Crowe Horwath

Technical Roundup

November / December 2014

The Technical Standards Update of Crowe Horwath International

Joint Projects

Leases

The FASB and IASB have been reviewing the converged proposals they issued in May 2013, as the IASB's Exposure Draft (ED) No. 2013-6, *Leases*, and the FASB's Proposed Accounting Standards Update **(**ASU) No. 2013-270, *Leases (Topic 842).* They agreed to define a lease contract in a way that stresses the customer's ability to use an asset and realize benefits from it. However, the boards have yet to decide how much interpretive guidance the standard should have about applying the definition. The broad definition the boards agreed on is that a lease is "a contract that conveys the right to use an asset for a period of time in exchange for consideration." This means that a customer must control the asset's use and obtain "substantially all" its benefits.

Resources / Reports

Global Management Accounting Principles

The **Global Management Accounting Principles**, based on insights from a global sampling of chief executives, CFOs, academics, and other professionals, were released in a comprehensive report prepared jointly by the American Institute of CPAs (AICPA) and Chartered Institute of Management Accountants (CIMA). They represent the first set of common principles to guide the practice of management accounting. The goal is to establish values, qualities, and norms that represent the profession’s best practices to help organisations make better decisions in response to the risks they face.

SME Implementation Group Report

Click **here** for the report containing the recommendations of the SME Implementation Group (SMEIG) on the proposals in ED/2013/9 *Proposed amendments to the IFRS for SMEs* (the ED). The starting point for developing the report was the SMEIG members’ responses to a series of questions that came out of feedback on the ED. See the detail of the feedback, staff analysis and recommendations in the staff papers **here**.

Update

Find the latest updates:

- **IFRS for SMEs Update**
- **IFRIC Update**
- **IASB Update**

From the International Accounting Standards Board (IASB)

Proposal for Measuring Certain Investments at Fair Value Published
In September, the IASB announced the publication of an exposure draft, ***Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value***. The amendments in the proposal make clear that an entity should measure fair value of quoted investments and quoted cash-generating units as the product of the quoted price for the individual financial instruments that make up the investments held by the entity and the quantity of financial instruments. Comments on the proposal are due 16 January 2015.

From the International Federation of Accountants (IFAC)

At the World Congress of Accountants in Rome, Italy in November, IFAC launched the **MOSAIC website** (Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration). The MOSAIC website is a portal to global accountancy development, with resources and news from around the world related to the development of the accountancy profession and professional accountancy organizations. "The MOSAIC website provides a global platform to facilitate knowledge sharing," said Fayez Choudhury, CEO of IFAC. "The launch of this website highlights an important step in a strategic approach to strengthen and maintain the capacity of the accountancy profession in both the public and private sectors and improve the global financial system."

MOSAIC gathers resources from diverse sources into one site, which enables users to access accounting regulations in specific nations and guidance on best practices, among other resources in one place. There are interactive maps that provide the status of the accountancy profession in specific nations, the development need, and national and regional professional accountancy organizations and contact details. In addition to national and regional resources, five key topic areas are featured for important resources and news—Education and Certification, International Standards, Legislation and Regulation, PAO Capacity Building, and Public Sector Financial Management.

From the IFRS Foundation

The IFRS Foundation recently published Interim Release 2 to the *IFRS Taxonomy 2014* which updates the **IFRS Taxonomy** for IFRS 15 *Revenue from Contracts with Customers*, and Common Practice (transport and pharmaceuticals). The IFRS Taxonomy is the XBRL representation of IFRS, including International Accounting Standards (IAS), Interpretations, and the IFRS for SMEs, as issued by the IASB.

From the Federation of European Accountants (FEE)

FEE conducted a survey in mid-2014 to get an overview of the PIE definitions used throughout Europe and the differences among them. The survey, published in October 2014, also was intended to obtain some data about the number of PIEs within the EU and to indicate any anticipated changes in the definition with the implementation of the new Audit or Accounting Directives. See the outcome of the survey **here**.

From the Financial Accounting Standards Board (FASB)

Consolidation Standard Delayed
Despite expectations that there would be a final new consolidation standard by the end of 2014, the standard will be delayed.

The Financial Accounting Standards Board learned from its staff that the "fatal flaw" review of the final standard revealed a many issues the staff needs to analyze, a handful of which could require the board to re-open discussion on some technical issues. They hope to complete their analysis of the 140 "significant" comments raised by 25 separate external reviewers and plan to provide the board with fresh recommendations at a December meeting. The staff indicated that the comments contain many areas of overlap, so the true number of issues is much smaller. If the Board makes decisions on those technical issues and is ready to proceed to a vote, the final Accounting Standards Update is expected to be issued no earlier than February 2015.

Extraordinary Items to be removed from US GAAP
In October, the FASB unanimously agreed with no debate to issue a final amendment removing the concept of extraordinary items from U.S. GAAP. The update is expected to be published by the end of the year and will be effective for 2016 fiscal years, starting with financial statements for the first quarter. It can be adopted in 2015 provided that companies apply the provisions at the start of the year. Companies can choose retrospective or prospective application. Companies that don't adjust previous periods will have to include a footnote in their financial statements that explains the differences caused by the decision to end the use of the accounting for extraordinary items. The update revises the name of Subtopic 225-20, (formerly Accounting Principles Board (APB) Opinion No. 30), in the Accounting Standards Codification to *Income Statement — Unusual or Infrequently Occurring Items* instead of *Income Statement — Extraordinary and Unusual Items*.

In October 2014, the FASB issued Accounting Standards Update No. 2014-16, ***Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*** (a consensus of the FASB Emerging Issues Task Force). The Update requires businesses to evaluate an instrument and its embedded derivatives before determining how they're classified. The ASU is effective for all entities for fiscal years that start after 15 December 2015. Public companies should apply the revisions to their quarterly reports in 2016. Private companies do not have to apply the changes to quarterly and other financial reports covering periods shorter than a year until 2017. Entities may adopt earlier, including in an interim period but shall reflect any adjustments as of the beginning of the fiscal year that includes that interim period.

Business Combinations
In November 2014, the FASB issued **ASU 2014-17, *Business Combinations (Topic 805): Pushdown Accounting* (a consensus of the FASB Emerging Issues Task Force)**. The amendments are effective on 18 November 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle.

Intangible Assets
In November 2014, the FASB decided to endorse the PCC's decision to exempt private companies from recognizing certain intangible assets they acquire via business combinations. The FASB decided that private companies don't need to recognize non-compete agreements and customer-related intangible assets unless they can be sold or licensed independently from the other assets of a business. The changes will be effective for mergers and acquisitions entered into during fiscal years that begin after 15 December 2015, and quarterly or other interim reporting periods that begin in 2017. However, private companies must continue to meet the disclosure requirements for intangible assets in ASC 805, *Business Combinations*, and include a qualitative description of their intangible assets that aren't being separately recognized. Once elected, the accounting must be applied for all business combinations occurring after the effective date, and they can't be applied retroactively.

Proposed ASUs
In October 2014, the FASB issued the following Exposure Drafts:

- Proposed Accounting Standards Update, ***Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions*** (a consensus of the FASB Emerging Issues Task Force).

- Proposed Accounting Standards Update, ***Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*** (a consensus of the FASB Emerging Issues Task Force).

Comments on both Exposure Drafts are requested by 15 January 2015.

In addition, as part of its simplification initiative, the following Exposure Drafts were issued by FASB:

- Proposed Accounting Standards Update, ***Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost***.
- Proposed Accounting Standards Update, ***Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets***.

Comments on these 2 Exposure Drafts are due 15 December 2014.

From the American Institute of Certified Public Accountants (AICPA)

The AICPA Accounting and Review Services Committee (ARSC) released Statement on Standards for Accounting and Review Services (SSARS) No. 21, *Statement on Standards for Accounting and Review Services: Clarification and Recodification*. SSARS No. 21 clarifies and revises the standards for reviews, compilations and engagements to prepare financial statements. It also includes significant revisions that affect the standards for accountants in public practice who prepare financial statements for their clients.

SSARS No. 21 affects 3 different levels of service:

- Engagements in which CPAs prepare financial statements for clients.
- Compilation engagements, in which CPAs assist management in presenting information in the form of financial statements without obtaining or providing assurance on that information.
- Review engagements, in which CPAs obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, primarily through the performance of inquiry and analytical procedures.

Following are the substantive changes to the standards for compilations, reviews, or engagements to prepare financial statements:

- A report is not required when you are engaged to prepare financial statements, even when the financial statements are expected to be used or provided to a third party.
- When you are engaged to prepare financial statements, a legend is required on each page of the financial statements stating that no assurance is being provided, or a disclaimer.
- You are required to obtain an engagement letter signed by both the accountant and the client's management for all reviews, compilations, and engagements to prepare financial statements.
- For compilation engagements, the need for you to determine whether you have prepared financial statements by is eliminated by removing the submission requirement.
- A compilation engagement always requires a report. If you are engaged to prepare financial statements that are not intended for third-party use, this would be an engagement to prepare financial statements, not a compilation.

SSARS No. 21 is effective for engagements on financial statements for periods ending on or after 15 December 2015 with early implementation permitted. Read an Executive Summary of the new standard **here** or visit the SSARS No. 21 **webpage**.

Updated Audit Guides
The AICPA published annual updates for the following Audit and Accounting Guides (AAG) in October and November 2014:

- *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies*
- *Health Care Entities*
- *Special Considerations in Auditing Financial Instruments*
- *Gaming*
- *Assessing and Responding to Audit Risk in a Financial Statement Audit.*

From the Public Company Accounting Oversight Board (PCAOB)

Auditor Reporting Model
Currently, the PCAOB is considering comments received on the proposal in Release No. 2013 -005, *Proposed Auditing Standards on the Auditor's Report and The Auditor's Responsibilities Regarding Other Information and Related Amendments,* which was published in August 2013. "It is likely that our revisions will result in a narrower, more focused requirement that would facilitate the disclosure of only the most relevant information about the audit, while not crossing the line into areas that are within management's responsibility," PCAOB member Jay Hanson said during a speech at the University of California, Irvine, Audit Committee Summit in October. The board may release the revised proposal in early 2015.

Revised Inspection Reports
The PCAOB recently removed the term "audit failure" in inspection reports that were issued in response to problems with audit work done. The use of the language audit failure has been controversial for some time. In fact, the board has received feedback from audit committee members who were troubled that referring to a deficiency on a portion of an audit as an audit failure might lead some to think that the company's financial statements were misstated, or that the entire audit was insufficient. The wording change in the inspection reports appears to have started in May 2014, with a Deloitte LLP inspection.

From the Securities and Exchange Commission (SEC)

The SEC approved the new standard on auditing related party transactions and significant unusual transactions (AS 18) that the PCAOB had voted in June 2014 to adopt. **AS 18** will supersede AU section 334, *Related Parties*. The new standard includes some concepts from AU 334, but strengthens requirements for identifying, assessing and responding to the risks of material misstatement associated with a company's relationships and transactions with its related parties. Under the new standard, auditors will be required to:

- Perform specific procedures to get an understanding of a company's relationships and transactions with its related parties, in conjunction with risk assessment procedures under AS No. 12, *Identifying and Assessing Risks of Material Misstatement*.
- Evaluate whether the company has properly identified its related parties and relationships and transactions with its related parties, including testing the accuracy and completeness of management's identification, taking into account information gathered during the audit.
- Perform specific procedures if the auditor determines that a related party or relationship or transaction with a related party previously undisclosed to the auditor exists.
- Perform specific procedures regarding each related party transaction that is either required to be disclosed in the financial statements or determined to be a significant risk.
- Communicate to the audit committee the auditor's evaluation of the company's identification of, accounting for, and disclosure of its relationships and transactions with related parties, and other

significant matters arising from the audit regarding the company's relationships and transactions with related parties.

The standard will go into effect for audits of financial statements for fiscal years beginning on or after 15 December 2014, including reviews of interim financial information within these fiscal years. See the SEC order granting approval of the standard **here**.

Business Combinations

To reflect private sector changes in U.S. GAAP, the SEC released a Staff Accounting Bulletin (SAB) to rescind portions of the interpretive guidance for pushdown accounting. **SAB No. 115** rescinds SAB Topic 5.J. *New Basis of Accounting Required in Certain Circumstances*. The new bulletin conforms the existing guidance with FASB ASU 2014-17, *Business Combinations (Topic 805): Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force*, which was ratified by the FASB in October 2014.

Mortgage Securities Risk Retention Rule Issued

The SEC, along with the Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corp., the Federal Housing Finance Agency, and the Department of Housing and Urban Development, issued in October 2014, a **final rule** requiring sponsors of securitization transactions to retain risk in those transactions. The new rule generally requires sponsors of asset-backed securities (ABS) to retain not less than 5 percent of the credit risk of the assets collateralizing the ABS issuance. The rule also sets forth prohibitions on transferring or hedging the credit risk that the sponsor is required to retain. Securitizations of "qualified residential mortgages," as defined in the rule, are exempt from the risk retention requirements. The final rule requires no retention for securitizations of commercial loans, commercial mortgages, or automobile loans if they meet specific standards for high-quality underwriting.

The final rule will be effective one year after publication in the Federal Register for residential mortgage-backed securitizations and two years after publication for all other types of securitizations.

Risk Alert and FAQ Issued on Customer Sales of Securities

In October 2014, the SEC published a risk alert, ***Broker-Dealer Controls Regarding Customer Sales of Microcap Securities***, and a related **FAQ** document, which are intended to remind broker-dealers of their obligations when they engage in unregistered transactions on behalf of customers. The risk alert summarizes deficiencies that the SEC's Office of Compliance Inspections and Examinations discovered during a targeted sweep of 22 broker-dealers frequently involved in the sale of microcap securities. Section 4(a)(4) of the Securities Act of 1933 provides a registration exemption for broker-dealers when executing customers' unregistered sales of securities if, after reasonable inquiry, the broker-dealer is not aware of circumstances indicating that the customer would be violating the registration requirements of Section 5 of the Securities Act. The FAQ reminds broker-dealers of the requirements for complying with the exemption.

Financial Reporting Manual Updated

The staff of the SEC's Division of Corporation Finance published a new version of the ***Financial Reporting Manual*** dated 20 October 2014. The new edition incorporates minor technical updates and clarifications to the guidance related to registrant financial statements, development stage entities, acquisitions of working interests in oil and gas properties, individually insignificant acquired entities, real estate acquisitions, pro forma financial information, and reverse mergers by foreign companies. The manual is intended to be an internal reference document for SEC staff, but preparers and others might find it a useful reference for financial reporting matters.

EDGAR Filer Manual Update Issued

Also on 20 October 2014, the SEC staff published an updated version of the **EDGAR Filer Manual**, with revisions to the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. The update includes a system upgrade that is compatible with multiple Web browsers; a revised disclosure, reporting, and offering process for ABS; and revised system requirements for Form N-SAR filers.

Published by Crowe Horwath International
Editors: David Chitty, Beth Share