



August 2013

A&A Update

The Technical Standards Update of Crowe Horwath International

From the A&A Group

Leases – Operating on Borrowed Time (with thanks to our friends at Crowe Horwath in Australia)

Click [here](#) for a recap of the outstanding leases ED and some of its anticipated impacts, particularly on entities that currently have off balance sheet operating leases.

From the Standards Setters

IAASB Proposes Fundamental Overhaul of Audit Reports

The International Auditing and Assurance Standards Board (IAASB) has released proposals aimed at fundamental transformation of the structure of the future auditor's report with the goal of communicating better to users such as investors and financial analysts.

The ED includes a new proposed ISA entitled *Communicating Key Audit Matters in the Independent Auditor's Report*. This proposed ISA directs auditors of financial statements of listed entities to communicate in their report those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements. "The intended outcome of this proposal is more informative audit reports, with information about the audit of the financial statements that is unique and more specific to the entity that has been audited," noted IAASB technical director James Gunn.

Among other enhancements, the IAASB is also proposing requirements for auditors to include specific statements about going concern in their reports, to make an explicit statement about the auditor's independence from the audited entity and, for listed entities, to disclose the name of the engagement partner in the auditor's report. The exposure draft includes example reports that illustrate the application of the proposed new and revised ISA in various circumstances.

The ED and related documents are available [here](#). Comments are due by 22 November 2013.

AICPA Proposes Changes in Attestation Standards

Among other items, the proposed clarified Statement on Standards for Attestation Engagements, or SSAE, *Attestation Standards: Clarification and Recodification*, would restructure the content of AT section 20, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*, AT section 50, *SSAE Hierarchy*, AT section 101, *Attest Engagements*, and AT section 201, *Agreed-Upon Procedures Engagements* (AICPA, Professional Standards).

The ED is available [here](#).

FASB Proposes Improving Going Concern Uncertainty Disclosures

Under the proposed accounting standard changes, FASB is prescribing a threshold and related guidance for starting disclosures, requiring an assessment period of 24 months after the financial statement date, and providing a threshold for SEC filers to determine whether there is substantial doubt about an organization's ability to continue as a going concern.

FASB is asking stakeholders to review and provide comments on the proposed Accounting Standards Update, *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption*, by 24 September 2013.

The [proposal](#)—including instructions on how to submit comments—and a [FASB in Focus](#) document are available on the FASB website at www.fasb.org.

IASB Provides Relief for Novation of Derivatives

The IASB has published narrow-scope amendments to IAS 39 *Financial Instruments: Recognition and Measurement* entitled *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)*.

The narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

FASB Issues ED for Insurance Accounting – Beware, the definition of “insurance company” is broadened

On June 27, 2013, the FASB released Proposed ASU No. 2013-290, *Insurance Contracts (Topic 834)*, which provides for a major change to the way insurers report their biggest liabilities—the money they expect to pay out to customers. Comments are due 25 October.

The proposal asks insurers to make current estimates every period about their expected liabilities by assessing things like projected mortality rates for life insurers, or auto accidents, for property-and-casualty underwriters.

What may catch practitioners by surprise is the new definition of entities that will be “in scope” of this new standard.

The proposed ASU can be accessed [here](#).

Micro Entities Get Help Applying IFRS for SMEs

The IASB has issued a guide to help “micro entities” apply IFRS for SMEs. The term “micro-sized entity” is usually used to refer to businesses with fewer than 10 employees. The guide “supports” *IFRS for SMEs*, and doesn’t constitute a separate standard.

The guide can be downloaded at no cost [here](#). (Look for the link at the top of the right-most column.)

Three Proposals Released to Simplify Private Company Accounting Issues

In July, the FASB released for public comment three proposals that would make it easier for private companies to account for intangible assets acquired during business combinations, amortization of goodwill, and certain derivatives used to lower borrowing costs. Comments are due 23 August.

Private Company Council (PCC) Issue No. 13-01A, *Accounting for Identifiable Intangible Assets in a Business Combination*, would allow private companies to skip recognizing some types of intangible assets acquired when they buy or merge with another business. The PCC proposal would narrow the type of intangible assets private companies would have to recognize and measure at fair value to those linked to contracts or legal obligations. Intangible assets with hard-to-determine values, such as customer lists or unpatented technology, would not have to be measured.

PCC Issue No. 13-01B, *Accounting for Goodwill Subsequent to a Business Combination*, would allow companies the option to amortize goodwill over a maximum 10-year period. A private company only would have to test goodwill for impairment when it determines that it is "more likely than not" that the company's fair value is below its carrying amount.

PCC Issue No. 12-03, *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps*, offers private companies a simpler approach to accounting for "plain vanilla" interest rate swaps. Businesses would be allowed two options to account for the swaps. (1) The swap and the loan could be accounted for as one instrument. The swap would stay off the company's balance sheet, but its termination value would be disclosed in the financial statement footnotes. (2) A company also could choose to record the swap at termination value, as opposed to fair value, on the balance sheet. Privately held banks and other private financial institutions, however, would not be allowed to use this break.

The actual Exposure Drafts are available [here](#).

Private Companies Get a Break on Employee Benefit Plans Disclosures

On 8 July, the FASB published ASU No. 2013-09, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans*. The ASU allows some private companies to avoid disclosing the value of company stock held by employee stock ownership plans. The ASU provides for an indefinite deferral from disclosing this information and is effective immediately.

PCC Proposing VIE Consolidation Exception for Private Company Leases

In a move that will likely be greeted with overwhelming support, the Private Company Council (PCC) voted to propose a GAAP alternative for private companies for applying consolidation guidance for leasing entities under common control. Private companies would be exempt from applying consolidation guidance for variable-interest entities (VIE) under common control leasing arrangements under the proposal the PCC voted to expose for public comment. PCC Issue No. 13-02, *Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements (formerly FIN 46(R) and FAS 167)*, is designed to require disclosures that are better aligned with information that private company financial statement users typically use in assessing the cash flows of a reporting entity.

From the Regulators

PCAOB Considers Deregistering Hundreds of Accounting Firms

The PCAOB is taking a close look at the nearly 1,000 accounting firms that have registered with the PCAOB even though they do not audit public companies or broker-dealers, and may decide to drop many of them.

Currently, approximately 2,360 firms are registered with the PCAOB, including about 915 non-U.S. firms located in 85 jurisdictions. Not all PCAOB-registered firms regularly issue audit reports for issuers, but the PCAOB inspects those that do, approximately 714 firms, including more than 240 non-U.S. firms. In addition, approximately 118 registered firms do not regularly issue audit reports for issuers.

Based on 2012 year-end data, the Big-4 and their global affiliates audit more than 98 percent of the global market capitalization of U.S. issuers

Headlines from Around the World

Hans Hoogervorst Speech at the June IFRS Conference in Amsterdam

The content of the speech makes for interesting reading. You can find the full text of the speech [here](#).

ICPAS Rebrands to ISCA

The Institute of Certified Public Accountants of Singapore (ICPAS) has changed its name to the Institute of Singapore Chartered Accountants (ISCA) effective 2 July. ISCA will be the body entitled to award the designation Chartered Accountant of Singapore, or CA (Singapore), and it will also be the administrator of the country's qualification program.

Accounting and Transparency Directive adopted

On 12 June 2013, the European Parliament adopted a new [Accounting Directive](#), and a new [Transparency Directive](#). The Accounting Directive will take effect after publication in the Official Journal. Member States will then have two years to implement the Directive. The Transparency Directive still needs to be formally adopted by the Council.

U.S. House of Representatives Approves Bill Banning Mandatory Audit Firm Rotation

The U.S. House of Representatives has approved by a vote of 362-62 a bill that prohibits the PCAOB from forcing public companies to automatically change or rotate their independent auditing firms. The bi-partisan support of the bill suggests, but does not guarantee of course, that the bill will also be approved in the U.S. Senate. Stay tuned for further developments.

China Agrees to Send Audit Work Papers to U.S.

China will for the first time give audit records for a Chinese company to U.S. authorities after regulators reached an agreement in May to allow each other access to companies' documents. The China Securities Regulatory Commission says it is ready to transfer audit documents of a Chinese company listed in the U.S. to the Securities and Exchange Commission and the PCAOB. The overture is a breakthrough after a two-year standoff on the issue.

CPAs Consider How and When AICPA's Small-Business Accounting Framework Will be Used

Almost half, or 46%, of CPAs are familiar with AICPA's new Financial Reporting Framework for Small- and Medium-Sized Entities, according to a Thomson Reuters report. Of that 46%, 40% say the most challenging aspect will be acceptance by lenders, 31% say it will be acceptance by the firm; and 29% say acceptance by clients, according to the report. Also, 56% of respondents expect some clients to consider using the framework; 10% do not expect their clients to use it; 34% were unsure, the report says.

NASBA and AICPA End Spat over FRF for SMEs

The National Association of State Boards of Accountancy (NASBA) and the AICPA released a joint statement expressing their pledge to cooperate on private company financial reporting frameworks and develop tools and illustrative examples to help accountants determine which frameworks to use. The AICPA plans to develop a decision-making tool to assist entities with determining whether the new small business accounting framework suits their needs. NASBA will have input in the development of the tool.

Investor Panel May Push for Data Tagging in Regulatory Filings

During the next meeting of the SEC's Investor Advisory Committee, members plan to discuss a recommendation that all data in SEC filings be published in a machine-readable format to make it easier for investors to retrieve and analyze. Panel members are particularly interested in getting shareholder voting information in a tagged format.

Editor's note: We bring this to your attention out of a conviction that it will not be long before investors demand that auditors report on the accuracy of the XBRL tagging. Will you be prepared for this eventuality should it materialize?

No Mandatory Audit Firm Rotation, but Five Year Audit Retendering for UK FTSE350

The UK Competition Commission (CC) decided against mandatory rotation of audit firms and further restrictions on audit firms providing non-audit services, but suggested that FTSE350 companies should put their audit out to tender every five years. The CC said in its provisional remedies decision announcement that companies may defer the five year retendering obligation by up to two years in "exceptional circumstances." "There will be a transitional period of five years before the measure comes into full effect," said the CC.

The UK Financial Reporting Council (FRC) recently introduced mandatory retendering every 10 years

How to Make an Audit Report Useful

Our friends at the Wall Street Journal have taken it upon themselves to synthesize the proposals swirling about for how to make the auditor's report more useful and published their example of what they would like to see in a new auditor's report.

The article and sample report are available [here](#).

UK FRC Issue Additional Guidance for Auditing Financial Instruments

The UK Financial Reporting Council has issued Practice Note (PN) 23 *Special Consideration in Auditing Financial Instruments*. This PN supplements the IAASB International Auditing Practice Note 1000.

The PN is available [here](#).

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 \[www.frc.org.uk\]\(http://www.frc.org.uk\)](#)
- [AICPA Center for Audit Quality document explaining PCAOB inspections](#)

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