



June 2013

# A&A Update

## The Technical Standards Update of Crowe Horwath International

### From the Standards Setters

#### **Boards Issue Long-awaited Revised ED on Leases**

On 16 May, the IASB and FASB released the revised ED on leases. This is the [FASB link](#); this is the [IASB link](#). Comments are due by 13 September. The basics are (a) virtually all leases go on the balance sheet, (b) there are Type A leases (capital with amortization and interest expense) for equipment, and Type B (operating with straight-line rent expense) for real estate, (c) variable rent is excluded and (d) lease term excludes options unless lessee has significant economic incentive to extend. Of course, there are many more details in the ED.

#### **PCC Recommends Simplified Accounting for Intangible Assets and Goodwill**

In May, the FASB's Private Company Council (PCC) forwarded to the FASB a proposal to make it easier for private companies buying or merging with another company to measure the intangible assets and goodwill they acquire. Under the proposal, private companies would only have to recognize the intangible assets that can be quantified relatively easily, such as contracts, trademarks, and patented technology. Intangibles for which it's harder to quantify a value, such as a customer lists, wouldn't have to be recognized. Goodwill would generally be amortized over 10 years. At this date, this is just a suggestion to the FASB which has yet to approve the modifications to US GAAP.

#### **Private Companies May Get Simplified GAAP for Interest Rate Swaps**

The Private Company Council also forwarded to the FASB a proposal to allow private companies that use a common class of derivatives to lower their borrowing costs to employ a simpler accounting treatment. Businesses would be allowed to account for the loan and the interest rate swap tied to it as one instrument and keep the swap off the balance sheet. At this date, this is just a suggestion to the FASB which has yet to approve the modifications to US GAAP

#### **Private Company Pension Plans Get to Defer Some Fair Value Disclosures with Proposed ASU No. 2013-260**

The FASB is proposing to allow some private company retirement plans to forego adoption of an amendment to the fair value disclosure requirements issued two years ago but slated to become effective this year. The exemption would allow qualifying companies to avoid revealing confidential information.

Proposed ASU is available for download [here](#).

### **IASB Issues IFRIC Interpretation 21: Levies**

The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognize a liability to pay a levy. The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

### **Amendments to Repo Accounting Are Downgraded to Footnote Disclosures**

The FASB scrapped its proposed changes to the accounting for repos. Instead, the banks and other financial companies that use repos to fund their day-to-day activities will provide investors with more information in their financial statement footnotes. Repurchase-to-maturity agreements, will continue to be accounted for as sales and kept off the balance sheets of companies that use them as a form of borrowing.

In January 2013, the FASB issued Proposed Accounting Standards Update (ASU) No. 2013-210, *Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*, which altered the requirements for derecognition, which is applied when an asset is sold. Under the proposed changes, repo-to-maturity trades would have been accounted for as secured borrowings, but the plan was panned by almost all the auditors, companies, and banks that wrote comments in response to it.

The FASB didn't indicate what kinds of new footnote disclosures it would require for companies that use repurchase to maturity agreements. It's also unclear whether the project's change in direction would require the board to release a second proposal, or exposure draft, to be vetted by the public again.

### **IASB Issues Amendments to IAS 36, Impairment of Assets**

Late in May, the IASB published *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)*. These amendments to IAS 36, *Impairment of Assets* address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

The press release with more details can be accessed [here](#).

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## **From the Regulators**

### **PCAOB Revises Proposed Standard for Related Parties**

The Public Company Accounting Oversight Board has repropoed for public comment its related-parties auditing standard along with related amendments to other standards to address areas that have been contributing factors in financial reporting frauds. See release [2013-004](#).

## GAO Yellow Book and OMB Circular A-133 Compliance Supplement

Those readers of this newsletter who work in this arena are well aware of the need to follow the GAO auditing standards contained in the [Yellow Book](#) and the [OMB compliance supplements](#) where applicable. We mention this now because the latest revision of the Yellow Book, December 2011, is effective for audits of periods ending after December 15, 2012, and for many entities that means years ending June 30, 2013. Your attention is also directed to the AICPA Accounting and Auditing Guide *Government Auditing Standards and Circular A-133 Audits*.

Note that the GAO has proposed increasing the threshold requiring audit from expenditures of \$500,000 to \$750,000, but at this time this is only proposed. Click [here](#) for more information.

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## Headlines from Around the World

### COSO Issues New Internal Control Framework

In May 2013, the Committee of Sponsoring Organizations (COSO) issued a new internal control framework. The COSO framework is the most widely used internal control framework. The new framework is a “modification,” not an overhaul of the existing framework. The 3 basic objectives are the same; the 5 basic components of internal control are still present; but the new framework adds 17 new principles that define the 5 basic components in greater detail. The new framework does change a bit of terminology in that it introduces the term “major deficiency” as opposed to “significant deficiency” and “material weakness.” It remains to be seen how the standards setters and regulators will react to this change in terminology. To give users sufficient time to adapt to the new framework, it is to be effective for periods ending after 15 December 2014.

COSO had made an executive summary available free of charge, but the actual framework must be purchased. More details and the links to purchase the documents are available by clicking [here](#).

### AICPA Council Votes to Offer Specialized Credentials Globally

Members of certain qualified accounting bodies outside the United States will be eligible to earn AICPA specialized credentials as a result of a resolution approved by the AICPA Governing Council last month. The resolution gives the AICPA’s board of directors the authority to make available, through non-U.S. accounting bodies, the following credentials:

- Accredited in Business Valuation (ABV).
- Certified in Financial Forensics (CFF).
- Certified Information Technology Professional (CITP).
- Personal Financial Specialist (PFS).

### PCAOB Signs Enforcement Cooperation Agreement with Chinese Regulators

The PCAOB announced 24 May 2013 that it has entered into a memorandum of understanding (MOU) on enforcement cooperation with the China Securities Regulatory Commission and the Ministry of Finance that stops short of giving it the right to conduct inspections. The MOU establishes a cooperative framework for the production and exchange of audit documents relevant to investigations in both countries’ jurisdictions.

## FRC Publishes Audit Quality Inspections Annual Report 2012/13

The Financial Reporting Council (FRC) published its [Audit Quality Inspection Annual Report for 2012/13](#). The key highlights of this year's report are:

- An improvement in the overall standard of audit work, especially in the audits of FTSE 350 companies. 59% of audits inspected (46% 2011/12) were categorized as good or acceptable with limited improvements required. 79% of FTSE 350 audits inspected (55% 2011/12) were in these top bands.
- This improvement is not uniformly spread across all the firms and types of entities: 15% of audits (10% 2011/12) were assessed as requiring significant improvement; of which 87 % (63% 2011/12) were for audits of entities outside the FTSE 350.
- The inspections found that, while progress has been made, firms need to maintain, and in some cases reinforce, their efforts on professional skepticism.

## Useful Links

- International Accounting Standards Board (IASB) [www.iasb.org](http://www.iasb.org)
- [IASB Exposure Drafts open for comment](#)
- International Auditing and Assurance Standards Board (IAASB) [www.ifac.org/iaasb](http://www.ifac.org/iaasb)
- International Federation of Accountants (IFAC) [www.ifac.org](http://www.ifac.org)
- [IFRS Interpretations Committee \(IFRIC\)](#)
- Financial Accounting Standards Board (FASB) [www.fasb.org](http://www.fasb.org)
- Public Company Accounting Oversight Board (PCAOB) [www.pcaob.org](http://www.pcaob.org)
- [American Institute of CPAs Auditing Standards Board \(AICPA ASB\)](#)
- United States Securities and Exchange Commission (SEC) [www.sec.gov](http://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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