



March 2014

# Technical Roundup

The Technical Standards Update of Crowe Horwath International

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## Joint Projects

### Revenue Recognition

Representatives from the FASB and IASB expect that a final standard for revenue recognition in U.S. GAAP and IFRS will be released in the second quarter of 2014. The boards have said the standard will be effective in 2017 and will cover all contracts with customers except for leases, insurance policies, and financial instrument contracts. Companies will be required to recognize revenue in an amount that reflects what they expect to receive from customers. They will identify a contract with a customer, separate the different promises contained in the contract, determine the transaction price, allocate a price to each promise, and recognize revenue when or as the company transfers the promised good or service to the customer, depending on the type of contract. The process is expected to result in a significant change in industries such as telecommunications and software, but little change in others.

### Leases

On 19 March, the FASB and IASB agreed to revisit this issue in a month or two. FASB Chairman Russell Golden said “We’re still committed to make an improvement and committed to trying to minimize our differences.” Toward that end, the board’s research staff will study some of the main issues before meeting again in a month or two..

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## 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](#).

### 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 were due 13 March 2014.

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## 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. The interim standard is effective 1 January 2016 and early application is permitted.

### Disclosure Initiative

Exposure Draft: *Disclosure Initiative* (Proposed amendments to IAS 1) is expected to be published on 25 March 2014. The document will be available to download from the '[Consultation documents open for comment](#)' section of [www.ifrs.org](http://www.ifrs.org). eIFRS subscribers will be able to download the document [here](#).

### 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 28 February.

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## 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 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 4<sup>th</sup> and 7<sup>th</sup> Directives and also to reiterate significant requirements contained in the Directive even if there has not been a significant change from the previous Directives.

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## From the Financial Accounting Standards Board (FASB)

### Disclosure Framework Project

The Financial Accounting Standards Board has issued an Exposure Draft, [Conceptual Framework for Financial Reporting: Chapter 8: Notes to Financial Statements](#), which is aimed at improving its process for evaluating existing and future disclosure requirements in the notes to financial statements. "The proposed Concepts Statement is intended to aid the FASB in identifying what types of information the Board should consider when deciding on required disclosures," said FASB Chairman Russell G. Golden. "We encourage our stakeholders to review and provide comment on the proposal, and let us know if they think it would help the Board achieve our objective of improving the relevance of the information in those notes to investors and other financial statement users." [Comments](#) are due by 14 July 2014.

### **Accounting Standards Updates (ASU) Originated by the Private Company Council**

The FASB recently issued 3 ASU that are not effective until 2015, but do allow for early adoption in calendar 2013. As all 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.

**ASU 2014-07**, Consolidation (Topic 810): This Update allows eligible private companies to choose to be exempt from evaluating lessor entities in certain common control leasing arrangements for consolidation under the variable interest entity guidance.

An important note for financial institutions: The federal financial institution regulators have not yet determined whether they will accept the use of the alternatives for regulatory reporting purposes. Also, these alternatives are available only to entities that do not meet the FASB's definition of a public business entity.

Private companies electing to apply this guidance would replace the VIE disclosures with certain disclosures about recognized and unrecognized arrangements that could expose the reporting entity to having to provide financial support to the lessor entity.

### **ASU 2014-06, *Technical Corrections and Improvements Related to Glossary Terms***

This Update includes new guidance to consolidate multiple instances of the same term into a single definition and make minor improvements to the Master Glossary. The amendments are not expected to result in substantive changes to the application of existing guidance and thus the FASB did not provide transition guidance. The amendments are effective upon issuance.

### **Consolidated Reporting Amendment for Private Companies**

The FASB validated a decision by its Private Company Council (PCC) to allow private companies that meet certain criteria to opt out of the consolidated reporting rule required for variable interest entities. The board expects to release the final update in March. The amended guidance can be applied to the first set of financial statements these private companies issue following the publication.

### **New Agenda Priorities Established**

At its 29 January 2014, meeting the FASB discussed its [agenda priorities](#) and voted to add or remove some projects from its agenda. The board voted to add to its agenda a project to develop disclosure requirements about government assistance, and it voted to remove these projects from its agenda:

- Emissions Trading
- Earnings per Share
- Income Taxes (a short-term convergence project)
- Not-for-Profit Financial Reporting: Other Financial Communications
- Investment Property Entities
- Investment Companies: Real Estate Property Investments

It was also decided that the FASB will research the following projects:

- Accounting Issues in Employee Benefit Plan Financial Statements
- Accounting for Financial Instruments – Hedging
- Accounting for Financial Instruments – Liquidity and Interest Rate Disclosures
- Conceptual Framework
- Financial Statement Presentation
- Liabilities and Equity: Short-Term Improvements
- Pensions – Cash Balance Plans
- Simplifications Initiative

These projects are to be removed from the EITF's agenda:

- Application of the AICPA Audit and Accounting Guide, "Investment Companies," by Real Estate Investment Companies (EITF 09-D)
- Commodity Inventories of Brokers and Dealers (EITF 06-12)
- Interpretation of Constraining Conditions of a Transferee in a CBO Structure (EITF 03-15)
- Multiple Foreign Exchange Rates (EITF 10-B)
- Potential EITF Issues on Application of EITF 99-20 When a Special-Purpose Entity Holds Equity Securities

### **New Quarterly Electronic Newsletter Launched**

In January 2014, the FASB [announced](#) the launch of "FASB Outlook," a quarterly electronic newsletter intended to keep stakeholders informed about important FASB projects and activities. The publication, designed for interested professionals who are not technical accountants, will provide high-level information in plain English. A [subscription](#) is free, and the [inaugural issue](#) is available on the FASB website.

### **Credit Unions not Public Business Entities**

The FASB has a new definition of “public business entities,” that excludes credit unions and exempts them from certain reporting provisions under GAAP. This should allow credit unions to have more freedom in determining their reporting requirements.

### **Private Company Framework Issued**

At the end of 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)

### Amendments Proposed to Comfort Letter Guidance

On 13 February 2014, the ASB released for comment an exposure draft, “Proposed Statement on Auditing Standards: Amendment to Statement on Auditing Standards No. 122, ‘Statements on Auditing Standards: Clarification and Recodification,’ Section 920, ‘Letters for Underwriters and Certain Other Requesting Parties,’ as Amended.” SAS 122 was issued in October 2011 in accordance with the ASB’s clarity drafting conventions and was not intended to change practice relating to communications commonly referred to as “comfort letters.” The exposure draft notes that practice issues have developed, and the amendments are being proposed to address those issues and avoid unintended changes to previous practice.

In addition to the exposure draft, the ASB has prepared a supplementary document showing the proposed amendments in the context of the entire AU-C Section 920.

Comments on the exposure draft are due 15 April 2014.

### Using the Work of Internal Auditors

The AICPA’s Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 128, *Using the Work of Internal Auditors*. The new standard supersedes AU Section 322 and AU-C Section 610, *The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements*. The standard was based on International Standard on Auditing 610 (Revised 2013), of the same name. Its issuance completes the ASB’s clarification of its auditing standards.

### Revised Code of Conduct Adopted

The Professional Ethics Executive Committee of the AICPA, restructured the ethics standards to improve the [Code of Professional Conduct](#). The revised code, which was approved but is subject to editorial review, will be effective 15 December 2014. The new conceptual frameworks and related interpretations will not be effective until 15 December 2015.

### SSAEs Conforming to Clarity Drafting Conventions Proposed

On 28 January 2014, the AICPA issued for comment an exposure draft of a proposed Statement on Standards for Attestation Engagements (SSAE) titled “[Subject-Matter Specific Attestation Standards: Clarification and Recodification](#).” The amendments in the exposure draft apply the Auditing Standards Board’s [clarity drafting conventions](#) to the attestation SSAEs and continue to build on [amendments proposed in July 2013](#). The new proposal also restructures and would supersede the content in:

- AT Section 301, “Financial Forecasts and Projections”
- AT Section 401, “Reporting on Pro Forma Financial Information”
- AT Section 601, “Compliance Attestation”

Comments on the new proposed amendments are due 27 May 2014.

### **Conflict Minerals Q&A Released**

The AICPA's Financial Reporting Center published a [Q&A document](#) about the conflict minerals reports required by the SEC. The new publication adds to previous [AICPA Q&A guidance issued in May 2013](#). Both Q&As address an independent private-sector audit (IPSA) of a company's conflict minerals report. Q&As in the new publication cover:

- The objectives of the IPSA
- Relationships among the objectives of the IPSA
- Criteria for the IPSA as an attestation examination engagement
- Evaluations outside the scope of the IPSA
- Sample procedures for the IPSA

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## **From the Securities and Exchange Commission (SEC)**

### **Comment Period on Asset-Backed Securities Reopened**

The SEC reopened the comment period on the SEC's proposals to amend the disclosure and registration requirements for asset-backed securities. In 2010, the SEC published "Asset-Backed Securities," proposing changes to the offering, disclosure, and reporting requirements for asset-backed securities. In 2011, "Re-proposal of Shelf Eligibility Conditions for Asset-Backed Securities" was published to re-propose portions of the 2010 proposal in light of additional requirements imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The original comment periods on these proposals closed in August 2010 and October 2011, respectively. Commenters expressed a wide range of privacy concerns.

In response, the SEC proposed requiring issuers to make asset-level information available to investors and potential investors through an issuer's website that would allow the issuer to restrict access to information to make sensitive information secure. The SEC reopened the comment period to solicit comments on this latest proposal regarding disclosure of asset-level data. On 25 February 2014, the SEC's Division of Corporation Finance (Corp Fin) issued a staff memorandum discussing the approach in the latest proposal. Comments on the re-proposed rules are due 28 March 2014.

### **Cybersecurity Roundtable Announced**

Cybersecurity will be the topic of a roundtable hosted by the SEC at its Washington, D.C., headquarters on 26 March 2014. Revelations about recent high-profile breaches have focused attention on how public companies disclose cybersecurity threats and incidents. According to the SEC announcement, roundtable participants will discuss the issues and challenges that cybersecurity raises for public companies and how the companies are addressing them. The roundtable will be open to the public and available live via webcast on the SEC's website.

### **Financial Reporting Manual Updated**

The staff of Corp Fin published a new version of the “Financial Reporting Manual,” dated 6 February 2014. The new edition incorporates updates to Section 9520 to reflect new guidance related to critical accounting estimate disclosures for share-based compensation in initial public offerings. The manual is intended as an internal reference document for SEC staff, but preparers and others might find it a useful reference for financial reporting matters.

### **New Form Issued for Conflict Minerals Reports**

The SEC has issued Form SD, “[Specialized Disclosure Report](#),” for companies to use to provide the disclosures required by the SEC’s [final rule on conflict minerals](#). The final rule requires companies to disclose their use of conflict minerals that originate in the Democratic Republic of the Congo or an adjoining country. The disclosures must be made on a calendar-year basis, regardless of the company’s fiscal year. The first disclosure reports using Form SD are due 31 May 2014.

### **Compliance and Disclosure Interpretations Updated**

The staff of the SEC Division of Corporation Finance (Corp Fin) has updated several Compliance and Disclosure Interpretations (C&DIs). C&DIs, which are published in question-and-answer (Q&A) format, reflect the views of the Corp Fin staff on various SEC rules and regulations. The C&DIs are intended as general guidance and should not be relied on as definitive; they are not binding due to their highly informal nature.

C&DIs updated in January 2014 are:

- [Exchange Act Sections 13\(d\) and 13\(g\) and Regulation 13D-G Beneficial Ownership Reporting](#)
- [Securities Act Rules](#)
- [Exchange Act Rule 14a-4\(a\)\(3\)](#)

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## **From the Public Company Accounting Oversight Board (PCAOB)**

### **Recent PCAOB Standards Approved by SEC**

On 12 February 2014, the SEC approved two attestation standards and an auditing standard previously adopted by the Public Company Accounting Oversight Board (PCAOB). SEC Release No. 34-71524 approved PCAOB Attestation Standards No. 1, “Examination Engagements Regarding Compliance Reports of Brokers and Dealers,” and No. 2, “Review Engagements Regarding Exemption Reports of Brokers and Dealers,” both included in PCAOB Release No. 2013-007.

SEC Release 34-71525 approved PCAOB Auditing Standard No. 17, “Auditing Supplemental Information Accompanying Audited Financial Statements,” included in PCAOB Release 2013-008. This auditing standard defines the auditor’s responsibilities when engaged to perform audit procedures and report on supplemental information accompanying financial statements.

The new PCAOB standards will be effective for audits of financial statements for fiscal years ending on or after 1 June 2014.

### **Standard-Setting Agenda Announced**

The Office of the Chief Auditor of the PCAOB published its [standard-setting agenda](#) as of 31 December 2013. The agenda is determined based on factors including the results of the PCAOB's oversight of registered public accounting firms, monitoring the work of other standard setters, consultation with the board's advisory groups, and discussion with the SEC staff. The agenda includes an overview of each project and significant milestones.

The following projects are among those on the standard-setting agenda for the first half of 2014:

- Adoption of a final standard on related parties
- Release for public comment of an exposure draft, "Auditors' Responsibilities With Respect to Other Accounting Firms, Individual Accountants, and Specialists"
- Consideration of possible revisions to the going concern auditing standard, taking into account relevant FASB activities that may result in changes to the accounting standards.

### **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 3 February was extended to 17 March 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](#).

**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.

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