



October 2014

# Technical Roundup

The Technical Standards Update of Crowe Horwath International

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## Joint Projects

The Financial Accounting Standards Board (FASB) is reaching out to other standard-setters around the world to help set up an informal network of accounting bodies that will help companies from different markets formulate common answers to accounting questions in spite of local differences. The group, which doesn't yet have a name, expects to hold its first meeting by the end of the year.

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## Resources / Reports

### Center for Audit Quality (CAQ)

The CAQ has issued the [Professional Judgment Resource](#), to help auditors maintain their professional skepticism and avoid conflicts of interest. It should help address issues that arise because of the difficulty of interpreting accounting standards and complex business transactions, and the frequent use of estimates in financial reporting. The Resource outlines an example of a decision-making process grounded in five essential actions:

- Identify and define the issue
- Gather the Facts and Information and Identify the Relevant Literature,,
- Perform the Analysis and Identify Alternatives
- Make the Decision
- Review and Complete the Documentation and Rationale for the Conclusion

The document also identifies the more common judgment traps that might lead to bias and weaken professional skepticism, and includes illustrative examples, as well as strategies to avoid them. While the Resource was developed in the United States with auditors in mind, it can be a useful tool for all participants in capital markets around the world.

### Quality Control Practice Aid

The AICPA is offering a free practice aid, [Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice](#) to help CPAs with their quality control standards. In addition to the full guide, there are also segmented guides for firms of various sizes (sole practitioners, single office and multiple offices). For additional information, access an archived webinar on the subject [here](#).

### **The Association of Chartered Certified Accountants (ACCA)**

ACCA, in partnership with Macquarie University International Governance and Performance Research Centre in Sydney Australia, has issued a report, *The drivers of audit quality: views from Australian CFOs*, which summarises the views of Australian CFOs about what drives audit quality. It encompasses one part of a three-part project looking at the perceptions of CFOs, auditors and company directors.

In collaboration with the University of Stirling and ESSEC Financial Reporting Centre, ACCA has produced a research report, *Worldwide application of IFRS 3, IAS 38 and IAS 36, related disclosures and determinants of non-compliance*, which investigates the accounting for, and information disclosed under those standards and examines compliance levels with the mandated disclosures and their determinants.

ACCA published a report, *Stock exchanges in Sub-Saharan Africa: capturing intent towards ESG requirements* that takes the view that stock exchanges should introduce requirements for listed companies to report on environmental, social and governance (ESG) matters, or develop voluntary guidelines on the topic.

### **Investors and Advisors: What role can you play in ensuring quality financial reporting?**

A joint outreach event including ACIIA, EFFAS, ABAF, EFRAG and the IASB discussed topics including:

- Current use of financial reporting by investors;
- Interactions between financial reporting and long-term investment;
- Giving directions for, and assessing, financial reporting standards;
- Investors' confidence in financial reporting; and
- Investors' influence on standard-setting.

Download the Summary Report [here](#).

### **IFAC Gateway**

Some of the resources on the [IFAC Gateway](#) include:

- [Learn from Data to Improve Audits](#)
- [Auditing Special Purpose Frameworks: Auditing Investments—Part 1](#)
- [Auditing Special Purpose Frameworks: Auditing Inventories—Part 2](#)
- [Third-Party Verification Toolkit for CPAs](#)

### **Financial Reporting Council (FRC)**

The FRC's Financial Reporting Lab (the Lab) has published slide packs summarizing key findings from their two most recent reports:

- [Towards Clear & Concise Reporting](#) - This report provides ideas on how companies can produce more relevant and succinct reports.
- [Accounting policies and integration of related financial information](#) – This report provides insight into what investors want from accounting policy disclosures and where they should appear in financial statements.

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Update

Find the latest updates:

- [IFRS for SMEs Update](#)
  - [IFRIC Update](#)
  - [IASB Update](#)
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## From the International Accounting Standards Board (IASB)

### Annual Improvements

The IASB has issued *Annual Improvements to IFRSs 2012 2014 Cycle*. The Improvements make necessary but non-urgent amendments to IFRS and this is the last in the series. The effective date of the amendments is 1 January 2016.

### Guidance Issued on Separate Financial Statements

The IASB announced in August 2014, the publication of *Equity Method in Separate Financial Statements (Amendments to IAS 27)*, which will allow entities to use the equity method to account for investments in subsidiaries, joint ventures, and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

### Exposure Draft Issued on Deferred Income Taxes

On 20 August 2014, the IASB issued for public comment an exposure draft, *Recognition of Deferred Tax Assets for Unrealised Losses*. The amendments to IAS 12, *Income Taxes*, in this exposure draft would make clear how to account for deferred tax assets related to debt instruments measured at fair value. **Comments** on the proposed amendments are due 18 December 2014.

### IFRS for SMEs Fact Sheet Updated

The IASB has updated its *IFRS for SMEs Fact Sheet*. The fact sheet includes information about adoptions, translations, training, and publications as well as frequently asked questions. The sheet also lists resources for small and medium-sized entities (SMEs) that are available for free download from the IASB website.

### Sale or Contribution of Assets

On 11 September 2014, the IASB issued narrow-scope amendments to IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011)* that address some inconsistencies between IFRS 10 and IAS 28 (2011) regarding the sale or contribution of assets between an investor and its associate or joint venture. Click [here](#) for the full press release.

### Discussion Paper on Rate Regulation

On 17 September 2014, the IASB published for public comment the Discussion Paper, *Reporting the Financial Effects of Rate Regulation*. The Discussion Paper seeks comments on certain presentation and disclosure issues regarding rate-regulated activities and what types of information is most useful to users of financial statements. Comments are due 15 January 2015. Click [here](#) for the full press release.

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## From the International Federation of Accountants (IFAC)

IFAC's Professional Accountants in Business Committee (PAIB) has issued guidance on developing and reporting supplementary financial measures that fall outside of GAAP. The Good Practice Guidance, *Developing and Reporting Supplementary Financial Measures*, has recommendations for using supplementary financial measures as part of financial reporting in organizations. The guidance establishes a set of principles that will allow accountants to develop and report these measures in a more transparent and consistency manner.

The International Public Sector Accounting Standards Board (IPSASB) approved its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework). "Approving the Conceptual Framework is a historic achievement for the IPSASB and a landmark for setting global accounting standards for the public sector," said IPSASB Chair Andreas Bergmann. "These concepts will provide the basis for our ongoing development of consistent and useful International Public Sector Accounting Standards™ (IPSASs) and Recommended Practice Guidelines (RPGs). They will also provide guidance to preparers faced with financial reporting issues not dealt with by IPSASs or RPGs." The completed Conceptual Framework is expected to be issued by the end of October 2014. You can see a summary of the first 4 chapters [here](#).

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## From the Financial Reporting Council (FRC)

The FRC issued an updated version of the **UK Corporate Governance Code** (the Code) in September, which significantly enhances the quality of information investors receive about the long-term health and strategy of listed companies. The Code raises the bar for risk management. The FRC has confirmed proposals for boards to include a 'viability statement' in the strategic report to investors that will improve and broaden the assessment of a company's long-term solvency and liquidity. It is expected that the viability statement will look forward significantly longer than 12 months. In addition, Boards of listed companies will now need to demonstrate to shareholders how executive remuneration will promote the long-term success of the company.

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## From the European Commission (EC)

Under a new directive adopted by the EU Council, large public-interest entities with more than 500 employees will be required to disclose certain non-financial information on environmental and social impacts as well as diversity policies for boards of directors. These large companies across the EU will have to disclose information on policies, risks, and outcomes regarding:

- Environmental matters.
- Social and employee aspects.
- Respect for human rights.
- Anti-corruption and bribery issues.

The new directive will be published in the EU Official Journal and be in force 20 days after that. Member states will have two years to incorporate the directive into their national legislation. Companies affected by the directive will be required to start reporting in their 2017 financial year.

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## From the Financial Accounting Standards Board (FASB)

### Going Concern Guidance Added to U.S. GAAP

The FASB on 27 August 2014 issued Accounting Standards Update (ASU) No. 2014-15, ***Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern***. The new guidance defines management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures in the notes to the financial statements. Under existing U.S. auditing standards and federal securities laws, auditors are responsible for performing this evaluation. Until the issuance of ASU 2014-15, there was no guidance in U.S. generally accepted accounting principles (GAAP) about management's associated responsibilities.

Guidance in ASU 2014-15 provides principles and definitions that are intended to assist management in determining when and how the financial statements should disclose conditions and events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are issued or, for nonpublic entities, are available to be issued. The amendments in ASU 2014-15 are effective for the annual period ending after 15 December 2016, and for interim and annual periods thereafter. Early application is permitted. The FASB has prepared a ***FASB in Focus article*** describing the new ASU.

### **Post-Implementation Review Completed on Share-Based Payment Standard**

A post-implementation review (PIR) of FASB Statement No. 123(R), "Share-Based Payment," concluded that the standard achieved its objectives, provided useful information to users of financial statements, and resulted in no unintended consequences. Statement 123(R) addresses accounting for public- or private-company transactions in which the entity exchanges its equity instruments for employee services. The statement also covers transactions in which a company incurs liabilities in exchange for goods or services that are based on the fair value of its equity instruments or that may be settled by the issuance of those equity instruments.

The Financial Accounting Foundation (FAF) in [Post-Implementation Review Report: FASB Statement No. 123\(R\), 'Share-Based Payment'](#) reports that for public companies, Statement 123(R) is generally understandable, can be applied as intended, and results in reliable information. However, the report finds that the standard is often more difficult for private companies to understand and apply as intended, primarily because of the complexity of the financial instruments private companies use for share-based payment awards and the companies' lack of internal expertise.

In its [response to the report](#), the FASB indicates that it does not plan to undertake a comprehensive review of Statement 123(R), but the staff will continue outreach to identify potential cost-effective solutions for areas that could be considered in potential narrow-scope projects. The results of the outreach will be presented to the FASB and the Private Company Council for their consideration as they each make decisions about future agenda items.

### **2015 Proposed GAAP Financial Reporting Taxonomy Available for Comment**

The FASB released the [Proposed 2015 U.S. GAAP Financial Reporting Taxonomy](#) for public review and comment on 29 August 2014. The proposed taxonomy contains updates for accounting standards and other recommended improvements to the official taxonomy, which is used by public issuers registered with the U.S. Securities and Exchange Commission. The taxonomy is a list of computer-readable financial reporting labels coded in eXtensible Business Reporting Language (XBRL), which allows companies to tag the myriad pieces of financial data included in typical long-form financial statements and related footnote disclosures. The tags allow financial statement users to electronically search for, assemble, and process data so they can readily access and analyze the data. [Comments](#) on the proposed 2015 taxonomy are due 31 October 2014.

### **Technical Corrections and Improvements**

On 15 September 2014, the FASB published Proposed Accounting Standards Update (ASU) No. 2014-220, *Technical Corrections and Improvements*. The amendments: resolve differences between the FASB's older standards and the Accounting Standards Codification, correct some wording and cross-references to avoid misinterpretation, simplify some portions of the text, and make some minor improvements. The FASB said it's also proposing to modify Topic 820, *Fair Value Measurement*, formerly SFAS No. 157, to clear it up without altering it or changing the way the standard is used. [Click here](#) to download the Exposure Draft. [Comments](#) are due by 1 December.

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## **From the Private Company Council (PCC)**

The PCC voted to finalize an alternative that exempts private companies from separately recognizing and measuring non-competition agreements and customer-related intangible assets that are not capable of being sold or licensed independently in a business combination. The PCC cannot set standards on its own, but it voted to send the alternative standard to FASB for endorsement.

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## From the American Institute of Certified Public Accountants (AICPA)

### New Compilation and Review Standards Approved

The AICPA Accounting and Review Services Committee voted during its 19-21 August 2014, meetings to approve clarified and revised standards for compilations and reviews and for engagements to prepare financial statements. The new guidance is expected to be issued during the fourth quarter of 2014 as Statement on Standards for Accounting and Review Services (SSARS) No. 21. It will supersede much of the existing SSARS codification and will create a clear distinction between nonattest financial statement preparation services and compilation (attest) reporting services. When issued, the new guidance is expected to be effective for engagements on financial statements for periods ending on or after 15 December 2015. Early implementation will be permitted.

### Attest Guidance moving to GAAS

Since engagements performed under extant AT section 501, as well as related attestation interpretation No. 1, are always integrated with an audit of financial statements, the Auditing Standards Board of the AICPA concluded that it would be appropriate to move that content into Generally Accepted Auditing Standards. Thus, the ASB has released for comment Proposed Statement on Auditing Standards, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*. See the Exposure Draft [here](#). Comments are due by 10 December 2014.

### Service Organizations

The AICPA issued Proposed Statement on Standards for Attestation Engagements (SSAE): *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting: Clarification and Recodification*. It is part of their clarity project make the attestation standards easier to understand and apply. The effective date of the proposed standard is not anticipated to be earlier than for periods ending 15 December 2016, or later. Comments are due by December 18.

### Revised Ethics Interpretations

On 29 August 2014, the AICPA issued for public comment the exposure draft *Omnibus Proposal of Revised Interpretations*. The draft, prepared by the AICPA's Professional Ethics Executive Committee (PEEC), contains a proposed limited exception to the "Client Affiliate" interpretation under the Independence Rule and the definition of "Attest Client" in relation to a firm or individual performing an attest engagement. Comments are due by 29 October.

### Audit Quality at Private Entities

On 7 August, the AICPA released a discussion paper about audit quality at private entities, *Enhancing Audit Quality: Plans and Perspectives of the U.S. CPA Profession*. Click [here](#) to read the paper. Comments are due by 7 November.

### Technical Practice Aids

The AICPA on updated its interpretive guidance for practice issues on predecessor auditors, employee benefit plans, audit field work, and other reporting issues. The guidance is in a question-and-answer format and is included in the [Technical Questions and Answers \(TIS\) Section](#).

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

### Paper Issued on Auditing Accounting Estimates and Fair Value Measurements

On 19 August 2014, the PCAOB issued for public comment a staff consultation paper, *Auditing Accounting Estimates and Fair Value Measurements*. The Office of the Chief Auditor is seeking comments on current audit practice, the potential need for changes to PCAOB standards, and possible alternative actions related to auditing accounting estimates and fair value measurements as well as derivative instruments and securities. The paper notes that the PCAOB inspection staff continues to find deficiencies in the audit of these types of estimates for audit firms of various sizes. The paper includes PCAOB staff's preliminary views on a potential approach to changing existing standards and asks for comments on that approach as well as commenters' views on other approaches. Comments are due 3 November 2014.

### Alert re: Audit of Revenue

The PCAOB has released a new alert warning auditors about deficiencies that have been seen in audits of revenue. *Staff Audit Practice Alert No. 12: Matters Related to Auditing Revenue in an Audit of Financial Statements* highlights certain PCAOB requirements when auditing revenue that correspond to significant audit deficiencies frequently found during inspections. The alert also covers problem areas such as responding to the risks of material misstatement due to fraud associated with revenue, testing and evaluating controls over revenue, applying audit sampling procedures to test revenue, performing substantive analytical procedures to test revenue, and testing revenue in companies with multiple locations.

### Alert re: Going Concern

The PCAOB has released *Staff Audit Practice Alert No. 13: Matters Related to the Auditor's Consideration of a Company's Ability to Continue as a Going Concern*, to remind auditors to continue to follow the existing PCAOB standards when they are considering a company's ability to continue as a going concern. They said auditors should refer either to the FASB's Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, or IAS No. 1, *Presentation of Financial Statements* when reviewing a going concern evaluation.

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## From the SEC

### New Rules Adopted for Credit Rating Agencies

On 27 August 2014, the SEC announced that it has adopted *new rules for credit rating agencies registered with the SEC* as nationally recognized statistical rating organizations (NRSROs). The new rules address internal controls, conflicts of interest, disclosure of credit rating performance statistics, procedures to protect the integrity and transparency of rating methods, disclosures to promote the transparency of credit ratings, and standards for training, experience, and competency of credit analysts. The NRSRO's CEO will be required to provide an annual certification related to the effectiveness of internal controls and additional certifications to accompany credit ratings attesting that ratings were not influenced by other business activities. The SEC also adopted requirements for issuers, underwriters, and third-party due diligence services to promote the transparency of the findings and conclusions of third-party due diligence about asset-backed securities. The new rules and amendments implement rulemaking requirements contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Certain amendments will become effective 60 days after publication in the Federal Register. The amendments with respect to the annual report on internal controls and the production and disclosure of performance statistics will be effective on 1 January 2015. The first internal controls report to be submitted by an NRSRO would cover the fiscal year that ends on or after 1 January 2015, and the first annual certification on Form NRSRO relating to performance statistics is required for the annual certifications filed after the end of the 2015 calendar year.

The following provisions will be effective nine months after publication in the Federal Register:

- Prohibiting the sales and marketing conflict
- Addressing look-back reviews to determine whether a credit rating has been influenced by the credit analyst's prospects of future employment
- Requiring the rating history disclosure
- Addressing rating methods
- Requiring the form and certification to accompany credit ratings
- Addressing issuer and underwriter disclosure of third-party due diligence findings
- Addressing third-party due diligence provider certification
- Addressing NRSRO standards for training, experience, and competence
- Addressing universal rating symbols

#### **Disclosure Rules Expanded for Asset-Backed Securities**

On 4 September 2014, the SEC issued more detailed disclosure and registration requirements for asset-backed securities. [Release No. 33-9638, \*Asset-Backed Securities Disclosure and Registration\*](#), asks issuers to provide detailed information about individual residential and commercial mortgages, auto loans, auto leases packaged into instruments sold to investors, and asset-backed instruments that have been res securitized. The information has to be formatted in the eXtensible Markup Language (XML) for investors to analyze it. The rule will become effective 60 days after it's published in the Federal Register, which should happen within a few weeks of a rule's posting to the agency's website.

#### **Early Relief on Revenue Standard Restatement**

The SEC is telling companies electing full retrospective adoption of the new revenue standard that they will not be expected to restate five years' worth of numbers under the new approach, but that three years will be acceptable. The new standard on revenue recognition takes effect for calendar-year companies in 2017. Under this new accommodation, companies will only be expected to apply the new standard to their 2016 and 2015 results. The exception does not apply to companies electing the cumulative-effect adoption method.

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