January 2015

Technical Roundup

The Technical Standards Update of Crowe Horwath International

Joint Projects

Leases
On 16 December, 2014 the IASB and FASB moved a step closer to finalizing their work on a converged lease accounting standard by agreeing on the definition of a lease. The boards decided to define a lease as a contract that conveys the right to use an asset for a period of time in exchange for consideration. They agreed that a customer doesn't have to have the ability to derive the economic benefits from directing the use of a rented piece of equipment or machinery for the contract to be considered a lease. The definition also helps fine tune the difference between a lease and a service contract which is important because service contracts will not have to follow the planned lease accounting changes.

Resources / Reports

Web-based Code of Ethics
IESBA has launched a new web-based 2014 Code, which is designed to provide enhanced access and greater ease of use and navigation. “Digital is now the preferred medium of communication. It is also how the tech-savvy world today will want to access and use the wealth of materials produced by the board. The board intends to move with the times, technologically,” said interim IESBA Chair Wui San Kwok. Key features of the web-based Code include the ability to:

- Find relevant pages and sections using a powerful keyword search;
- Display definitions of key terms within the text;
- Navigate sequentially or by using the interactive table of contents; and
- Access previous editions and links to translations, most of which are hosted on third-party sites.

Additional features may be incorporated into the platform in the future. See the **Consultation Paper** released in December, and submit your comments by 4 February 2015.

Effects Analysis Consultative Group
The Trustees of the IFRS Foundation cheered a report prepared for them by the Effects Analysis Consultative Group (the ‘Group’) to provide independent advice on how the IASB undertakes and assesses fieldwork and shares the results. The Group’s report identified a series of recommendations related to general purpose financial reports, fieldwork and the reporting of likely effects. The IFRS Foundation’s Trustees will work with the IASB to implement the recommendations. Michel Prada, Chairman of the IFRS Foundation Trustees, commented: “Many jurisdictions have a requirement to consider the likely effect of a new standard as part of their endorsement processes. At present, much of this work is undertaken by the IASB during the development of new Standards, and then often duplicated at a jurisdictional level as part of an endorsement process once the IASB has issued the Standard. The

purpose of establishing the Consultative Group was to identify 'best practice' in the assessment of the likely effects of a new Standard, and, in doing so, to seek to enhance the confidence in, and efficiency of, the processes." Hans Hoogervorst, Chairman of the IASB, said: "The recommendations build upon our already extensive methodology for undertaking effects analysis. It is important that this work enjoys the confidence of our stakeholders. We therefore intend to implement the recommendations in full." See the Report **here**.

Anti-Fraud Collaboration Report Announced
The Anti-Fraud Collaboration (the CAQ, Financial Executives International, The Institute of Internal Auditors, and the National Association of Corporate Directors), whose goal is to promote the deterrence and detection of financial reporting fraud, published a report, ***The Fraud-Resistant Organization: Tools, Traits, and Techniques to Deter and Detect Financial Reporting Fraud***. The report suggests conditions that might make an entity more susceptible to fraud, and details how to mitigate those conditions. It also stresses the importance of the significant players in the financial reporting supply chain collaborating on fraud-related issues.

Three central themes that are critical to fraud deterrence and detection are identified:

- A strong "tone at the top"
- Skepticism
- Robust communication

The report appropriately addresses challenges that global companies face in executing effective programs to deter and detect fraud. These challenges include language barriers, differing cultural norms, and conflicting regulatory requirements.

Though released by an organization affiliated with the AICPA, the recommendations in the report have global applicability.

Update **Find the latest updates:**

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

From the International Accounting Standards Board (IASB)

Share-based Payment
In November, the IASB published an Exposure Draft detailing proposed amendments to IFRS 2 *Share-based Payment*. The Exposure Draft ***Classification and Measurement of Share-based Payment Transactions*** combines three proposed amendments to IFRS 2 which were initially discussed by the IFRS Interpretations Committee. The proposals provide guidance on:

1. The accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment;
2. The classification of share-based payment transactions with net settlement features; and
3. The accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The deadline for public comment is 25 March 2015.

Presentation of Financial Statements

Amendments to IAS 1 *Presentation of Financial Statements* were issued 18 December by the IASB. The amendments are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. As an example, the amendments clarify that materiality applies to the whole financial statements and that including immaterial information can weaken the usefulness of the financial disclosures. The amendments can be applied immediately and will be effective for fiscal years starting in 2016.

Statement of Cash Flows

Also in December and as part of their project to improve disclosure, the IASB published Exposure Draft (ED) No. 2014-6, ***Disclosure Initiative: Proposed Amendments to IAS 7***. The proposal responds to requests from investors for improved disclosures about companies' financing activities and their balances of cash and cash equivalents. The proposed changes to IAS 7, *Statement of Cash Flows*, call for disclosures that reconcile amounts from financing activities reported in opening and closing balances. Other changes include disclosure requirements about a company's access to cash and restrictions on the use of cash, such as unpaid taxes. The revisions also address changes to the IFRS XBRL taxonomy. The comment deadline is 17 April 2015.

Investment Entities

The IASB amended its consolidated reporting guidance in December, by publishing *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, *Consolidated Financial Statements*; IFRS 12, *Disclosure of Interests in Other Entities* and IAS 28, *Investments in Associates*).The revisions, which were proposed in June in ED No. 2014-2, address the exemption from the consolidated reporting requirements for investment entities and are expected in some cases to lower financial reporting costs. The amendments do the following:

- IFRS 10 - clarify when the exemption from consolidated reporting is available to companies that are subsidiaries of investment companies;
- IFRS 12 - explain the limits of a reporting exemption for investment companies with subsidiaries that are measured at fair value; and
- IAS 28 - rely on the same criteria used by the IFRS 10 amendments to determine the exemption's application.

The amendments will be mandatory for fiscal years that start in 2016, but can be applied immediately.

From the International Federation of Accountants (IFAC)

Spanish Translations

IFAC has just published the ***Statements of Membership Obligations (SMOs) 1-7 (Revised)*** in Spanish. It is the first Spanish publication to result from IFAC's IberAm project. The project is a joint effort between IFAC and its member bodies Instituto de Censores Jurados de Cuentas de España, Federación Argentina de Consejos Profesionales de Ciencias Económicas, and Instituto Mexicano de Contadores Públicos. "A significant number of IFAC's member organizations are in countries where Spanish is the official language, so the IberAm Project, and our Spanish speaking member bodies and regional organization, are truly making valuable contributions to the profession," said IFAC's Chief Executive Officer Fayez Choudhury. "The IberAm Project's motto is 'The whole is greater than the sum of the parts,' and its members have demonstrated admirable cooperation and collaboration. We are gratified that this translation—and future ones—will help advance IFAC's goal of widespread adoption and implementation of international standards, and we are pleased to serve as a natural facilitator and trusted intermediary."

Of the many additional Spanish translations that are scheduled in the coming months, one of the most significant will be the 2013 edition of the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* from the International Auditing and Assurance Standards Board. Other publications include ones from the International Ethics Standards Board for Accountants, International Accounting Education Standards Board, IFAC's Small and Medium Practices Committee, IFAC's Professional Accountants in Business Committee, and IFAC's Professional Accountancy Organization Development Committee.

From the International Ethics Standards Board for Accountants (IESBA)

IESBA released for public comment in December the Exposure Draft (ED), ***Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles***. The proposals provide more practical guidance to help professional accountants in business (PAIBs) deal with two specific matters: their responsibility to produce financial reports that are faithful representations of the economics of transactions, and pressure to breach fundamental ethical principles. “PAIBs play an important role in the financial reporting supply chain, and they may encounter pressure to act unethically. The proposed guidance will help them understand what their options are, and therefore better support them in fulfilling their responsibility to act in the public interest,” said interim IESBA Chair Wui San Kwok. “The proposal also clarifies that when preparing financial information, exercising discretion—for example, when selecting an accounting method—in a manner that is intended to mislead is not acceptable.

The proposed changes include:

- Fuller and more explicit guidance regarding PAIBs’ responsibilities when presenting information;
- Strengthened guidance on how a PAIB can disassociate from misleading information;
- An expanded description of pressure that may lead to a breach of the fundamental principles in the Code of Ethics for Professional Accountants together with practical examples to illustrate different kinds of situations in which such pressure may arise; and
- New guidance to assist PAIBs in identifying and responding to pressure that could result in a breach of the fundamental principles.

“The development of this enhanced guidance reflects a rebalancing of the board’s focus to be more inclusive of PAIBs, a very large and important part of the accountancy profession,” noted IESBA Technical Director Ken Siong. “It will serve to remind PAIBs of some of the fundamental ethical principles by which they should be guided in their different roles within their organizations, and with which they must comply.” Comments are due by 15 April 2015.

From the International Auditing and Assurance Standards Board (IAASB)

Auditors’ Reports
On 15 January, the IAASB released **new and revised Auditor Reporting standards**. These include new ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, and a number of revised ISA:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial* Statements
- ISA 570 (Revised), *Going Concern*
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- ISA 260 (Revised), *Communication with Those Charged with Governance*, and
- Conforming Amendments to ISAs 210, 220, 230, 510, 540, 580, 600, and 710

One notable change that comes with the revisions is a requirement for auditors of listed entities’ financial statements to communicate "Key Audit Matters," those deemed most significant, and explain how they were addressed in the audit. Other changes include an increased focus on going concern matters, including disclosures in the financial statements, and more transparency in the auditor’s report about the auditor’s work.

The new and revised standards will be effective for audits of financial statements for periods ending on or after 15 December 2016.

See the updated auditor reporting section of the IAASB's website, which debuts the first components of an "Auditor Reporting Toolkit." Additional resources will be subsequently released, so users should visit the website frequently to stay up-to-date on the latest resource materials.

Strategy and Work Plan
The IAASB released its ***Strategy for 2015–2019: Fulfilling Our Public Interest Mandate in an Evolving World*** and its ***Work Plan for 2015–2016: Enhancing Audit Quality and Preparing for the Future***. It emphasizes three strategic objectives: using ISA as the basis for high-quality audits, the use of its standards in sustainability reporting and other emerging areas, and the Board's intention to strengthen collaboration with other organizations. "The most significant strategic issue facing the IAASB is ensuring the continued credibility and confidence in its work as a global standard-setter," the plan says. The 2015-2016 plan will focus on:

- Public issues dealing with audit quality, including group audits;
- Quality control;
- Professional skepticism; and
- Audit considerations related to financial institutions.

From the International Accounting Education Standards Board (IAESB)

In December, the IAESB published International Education Standard (IES) 8, ***Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)***.The revised IES focuses on the professional competence requirement for engagement partners who have responsibility for audits of financial statements. It is primarily directed toward IFAC member bodies, but recognizes that engagement partners, public accounting firms, and regulators share responsibility as part of the system of quality control for engagement teams performing audits of financial statements. "To protect the public interest, engagement partners need to have the necessary skills and competencies to perform their roles effectively," said Prof. Peter Wolnizer, IAESB Chair. "The public has a right to expect that engagement partners continue to develop and maintain their professional competence so that they can be relied upon to competently perform audits of financial statements throughout their careers." The publication of IES 8, marked the completion of the redrafting and revising of all eight IESs.

From the Financial Accounting Standards Board (FASB)

Investments
In December, the FASB issued a proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies*. Click **here** to download the Exposure Draft. Comments are due by 17 February 2015.

Intangible Assets Acquired in Business Combinations
Also in December, the FASB issued Accounting Standards Update (ASU) **No. 2014-18**, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*, which offers an alternative for certain intangible assets acquired in a business combination that is designed to make the accounting less costly and less complicated for private companies. The ASU was designed by the Private Company Council and endorsed by FASB. Public companies and not-for-profits are not permitted to elect the alternative, but FASB has added a separate project to its agenda to consider an alternative for them. Adoption, if elected, is required to be done upon the occurrence of the first transaction within the scope of the alternative. Early application is permitted for any interim and annual financial statements that have not yet been made available for issuance. See the news release **here** or the ***FASB in Focus*** publication for more information.

Extraordinary and Unusual Items

In January, FASB issued **ASU 2015-01**, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items,* which eliminates the concept of 'extraordinary items' from U.S. GAAP. The amendments in this Update are effective for annual periods, and interim periods within those annual periods, beginning after 15 December 2015. An entity may adopt the changes earlier provided that they apply the guidance from the beginning of the fiscal year of adoption. The ASU is part of the Board's **Simplification Initiative**, which is intended to reduce the cost and complexity in financial reporting while improving or maintaining the usefulness of the information reported to investors.

From the American Institute of Certified Public Accountants (AICPA)

Code of Conduct

The AICPA *Code of Professional Conduct* has been completely updated to allow for quick, easy navigation and now lives on a **dynamic online platform**. The new Code is effective date 15 December 2014.

Peer Review

On 15 December 2014, the AICPA issued a concept paper, ***Evolving the CPA Profession's Peer Review Program for the Future***, which details their vision of what peer review could become. The paper calls for changes to the peer review program that would allow for quicker feedback to auditors in need of improving their work. The AICPA said that the paper shows how the accounting and auditing peer review program "could be transformed into a technology-driven, near-real-time practice monitoring process." The peer review program is expected to change based on feedback from the paper and what the AICPA learns from participants in a pilot program.

The peer review program is ultimately expected to be revised to include:

- Continuous evaluation of engagement performance;
- On-site reviews of audit work suspected of problems;
- External monitors for firms with problems;
- Periodic inspections of the system's integrity; and
- Oversight of the system's operating effectiveness.

The AICPA plans to develop and implement the program in several phases, the first phase of which is to have newly-developed monitoring tools piloted by volunteers from small, medium, and large firms. The ultimate goal is to move to mandatory participation for all firms and eventually replace the current program.

See the full Press Release **here**.

Audit Data Standards

The AICPA's Assurance Services Executive Committee's Emerging Assurance Technologies Task Force issued on two proposed audit data standards. A working group, which developed the proposed standards, was established by the task force to help it develop technology to improve the audit process. ***Procure to Pay Subledger Standard*** and ***Order to Cash Subledger Standard*** are intended to aid the analysis that's performed as part of an audit and the analysis a company might use to improve its internal processes. Comments are due by 28 February 2015.

From the Public Company Accounting Oversight Board (PCAOB)

FAQ Published on Broker-Dealer Support Fees

The PCAOB published on Oct. 29, 2014, a FAQ document, “The Broker-Dealer Accounting Support Fee and the Funding Process.” The document provides the PCAOB staff’s views on issues related to the implementation of the broker-dealer funding rules found in Section 7 of the PCAOB rules. The document includes:

- General FAQ, including which broker-dealers are subject to the fee and how it is calculated
- Payment FAQ, addressing when the payment of the fee is due
- FAQ specific to broker-dealers
- Outstanding balance status FAQ, including rules applicable to auditors and the consequences of a past due fee

From the Securities and Exchange Commission (SEC)

Whistleblower Report to Congress Published

On 17 November 2014, the SEC published the “2014 Annual Report to Congress on the Dodd-Frank Whistleblower Program.” The whistleblower program was created by the SEC as a requirement in Section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The program’s goal is to encourage the submission of high-quality information to assist the SEC’s enforcement staff in discovering and prosecuting violations of federal securities laws. Topics covered in the report include:

- The history and purpose of the whistleblower program
- Activities of the Office of the Whistleblower
- Claims for whistleblower awards
- Profiles of whistleblower award recipients
- Efforts at combating retaliation
- Whistleblower tips received
- Processing of whistleblower tips

According to the report, fiscal year 2014 was historic for the Office of the Whistleblower, with the highest-ever number of whistleblower awards and record-breaking dollar amounts of awards. During the year, the SEC authorized awards to nine whistleblowers who had provided original information that significantly contributed to or led to successful enforcement actions.

Broker Dealers

The SEC finalized a two-year extension of a measure exempting broker-dealers who are also registered as investment advisers from the agency’s rules governing conflicts of interest. In Release No. IA-3984,***Temporary Rule Regarding Principal Trades with Certain Advisory Clients***, the SEC delayed the exemption’s expiration date, which had been set for 31 December 2014, until the end of 2016.

Financial Reporting Manual Update

The SEC's Division of Corporation Finance published the latest update to its Financial Reporting Manual which reflects Accounting Standards Update (ASU) No. 2014-17, Business Combinations (Topic 805): Pushdown Accounting (a Consensus of the FASB Emerging Issues Task Force). The update provides guidance for newly-acquired businesses and organizations that prepare financial statements separately from their parents and gives businesses the option to have the accounting basis used by an acquiring company pushed down onto the financial reporting for a newly-acquired subsidiary once the deal has closed. See the SEC website for the ***Summary of Changes in this Update*** or the entire ***Financial Reporting Manual***.

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