

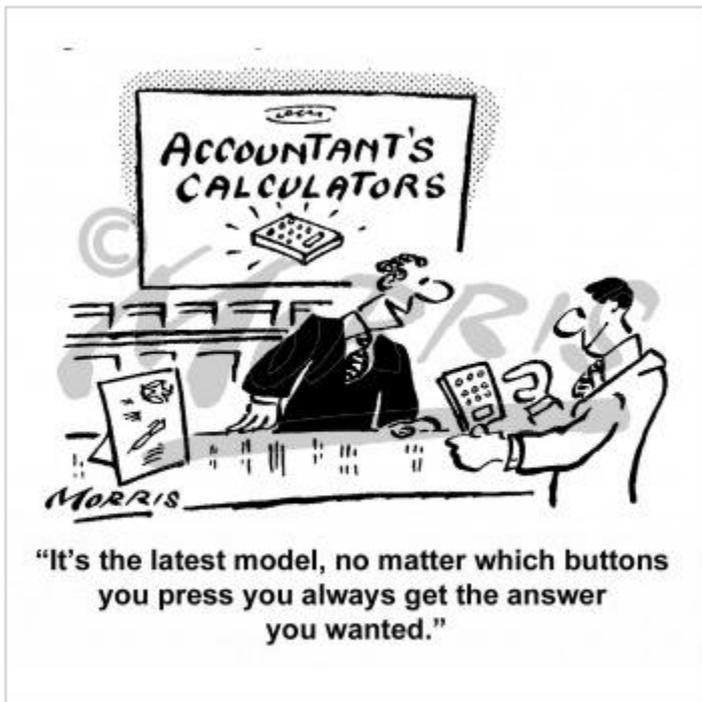


December 2013

A&A Update

The Technical Standards Update of Crowe Horwath International

From the A&A Group – Happy Holidays!



From the Standards Setters

Private Company VIE Exception Approved by PCC

A GAAP exception approved by the Private Company Council (PCC) would exempt private companies from applying consolidation guidance for variable-interest entities (VIEs) under common-control leasing arrangements. Some changes were made from the original proposal, as the PCC struggled with concerns over the definition of "common control" and other issues. The PCC decided to clarify the concept of common control for the purposes of this exception in the exception's Basis for Conclusions.

In addition, the PCC specified that the exception can be used only if the lessor entity's liabilities only finance the assets leased to the operating company and are not collateralized by the operating company's assets.

The exception would apply to all entities, except for public business entities, not-for-profit entities, and employee benefit plans. The exception will be forwarded to FASB for endorsement and will be written into GAAP if approved by FASB.

IASB Completes Important Steps in Reform of Financial Instruments Accounting

The IASB announced the completion of a package of amendments to the accounting requirements for financial instruments. The amendments (1) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; (2) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9, *Financial Instruments*, to be applied in isolation without the need to change any other accounting for financial instruments; and (3) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

The IASB press release is available [here](#).

Standard-Setters Move Past Convergence – An Observation

The FASB and IASB are winding down a decade of converging IFRS and U.S. GAAP with many differences remaining between the two sets of standards. The end of the convergence process without a full U.S. commitment to IFRS means that the SEC and FASB are entering a new phase: U.S. GAAP remains the reporting system of the present, and the reporting system of the future still hasn't been decided. The SEC's leadership says IFRS remains a priority, but it hasn't specified when IFRS will return to its regulatory agenda.

With the end of convergence and the SEC's future action still uncertain, the future of IFRS may be determined by the marketplace more than any single decision by a regulator or standard-setter. Some accountants see new trends emerging that are advancing the use of IFRS. During the years in which the SEC delayed action on IFRS, a growing number of mergers and spin-offs relied upon financial statements prepared in IFRS because of demands from investors outside the U.S.

Final IASB Approval of Revenue Recognition Standard Imminent

Progress toward a converged financial reporting standard for revenue recognition continued when the IASB indicated its intention to approve the standard late last month. The board's staff now will prepare a ballot draft for a final vote. FASB also voted to proceed to a ballot draft for the standard.

Employee Benefit Standard Is Amended to Record Employee and Third-Party Contributions

The IASB amended IAS 19, *Employee Benefits*, to reflect contributions from employees and third parties in the servicing costs for defined benefit plans. The accounting board said contributions from employees or third parties reduce the ultimate cost of a defined benefit and should be accounted for consistently with the defined benefit.

The changes will be effective for fiscal years that begin July 1, 2014, or later. If the changes are adopted before the effective date, the business or organization has to disclose that information to investors.

FASB Endorses Changes in Accounting Standards for Goodwill and Interest Rate Swaps

The FASB has endorsed two accounting standards proposed by the Private Company Council (PCC) pertaining to accounting for goodwill subsequent to a business combination and for certain types of interest rate swaps in an effort to modify the existing accounting standards for private companies. The final standards are expected to be issued by the end of the year.

Headlines from Around the World

Hong Kong Regulatory Oversight not Strong Enough

Regulatory oversight in Hong Kong failed to keep up with international practices according to a report by the Hong Kong Financial Reporting Council (FRC). The report found that Hong Kong does not currently meet the requirements for membership of the International Forum of Independent Audit Regulators (IFIAR) nor does it currently meet the European Commission (EC) regulatory equivalence requirements. The government is expected to lead a public consultation in 2014 on the issue.

EU Seeks to Increase Influence on Global Accounting Rules

The European Union is seeking to increase its influence over global accounting standards by beefing up the agency that scrutinizes new rules and in certain cases tweaking how they are applied in the bloc. IASB-issued standards must first be endorsed by the European Commission for use in the EU bloc but member states and the European Financial Reporting Advisory Group, or EFRAG, often give different views on their suitability.

The EU is the biggest contributor to the IASB's budget - it provided about a third of the 20 million pounds the board received in 2012 - but feels its voice is not adequately heard. Michel Barnier, commissioner for financial services, asked former European Investment Bank chief Philippe Maystadt to recommend how the bloc can streamline advice and endorsement.

In a report published in November, Maystadt recommended beefing up EFRAG financially through compulsory levies on listed companies, and elevating its board to look at the political and economic as well as technical aspects of rules. In a challenge to IASB authority, Maystadt also recommended changing how the commission endorses a standard, broadening it out from a simple yes or no to include the ability for "carve ins" - or local tweaks to the rules - but only to improve the "public good."

The recommendations emphasize making sure IASB rules do not destabilize banks, insurers and markets. The current requirement to value some bank assets at fair value was seen as accentuating the recent financial crisis by forcing lenders into "fire sales" to shore up depleted capital. Another accounting rule is seen as leaving it too late for banks to make provisions on souring loans, forcing taxpayers to bail them out in the crisis.

Barnier criticized the "excessive" focus in recent years on the IASB trying to align its rules with those of the United States, as called for by world leaders so that investors can compare companies more easily. Maystadt said he does not see the U.S. adopting IASB rules in the foreseeable future and in the meantime other parts of the world want to increase their influence.

Barnier said the recommendations will allow the European Union to better organize itself to ensure the "needs of its markets" are taken fully into account in IASB rulemaking. The carve-in provision, along with tougher conditions for endorsing a rule in the first place, such as not harming financial stability, are intended to give the European Union more leverage over shaping new IASB rules in future.

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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