Technical Roundup

February 2014

The Technical Standards Update of Crowe Horwath International

From the International Accounting Standards Board (IASB)

Review of IFRS 3

On 30 January, the IASB published a Request for Information (RFI) on experience with, and the effect of, implementing IFRS 3 *Business Combinations.* This began the public consultation stage of its review of the Standard. The objective of the RFI is to determine whether the Standard provides information that is useful to users of financial statements, whether there are areas of the implementation of the Standard that present challenges and whether there are unexpected costs that have arisen when preparing, auditing or enforcing the requirements of the Standard.

30 May 2014 is the deadline for public consultation on the RFI. Access the full press release here.

Amendments to IFRS 9, *Financial Instruments*

At its 20-21 February 2014 meeting, the IASB is expected to finish a set of amendments to IFRS 9, *Financial Instruments*. The board, which plans to issue the IFRS 9 Update by mid-2014, also plans to discuss the FASB's recent changes in this area of U.S. GAAP, but according to memos released in advance of the meeting, has no plans to consider adopting any of the U.S. board's decisions.

Amendments Proposed to IAS 27

The IASB published an exposure draft, "Equity Method in Separate Financial Statements," on 2 December 2013 which would amend International Accounting Standard No. 27, "Consolidated and Separate Financial Statements." The changes would allow entities to use the equity method to account for investments in subsidiaries and joint ventures in their separate (parent company only) financial statements. Current standards require investments in subsidiaries and joint ventures to be accounted for either at cost or fair value in the parent company's separate financial statements.

Comments on the proposal were due 3 February 2014.

Proposals for Annual Improvement Project Amendments Issued

The IASB issued an exposure draft, "Annual Improvements to IFRSs 2012-2014 Cycle," on 11 December 2013. The five proposed amendments to four International Financial Reporting Standards (IFRS) are the result of the IASB's annual improvement process designed to deal efficiently with narrow-scoped, non-urgent amendments to IFRS.

Comments on the exposure draft are due 13 March 2014.

Overhaul of Conceptual Framework

In July 2013, the IASB released Discussion Paper (DP) No. 2013-1, *A Review of the Conceptual Framework for Financial Reporting,* with comments due by 14 January 2014. However, some comments call for an in-depth review and substantial changes. The IASB's Conceptual Framework was most recently updated in 2010 but is incomplete. The IASB suspended work on it so it could focus on more pressing projects, including the convergence projects with the FASB. Now that the convergence project is winding down, the latest draft of the document attempts to update the guide, fill in its gaps, and focus on problems in standard-setting.

Disclosure Initiative

The IASB plans to release by the end of March a proposed amendment to change IAS 1, *Presentation of Financial Statements* as part of its long-range plan to make footnote disclosures less cumbersome for companies and more valuable to investors. The IASB wants the exposure draft to clarify several sections of the standard and address what the board believes is an overly literal application of its requirements, said IASB technical principal Kristy Robinson during a recent webcast. They want companies to understand that the materiality principle does not only apply to material items that should be included in company financial statements, but also to non-material disclosures that should be excluded. They also want to remove contradictory examples from the standard and eliminate language that has been interpreted as prescribing the order of the notes to the financial statements. Companies would then have some discretion in deciding where they disclose accounting policies in their financial statements. Important accounting policies should be given prominence, while less important policies could be moved to the back of the statements.

The board plans to release the exposure draft in the first quarter of 2014.

From the IFRS Foundation

Rate Regulated Entities

The International Accounting Standards Board (IASB) issued an interim standard on rate-regulated activities on 30 January 2014. IFRS 14, *Regulatory Deferral Accounts,* aims to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. IFRS 14 is an interim measure pending the outcome of a comprehensive rate-regulated activities project that is being undertaken by the IASB. It will apply to entities in industry sectors that are subject to rate regulation, whereby governments regulate the supply and pricing of particular types of activity by private entities. This can include utilities such as gas, electricity and water and can have a significant impact on the timing and amount of an entity's revenue.

Updated SME Reference Guide Released
The IFRS Foundation released an updated version of *Terms of Reference and Operating Procedures* for the Small and Medium Sized Enterprises Implementation Group (SMEIG), on 6 February 2014. The group develops non-mandatory guidance for implementing IFRS for SMEs and this document reflects changes in the procedure it follows when issuing guidance.

In January, the IFRS Foundation started its search for up to 20 new members of the SMEIG by 1 July 2014. Nominations and applications are due by February 28.

From the Federation of European Accountants (FEE)

EU Accounting Directive
Fee has produced a factsheet covering the 2013 European Union Accounting Directive (DIRECTIVE 2013/34/EU), which was published on 23 June 2013. Member States are required to enact the provisions contained in the directive by transposing them into their national legislation. The Commission has imposed a deadline of 20 July 2015 for this transposition. Its provisions will first apply to financial statements for financial years beginning on or after 1 January 2016.

The goal of the Factsheet is to highlight any significant changes between the 2013 Directive and the 4th and 7th Directives and also to reiterate significant requirements contained in the Directive even if there has not been a significant change from the previous Directives.

From the Financial Accounting Standards Board (FASB)

Public Business Entity Defined
The FASB issued Accounting Standards Update (ASU) No. 2013-12, "Definition of a Public Business Entity: An Addition to the Master Glossary," on Dec. 23, 2013. The new single definition of a "public business entity" is provided for use in future financial accounting and reporting guidance. The definition provided by the new standard does not affect existing requirements, but it will apply to future guidance. Currently, The FASB ASC includes multiple definitions of the terms "nonpublic entity" and "public entity."

The ASU will be effective with the issuance of future ASUs that use the definition of a public business entity.

Accounting Standards Updates (ASU) Originated by the Private Company Council
The FASB recently issued 2 ASU that are not effective until 2015, but do allow for early adoption in calendar 2013. As both are simplifications of GAAP, clients might want to take advantage of the early adoption opportunity:

ASU No. 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill, permits a private company to subsequently amortize goodwill on a straight-line basis over a period of 10 years, or less if the company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill.

ASU No. 2014-03, Derivatives and Hedging (Topic 815): This Update addresses concerns of private company stakeholders that the hedge accounting alternative prescribed by Topic 815 is difficult to apply. This ASU provides an additional hedge accounting alternative within Topic 815 for certain types of swaps that are entered into by a private company for the purpose of economically converting a variable-rate borrowing into a fixed-rate borrowing.

Simpler Goodwill Accounting to be Extended to Public Companies and Not-for-Profits?
The FASB began discussions on February 12, 2014, about extending a break on accounting for goodwill to public companies and not-for-profit groups that it approved for private companies earlier this year. ASU 2014-02 was issued in January 2014 after years of complaints from private companies and their auditors that they spend considerable time and money on mandatory annual goodwill impairment tests when lenders and creditors often do not even consider this information in their loan decisions.

Private Company Framework Issued
On Dec. 23, 2013, the FASB and the Private Company Council (PCC) issued "Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies." The guide will be used to determine whether and when to provide alternative accounting or reporting guidance for private companies reporting under U.S. GAAP.

The intended purpose of the guide is to assist with identifying the different information needed by users of public company financial statements and users of private company financial statements and to point out ways to reduce the complexity and costs of preparing private company financial statements in accordance with U.S. GAAP. It identifies five significant factors that differentiate the financial reporting considerations of private companies from public companies:

- The number of financial statement users and their access to management
- Investment strategies of primary financial statement users
- Ownership and capital structures
- Accounting resources available
- The manner in which preparers learn about new financial reporting guidance

Areas where financial accounting and reporting guidance might differ for private and public companies are identified in the guide: recognition and measurement, disclosures, display, effective dates, and transition methods.

FASB ASC Available for Tablets
The Financial Accounting Foundation has announced that the FASB Accounting Standards Codification has been enabled for use on tablet devices. FASB Codification subscribers can access the new tablet view for Apple's iPad, as well as Google Android-based devices at https://asc.fasb.org.

From the American Institute of Certified Public Accountants (AICPA)

Using the Work of Internal Auditors
The AICPA's Auditing Standards Board (ASB) agreed during its January meeting to finalize a clarified version of AU-C Section 610, "Using the Work of Internal Auditors," formerly AU Section 322. The standard was revised for clarity and to converge with the corresponding International Standard on Auditing (ISA). Ahava Goldman, the ASB's senior technical manager said the standard is expected to be issued by the end of March and its issuance will complete the ASB's clarification of its auditing standards.

Guide on Testing Goodwill for Impairment Available
The AICPA has published a new accounting and valuation guide, "Testing Goodwill for Impairment." The new publication includes guidance on performing the qualitative assessment and the first step of the two-step goodwill impairment test required by FASB ASC Topic 350, "Intangibles – Goodwill and Other." It also identifies common practice issues encountered, includes an example of a valuation analysis, and provides sample disclosures. The guide can be purchased at the AICPA Store.

Audits of Prior Periods Addressed in New Guidance
The AICPA has issued Technical Practice Aid 8100.03, "Using Current Auditing Standards for Audits of Prior Periods." According to this non-authoritative guidance, an auditor engaged to perform an audit of financial statements that are prior to the effective date of the clarified auditing standards may audit and report on financial statements using the clarified auditing standards even though the standards were not effective for that prior period.

From the Securities and Exchange Commission (SEC)

Staff Report on Public Company Disclosure Issued
On Dec. 20, 2013, the SEC released a staff report on its disclosure rules for U.S. public companies which provides an overview of Regulation S-K, and provides the SEC staff's preliminary recommendations about how to approach modernizing and simplifying disclosure requirements. Required by the *Jumpstart Our Business Startups Act* (JOBS Act), the report recommends that "disclosure requirements should be reevaluated in order to ensure that existing security holders, potential investors and the marketplace are provided with meaningful and, to the extent possible in the Commission's rules, non-duplicative information upon which to base investment and voting decisions, that the information required to be disclosed by reporting companies continues to be material and that the disclosure requirements are flexible enough to adapt to dynamic circumstances."

Rules Proposed to Increase Access to Capital for Smaller Companies

The SEC voted on Dec. 18, 2013, to propose new rules intended to increase access to capital for smaller companies. The proposed rules, mandated by Title IV of the JOBS Act, would include a new exemption from registration for offerings up to $50 million. The proposed rules include requirements for issuer eligibility, content and filing for offering statements, and ongoing reporting for issuers.

Comments on the proposed rules are due 60 days after their publication in the Federal Register.

From the Public Company Accounting Oversight Board (PCAOB)

Disclosure of Audit Participants Reproposed

The PCAOB had been expected to approve a rule requiring the identification of the lead partner in an audit engagement as early as mid-2014 but has now extended the deadline for comment on Release No. 2013-009, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audits*. The original comment deadline of February 3 has been extended to March 17, 2014. The reproposed amendments would require disclosure in the auditor's report of both of the following:

- The name of the engagement partner who led the audit for the most recent period
- The names, locations, and extent of participation of other public accounting firms that took part in the audit, and the location and extent of participation of other persons not employed by the auditor who performed procedures in the audit

Other than the additional disclosures in the report, the auditor's obligations in conducting the audit would not change. See the PCAOB fact sheet about the current proposal and revisions made from prior proposals here.

Project on Auditor Term Limits Dropped

James Doty, PCAOB chairman, said "We don't have an active project or work going on within the board to move forward on a term limit for auditors." The PCAOB first proposed the idea of auditor term limits nearly three years ago but the agency no longer wants to impose auditor term limits on public companies.

Report on Implementation of Auditing Standard on Engagement Review Released
The PCAOB released a report (Dec. 6, 2013), about registered audit firms' implementation of and compliance with Auditing Standard (AS) No. 7, “Engagement Quality Review.” AS 7 requires an engagement quality review for every audit engagement and every engagement to review interim financial information.

According to the report, firms' methods generally were consistent with the requirements of AS 7, but did not always result in an appropriately executed engagement quality review. In the report, the staff concluded that audit deficiencies identified by them should have been identified by the engagement quality reviewer.

Proposed Requirement to “Read and Evaluate” Other information
The PCAOB has included a provision in Release No. 2013-005*, Proposed Auditing Standards on the Auditor's Report and The Auditor's Responsibilities Regarding Other Information and Related Amendments,* that will require firms to more closely review the information in a regulatory filing that's not part of the financial statements. If the proposed requirement goes through, auditors would have to evaluate information in the client's written disclosures and its exhibits to its regulatory filings. Existing rules require auditors to “read and consider” the nonfinancial material. The proposal raises the standard to “read and evaluate,” and includes specific auditing procedures.

2014 Agenda Includes 3 Proposals and 1 Final Standard
In the first quarter of 2014, the PCAOB is expected to issue Proposed Standards to address the reorganization of the board's standards, an auditor's responsibilities with respect to other parties working on an audit, and going concerns. A final standard that will amend the guidance for related parties is also expected.

A final standard based on Release No. 2013-004, *Proposed Auditing Standard on Related Parties,* is expected to be issued in the first quarter of 2014, according to a presentation Jennifer Rand, a deputy chief auditor with the PCAOB, gave to the FASB's Financial Accounting Standards Advisory Council (FASAC). The guidance is intended to help auditors evaluate a company's reporting and disclosure of business dealings with family members, business partners, and other people or organizations with close ties to executives and directors. Once finalized, the standard will replace the interim guidance in AU Section 334, “Related Parties,” (AU-C Section 550).

Proposed amendments to the going concern guidance and a proposal to address auditors' responsibilities with respect to other accounting firms, individual accountants, and specialists are also on the agenda. In addition, the PCAOB plans to seek public comments on a proposal to implement the reorganization of its auditing standards (Release No. 2013-002, *Proposed Framework for Reorganization of PCAOB Auditing Standards*).