A&A Update

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From the Standards Setters

IASB Publishes Proposals for Narrow-scope Amendments to IAS 27 *Separate Financial Statements*

The proposed amendments to IAS 27 would allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate (parent only) financial statements. The proposals are open for public comment for 60 days. This is shorter than the normal comment period, reflecting the importance of this change to several jurisdictions. The ED is available to download here.

Public Company Definition Is Added to U.S. GAAP

The addition of a definition for a public business entity to the master glossary in the Accounting Standards Codification marks a major milestone in the FASB's efforts to carve out exemptions in U.S. GAAP for private companies. The amendment is meant to be used by the FASB, the Private Company Council (PCC), and the Emerging Issues Task Force (EITF) in specifying the scope of future standards as they apply to public and private companies.

Among other criteria, the definition says a public business is one that meets at least one of the following criteria:

- A requirement to submit financial statements to the SEC or voluntarily files statements with agency;
- A requirement by the Securities Exchange Act of 1934 to provide financial statements to another regulatory agency;
- Provides financial statements to a regulatory agency in preparation for a sale of securities;
- Issues or acts as a conduit for a state or local government issuing securities for sale on an exchange or an over-the-counter market; or
- Has securities that aren't covered by contractual restrictions and is legally required to prepare financial statements that follow U.S. GAAP.

Private Company Framework Aims to Foster Consistent Decisions

The FASB and its Private Company Council (PCC) on December 23, 2013, published *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, a tool to help the standard-setter make consistent decisions about accounting for private companies.

The framework describes five major factors that differentiate the financial reporting conditions of private companies from public companies. They are:

- The number of primary financial statement analysts and investors and their access to management;
- The investment strategies of the analysts and investors;
- The ownership and capital structures of the private companies;
- Accounting resources; and
- The manner in which companies learn about new financial reporting guidance.

The guide was released with a definition of a public business entity for the FASB's Codification, which was published as Accounting Standards Update (ASU) No. 2013-12, *Definition of a Public Business Entity.*

From the Regulators

Revised Audit Partner Identification Proposal Moves Forward

The PCAOB voted to issue a second version of a proposal requiring identification of the engagement partner. Investors want the name of the audit partners who lead the reviews of company financial reports made public. Auditors are skeptical of potential benefits of such disclosure and believe that it will increase their legal liability. The amended proposal would require audit firms to disclose the name of the lead partner on the audit report. Comments are due on February 3, 2014.

The proposal also requires the disclosure of the names, locations, and extent of participation (as a percentage of the total audit hours) of other public accounting firms that took part in the audit, and the locations and extent of participation of other persons (whether an individual or a company) not employed by the auditor who performed procedures on the audit.

The proposal can be viewed here.

Volcker Rule Boosts Focus on Internal Control Requirements

Banks will be subject to more stringent rules for their trading activities following the recent adoption of the restrictions known as the Volcker Rule. The rule, which prohibits proprietary trading by banks that have access to the Federal Reserve's discount window, calls upon banks to establish internal compliance programs, and maintain internal controls for monitoring compliance. Among the many individual provisions within the newly adopted Volcker Rule, some observers believe the ones relating to internal controls could have the greatest impact on how banks operate under the new regime.

SEC Proposal Aims to Aid Small Businesses

Rules proposed by the SEC would build upon the Regulation A exemption with the intention of increasing smaller companies' access to capital. The proposed rules would implement part of the Jumpstart Our Business Startups (JOBS) Act of 2012, P.L. 112-106, by making the Regulation A exemption more useful to small companies seeking capital. Regulation A currently allows unregistered public securities offerings of up to $5 million in a 12-month period, including up to $1.5 million offered by security holders of the company.

The proposed rules would create two tiers of Regulation A offerings: Tier 1 would consist of offerings currently covered by Regulation A. Tier 2 would consist of securities offerings of up to $50 million in a 12-month period, including up to $15 million offered by security holders of the company.

Click here for additional details.

Headlines from Around the World

FRC Proposes to Simplify Accounting for Smaller Businesses

The FRC is proposing to allow micro-entities taking advantage of new legal provisions, which permit reduced disclosure, to continue to apply the accounting principles of the Financial Reporting Standards for Smaller Entities (FRSSE). This will ease the burden considerably on the UK's 1.56 million smallest companies, many of which offer unique, specialist services and include the types of business the government sees as critical to the UK's future economic growth.

The ED is available here.

FRC Proposes First Annual Update to the Reduced Disclosure Framework

FRS 101, published in November 2012, reduced the reporting burden for groups reporting under IFRS by allowing their subsidiaries to use the same accounting standards as in the group accounts but with fewer disclosures. The FRC intends to review FRS 101 on an annual basis.

The ED is available here.

FRC Calls for Greater Audit Focus on Materiality

The UK Financial Reporting Council (FRC) has identified a need for greater focus by auditors on the needs and expectations of users in setting and revising overall materiality levels, and for audit committees to seek to better understand the related judgments made by auditors. Specifically, the FRC recommended audit committees seek to understand how materiality levels are expected to affect the level of audit work performed and the benchmarks used by auditors in determining materiality levels at group and component levels. It also called on audit committees to look at the reasons for and the effect of any increase in materiality levels and how materiality levels could affect the extent of audit work.

The full text of the FRC report is available here.

EU Settles on 10 Years Mandatory Audit Rotation

A period of 10 years mandatory rotation is among the key elements of the agreement reached in December between the Lithuanian presidency of the Council of the European Union (EU) and the European Parliament (EP) on the framework of the EU audit reform, the EU Commissioner Michel Barnier has announced. Under the agreement, audit firms will be required to rotate every 10 years and public listed companies will only be able to extend the audit tenure for another 10 years once. In the case of joint audits, the extension period will be 14 years, according to Barnier.

The agreed transitional period might begin at 6 years for longest tenures, according to a spokesperson of the Association of Chartered Certified Accountants (ACCA), who said ACCA has seen the document which has been agreed upon.

The EU took another step toward a mandatory audit firm rotation requirement when member states approved new audit regulations. To go into effect, the new regulations must still be approved by the European Parliament and the council of national governments.

Additional details will follow when the documented agreement is finalized and published.

Useful Links

- International Accounting Standards Board (IASB) www.iasb.org
- IASB Exposure Drafts open for comment
- International Auditing and Assurance Standards Board (IAASB) www.ifac.org/iaasb
- International Federation of Accountants (IFAC) www.ifac.org
- IFRS Interpretations Committee (IFRIC)
- Financial Accounting Standards Board (FASB) www.fasb.org
- Public Company Accounting Oversight Board (PCAOB) www.pcaob.org
- American Institute of CPAs Auditing Standards Board (AICPA ASB)
- United States Securities and Exchange Commission (SEC) www.sec.gov
- European Commission (EC)
- Forum of Firms (FoF)
- Transnational Auditors Committee (TAC)
- TAC Guidance Statement No. 1, Definition of Transnational Audit
- UK Financial Reporting Council www.frc.org.uk
- AICPA Center for Audit Quality document explaining PCAOB inspections
- Sustainability Accounting Standards Board (SASB)

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