for fiscal years ending on or after 1 June 2014.
- Attestation Standard 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*; Attestation Standard 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*; and related amendments. These standards will take effect for examination engagements and review engagements of fiscal years ending on or after 1 June 2014.
- Dodd-Frank conforming amendments. These will tailor certain PCAOB rules to the audits and auditors of SEC-registered broker-dealers, as authorized by Dodd-Frank.

Reorganization of Standards

On 7 May 2014, the PCAOB issued a request for comments on a proposal for the reorganization of its auditing standards. The proposed amendments are detailed in Release [No. 2014-001](#), *Supplemental Request for Comment: Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*. The reorganization would put the standards into four categories: general audit standards, audit procedures, auditor reporting, and matters specific to filings under federal securities laws. [Comments](#) are due by 8 July 2014.

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