May 2014

Technical Roundup

The Technical Standards Update of Crowe Horwath International

Joint Projects

Leases

The FASB and IASB released a statement noting that they had made some progress toward convergence, but acknowledged their lack of agreement on how to recognize the expense associated with leased assets. “While differences remain, most notably in their preferred approaches to expense recognition, the boards are committed to working together to minimize these differences and to creating greater transparency around lease transactions for the benefit of investors worldwide,” FASB and IASB said in a joint statement. FASB recently published a summary of tentative decisions reached by the two boards. They plan to continue discussions but it is unclear whether a final standard will be ready for release in 2014.

Financial Instruments

Though regulators and investors urged the IASB and FASB to cooperate on a single, global standard for financial instruments, the boards could not agree on key issues. See the respective sections below for each board’s plans for standard issuance later this year.

From the International Accounting Standards Board (IASB)

Disclosure Initiative Exposure Draft Published

On 25 March 2014, the IASB published for public comment an exposure draft, “Disclosure Initiative: Proposed Amendments to IAS 1.” The exposure draft proposes narrow-focus clarifying amendments to IAS 1, “Presentation of Financial Statements,” to address some of the concerns stakeholders have expressed about existing presentation and disclosure requirements and to allow entities to use their judgment when preparing their financial statements. It is also available in Spanish.

In 2013, the IASB started the Disclosure Initiative, a package of several projects aimed at improving the disclosure of financial information. The amendments in the proposal:

- Clarify the materiality requirements in IAS 1, including an emphasis on the potentially detrimental effect of overwhelming useful information with immaterial information
- Clarify that specific line items in the statement or statements of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- Add requirements for how an entity should present subtotals in the statement or statements of profit or loss and other comprehensive income and the statement of financial position
- Clarify that entities have flexibility about the order in which they present the notes and should consider the understandability and comparability of their financial statements when deciding the order
- Remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy

Comments on the proposal are due 23 July 2014.

IFRS 9, *Financial Instruments,* to be Finalized Midyear
At their meeting on 10 April, the IASB announced that they expect to issue their final standard on this topic in June or July of 2014. The standard will replace IAS 39. Their plan contemplates a single impairment model that applies to all financial instruments, regardless of their structure. The agenda paper says, "This reduces the complexity of current IAS 39 accounting, which features different impairment models and can result in different impairment amounts being recognized on identical financial instruments simply due to the classification of the instrument."

The standard will also include a hedge accounting portion but the IASB isn't finished with its amendments to that. However, until the macro hedging guidance is finalized, which may take several years given the issue's complexity, businesses can apply the hedge requirements in IAS 39 or IFRS 9.

The plan is to ask board members to review two rounds of internal drafts of IFRS 9 to ensure that the final standard has been sufficiently reviewed.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*
The IASB decided on 23 April 2014 to start the balloting process for the proposed narrow-scope amendments to IFRS 10 and IAS 28. The IASB tentatively decided that there should be a comment period for the Exposure Draft of no less than 90 days and they expect to publish the Exposure Draft in June 2014. See the full Staff Paper (Agenda Paper 12G) here.

Amendments to IFRS 11 *Joint Arrangements* Published
On 6 May 2014, the IASB published amendments to IFRS 11, which addresses the accounting for interests in joint ventures and joint operations. See a summary of the project here and the full press release here.

Rate-Regulated Activities

The IASB has postponed the balloting process in favor of more discussion on Agenda Paper 9, *Rate Regulated Activities*. They want to clarify the paper's purpose and the feedback they are looking for from stakeholders before moving forward.

Agricultural Assets Project

The IASB's research staff has plans to request the Board's permission to finalize an accounting update for farmers that could be published in June. In June 2013, the IASB released Exposure Draft (ED) No. 2013-8, *Agriculture: Bearer Plants—Proposed Amendments to IAS 16 and IAS 41*, in response to concerns from Asian farmers about the complexity of following the fair value model in IAS 41, *Agriculture*, for plants used to produce crops and fruit and palm oil trees. The proposal calls for accounting for bearer plants according to IAS 16, *Property, Plant and Equipment*, which would allow farmers to account for the plants at amortized cost as opposed to fair value. In addition, the IASB decided that the effective date for the amendments should be 1 January 2016 with early application permitted.

Updated Charter Published

On 7 May 2014, the Board published an updated Charter designed to enhance the efficiency and effectiveness of international accounting standard-setting. It establishes key principles of co-operation between the IASB and national standard-setters and other accounting standard-setting bodies, represented by the International Forum of Accounting Standard Setters (IFASS). View the full Charter here.

Discussion Paper on Accounting for Macro Hedging

The IASB recently published for comment a Discussion Paper that aims to help companies better report their dynamic risk management activities. The Board feels the existing accounting requirements of IAS 39, *Financial Instruments,* are generally considered to be difficult to apply when accounting for such transactions. The Discussion Paper: *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* is available for comment until 17 October 2014.

Equity Method in Separate Financial Statements

The IASB met on 23 April 2014 and agreed to finalise the proposed amendments to IAS 27, *Separate Financial Statements*. The mandatory effective date of the amendment is expected to be 1 January 2016. The amendments are expected to be issued in the third quarter of 2014.

From the International Auditing and Assurance Standards Board (IAASB)

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 Federation of European Accountants (FEE)

FEE has recently published a set of Frequently Asked Questions (FAQ) on the *European Directive on Statutory Audits of Annual and Consolidated Accounts and Regulation on Statutory Audit of Public Interest Entities* adopted by the European Parliament on 3 April 2014. The hope is that the questions and answers will facilitate the implementation, helping resolve practical issues and preserving and enhancing audit quality. The proposed answers in the FAQ are a work in progress and will be updated and adapted as necessary.

From the Financial Accounting Standards Board (FASB)

Revenue Recognition Standard Delayed
The FASB has delayed the release of the final standard on revenue recognition to the end of May because of production issues. The standard is the longest the board has ever issued, according to FASB.

Private Company Accounting for Intangible Assets
On 29 April 2014, the FASB's Private Company Council (PCC) again postponed a decision on how private companies should account for intangible assets when they buy or merge with another company. The Council plans to conduct more research on the issue before it finalizes its guidance. See the Overview of Decisions Reached on PCC Issue No. 13-01A, *Accounting for Identifiable Intangible Assets in a Business Combination* here.

ASU Issued on Consolidation for Common Control Leasing Arrangements (a Private Company Council Alternative)
Guidance the FASB issued 20 March 2014, allows private companies to elect not to consolidate lessors under existing rules for variable interest entities (VIEs) in certain common control leasing arrangements. Accounting Standards Update (ASU) No. 2014-07, "Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements," instead will require private entities that elect the option to make certain disclosures about the lessor and the leasing arrangement.

Existing U.S. generally accepted accounting principles (GAAP) require a reporting entity to consolidate other entities in which it has a controlling financial interest. The reporting entity has a controlling financial interest in a VIE when it has both (a) the power to direct the activities that most significantly affect the entity's economic performance and (b) the obligation to absorb losses or the right to receive benefits of the entity that potentially could be significant to the entity. Under the ASU's amendments, a private company lessee (the reporting entity) could elect not to apply VIE guidance to a lessor if all the following conditions are met:

- The reporting entity and the lessor entity are under common control.
- The reporting entity has a leasing arrangement with the lessor entity.
- Substantially all activity between the reporting entity and the lessor entity relates to the leasing arrangement.

- If the reporting entity explicitly guarantees or provides collateral for any obligation of the lessor related to the leased asset, then the obligation's principal amount at inception does not exceed the value of the asset leased by the reporting entity from the lessor.

The ASU's option can be used only by entities that do not meet the FASB's definition of a public business entity.

Guidance in ASU 2014-07 is effective for annual periods beginning after 15 December 2014. Early application is permitted for all entities that have not yet issued their financial statements. When the option is elected, it should be applied retrospectively to all presented periods and applied to all leasing arrangements meeting the conditions.

The FASB published a "FASB in Focus" article and a short video that describe the new standard.

Technical Corrections Made to Codification Glossary
On 14 March 2014, the FASB issued ASU 2014-06, "Technical Corrections and Improvements Related to Glossary Terms." The ASU's amendments are intended to make the master glossary of the FASB Accounting Standards Codification (ASC) easier to understand and reduce the number of terms in the glossary. Multiple instances of the same term have been consolidated into a single definition, and other minor improvements not expected to result in substantive changes to the application of existing guidance have been incorporated.

The ASU's amendments became effective upon issuance.

EITF Consensus and Tentative Conclusion Ratified by FASB
At its March 26, 2014, meeting, the FASB ratified a final consensus of the Emerging Issues Task Force (EITF). EITF Issue 13-D, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period," provides that a performance target that affects vesting and could be achieved after the requisite service period should be treated as a performance condition. As a result, existing guidance in ASC Topic 718 should be applied so compensation cost attributable to the period in which requisite service has been rendered is recognized when it is probable that the performance condition will be achieved.

Issuance of a final ASU that will be effective for periods beginning after 15 December 2015, is expected soon. Early adoption will be permitted.

The FASB also approved issuance of an exposure draft of a proposed ASU reflecting EITF Issue 12-F, "Recognition of New Accounting Basis (Pushdown) in Certain Circumstances." The proposal's amendments would provide to an entity controlled by an acquirer the option to apply pushdown accounting in the entity's separate financial statements. If the acquired entity elects to use the option, the entity would follow the initial recognition and measurement guidance in ASC Topic 805 on business combinations to recognize and measure the entity's assets, including goodwill, liabilities, and equity. If the acquired entity does not elect pushdown accounting, the entity would disclose that it has undergone a change-in-control event whereby an acquirer has obtained control during the reporting period. The entity also would disclose its decision to continue to prepare its financial statements using the historical basis that existed before the acquirer obtained control.

When issued, the exposure draft will have a 90-day comment period.

Amendments Issued to the Financial Reporting of Discontinued Operations
On 10 April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in the ASU change the criteria for reporting discontinued operations while providing financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP and is designed to enhance convergence between U.S. GAAP and International Financial Reporting Standards (IFRS).

Under the new guidance, the definition of "discontinued operations" changes so that only disposals representing strategic shifts that have a major effect on the organization's operations and financial results should be presented as discontinued operations.

The new guidance also requires disclosure of the pretax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting, giving users information about the ongoing trends in a reporting organization's results from continuing operations.

The amendments in the ASU are effective in the first quarter of 2015 for public organizations with calendar year-ends. For most nonpublic organizations, it is effective for annual financial statements with fiscal years beginning on or after 15 December 2014. Early adoption is permitted.

The FASB published a "FASB in Focus" article describing the new guidance.

Fair Value Measurement Option
On 4 April 2014, the FASB rejected a part of its February 2013 classification and measurement proposal that would have narrowed down the types of financial assets and liabilities a business could choose to measure at fair value. Instead, a 5-2 majority of the board voted to allow more financial instruments to be measured at fair value. Discussions between the FASB and IASB on this topic broke down late in 2013 when the FASB said the joint model did not represent an improvement over existing U.S. GAAP because it was too complex. The FASB instead has been focusing on narrower changes to current accounting rather than a wholesale revamp of U.S. GAAP. See the FASB Board Meeting Handout from the 4 April meeting here.

Going Concern
On 7 May 2014 the Board approved the June publication of an ASU, *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption* that will apply to both public and non-public entities. See the Project Update here.

From the American Institute of Certified Public Accountants (AICPA)

Additional Q&As on Conflict Minerals Reporting Published
The AICPA's Financial Reporting Center published additional Q&As for independent private-sector audits (IPSAs) of certain companies required to file conflict minerals reports with the SEC. If applicable, companies must make annual reports to the SEC on their use of conflict minerals and whether those minerals originate in the Democratic Republic of the Congo or an adjoining nation. The first reports are due to the SEC on Form SD on 2 June 2014, for the 2013 calendar year.

Topics covered in the new Q&As related to IPSAs are:

- Reporting directly on the subject matter or on management's assertion for each of the two audit objectives
- The report's form, including examples
- Communicating findings required to be reported in accordance with governmental accounting standards

Previously published Q&As and other AICPA-published background and resource materials on conflict minerals rules are available on the AICPA Conflict Minerals Resources Web page.

Technical Q&As Issued on Reporting When PCC Alternatives Adopted
The AICPA has issued several new Technical Practice Aids containing nonauthoritative guidance that addresses reporting and disclosure implications when a company adopts a Private Company Council (PCC) accounting alternative ratified by the FASB. The new guidance includes:

- TIS 9150.32, "Modification to the Accountant's Compilation or Review Report When a Client Adopts a Private Company Council Accounting Alternative"
- TIS 9150.33, "Compilation or Review Report in Which Management Refuses to Include Disclosure Related to Adoption of a PCC Accounting Alternative"
- TIS 9160.29, "Modification to the Auditor's Report When a Client Adopts a PCC Accounting Alternative"

From the Securities and Exchange Commission (SEC)

Audit Requirement for Conflict Mineral Disclosure Scaled Back
The SEC recently issued interpretive guidance that relaxed the independent audit requirement for its conflict mineral disclosure requirements. The guidance is in response to a recent appellate court decision that sent the rule back to a lower court. The full text of the SEC's guidance is available here

Enforcement Program Discussed by SEC Chair

In a 31 March 2014, keynote address at the Securities Industry and Financial Markets Association Compliance and Legal Society's 46th Annual Seminar, SEC Chair Mary Jo White discussed the importance of all-encompassing enforcement of securities laws. White noted that all-encompassing enforcement means "the appropriate, but vigorous, use of criminal, civil, and regulatory tools to enforce the securities laws." She made the point that "a robust combination of criminal and regulatory enforcement of the securities laws is not only appropriate, but also critical to deterring securities violators, punishing misconduct, and protecting investors." White gave recent examples of all-encompassing enforcement in practice in the areas of insider trading, microcap fraud, and financial reporting fraud.

JOBS Act Rulemaking Addressed by Corp Fin Director

In a 28 March 2014, speech at the Angel Capital Association Summit, Keith F. Higgins, director of the SEC's Division of Corporation Finance (Corp Fin), discussed the new opportunities and new obligations for angel investing as a result of SEC rulemaking in response to the *Jumpstart Our Business Startups Act* (JOBS Act). Issues that Higgins addressed included the elimination of the general solicitation prohibition in Rule 506 offerings, a review of the accredited investor definition, and proposed changes to Regulation A exemptions to permit offerings of up to $50 million.

Cybersecurity Roundtable Hosted by SEC

The SEC hosted a roundtable 26 March 2014, focused on the issues and challenges that cybersecurity raises for market participants and public companies and how the companies are addressing those concerns. In opening remarks, SEC Chair Mary Jo White noted that the SEC has been focused on cybersecurity-related issues for some time and that the "roundtable is one aspect of the SEC's efforts to better inform ourselves, the marketplace, our fellow agencies, and the private sector as to what the risks are and how best to combat them." Participant panels included discussions of:

- The cybersecurity landscape
- Public company disclosure issues related to cybersecurity
- Cybersecurity issues faced by exchanges and other market systems
- Ways broker-dealers, investment advisers, and transfer agents address cybersecurity issues, including those involving identity theft and data protection

A webcast archive of the roundtable is available on the SEC website.

Statement on Well-Known Seasoned Issuers Updated
Corp Fin issued "Revised Statement on Well-Known Seasoned Issuer Waivers" on 12 March 2014. In 2005, the SEC created a category of issuers known as well-known seasoned issuers (WKSI), which is available to the most widely followed issuers. WKSIs can register their securities offerings on shelf registration statements that become effective upon filing. To qualify as a WKSI, an issuer cannot be an "ineligible issuer" under Rule 405 of the *Securities Act of 1933*. The SEC has delegated to the Corp Fin director the authority to grant waivers of ineligible-issuer status for good cause. The newly issued statement updates a July 2011 Corp Fin statement discussing what constitutes "a showing of good cause" for purposes of an ineligible-issuer waiver request.

EDGAR Filer Manual Updated
The SEC published a final rule, "Adoption of Updated EDGAR Filer Manual," on 4 March 2014. The rule reflects revisions made to the Electronic Data Gathering, Analysis, and Retrieval System (EDGAR) Filer Manual, volumes 1 and 2, and related rules. The revisions introduce submission forms to support the registration of municipal advisers. Revisions also include changes to reporting forms to collect information related to entities that issue asset-backed securities. The final rule became effective upon its publication.

From the Public Company Accounting Oversight Board (PCAOB)

Public Hearings Held on Auditor's Reporting Model
On 2-3 April 2014, the PCAOB held public hearings on its auditor's reporting model proposal, "Proposed Auditing Standards – the Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; the Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards." The proposal includes two new auditing standards intended to enhance the usefulness of the auditor's communication to those relying on the auditor's report. Comments were due 2 May 2014.

The first proposed standard would retain the current pass/fail report model but provide the report's users with more information about the audit and auditor. The most significant proposed change would require the auditor to communicate "critical audit matters" (CAMs) in the auditor's report. CAMs are matters the auditor addressed during the audit of the financial statements that involved the most difficult, subjective, or complex auditor judgments or were the most difficult for the auditor in terms of obtaining sufficient appropriate audit evidence or forming an opinion about the financial statements.

A second auditing standard in the proposal is intended to improve the auditor's procedures and enhance the auditor's responsibilities with respect to other information. "Other information" refers to information in a company's annual report filed with the SEC under the *Securities Exchange Act of 1934* other than the audited financial statements and the related auditor's report. The required procedures under the proposed standard would focus the auditor's attention on identifying material inconsistencies between the other information and the audited financial statements and on identifying material misstatements of fact, based on relevant evidence obtained and conclusions reached during the audit.

Panelist statements from the roundtable as well as the April 2 transcript and the April 3 transcript are available on the PCAOB's website.

2014 Forum Dates Announced
The PCAOB announced seven dates for its 2014 Forums on Auditing in the Small Business Environment. The 2014 forum schedule includes:

- Chicago, May 29
- New York, July 17
- Vancouver, British Columbia, Sept. 11
- Atlanta, Oct. 9
- Miami, Oct. 30
- Las Vegas, Dec. 3

In addition, four dates were announced for the 2014 Forums on Auditing Smaller Broker-Dealers. The 2014 forum schedule includes:

- Chicago, May 28
- Jersey City, N.J., June 13
- Miami, Oct. 29
- Las Vegas, Dec. 2

The forums are designed to share important information about PCAOB activities with registered accounting firms that audit public companies operating in the small-business community and with smaller broker-dealers registered with the SEC. The forums also provide an opportunity for board and PCAOB staff members to hear comments, concerns, and questions from auditors.

From the Center for Audit Quality (CAQ)

Cybersecurity Addressed in Member Alert
On 21 March 2014, the CAQ released an alert, "Cybersecurity and the External Audit," to its members. The alert includes a diagram depicting the usual access path to an IT system and contrasts those layers on which external auditors typically focus with the points at which cyber incidents typically occur first. In the alert, the CAQ observes that external auditor responsibilities ordinarily are limited to a company's financial reporting-related IT system, which normally is a subset of the aggregate systems and data used to support a company's overall business operations.

Given the focus on a narrower slice of a company's overall IT platform, the execution of an external audit likely would not include areas related to a cybersecurity breach. However, if information about a material breach is identified, the auditor would need to consider the impact on financial reporting, including disclosures, and the impact on internal controls over financial reporting as part of the audit.

CAQ Approach to Audit Quality Indicators

The Center for Audit Quality has released the *CAQ Approach to Audit Quality Indicators*. The paper, two years in the making, details which indicators may be most relevant and how and to whom they should be communicated. The CAQ approach will be piloted by CAQ member firms with select audit committees.

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