Bloomberg BNA

Accounting Policy & Practice Report®

VOL. 11, NO. 2 JANUARY 16, 2015

INTERVIEWS

In Two Sweeping Interviews, FASB, GASB Heads Discuss 2015 Agendas

Financial Accounting Standards Board Chairman Russell Golden, in an in-depth interview with Bloomberg BNA, discusses the challenges ahead for the board. They include FASB's efforts to simplify generally accepted accounting principles, the U.S. board's new footing with the International Accounting Standards Board, and cooperative efforts with national and regional standard setters. **Page 77** For his part, Governmental Accounting Standards Board Chairman David Vaudt says he looks forward to board challenges on investment pools and pensions. **Page 85**

2015 OUTLOOK

Standard Setters, Regulators Outline Upcoming Programs

In this set of articles, Bloomberg BNA discusses the major accounting standard setters and their agendas for 2015. FASB seeks better formulations of bedrock concepts as it also focuses extra effort on simplifying accounting principles and practices. Furthermore, the U.S. board hopes to finish high-priority joint projects, conducted with the IASB, on leases and financial instruments. **Page 88** IASB will focus on its leases and insurance contracts projects, IASB Chairman Hans Hoogervorst says. **Page 92** GASB is set to issue a public comment exposure document on external investment pools. **Page 95** Practitioners say that although private companies have welcomed the new financial reporting alternatives issued by FASB and its Private Company Council, companies have to think about whether adopting them will prove beneficial. **Page 95** Also, the adequacy of disclosures in the management discussion and analysis section of financial reports will once again be a major concern to the staff of the Securities Exchange Commission. **Page 100** Finally, accounting and auditing professionals can expect major standard-setting activity from the Public Company Accounting Oversight Board. **Page 96**

CURRENT DEVELOPMENTS

Split FASB Advances on Instruments Rules

A split FASB votes to advance toward issuing relatively modest changes to how banks and other companies classify and measure financial assets and liabilities. **Page 102**

Canada Regulator Requires Big Banks to Adopt IFRS 9 Early

Canada's federal financial services regulator issues a final advisory on early adoption by domestic, systemically important banks of new international accounting standards on measuring losses on loans, derivatives and other assets. **Page 103**

ALSO IN THE NEWS

FINANCIAL STATEMENTS: FASB issues a new Accounting Standards Update to eliminate the concept of extraordinary items from U.S. generally accepted accounting principles. **Page 105**

INTERNATIONAL STANDARDS: India plans to adopt national accounting standards over the next few years that are largely converged with international financial reporting standards, IASB says. **Page 104**

INCOME TAXES: Many companies are finding it increasingly difficult to avoid creating a valuation allowance—essentially a declaration of impairment—on their deferred tax assets, a PricewaterhouseCoopers partner says. **Page 109**

SECTION INDEX

Copyright © 2015 by Tax Management Inc. ISSN 1558-6642

Bloomberg BNA

ACCOUNTING POLICY & PRACTICE REPORT™

TAX MANAGEMENT INC., 1801 S BELL STREET, ARLINGTON, VA 22202-4501 (703) 341-3000

Gregory C. McCaffery CEO AND PRESIDENT | **Darren McKewen** PRESIDENT, TAX & SPECIALTY | **Lisa Fitzpatrick** VP, GROUP PUBLISHER | **George R. Farrah, CPA** EXECUTIVE EDITOR

Karen R. Irby, MANAGING EDITOR – TAX AND ACCOUNTING;
S. Ali Sartipzadeh, MANAGING EDITOR – ACCOUNTING PRODUCTS;
Steven Marcy, STAFF EDITOR; **Laura Tieger-Salisbury,** COPY EDITOR;
Steve Burkholder, STAFF CORRESPONDENT, NORWALK, CONN.; **Denise Lugo,** STAFF CORRESPONDENT, NEW YORK;
Joe Kirwin, SPECIAL CORRESPONDENT, BRUSSELS; **David Jones,** SPECIAL CORRESPONDENT, LONDON
Pamela Atkins, Jane Bowling, Phyllis A. Diamond, Susan A. Doyle, Brett A. Ferguson, Dave Harrison, Richard Hill, Susan Raleigh Jenkins, Rebecca McCracken, Ellen E. McCleskey, Molly Moses, Cheryl Saenz, Rob Tricchinelli, CONTRIBUTING EDITORS;
Marji Cohen, DIRECTOR, INDEXING SERVICES; **Charles Knapp,** INDEXING MANAGER; **Daphne Lincoln,** INDEX EDITOR

The ***Accounting Policy & Practice Series*** is designed to help accounting practitioners stay abreast of emerging issues and assist in analyzing and implementing accounting guidance. The ***Series*** has two main components: the Portfolios featuring in-depth analysis and practical guidance from expert legal practitioners and the *Accounting Policy & Practice Report* providing the latest news and developments

Accounting for Income Taxes

Accounting for Income Taxes—FASB ASC 740 (Portfolio 5000-5)
Accounting for Income Taxes: Fundamental Principles and Special Topics (Portfolio 5001)
Accounting for Income Taxes: Uncertain Tax Positions (Portfolio 5002-2)
Accounting for Income Taxes: Uncertain Tax Positions — Selected Topics (Portfolio 5003-2)
Accounting for Income Taxes: Uncertain Tax Positions in Transfer Pricing (Portfolio 5004)

Accounting Rules and Disclosures:

Accounting and Disclosure for Derivative Instruments (Portfolio 5112-2)
Accounting Changes and Error Corrections (Portfolio 5124-3)
Accounting for Contingencies (Portfolio 5165)
Accounting for Debt Instruments (Liabilities) (Portfolio 5105-2)
Accounting for Investments Debt Securities (Portfolio 5106-2)
Accounting for Leases: Fundamental Principles (Portfolio 5114-2)
Accounting for Share-Based Compensation (Portfolio 5109-2)
Accounting Principles and Financial Statements (Portfolio 5116-2)
Accounts Receivable: Financial Accounting and Auditing (Portfolio 5110-2)
Accounts Receivable: Management and Analysis (Portfolio 5111-2)
Asset Retirement Obligations (Portfolio 5143)
Business Combinations (Portfolio 5170-2)
Business Combinations: Goodwill and Other Intangible Assets (Portfolio 5115-3)
The Cash Flow Statement (Portfolio 5121-3)
Closely Held Business Valuation (Portfolio 5147)
Contingent Environmental Liabilities: Disclosures and Accounting (Portfolio 5136-2)
Earnings Per Share (Portfolio 5137-2)
Fair Value Measurements: Valuation Principles and Auditing Techniques (Portfolio 5127-2)
The Financial Reporting of Inventories (Portfolio 5168-2)
Financial Statement Analysis: Qualitative Techniques (Portfolio 5122-3)
Financial Statement Analysis: Quantitative Techniques—Analyzing Liquidity, Profitability and Asset Utilization (Portfolio 5133-2)
Financial Statement Analysis: Quantitative Techniques—Analyzing Solvency, Price Multiples, and Cash Flow (Portfolio 5134-2)
Governmemtal Accounting: Fundamental Priciples (Portfolio 5140-2)
Leases: Lessee Perspective (Portfolio 5117)
Leases: Lessee Perspective — Selected Topics (Portfolio 5118)
Leases: Lessor Perspective — Economics (Portfolio 5120-2)
Leases: Lessor Perspective — Recording the Lease (Portfolio 5129)
Leases: Lessor — Classification (Portfolio 5128-2)
Management's Discussion and Analysis (Portfolio 5107)
Methodologies for Estimating Future Profitability, Growth and Valuation (Portfolio 5131)
Pension Accounting (Portfolio 5108-2)
Related Party Transactions (Portfolio 5148-2)
Revenue Recognition: Fundamental Principles (Portfolio 5100-2)
Revenue Recognition: International Accounting Standards (Portfolio 5104-2)
Revenue Recognition: Product Sales and Service (Portfolio 5101-2)
Revenue Recognition: Software (Portfolio 5103-2)
Segment Reporting (Portfolio 5119-2)
VIE Consolidation Model: Identifying Variable Interests and Entities Considered VIEs (Portfolio 5174)

Special Industries and Entities:

Accounting by Partnerships (Portfolio 5209-2)
Accounting for Agricultural Producers (Portfolio 5205-2)
Accounting for Mergers and Acquisitions for Not-for-Profit Entities (Portfolio 5203)
Accounting for Not-for-Profit Organizations (Portfolio 5200-2)
Accounting for Trusts and Estates (Portfolio 5202)
Hospital Accounting (Portfolio 5204-2)
Oil and Gas Accounting Upstream: Operations (Portfolio 5206-2)

Management Control and Analysis:

Activity-Based Costing and Management (Portfolio 5306)
Coordinating Risk Management and Performance Measurement (Portfolio 5308)
Cost Accounting Principles for Federal Contracts (Portfolio 5300)
Enterprice Risk Management (Portfolio 5303)
Internal Reporting and Improvement Initiatives (Portfolio 5313)
Linking R&D Performance Measurement and Valuation to Corporate Strategy (Portfolio 5312)
Management's Reporting on Internal Control Over Financial Reporting (Portfolio 5317)

Audit Standards and Practices:

Audit Committee Oversight Effectiveness Post Sarbanes-Oxley Act (Portfolio 5401)
Audit Risk Assessment in Audits of Non-Issuers (Portfolio 5409-2)
Auditing Fair Values for Auditors of Issuers (Portfolio 5403-2)
Auditing Fair Values of Non-Issuers (Portfolio 5404)
Auditor's Need to Know v. Counsel's Need to Protect Client Confidences (Portfolio 5407-2)
Auditor's Reports (Portfolio 5400-2)
Continuous Auditing (Portfolio 5405)
Internal Auditing: Fundamental Principles and Best Practices (Portfolio 5406-2)

Accounting Practice and Responsibility:

A Strategic Approach to SEC Investigations (Portfolio 5504-2)
Accounting Ethics: Sources and General Applications (Portfolio 5508-2)
Auditor Independence: General Principles (Portfolio 5510)
Avoiding Material Omissions Under the Federal Securities Laws (Portfolio 5509-2)
Corporate Governance of the Financial Reporting Process (Portfolio 5506-2)
Legal Issues for Accountants and Auditors Advising Business Entities (Portfolio 5512)
The Liability of Accountants to Non-Clients for Professional Malpractice (Portfolio 5501)
Managing Legal Risk in the Financial Reporting Process (Portfolio 5503-2)
Preparing for and Defending Accounting Liability Litigation (Portfolio 5500)
Responding to Department of Justice Investigations (Portfolio 5515)
Sarbanes-Oxley: Auditor Independence (Portfolio 5502)
SEC Reporting Issues for Foreign Private Issues (Portfolio 5507-2)
The Section 7525 Tax Practitioner-Taxpayer Privilege and Related Issues (Portfolio 5511)
Strategies for an Individual Involved in an SEC Financial Reporting Investigation (Portfolio 5505-2)

Copyright Policy: Authorization to photocopy selected pages for internal or personal use is granted provided that appropriate fees are paid to Copyright Clearance Center (978) 750-8400, http://www.copyright.com. For authorization of other uses, contact the TM Reprint Permission Coordinator at (703) 341-5937, or send a written request via fax (703) 341-1625, or e-mail tm@bna.com. For more information, see http://www.bna.com/corp/copyright.

Accounting Policy & Practice Report (ISSN 1558-6642) is published bi-weekly, except for the last two-week period of each year for $1,383, by Tax Management Inc., a subsidiary of The Bureau of National Affairs, Inc., 1801 S. Bell St., Arlington, VA 22202. POSTMASTER: Send address changes to ACCOUNTING POLICY & PRACTICE REPORT ™, Tax Management Inc., The Bureau of National Affairs Inc., 1801 S. Bell St., Arlington, VA 22202. For customer service, call (800) 372-1033.

In This Issue

INDEX TO STANDARD SETTERS

TOPICAL INDEX

TOPICAL INDEX

Continued from previous page

ACCOUNTING PORTFOLIOS AFFECTED

ORGANIZATION INDEX

TABLE OF PRINCIPAL CASES

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

Interviews

OUTLOOK 2015—FASB CHAIRMAN INTERVIEW

Russell Golden, chairman of the Financial Accounting Standards Board, in an interview with Bloomberg BNA staff correspondent Steve Burkholder in Golden's office in Norwalk, Conn., discusses the challenges ahead for the board. They include FASB's efforts to simplify generally accepted accounting principles, the U.S. board's new footing with the International Accounting Standards Board, cooperative efforts with national and regional standards setters, and accounting for leases and financial instruments. The interview was conducted about a month after Golden presented a speech at the annual conference of the American Institute of CPAs, an event that focused on developments at the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the FASB, and the IASB.

The following is an edited transcript of the interview.

FASB Chairman Interview

BLOOMBERG BNA: Certainly a highlight of the board's work in 2014 and that of the International Accounting Standards Board was the issuance of the final, far-reaching standard on revenue recognition. Briefly, where do things stand with regard to implementation guidance and the timetable for companies' first use of the new standards?

GOLDEN: As you know, we created joint the Transition Resource Group [for Revenue Recognition]. The TRG is made up of auditors and preparers, and allows them to observe challenges they're having in implementing the standard. We've had two meetings to date. I think they've been a success, giving both boards the chance to understand some of those implementation challenges. There have been other TRG discussions where I think we have been able to educate our stakeholders about the board's intentions, and to help resolve potential diversity before companies implement the standard. At this point, there still are a number of issues to be raised to the TRG. Those issues are available to the public on our website.

Based on input from the TRG, I've authorized the staff to research three potential, formal standard-setting implementation activities. And they are around licenses, gross-versus-net [presentation], and determining separate performance obligations. Those issues will be addressed by the board as potential agenda topics in the first quarter. I've also authorized the staff to research how the timing of implementation is going, for large public companies, smaller public companies, and private companies. That work is ongoing.

As you know, we've received a fair number of requests to defer the effective date. Right now, the effective date for public companies is the beginning in 2017; for private companies, a year thereafter.

The point of this research is to understand where companies are in their implementation so that we can determine if they need additional time or not. The board hopes to review those findings late in the first quarter—or early in the second quarter—of this year.

Revenue Recognition: Companies Seeking Deferral.

BLOOMBERG BNA: And that would lead to a prospective vote then on the request for deferral, or you would consider that? I know your due process considerations come into play certainly.

> **"I've authorized the staff to research three potential, formal standard-setting implementation activities. [T]hey are around licenses, gross-versus-net [presentation], and determining separate performance obligations. "**

GOLDEN: The first thing we would need to do is to understand all of the staff's research. Then, we would have a discussion about whether or not we needed to change the effective date. If the board determined the need to change the effective date, it would then go through formal due process, including a public comment period.

We also would want to have discussions with the IASB to understand if implementation improvements in the U.S. could also be beneficial to the rest of the world. For that reason, they are involved in all of our research. Consistent with our work together on this project, we will share information with them. We want to have joint discussions with them on these topics.

BLOOMBERG BNA: On the topic of a potential deferral, as requested by some companies, and being mindful here again of due process considerations and the board's pending work to seek input on a company's transition prospects, if you were to handicap the chances of the board moving toward delay—with the input of the Securities and Exchange Commission staff possibly being a factor in that decision—what would you say is the likelihood that a deferral would be decided?

GOLDEN:

"[On revenue recognition] some companies believe they will be ready and do not want a deferral. They believe a deferral could potentially increase their costs. Other companies, however, do believe a deferral is warranted."

That's a challenging question. I can tell you what we would want to consider. We would want to consider the current implementation status at companies. We would also want to consider the potential uncertainty that exists in some of these implementation issues. We would want to understand, for example, if a company that wanted to do retrospective accounting would avoid doing it because of the timing. Then the individual board members would be able to decide if there should be a deferral.

At this point, the input we have received is mixed. Some companies believe they will be ready and do not want a deferral. They believe a deferral could potentially increase their costs. Other companies, however, do believe a deferral is warranted. They believe they need additional time to deal with some of the implementation questions that I talked about earlier, such as licenses and separation of performance obligations. That's one of the reasons why I wanted the staff to research all of this at the same time.

Golden on Removing 'Clutter' in Standards.

BLOOMBERG BNA: In your Dec. 9 speech at the AICPA's conference in Washington, you identified ''clutter within our accounting standards'' as a reason, along with the lack of a conceptual framework that prevents inconsistent answers to accounting questions, for complex financial reporting. This is the topic of simplification. On a related note you said recently that stakeholders identified more than 70 areas of general accepted accounting principles that could use simplification. Would you cite specific examples of clutter in GAAP and how the Financial Accounting Standards Board plans to address that and the general task of reducing complexity in accounting standards?

GOLDEN: Sure. Earlier in 2014, the board reset our agenda so we could focus on three important priorities for 2014, 2015 and—I suspect—2016.

One priority was completing the major projects that we had been working on with the IASB, as well as other significant projects that we felt needed to be improved in GAAP. Those are projects such as revenue recognition, financial instruments, leases, consolidations and, hedging [or accounting for derivatives].

We also looked and thought about the areas where the conceptual framework is not complete. The two most significant areas were presentation and measurement. We have started to have some very good meetings about how to think conceptually about measurement principles and how to think conceptually about presentation. And as you describe, we did seek specific areas from preparers and auditors where they felt that there was unnecessary complexity within financial reporting—areas where we could reduce the cost burden to the preparer and to the auditor, while making information more useful to investors. One thing that's important to all board members is that, as we think about reducing complexity and promoting simplification, we will not reduce the transparency to the investor.

We have been able to aggregate some of the 70 odd issues indentified by stateholders. If we're successful in managing and dealing with all of these, there won't actually be 70 ASUs [Accounting Standards Updates], because some ASUs will deal with multiple topics. But one issue we're working on has to do with inventory impairment. Today, companies have to do multiple methods to determine their inventory impairment. The proposal we put would require just one method.

We also took clutter out by removing the concept of extraordinary items. Today, it is very rare that a company would present information as an extraordinary item. Even though we all know that daily events happen that are extraordinary to people, they didn't qualify as an extraordinary item for accounting. It's an area where you had to have a lot of debate, a lot of judgment, and in the end it was a rare occurrence—so we took it out.

BLOOMBERG BNA: I remember the debate after 9/11 and the costs the companies faced after that. A very extraordinary event.

GOLDEN: Right. But it wasn't considered an extraordinary item for accounting. We also looked at a concept related to development-stage enterprise, where enterprises had to depict their cumulative losses. It was designed in a time when companies had cumulative losses for a relatively short period of time. But today, there are business models in place where companies never or rarely get to the point of recognizing revenue through an ongoing selling of a product. Their business model is to develop technology and then sell that technology. They are, in essence, permanent development-stage enterprises. By talking to investors—some of whom didn't even know that the concept existed—we recognized that it wasn't necessary to have the incremental disclosure or the incremental analysis for development-stage enterprises.

We currently have out for comment an exposure draft that relates to pension measurement dates. Some

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

companies have a 52/53 week year-end, which basically means that their year-end is not the same date every year. This proposal would give them a little more flexibility about the specific date in which they measure their pension accrual or their pension assets so that the company can tie it to data that they receive from their independent sources.

It's these kinds of things that we are working on that we hope, if we're successful, will take some of the cost out of the system without impacting the transparency to investors. A lot of times when we go to investors to ask them if something will change their analysis, they are unaware that it is actually in the detailed accounting rules, so it's not something that they are even using in their analysis. That's a critical piece of information for board members as they make these decisions on simplification projects.

Making Disclosures More Effective.

BLOOMBERG BNA: This is the topic of costs and benefits, another subject that you addressed in your speech in Washington Dec. 9. You recently identified the board's efforts on footnote disclosure and disclosure effectiveness as an example of its work on gauging the costs and benefits in standard-setting. You noted the FASB's December 1st forum at Pace University in New York and receiving counsel there on where stakeholders think there's room for improvement with regard to disclosure, as well as related factors such as the legal environment and what you called the compliance mindset. What conclusions has the FASB or its staff drawn from the forum or you're still processing those?

GOLDEN: Well, the disclosure framework initiative by the board consists of multiple projects and multiple phases. The first is a conceptual approach that the board should think about in setting disclosure requirements. The board has not been consistent throughout its lifetime as it relates to disclosure requirements. When you look at some of the earlier disclosure requirements, it's substantially less than it is today. I think there are a lot of reasons for that.

We want to have a consistent philosophy at the board as to how we think about disclosure requirements. The framework really helps the board begin the process.

Then, we take it through the filter of costs and benefits, where we seek to understand what the system changes, the internal control changes, would be for companies; what would be the additional auditing requirement by auditors; and how the information would be used by investors. Also, would it be used on a continuous basis or just in certain times throughout various economic cycles? We also are describing what we think of as the entity process. This gets into the approach of trying to make the disclosures tell a story rather than a specific narrow-minded compliance exercise.

BLOOMBERG BNA: This is something, by the way, that the SEC's Corp Fin Division has talked about over the years as well.

GOLDEN: Right. And we've had a lot of good dialogue with the Division of Corporation Finance and the [SEC] chief accountant's office about how we could potentially think about improving disclosures.

In the past, we wrote an objective. Then we required companies to do detailed disclosures to comply with the objective. This left little room for judgment by management if they were to determine that the disclosures were not necessary. We think there are ways through our conceptual framework and through the entity's decision process where we can describe some of these requirements as [those that] management should consider in determining if it meets the objective.

We've added to our board's agenda multiple disclosure-only projects where we're testing this hypothesis. They focus on fair value disclosures, pension disclosures, inventory disclosures, and interim disclosures. With respect to fair value, pension, and inventory, some companies have talked about how the disclosures are too voluminous and not used by investors. In other cases, some of the investors have said that the disclosures are not sufficiently detailed to give them what they need. An example of that has to do with disclosures of income taxes, which is also on our agenda.

What we're hoping to do is to continue down the path of the conceptual approach, do some more work on the entity approach, and put out these disclosure standards for exposure in the coming year. This will enable us to see if this will actually make disclosures more relevant to investors by requiring companies to disclose what is meaningful, and by allowing them not to disclose what is not meaningful.

Now, interim disclosures are a little different. It has to do with whether or not there should or should not be the same disclosures in the interim period as there are in the annual period. There are different constraints in interim reporting. Public companies are required to file their financial information sooner than they are in an annual. Therefore, that additional constraint puts a greater burden on preparers and may lead to fewer disclosure requirements. As a matter of fact, on [January 7], the board is having a dialogue about this particular topic. The [agenda item on interim disclosures] will be a non-decision-making meeting. It's really to give us insight into what the staff is thinking, and how interim is most likely a different thought process than annual. I think with this initiative, we have the challenge and the opportunity to make disclosures more relevant for all within the system.

BLOOMBERG BNA: As you know, there have been projects in the past similar to this, and, to use a kind of overarching title, they've usually been called ''disclosure effectiveness.'' And sometimes it boils down to a debate where people use the term ''disclosure overload,'' or companies do, and investors seem to balk at that, and they say, well, we'd like to have more disclosure or more effective disclosure. So I understand the balancing there, and it seems like a challenge to really land in that kind of sweet spot.

GOLDEN: It is a challenge. One of the things we did in revenue recognition that I think worked—and we also have done it in our disclosure initiative related to pensions—was actually engage in a dialogue with investors and preparers at the same time. This allowed preparers to describe the cost—the difficulty—they have, and investors describe why they need that information.

In the revenue recognition [project]—and you can see this from what was exposed in the final [exposure draft] to final [standard]—we changed disclosure specifically as a direct result of those meetings. That's because we found that some of the information investors viewed as ''nice to have'' was not ''a have to have.'' But in other cases, investors described why they had to have the information. And that was a critical data point for us to require it.

BLOOMBERG BNA: Is there a timetable for the individual components of this kind of multi-faceted disclosure framework project?

GOLDEN: The goal is to issue them for exposure this year, and then finalize the conceptual phase of the initiative this year.

BLOOMBERG BNA: And you say this, they would be issued for exposure this year, those individual pensions, inventory —

GOLDEN: Pensions, inventory, taxes, fair value, and interim. I'm confident those will be exposed this year. The question about finalizing the conceptual one, it will be ready to be finalized. We may or may not want to understand the feedback on those four or five items before we finalize the conceptual phase. That's the one challenge, the one uncertainty I have. But I'm confident that we'll make substantial progress on all of the phases this year.

The New Relationship With IASB.

BLOOMBERG BNA: A separate topic here, and this has to do with the new footing with the IASB. In actions heralded by your words in the fall of 2013 at the FASB@40 event in New York, 2014 essentially marked a year in which the working relationship at the FASB and IASB began to be placed on a new footing, while, at the same time, the major joint projects were being completed. Could you provide an overview of how the U.S. board is working with the IASB and national and regional boards in a situation in which the IASB and FASB no longer have an exclusive partnership and are finishing up some of those high-priority projects that formerly were a highly visible manifestation of that joint relationship?

"We currently continue to work with the IASB on the joint projects. You'll continue to see joint meetings on leases."

GOLDEN: We currently continue to work with the IASB on the joint projects. You'll continue to see joint meetings on leases. We'll also work with the IASB on joint implementation of these converged projects. That, of course, includes revenue recognition. But it also includes anything we may or may not do about improving business combinations accounting, which right now is on our agenda. Specifically, we seek to improve the definition of a business and potentially the impairment and/or amortization of goodwill. The IASB is working through their final phases of a post-implementation review [on combinations accounting]. So we have a plan to share research, ideas and input so that we can work together to try to make any potential solutions.

Going forward, I think it's important that the FASB work with the IASB and other standards setters so that we can advise the IASB through [the IASB's Accounting Standards Advisory Forum] on projects that they're working on. On a lot of projects they are working on, we have existing standards in the U.S., or have dealt with them.

For example, they are working on a project that relates to rate regulation. We have a standard in the U.S. Canada has a standard. Other countries have standards, as well. I think it's important that we bring to the IASB what we know about what works and what does not work in our standard so that they can make the best decision possible. On rate regulation, we have been able to facilitate a discussion with companies in the U.S. We have done some research with investors. And we have given them our frank views about what they should do in those areas.

I think it's also important that we continue to build relationships with other standard-setters and that we engage in a dialogue with them about areas that they are working on, or where they see potential improvements. I think the FASB and other standard-setters can learn from each others' experiences. I'm happy to say that I think that over 2014, we built strong relationships with a number of other standards setters to be able to continue that dialogue.

For example, revenue recognition. Based on discussions with other standards setters, it seems that the U.S. has more implementation questions than other parts of the world—even though it's the same standard. That doesn't surprise me, but I think it's important to understand that before you go in and think about how to make improvements.

BLOOMBERG BNA: Why do you think that is, that the U.S. has more implementation questions on revenue recognition?

GOLDEN: In this case, I think it's because we're coming from two different places. I talk a lot about the challenges to convergence when the boards started from different places. It's been well documented in revenue recognition. The IASB, I think, had two or three standards, whereas we had a greater number. Those were created in large part because specific industries got together and they thought about what was best for their industry.

In other words, other parts of the world were going from an approach where they had less detailed information to more information. Whereas the U.S. was going from a situation where we had more detailed standards to one where there is more consistency across business models. I think that's why there are probably more questions in the U.S. than there are elsewhere.

IASB's Accounting Standards Advisory Forum.

BLOOMBERG BNA: It seemed that the IASB's Accounting Standards Advisory Forum got off to a somewhat shaky start, especially insofar as the FASB was able to provide timely advice and input was concerned. That might have stemmed in part from what the situation was at the start of the forum, and how issues surfaced. Do members of the FASB and its staff see improvements in the ASAF process?

GOLDEN: I attend every meeting. So does Tom Linsmeier, one of my fellow board members. On occasion, depending on the topics, we would have other staff members available. And before every meeting, I reach out to various board members, various staff members here, as well as preparers and users of GAAP about what they think could be the types of advice I could make to the IASB. Right now, the IFRS Foundation [IASB's parent group] trustees have an initiative underway—which was planned at inception—to review

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

the status of the ASAF and make improvements. We're participating in that.

I do believe the ASAF has been successful in bringing together wider geographic representation to the IASB. And I do believe that the information and the dialogue are improving between other standard-setters, including the FASB and the IASB.

'New Collaborative Process' With Other Rulemakers.

BLOOMBERG BNA: At the AICPA's banks conference in Washington last summer, you sketched out a fresh effort by the FASB to work with other national and regional standard-setting boards in what you called ''a new collaborative process'' to minimize differences in standards. How is that progressing?

GOLDEN: I think it is progressing really well. I'm very excited about it. The primary objective is to have an open and frank dialogue with other standards setters around the world to understand what may be legal and regulatory constraints in our various countries, as well as potential cultural differences. This is so that we can challenge each other with a goal to minimize differences as we individually implement these changes that are being made to financial reporting.

There are various detailed examples of legal or regulatory issues. For example, not every country in the world requires interim financial information every 90 days. Certain countries do. This difference may change one's view of the objective or philosophy around interim disclosures. Depending on where you potentially have come from in revenue recognition, as we talked about, it may change your philosophy on how much implementation guidance one needs. Not all countries have the rigorous requirements that we have around internal controls and internal control testing. So that may change and lead to different effective dates.

The point of [collaborating] with others is so we can understand each other's country's laws, regulation and culture. This is so that we can try and only have differences when differences absolutely have to be there. We've had one meeting and we have plans to have more meetings in the future.

BLOOMBERG BNA: Where was that one meeting? When was that, also?

GOLDEN: I had the opportunity to host it here in Norwalk. It was in the fall.

BLOOMBERG BNA: Are those meetings public?

GOLDEN: No. It's not a meeting of the full boards. It's just certain representatives of various standard- setting boards.

Relations With Other Standards Setters.

BLOOMBERG BNA: You mentioned a few minutes ago that you've had new relationships or improving relationships with certain other countries' boards. Would that be Canada's, for example? If so, what countries?

GOLDEN: This year we decided to improve our relationship with various standards setters. We first focused on those countries that allow the use of GAAP, so that we could understand what that country's users [of financial statements], what their preparers, what their auditors, think of GAAP. How can we make improvements? How can we engage them to engage in our process?

In Canada, we are very successful. Canada nominated someone to be on [FASB's Financial Accounting Standards Advisory Council], Xihao Hu, who works at a large Canadian bank. [He is senior vice president and chief accounting officer of the Toronto-Dominion Bank Group.] His interaction at FASAC has been very helpful and he's a very strong council member.

We also wanted to continue our strong relationship with the Accounting Standards Board of Japan. This year a delegation of the board also went to South Korea and China. And next year we hope to expand to other standards boards in Asia. Again, this is so that we can go to their country and they can facilitate a dialogue with investors that are using GAAP. Also so that they can facilitate a dialogue with companies that are preparing financial reports with GAAP, potentially because they come to our market and seek capital from U.S. investors, and they think the best way to do that is to use GAAP rather than IFRS or their country's GAAP for the reconciliation. They, I believe, are stakeholders, and we should understand and encourage them to participate in our standard-setting process.

''This year we decided to improve our relationship with various standards setters. We first focused on those countries that allow the use of GAAP, so that we could understand what that country's users [of financial statements], what their preparers, what their auditors, think of GAAP.''

BLOOMBERG BNA: Some board members have also traveled to India, I recall, in 2014.

GOLDEN: There is a group of national standards setters. It's referred to as IFAS [for the International Forum of Accounting Standard-Setters, formerly National Standard-Setters.] They have two meetings a year. Tom [Linsmeier] attends every meeting, as well as Daryl [Buck, another board member]. They had a meeting in India and one in London, and we participate. We have for a number of years. This year, I believe, it's in Dubai.

Leases: Hopes for a Final Standard in 2015.

BLOOMBERG BNA: Shifting topics here again, to leases. A major joint effort of the FASB and IASB has been the project on leases. That effort, and especially working to land on converged accounting policies with regard to scope and income recognition, have proven to be challenging. The evolving landscape for lease accounting appears to be marked by some divergence between your board and the IASB. How will the accounting for leases be improved if the boards' nearly completed standards are made final on apparently separate, divergent tracks—diverging on some significant issues, and others maybe less significant?

GOLDEN: In the middle of December, we were able to converge on scope. Specifically, as it relates to the definition of a lease. It was an area where we'd had multiple meetings. We were able to come to a converged solution. I think the definition of lease is very important, to minimize differences that relate to the balance sheet. We have agreed on the appropriate measurement and to record these as assets and liabilities. So I believe there will be minor differences on the balance sheet.

One difference that remains is whether or not the IASB will continue with the scope exception for small-ticket lease items. The FASB at this point is concerned that it could, in some industries, allow for material obligations to not be depicted as a liability. And that's why we have not moved forward with that. That's one potential difference. There are certain industries that could seek that scope exception more than others, because they have more small leases than others.

The other area where we have a difference of opinion at this point—and, again, projects evolve over time and we continue to try to encourage each board to try to work through the differences—has to do with the performance statement. As you know, the FASB is taking the approach that the performance statement is virtually unchanged from today. Today you have two types of leases. One is treated as a financing. And one is treated, in essence, as a straight-line expense. We would continue down that path.

"One difference that remains is whether or not the IASB will continue with the scope exception for small-ticket lease items. The FASB at this point is concerned that it could, in some industries, allow for material obligations to not be depicted as a liability. "

The primary reason for that is two-fold in the U.S. First, we don't see a lot of investors adjusting reported performance results. We do see a lot of investors adjusting reported balance sheet and reported obligation approaches. We think that our model will be beneficial to U.S. investors. That's because it will adjust the balance sheet, which they are doing, giving them a more refined measure of that balance sheet, but not change the income statement. We also think it's substantially less costly to implement, because companies would not have to change their systems as much if they're only changing the balance sheet.

We have asked the staff to do analysis as to what the ultimate difference is in reported information. Because, again, when I think of convergence, I think of an investor trying to compare two companies. And investors care more about the reported results than the detailed words of the FASB and the IASB. So when we have differences, I like to understand how those differences actually impacted reported information. For companies that have a number of leases—perhaps 75 or more—that turn over on a continuous basis, there really isn't a huge difference in the ultimate net income impact. There is a difference in some of the components of net income, because we would not have interest. But in total net income, it's not a difference.

Therefore the difference between the two boards isn't as significant, I think, as some initially believe—when you're talking about a number of companies that have a number of leases and those leases don't all come due at the same time.

We're still working together. We have plans for joint meetings in 2015. We want to talk about disclosure together. We want to talk and see if we can reconcile some of these differences. We want to talk together about an effective date. And we want to try to come up with some consistent implementation guidance—a consistent understanding—specifically around the definition of a lease. We've already come up with a definition of a lease, but now we are writing examples related to definition of a lease.

BLOOMBERG BNA: So what would be the timetable for, first of all, completion? And then the possible effective date? I mean, are we talking 2018 for an effective date? Being aware of revenue recognition coming in 2017.

GOLDEN: We haven't determined the effective date yet, but I think the board needs to balance a number of items. One is when we think we would be able to complete this. I think you'll see us set the effective date later in the project's life cycle than we did in revenue recognition. In revenue recognition, we set the effective date well before the actual issuance of the document. So the plan here is to wait until we're further along in drafting before we actually set the effective date.

I think we need to consider other changes that are occurring in the system. I think we need to consider the impact that this may have on a company's [debt] covenants. We've recently done some research where we have determined that a lot of companies won't have covenant impacts, because they have clauses that say they're not impacted by new accounting standards. Or their covenants already include operating leases on the balance sheet. But some companies will be impacted by their covenants. And we need to give them some additional time to work through these changes.

Those are all the things that we need to think about in setting the effective date. You know, years ago, we put out a discussion paper about w whether it would be easier for companies to do what we call a ''big bang'', and implement all of these on the same day. Or, do they need to stagger them? A lot of companies came back and said it's probably more effective if you staggered them rather than big bang. So, like I said, we need to consider what other changes are being made, and that obviously would include revenue recognition.

BLOOMBERG BNA: So the hope is that a final lease standard would be out in 2015? Or expectation? Plans?

GOLDEN: Well, we're moving forward towards that goal.

Financial Instruments: Final Rules Expected Mid-Year.

BLOOMBERG BNA: On financial instruments, just briefly, please. I know it's a multi-faceted project, the aspect of financial instruments on classification and measurement as it's been developed so far, how is that progressing? You had a first proposal in 2010, I believe, and then another one in early 2013.

Where does the classification and measurement aspect of the instruments accounting effort stand now? And how would the pending proposal change?

GOLDEN: Based on the feedback from the 2013 exposure draft, we learned that the way to improve GAAP would be to make targeted improvements, not substan-

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

tial changes. And that's why we have been progressing towards targeted changes.

BLOOMBERG BNA: Does that—sorry to interrupt—but does that represent a pullback then from the original scope and probably hopes for the project?

GOLDEN: Originally we looked at various ways to improve the accounting for financial instruments and reduce complexity. What we learned is that users need a value realization model. That is, how does the company expect to realize the value by holding the financial asset.

If they expect to realize value by selling it, it should be fair value/net income. If they expect to realize value by holding it until it matures, or almost matures, then the incremental fair value changes are not what's going to revert to the shareholder's equity. Fair value becomes less important, but anticipated impairment changes become more important. Therefore, if the interest rate changes, the shareholders won't be impacted. But with credit changes they would be. That's why we've gone that way on impairment. Now, if a company wasn't sure what it was going to do, then investors needed both.

One of the most significant changes right now on classification and measurement would be all equity securities would be [recorded at] fair value [with changes in] net income. That's because the only way to realize the value related to an equity security would be to sell it.

At this point in the project, basically all of the substantive decisions have been made. The staff is working on drafting. We need to have one final vote. But our goal is to issue that around the same time as impairment. We have some more work to do on impairment disclosures, so we have the [financial instruments] team focusing on that. We hope to issue those some time in the middle of this year.

BLOOMBERG BNA: Both of those—classification and measurement, and impairment?

GOLDEN: Yes. They might go on the same day. They might go a week apart.

Derivatives and Hedging.

BLOOMBERG BNA: On derivatives and hedging, the FASB is embarking on a fresh, limited-scope project. Why is that needed? What do you hope to accomplish with that effort?

GOLDEN: A few years ago we started a project on improving hedge accounting. I think both investors and preparers don't believe that the current hedge accounting rules appropriately reflect potential risk-mitigation strategies that companies have entered into, because they are rule-oriented and fairly rigid. We wanted to take a look at how to improve the accounting related to hedging activities.

We put out an exposure document a number of years ago. We put the project on hold because we wanted to finish classification and measurement, and impairment. Now that those projects are coming to an end, we had, about six months ago, reallocated some resources so we could start working on it. The board members have been brought back up to speed and we've had a couple of meetings to understand the issues. I would expect substantive deliberations leading to an exposure draft in 2015. I don't think the exposure draft will occur until 2016, but you'll see substantive deliberations this year.

Where Went the Momentum on IFRS?

BLOOMBERG BNA: Back about seven years ago or so, there was perceived substantial progress toward devising one set of high quality-international standards that could be applied around the world, the convergence. And it seemed like there was momentum toward some form of adoption of IFRS in the U.S., or the country was on the cusp of that. It's a changed picture in 2015. What happened in the interim? Some large U.S. companies, I understand, became less enamored of IFRS. An SEC commissioner, Daniel Gallagher, said at the December AICPA conference that there was pressure from U.S. issuers for IFRS adoption when he worked for Chairman Cox. You don't see that any more, Gallagher said. Again, what has changed?

GOLDEN: Our goal continues to be to try to make our standards better, to make them a higher quality than they are today. We continue to work with the IASB so that they can understand the U.S. perspective. We continue to work with other standards setters so that they can understand the U.S. perspective, and so we can understand their perspective. We do all of this with a goal to minimize differences in financial reporting, so that investors get comparable information.

Our goal continues to be to try to make our standards better, to make them a higher quality than they are today.

I don't think that goal is substantially different than the outcome of a single set of high-quality standards. I think the outcome of that was a thought that you'd have comparability across the globe.

One example is a situation where GAAP and IFRS have the same written standard, is the definition of a business. But it is applied differently in the US. than by those that are applying IFRS. Therefore, you have a situation where we have the same words, but we didn't achieve the objective of promoting comparability. We are working on a potential change whereby we likely will change the definition of a business, and have different words than that of IFRS, but achieve the same outcome. That is what I think we should try to achieve to minimize the differences when possible, focusing on the reported results. Ultimately, that's what the investor uses.

Liabilities and Equity: Fuller Effort a Long Way Out.

BLOOMBERG BNA: One more topic here: liabilities and equity. In not too many years past, the liabilities and equity project—an effort to distinguish financial instruments that have traits of both debt and equity—was identified as a high-priority project of the FASB and IASB. But that comprehensive effort was stopped as the board focused on the four other high-priority projects. Do you see the FASB returning to that topic in an effort other than one being aimed at making short-term improvements? I note that it's been a very difficult project for the board to do.

GOLDEN: It is a very difficult project for the board to do. I think it has to do with a conceptual definition of the elements of liabilities and equity, presentation and measurement. When I look in my crystal ball five, seven, nine years from now, and I think about liabilities and equity, I think about a situation where we might have some conceptual views on measurement, some conceptual views on presentation. Once we complete those, I hope to devote resources conceptually to thinking about the definitions of liabilities and equity. Maybe then we can start standard-level ideas on differences between liabilities and equity.

In the meantime, we are working on short-term improvements to deal with some of these more complex and confusing areas in liabilities and equity. One relates to down-rounds [a form of financing that leads to dilution of stock price for existing investors]. One relates to the provisions of requiring liability, if, under any circumstances, you could be required to pay cash. We need to think if that's the right answer, or if there should it be some threshold.

We have in the past, and we likely will think about in the future—although probably not in the coming year—how to minimize the different accounting models as it relates to convertible debt. Today there are multiple models depending on various nuances of terms, so we may want to try to come up with a single model for convertible debt. But right now we're focused on the conceptual aspects and the short-term improvements.

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

OUTLOOK 2015—GASB CHAIRMAN INTERVIEW

In an interview with Bloomberg BNA staff correspondent Denise Lugo, Governmental Accounting Standards Board Chairman David Vaudt says he looks forward to board challenges on investment pools, pensions, lost tax revenue, leases, and the overall reporting model.

The following is an edited transcript of the interview.

GASB Chairman Interview

BLOOMBERG BNA: You mentioned the project on external investment pools as one that's on the fast track for completion in 2015. What will the standard address?

VAUDT: In current GASB guidance, Statement 31 refers to 2a7-like investment pools which allows investment pools to use an amortized cost basis for their investments. The new rules that have been put forth by the Securities and Exchange Commission that will take effect in 2016 drastically reduce and put constraints on the ability to use amortized cost, so it would have a big impact on investment pools that are held at the state level for local governments. So that's the real issue—they'd have to go from an amortized cost basis to a floating market value. That's the real interest from the state standpoint, because a lot of state rules and laws do not allow local governments to invest their temporary funds in that type of manner.

Funding for Post-Employment Benefit Promises

BLOOMBERG BNA: GASB is currently redeliberating two other post-employment benefit (OPEB) exposure documents and an exposure document addressing pension-related issues. They are companions to GASB's pension standards and will complete the guidance that's needed for all post-employment benefits. They will take effect for financial statements that begin after Dec. 15, 2016 for OPEB employers; Dec. 15, 2015, for OPEB plans; and June 15, 2016, for pensions. What will finalizing these exposure drafts provide for financial statement users?

VAUDT: Governments are taking a look at how well or how poorly they've actually funded these post-employment benefit promises, so the new standard will provide enhanced information for those decision makers.

BLOOMBERG BNA: I noted that GASB received 76 comment letters as of Jan. 2, with a number of significant suggestions, including one that said the proposals lack essential information in the basic financial statements of multiple-employer defined benefit OPEB plans. In addition, some respondents asked for an effective date deferral. Which issues raised by comment letter respondents are being seriously considered by the board for redeliberation?

VAUDT: It's a good question. The board carefully reviews all comment letters and we seriously consider all of the comments made. As you mentioned, the board is currently in the process of redeliberation and we do that by topic area, so it wouldn't be fair to comment on the particular redeliberations until our entire process is completed, because those decisions are always tentative and could be influenced by later redeliberations. But I will tell you that we always take all the comment letters that we receive, we consider all the comments very seriously and walk through them on a topic-by-topic basis.

BLOOMBERG BNA: The American Institutes of CPAs' Technical Issues Committee (TIC) also made recommendations, including that GASB should provide cost relief for smaller plans, those with less than 200 participants. Will you address this issue?

VAUDT: The interest there relates primarily to the fact that there's a provision in the standard that allows for an alternative measurement method. Currently that's for plans with 100 or less participants and so their request is to expand that and that is something that we are addressing and will address during our redeliberations.

BLOOMBERG BNA: When are you planning on issuing final standards on those three exposure documents?

VAUDT: Our current game plan is to have final standards issued during the second quarter of 2015.

Auditing Issues in Multiemployer Pension Plans

BLOOMBERG BNA: Since we're on the topic of benefit plans, I thought we should discuss the two pension standards that were issued in 2012—both of which generated a lot of controversy. In the GASB's last outlook report you said that financial reports reflecting the new numbers and disclosures will become publicly available this year. Are there any new issues that have surfaced that the board will have to address?

VAUDT: We've put out two implementation guides in the last year and a half: one on the plan side and one on the employer side. Those guides have been very helpful to our stakeholder groups in addressing a lot of the implementation questions, so I think we're in good shape there and not aware of any major issues at this point.

BLOOMBERG BNA: Shifting a bit to the auditing side—I'm aware that GASB engages with the AICPA's Auditing Standards Board on a number of issues. Are there any issues or concerns that have been recently raised for state and local governments' financial statements?

VAUDT: Once we came out with the new pension standards there were some questions raised about the auditing of government employee benefit plans.

I think the bottom line is eventually the AICPA decided it needed to issue some additional auditing clarification. I think that was primarily because once the liability was moved to the financial statement it highlighted the need for that additional auditing clarification. So, no auditing changes, but just additional guidance needed by the AICPA on auditing government employee benefit plans.

"We've put out two implementation guides in the last year and a half: one on the plan side and one on the employer side. Those guides have been very helpful to our stakeholder groups in addressing a lot of the implementation questions, so I think we're in good shape there and not aware of any major issues at this point."

BLOOMBERG BNA: Do you know what problems auditors were running into?

VAUDT: I think part of it was primarily just the amount of work that needed to be done related to multiemployer pension plans and the case where there are several employers that are ministered by one group and so forth—how they needed to address that. And then, obviously with the new pension standards, the liability on a cost sharing plan is pushed down to the local government, so the information they needed in order to be able to allocate those particular liabilities down to the participating governments in that cost sharing program. So those were some of the issues they were addressing.

BLOOMBERG BNA: Are there issues that GASB should address within those areas?

VAUDT: Most of the issues were from an auditing perspective, so most of them were things the AICPA had to address.

Providing More Timely Financial Statements

BLOOMBERG BNA: Let's discuss your work on the financial reporting model, another priority topic for 2015. You mentioned during your speech at GASB's 30th anniversary celebration that you're considering ways to improve or simplify the financial reporting model, including disclosures. Expand a little bit about your current pre-agenda research on the project.

VAUDT: It's important to remember that all our standards need to be periodically reassessed to evaluate whether they're really meeting today's needs. GASB 34, which establishes that financial reporting model, has been in place long enough now that it's time to step back and reassess how it's performing—is it effective? Is it providing the type of information that users need?

Similar to the Financial Accounting Standards Board's simplification initiative, a reexamination of this financial reporting model could provide a really unique chance to see if there are any simplification changes that could be made that would also positively impact the timeliness of governments' financial statements.

"It's important to remember that all our standards need to be periodically reassessed to evaluate whether they're really meeting today's needs."

BLOOMBERG BNA: You mentioned timeliness of governmental financial statements. I'm not sure that everyone's aware of why state or local governments wouldn't issue them in a timely manner?

VAUDT: Many governments try to get their financial statements issued within six months after the fiscal year end and there are some governments that don't issue them for up to a year or more after the date of the financial statement. So obviously it raises an issue of relevance from the user community—it's less relevant because it's so old. A lot of it is that the financial statements are very long and complex and therefore it takes a while for governments to actually put those statements together. If we take this project on, it's a time for us to at least step back and say "are there ways that we might simplify governments' financial statements that could have a positive impact on timeliness."

Losses to Economic Development Programs

BLOOMBERG BNA: Perhaps we can touch on some of the other standards the board is currently working on. Your tax abatement disclosures project is interesting. The GASB received 172 comment letters as of Jan. 2—all welcoming the guidance, which for the first time will reveal how much revenue state and local governments lose to economic development programs. What are GASB's constituents saying about why is this such an important issue for them?

VAUDT: Tax abatements are an area where financial statement users definitely would like more information as to what taxes are abated and what the government receives in return. Many governments offer tax abatements but rarely is information publicly available regarding the provisions of the tax agreements, or the magnitude of the effects on the future revenues of that government. Since tax abatement agreements don't flow through the financial statements, they're looking for information to better evaluate the types of tax abatement agreements that a government enters into and the benefits that the government receives in return. The comment period actually runs until the end of this month, so stay tuned for more stakeholder feedback.

BLOOMBERG BNA: What types of responses have you gotten from financial statement preparers about tax abatement disclosures?

VAUDT: So far the feedback that I've heard from the preparer community has not been against it at all—they feel that additional disclosures would be appropriate.

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

Obviously in some large governments there will be multiple tax abatement agreements. One of the things the board did when we were looking at this exposure draft was we tried to make it feasible to provide the information and also for it to be meaningful once it's aggregated—summarizing them rather than reporting them one-by-one. If you've got 100 tax abatement agreements, it's impossible to show each one, so you have to somehow come up with a way to bring that information together and summarize it in a form that would still be meaningful.

Preliminary Views on Leases

BLOOMBERG BNA: Other projects on GASB's agenda include leases. Lease accounting has been a controversial topic for FASB, which, as you're aware of, is in redeliberations with the International Accounting Standards Board with the potential of issuing final standards this year. Are GASB's constituents raising similar or other concerns about your preliminary views document for lease accounting?

VAUDT: The GASB's lease standards piggyback off the FASB lease standards, so as the FASB's been taking a look at reevaluating and changing their standards it makes sense for the GASB to also do that. Right now we're looking at leases as being a financing mechanism, a one model type approach, but obviously we'd be very interested in hearing our stakeholders input on our preliminary views. We're looking at it from the government arena standpoint, the information needs of governmental financial statements, so that's what's driven us towards that approach.

BLOOMBERG BNA: It's interesting that it's more in alignment with IASB's one-model approach as opposed to FASB's two-model approach. GASB typically has public hearings before you finalize standards, so there's a long road ahead?

VAUDT: Yes, we just issued the preliminary views in November and so that comment period runs until March 6, 2015. Then we'll be doing some public hearings in April that will allow stakeholders to testify and give us some of their thoughts.

Fair Value Standard Impact on Pension Investments

BLOOMBERG BNA: Are there other standard-setting issues you'd like to highlight?

VAUDT: The one I would mention is fair value. That final standard is expected to be released during the first quarter of 2015. We've harmonized with the FASB's definition of fair value and so this is a great example of leveraging the work of our sister board. Then we obviously took a look at the application from the government arena side, but we've been very fortunate to work well with the FASB's literature in harmonizing ours. From a preparer standpoint; from an auditor's standpoint, this would be a good standard for them to be able to refer to where we're very much harmonized between the FASB and the GASB about what fair value is all about.

BLOOMBERG BNA: What should state and local governments be aware of when implementing the standard?

VAUDT: The most important thing to focus on is that the application under our particular standard will be to investments. I think there's always a lot of concern that everything on the balance sheet's going to be marked to fair value. From a GASB perspective we've focused just on investment portfolio, so that's the only thing that will be marked-to-market—that will give them a good idea where the fair market value is on the investments that a government holds.

Outlook 2015

Outlook 2015—FASB

FASB Resets Course for 2015; Focus on Bedrock Concepts, Simplification

The Financial Accounting Standards Board has reset its agenda for 2015, seeking better formulations of bedrock concepts as it also focuses extra efforts on simplifying accounting principles and practices.

At the same time, the U.S. board hopes this year to finish three challenging, high-priority joint projects, conducted with the International Accounting Standards Board, on leases and financial instruments. The parts of the multi-faceted instruments effort that FASB hopes to complete in 2015 would yield two new sets of standards.

In recent comments, including in a Jan. 5 Bloomberg BNA interview (*see related story*), FASB Chairman Russell Golden provided details on the board's simplification efforts and on what he calls ''foundational'' efforts, such as the rulemakers' conceptual framework and on a disclosure framework. In the latter, the board aims to make disclosures, across a range of topics, more effective.

''We have reprioritized our agenda, balancing foundational and simplification efforts with an ongoing cost-benefit assessment of our standards in progress,'' Golden said in his Dec. 9, 2014 speech at a major conference of the American Institute of CPAs in Washington (11 APPR 18, 1/2/15).

Different Mix Needed. ''It's a different mix than what we're used to, but it is critical to fixing past problems and ensuring less complexity now and in the future,'' he added.

Over the last five to seven years, FASB had been working virtually full-bore on completing the major projects being carried out in tandem with IASB. The boards have had some significant success in that effort—most notably in the far-reaching, jointly-issued standards on revenue recognition (10 APPR 525, 6/6/14). Those take effect in January 2017 for public companies and in 2018 for private companies, barring a possible deferral that rulemakers expect to consider over the next three or four months.

In the hour-long interview with Bloomberg BNA, Golden fleshed out a host of issues, from revenue recognition and leases to the U.S. board's new footing with IASB, and FASB's efforts to work with other standards setters around the world. He also described how FASB is trying to cut ''clutter within our accounting standards,'' a term he used in his Dec. 9, 2014 AICPA speech.

Interview Highlights. Highlights of the Jan. 5 interview include Golden stating that:

- FASB expects to consider in the first quarter, for potential added guidance to ease the shift to the new revenue rules, the topics of licenses, identifying separate performance obligations, and gross-versus-net presentation;
- also on revenue recognition, more research would be carried out on whether to delay the 2017 effective date of the new standards, with the board planning to possibly take up the deferral question at the end of the first quarter or early in the second quarter;
- he expects that FASB will issue, mid-year, long-brewing final standards on financial instruments—in separate statements on classification and measurement and on impairment, which includes prescribing how banks should report loan and other credit losses;
- the board hopes to issue sometime in 2015 a new leases standard, which has proved to be a difficult, and so far, divergent effort with IASB;
- as FASB and IASB have essentially ended their exclusive standards-setting partnership, the U.S. board has been reaching out to other standards setters for multilateral learning; and
- FASB will continue to work with IASB in framing any post-issuance implementation guidance on converged accounting principles, including revenue recognition and leases, but also possibly on business combinations, if the U.S. panel moves toward improvements in that area.

FASB Reaches Out Globally. On the international accounting relations front, Golden spoke in the Jan. 5 interview about continuing to work with IASB—to finish the leases project and in current and future implementation guidance efforts on several topics. He also suggested FASB is forging stronger links to other national standards setters and regional bodies.

''We currently continue to work with IASB on the joint projects,'' Golden said. ''You'll continue to see joint meetings on leases. We'll also work with IASB as it relates to joint implementation'' on converged projects. That includes revenue recognition and short-term work on business combinations aimed at more aligned standards, he said.

Learning From Others' Experiences. ''I think it's also important that we continue to build relationships with other standards setters and that we engage in a dialogue with them about areas that they are working on,'' Golden told Bloomberg BNA.

Those efforts include outreach to and meetings with standards setters in Canada, Japan, South Korea, and China. In that work, FASB is focusing particularly on jurisdictions where U.S. generally accepted accounting principles are the elected accounting rules of the road for foreign companies that might be based in Toronto or Tokyo, for example, and those that don't have to use their local accounting standards.

''I think both FASB and the other standards setters can learn from each other' experiences, and I'm happy to say that over 2014 we built strong relationships with

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

a number of other standards setters to continue in that dialogue,'' Golden said.

New SEC Chief Accountant: Working With FASB. Notable news in 2014 that likely will have repercussions for FASB in 2015, and possibly years after, is the naming by SEC Chairman Mary Jo White of a new chief accountant for the agency, James Schnurr.

After joining the commission staff in October, Schnurr, a former long-time partner at Deloitte & Touche LLP, discussed with Golden and others at FASB topics such as the future of international financial reporting standards, or IFRS, in the U.S. and how to help making companies' transition to the revenue recognition standards as smooth as possible. In a rare alignment of the stars of institutional accounting regulation, Schnurr, Golden, and FASB Vice Chairman James Kroeker all are former partners and were basically contemporaries at Deloitte.

"I think it's also important that we continue to build relationships with other standards setters and that we engage in a dialogue with them about areas that they are working on."

FASB CHAIRMAN RUSSELL GOLDEN

In comments late last year, Schnurr gave his views on the general circumstances in which he believes a deferral of the revenue rules would be warranted, if FASB were to ''revisit some of the wording'' in the standard. He said Nov. 18 that would be ''a reasonable reason'' for the board to delay the effective date (10 APPR 1042, 11/21/14).

Earlier in November, Schnurr declared that ''there's no way'' the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG) was able to handle ''in a timely manner'' the proliferating implementation issues that had surfaced in the group's first two meetings last year (10 APPR 1061, 11/21/14).

Finally, in the biggest news of 2014 produced by the new SEC chief accountant, he suggested in December that U.S. public companies might be allowed to do supplemental financial reporting under IFRS, to complement their U.S. GAAP filings. Staff accountants at the commission are studying that scenario (11 APPR 13, 1/2/15).

Offering an initial reaction to Schnurr's suggested path, FASB's Golden was receptive. He told reporters Dec. 9, 2014 that he ''was very impressed by Jim Schnurr's comments.''

The FASB chairman described the voluntary supplemental reporting as a ''fourth alternative'' regarding the possible future of IFRS in the U.S. The other paths are full adoption of the IASB-written rules—not seen as a likely course, a true option to use either IFRS or U.S. GAAP, and the so-called ''condorsement'' idea—coined by former SEC chief accountant Paul Beswick, Schnurr's predecessor (11 APPR 15, 1/2/15).

The last would be built on FASB and IASB continuing to carve out converged rules together—a challenging prospect, as seen over the last two years—while the U.S. board would play a pivotal role in endorsement of the resultant IFRS by U.S. authorities. Condorsement, similar to the full adoption of IFRS, seems to have faded as a probable—and especially near-term—eventuality with regard to the future of the international standards in the U.S.

Revenue Recognition: Preparing for the Shift. In late May 2014, IASB and FASB issued what rulemakers and at least one regulator called a convergence success story: the all-in-one, converged standard on revenue recognition. That set of rules deals with what many in financial accounting call one of the most important, if not the most important, line in the financial statements. Regulators hope that in the U.S., the new, one-stop-accounting standard on revenue will prevent the kinds of problems in financial reporting that in the recent past were a leading cause of restatements and SEC enforcement actions.

However, the boards, along with regulators and auditors, face the challenge of seeing the aligned rules stay aligned—in other words, trying to insure that the like-worded, like-minded standards are applied consistently.

Golden said in the Jan. 5 interview that the two TRG meetings, to date, have been a success. From the discussions, ''both boards have been able to understand'' some of the implementation challenges facing companies and their auditors.

"There have been other discussions at the TRG where I think we have been able to educate our stakeholders about what was the board's intentions to help resolve potential diversity before companies implement the standards."

FASB CHAIRMAN RUSSELL GOLDEN

''There have been other discussions at the TRG where I think we have been able to educate our stakeholders about what was the board's intentions to help resolve potential diversity before companies implement the standards,'' Golden told Bloomberg BNA.

''At this point there still are a number of issues to be raised to the TRG,'' he said. ''And we've made those publicly available.''

Three Implementation Activities. The FASB chairman noted that he had authorized the board's staff to conduct research on ''three potential, formal standard-setting implementation activities.'' Those pertain to intellectual property, or licenses; gross-versus-net presentation; and ''determining separate performance obligations,'' he said.

''Those topics will be addressed by the board as potential agenda topics in the first quarter,'' Golden said.

In addition, Golden noted that he had cleared the staff's work on ''how the timing of implementation is going'' both for large and small public companies and for private companies. ''As you know,'' he added, ''we've received a fair number of requests to defer the effective date.''

''The point of this research is to understand where companies are in their implementation, to determine if they need additional time or not,'' Golden said. He said he hopes to bring that issue to the board ''in the late first quarter, early second quarter'' of this year.

'Mixed' Feedback on Time Needed. The input on implementation received so far has been ''mixed,'' the FASB chief said. A focus of the preparation for the shift to the rules has been the volume and type of information required for retrospective application of the new standard.

''Some companies believe they will be ready and don't want a deferral,'' he said. ''They believe a deferral could potentially increase their cost.''

''Other companies, however, do believe a deferral is warranted because they need additional time to deal with some of the implementation questions that I talked about earlier,'' Golden continued. He cited that as one reason why he wanted the FASB staff ''to research all of this at the same time.''

The U.S. board would like to understand, for example, whether a company that would like to do retrospective accounting is ''avoiding potential retrospective accounting because of the timing.''

On Implementation, FASB Talking With IASB. In the interview, Golden also noted that throughout the work conducted on the prospects for the revenue reporting rules' implementation, FASB would like to discuss the research and other activities with IASB.

The U.S. board would do that ''to understand if implementation improvements in the U.S. could also be beneficial to the rest of the world,'' he said. The London-based board is ''involved in all of our research and, consistently throughout the project, we'll share information with them,'' said Golden.

Later in the interview, the FASB chairman said that, based on discussions with other accounting standards setters, the U.S. has more implementation questions about revenue reporting under the new rules—''even though it's the same standard applied in the U.S., that would be applied by others as well.''

''And that doesn't surprise me,'' he said. He spoke of FASB and IASB, in their joint rulemaking on revenue, ''coming from two different places.'' The international board had two or three standards pertaining to revenue, while U.S. GAAP had many, many more pieces of industry-specific guidance, Golden suggested.

''So other parts of the world were going from an approach where they had less detailed information'' to a situation in which they had more information, he said. The U.S. ''was going from a situation where it had more detailed standards to one where there is more consistency across business models.''

''I think that's why there's more questions in the U.S. than there is elsewhere,'' Golden said.

Finishing Up the Leases Project. Golden's assessment of the current direction and level of success of the recent work of FASB and IASB on leases seems to encapsulate the U.S. board's scaled-down expectations for joint projects of the boards that have turned out to be fairly tough slogs. The quest for virtually identical wording in standards has been replaced over the last two years with an overall goal of minimizing differences.

Unlike in the revenue recognition effort, which yielded many similarly worded provisions, the project on leases has led to fairly significant divergence—especially in income statement presentation. In comments in December, the SEC chief accountant lamented the boards' lack of accord on policies for reporting lease-related expense.

The quest for virtually identical wording in standards has been replaced over the last two years with an overall goal of minimizing differences.

However, the boards are closer together on the balance sheet treatment of leases, as FASB chairman suggested in the Jan. 5 interview and as noted in a December speech by IASB's vice chairman.

Golden offered reasons for the U.S. panel's collection of lease accounting decisions pertaining to the performance statement. Those tentative decisions—and FASB hasn't shown signs of shifting course—largely leave in place existing U.S. GAAP treatments for lease expense allocation and differ from the IASB's single approach for lessee accounting. The London-based board's model calls for all leases leading to amortization of a right-of-use asset that would be recorded separately from interest on the lease liability.

In mid-December, FASB and IASB agreed on a key issue of scope of the planned standard—on essentially what is a lease. Golden noted Jan. 5 ''we were able to converge on scope,'' and specifically on the definition of a lease, he said (11 APPR 26, 1/2/15).

''I think the definition of a lease is very important to minimize differences that relate to the balance sheet,'' the FASB chairman said. ''We have agreed on the appropriate measurement and to record these as assets and liabilities.''

However, Golden also noted that the boards differ on whether to have what they call ''small-ticket'' leases subject to the new lease accounting model—most important, to have such leases lead to lessees recording liabilities on the balance sheet.

IASB doesn't plan to include small-ticket items in the scope of its planned standard. ''FASB at this point is concerned'' that such treatment ''could, in some industries, allow for material obligations to not be depicted as a liability,'' Golden said Jan. 5.

The FASB chairman also highlighted the boards' different positions on the treatment of leases in the income, or performance, statement. The U.S. panel, he said, advocates an approach that would result in little or no change from today's accounting: there would be two types of leases, with one treated as a financing and the other leading to straight-line expensing.

Golden explained the board's two main reasons for that view. ''First, we don't see a lot of investors adjusting reported performance results,'' he said. ''We do see a lot of investors adjusting reported balance sheet and reported obligation approaches.''

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

"So we think that ours will be beneficial to the U.S. investors," he added, "because it will adjust the balance sheet," providing a more refined measure of assets and liabilities. However, it wouldn't change the income statement, he said.

Citing the second reason, Golden said FASB members believe their proposed approach on income statement treatment of leases would be "substantially less costly to implement, because companies wouldn't have to change their systems as much if you are only changing the balance sheet."

Golden said staff accountants are analyzing what "the ultimate difference in reported information" would be under the FASB and IASB lease accounting approaches. He suggested that the two approaches wouldn't lead to a difference in total net income.

"So it is a difference between the two boards," Golden said of FASB's and IASB's respective income statement accounting paths for leases. However, he added, "it's not as great, I think, as some initially believe when you're talking about a number of companies that have a number of leases and those leases don't all come due at the same time."

IASB Vice-Chairman Ian Mackintosh seemed to take a cup-more-than-half-full view of the boards' differences on lease accounting in his Dec. 9, 2014 speech at the AICPA conference in Washington. "We have not reached agreement on every aspect," he said, "but we are 100 percent converged on the fundamental issue, which is that leases are present obligations that need to be recognized as liabilities on the balance sheet."

For his part, James Schnurr, the SEC chief accountant, signaled disappointment in the boards' discord thus far on the income reporting aspects of leases (11 APPR 26, 1/2/15).

"The two parties have worked on this a long time," Schnurr said Dec. 8, 2014 at the AICPA conference in Washington. "It's just unfortunate that they can't agree on, primarily, income statement treatment of leases, from lease payments."

The SEC chief accountant indicated that he had spoken with accountants at FASB about making further efforts toward reaching accord.

Related to that, Golden said Jan. 5 that "projects evolve over time and we continue to try to encourage each board to try to work through their differences."

"We're still working together" on leases, the FASB chairman said of his board and IASB. "We have plans for joint meetings in 2015."

Footnote disclosure would be on the leases menu, Golden suggested, as would what would be the effective date for the planned standards and "consistent implementation guidance" for applying the aligned definition of a lease.

"We want to talk and see if we can reconcile some of these differences," he said.

Asked if 2015 would be the year that FASB would hope to have a final leases standard completed and issued, Golden responded: "We're moving forward towards that goal."

Financial Instruments: Scaling Back Change. In the Jan. 5 interview, Golden said that the board hopes to publish two final standards on financial instruments "in the middle of this year": one on impairment, which notably includes accounting for loan and other credit losses; the other on classification and measurement of financial instruments.

The long-running, multi-part standard-setting effort on instruments began a decade ago. Since 2005, FASB and IASB pursued the rulemaking jointly. However, as the years passed by—including amid pressure by regulators to converge on impairment after the financial crisis—the boards drifted apart in key areas.

Last July, IASB issued a package of final standards on instruments, which were mostly the product of the joint rulemaking with FASB (10 APPR 693, 8/1/14). Those become effective in January 2018.

One of the main new IFRS on instruments, on classification and measurement, adheres to a plan previously worked out with FASB. Classification is to hinge on cash flow traits of instruments and the business model in which an asset is held.

In March 2014, FASB voted to drop the cash flow characteristics test in its redeliberations of the classification and measurement proposal.

The board hopes to publish two final standards on financial instruments "in the middle of this year": one on impairment, which notably includes accounting for loan and other credit losses; the other on classification and measurement of financial instruments.

FASB CHAIRMAN RUSSELL GOLDEN

Looking back further, in its rulemaking on instruments, the U.S. board retreated significantly from a May 2010 exposure draft on instruments. In the 2010 document, FASB had "proposed a much greater use of fair value measurement for financial assets and liabilities than exists in U.S. GAAP," as noted in a February 2013 edition of "FASB in Focus" published on the release of a "re-exposed" proposal on classification and measurement.

The 2010 proposal contained provisions that would have led to recording loans at fair value. Prospects of that expansion of fair value-based measurement and recognition led to substantial and vocal opposition from bankers.

In the Jan. 5 interview, FASB's Golden commented on the reduced scale of change in the classification and measurement effort.

"Based on the feedback from the 2013 exposure draft," he said, "what we learned was that the improvement to stakeholders for U.S. GAAP was to make targeted improvements. Not substantial changes."

Therefore, he said, the board has been advancing toward "targeted changes." A "value realization model" is the rulemaking guidepost, he suggested, toward improving the accounting for instruments and cutting complexity.

He spotlighted the proposed treatment of equity securities as "one of the most significant changes" in prescriptions for classifying and gauging financial instruments. FASB would generally require that equity securities should be measured at fair value, with changes recognized in net income—"because the only way to realize the value related to an equity security would be to sell it,'' Golden said

On Impairment, FASB Sticking With 'CECL.' In the summer of 2014, Golden and a senior staff accountant signaled FASB's intent to stick with its own model for impairment of loan and other credit losses—one that differs from the approach that is a linchpin of IASB's standard issued last July (10 APPR 828, 9/12/14).

The U.S. board calls its expected losses approach the ''current expected credit loss'' (CECL) model for impairment. IASB faults FASB's approach on impairment for, in the view of the London-based board, leading to excessive up-front recognition of credit losses. However, Golden has defended the CECL model as one that sheds needed light on risks facing banks and is favored by many investors.

At an AICPA conference on banks' accounting on Sept. 9, 2014, the FASB chairman described ''overwhelming support by investors'' for the U.S. board's impairment recipe. His words were offered in response to a question about which ''stakeholders'' supported the FASB approach in light of what the anonymous questioner said was a lack of favor registered by preparers of financial statements and auditors.

Golden suggested that a final standard built on the current expected credit loss model—a departure from current GAAP's linchpin of incurred losses—would yield ''a better depiction of the true risk within your banking book.''

In the Jan. 5 interview, the FASB chairman said that the board hopes to issue the two instruments standards in mid-2015. ''They might go on the same day,'' he said. ''They might go a week apart.''

The board has not set effective dates for the planned standards on instruments. However, based on the January 2017 advent of the May 2014 revenue recognition rules and the IASB's January 2018 effective date for its own new instruments standards, it is unlikely that the forthcoming FASB rules on instruments would be effective before 2018.

That would be almost a full decade after the financial crisis, which spurred the difficult joint standard-setting on instruments by FASB and IASB.

''The global economic crisis of 2008 further highlighted the need to improve the existing accounting model for financial instruments, whose gaps and inconsistencies were exacerbated in an increasingly complex economic environment,'' the U.S. board wrote in the February 2013 ''FASB in Focus.''

By Steve Burkholder

To contact the reporter on this special report: Steve Burkholder in Norwalk, Conn., at sburkholder@bna.com

To contact the editor responsible for this story: Steven Marcy at smarcy@bna.com

Outlook 2015—International Standards

Action on Leases, Insurance Contracts Tops IASB Standards-Setting Agenda

The International Accounting Standard Board will focus on its leases and insurance contracts projects in its 2015 standards-setting work as the board considers the organization's direction beyond the coming year, IASB Chairman Hans Hoogervorst told Bloomberg BNA Jan. 8.

Along with working to hammer out new standards, IASB in 2015 will develop its next agenda consultation, which he said could lead to greater emphasis on maintaining international financial reporting standards and making sure they are applied consistently.

''For the time being we still have plenty of groundbreaking and contentious work on our plate,'' Hoogervorst said in an e-mail response to questions.

Work on Leases. IASB will continue its five-year effort in partnership with the U.S. Financial Accounting Standards Board to draft a standard on leases—the last of the two boards' convergence projects—with the goal of publishing a final leases standard in 2015.

The IASB and the FASB tentatively agreed in December 2014 on the critical issue of how to define a lease (11 APPR 26, 1/2/15). The two boards remain split, however, over how to allocate lease-related expenses. To reach further consensus, the two boards have proposed a shared solution for recognizing lease-related assets and liabilities on balance sheets.

They have scheduled a joint video conference during IASB's monthly meeting in London Jan. 20-22 to further deliberate on the leases project, with the objective of minimizing differences between IFRS and U.S. Generally Accepted Accounting Principles.

"As a result of this improvement in accounting, investors will get a much more realistic picture of the true leverage of a company."

IASB Chairman Hans Hoogervorst

Among the topics still to be discussed are lessee disclosures and cost-benefit analysis, according to a Deloitte analysis.

Hoogervorst expressed confidence that the final standard would mark an improvement on current practice, chiefly because a lessee will be required to recognize in principle all assets and liabilities arising from leases.

''The model reflects that, at the start of a lease, the lessee obtains a right to use an asset for a period of time, and the lessor has provided or delivered that right,'' he said.

Currently, he noted, many leases are not reported on a lessee's balance sheet.

''As a result of this improvement in accounting, investors will get a much more realistic picture of the true leverage of a company,'' Hoogervorst said.

Insurance Contracts. IASB will continue its work in 2015 on another thorny topic, insurance contracts.

The project began as a joint initiative in 2008 with the FASB to address recognition, measurement, presentation and disclosure requirements for insurance contracts, but the FASB abandoned its convergence work with IASB in 2013 (09 APPR 473, 6/7/13).

IASB released an exposure draft (ED) on insurance contracts in 2010 and a revised ED in 2013—ED/2013/7—which forms the basis for current deliberations.

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

IFRS at present lacks a comprehensive standard that addresses accounting for insurance contracts. IASB published IFRS 4 in 2004, but this is only an interim standard that the board said permits a wide array of practices.

''This means that companies account for insurance contracts using different accounting models that evolved in each jurisdiction according to the products and regulations prevalent in that jurisdiction,'' according to the 2013 ED, producing significant differences in the approaches that companies use to account for insurance contracts.

In particular, IASB continues to discuss the accounting model for contracts with participating features, ''which is one of the most difficult issues on which the IASB has sought feedback,'' Hoogervorst said.

Contracts with participating features provide policyholders with the right to participate in the favorable performance of a specified class of contracts, related assets, or both.

The board is working with a panel of chief financial officers from European insurance companies, known as the European Insurance CFO Forum, on the insurance contracts project, for which the forum had drafted a paper discussed in a November 2013 IASB education session.

The paper sets out the forum's plan—dubbed the alternative proposal—in accounting for contracts with participating features.

The alternative proposal calls for using consistent accounting treatment for economically similar products and for establishing provisions that reflect ''the hybrid nature of the interconnection between the value to the customer and the reward to the insurer,'' a Deloitte assessment noted.

IASB made no decisions at the session, but the alternative proposal sparked what the Deloitte review called an ''extensive and lively debate'' over what shape the insurance contracts standard should take.

IASB in October 2014 reached tentative decisions on initially applying the forthcoming IFRS to insurance contracts with no participating features (10 APPR 906, 10/10/14).

These decisions included reaffirming the 2013 ED's conclusion that the new standard should be applied retrospectively in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors, unless this proves impractical.

The board expects to wrap up its deliberations on insurance contracts in the coming months and to issue a final standard by the end of the year.

Conceptual Framework. Along with forging new standards on leases and insurance contracts, IASB in 2015 plans to continue work on two broad projects covering accounting policy: the conceptual framework (10 APPR 991, 11/7/14) and the disclosure initiative.

IASB will devote ''considerable resources'' to both projects, Hoogervorst said.

In revising its existing conceptual framework, which serves as a foundation for IASB in developing and revamping standards by describing the basic concepts that underpin financial statement preparation, IASB plans to build on its existing framework rather than reassessing all of the framework's aspects.

The board has concluded its deliberations on the framework, and Hoogervorst said the IASB expects to publish the conceptual framework ED in the first quarter of 2015.

A 150-day comment period will follow, and the board expects to receive most of the ED feedback by July 2015. A final revised conceptual framework might be issued in 2016.

Hoogervorst said that the ED would include a section that addresses financial performance, including a discussion of the recognition of items of income or expense in a profit or loss statement. Other comprehensive income (OCI) also will be addressed.

''We will create more clarity on the meaning of profit or loss and the use of OCI.''

IASB CHAIRMAN HANS HOOGERVORST

''We will create more clarity on the meaning of profit or loss and the use of OCI,'' he said.

Disclosure Initiative. The IASB's disclosure initiative is designed ''to improve the effectiveness of disclosures by stimulating preparers to use more judgment in their decisions on disclosures,'' Hoogervorst said.

The initiative, which will complement the conceptual framework, comprises several smaller projects that will explore how presentation and disclosure principles and requirements in IASB standards can be improved.

As part of the initiative, IASB in December 2014 issued narrow-scope amendments to IAS 1: Presentation of Financial Statements, which are intended to give preparers more leeway to exercise judgment (11 APPR 34, 1/2/15).

The amendments take effect for annual periods beginning on or after Jan. 1, 2016. Earlier application is permitted, and application of the amendments need not be disclosed.

''The cornerstone of the Disclosure Initiative is the Principles of Disclosure project, whose objective is to improve disclosures in financial statements by identifying and developing a set of principles for disclosure in IFRS,'' Hoogervorst said.

A discussion paper on the disclosure initiative is slated for release this year.

Research Agenda. IASB also has a full research agenda in place for 2015, Hoogervorst said. High-priority projects include:

- rate-regulated activities;
- financial instruments with characteristics of equity;
- the equity method of accounting;
- business combinations under common control; and
- accounting for dynamic risk management: approach to macro hedging.

Work With Other Groups. IASB this year plans to carry on its current work with other organizations and with the European Union.

This will include seeking advice from national and regional accounting standard-setting groups on the best way to draft international standards ''in such a way that they can be applied in a diverse range of economic environments,'' IASB Vice-President Ian Mackintosh said in a November 2014 speech at an Ernst & Young event in London.

IASB also plans to build on its formal working arrangements with the International Organization of Securities Commissions and with the European Securities and Markets Authority to strengthen IFRS implementation and to ''collaborate more closely in the development of standards where consistent implementation may prove challenging,'' Mackintosh said.

Further, IASB stands ready to assist the EU in creating a European Capital Markets Union, Hoogervorst said in his reply to questions.

EU policy-makers have set the goal of establishing a Capital Markets Union by 2019 to develop and integrate capital markets, to cut costs for raising capital and to reduce the EU's dependence on bank financing.

Hoogervorst told members of a European Parliament committee in December 2014 that ''the existence and use of a set of high quality accounting standards such as IFRS is absolutely crucial to making this ambition come true.'' (10 APPR 1108, 12/5/14).

Setting Future Directions. Both the IFRS Foundation, the IASB's parent group, and the IASB will conduct exercises in 2015 aimed at charting the organizations' directions for the coming years.

The foundation this year will undertake its fifth review of its structure and effectiveness, although the subjects to be considered have yet to be established.

''There are some topics that the trustees have signaled their intention to consult on, such as the optimum size of the IASB,'' Hoogervorst said.

The IASB can have up to 16 members, but as the board has gained greater feedback from sources such as the foundation's Accounting Standards Advisory Forum (ASAF), ''the question is whether these innovations mean that a smaller, more focused IASB would be appropriate,'' foundation Chairman Michel Prada told participants at an international seminar in November 2014.

A closer relationship between the foundation and its monitoring board, which provides a formal link between the foundation and public authorities, also might be on the table, Hoogervorst said.

Foundation trustees will discuss which topics to emphasize in the review at their 2015 meetings, with a public consultation scheduled for later this year.

The foundation is assessing ASAF operations as well, as it does every two years. It issued a questionnaire in November 2014 to garner views from those in the accounting standard-setting profession who are not ASAF members.

The response window for the questionnaire closed on Jan. 9, and the foundation expects to publish a feedback statement detailing the survey's findings by mid-2015.

Agenda Consultation. As these reviews move forward, IASB will launch an agenda consultation in 2015 that could have a major impact on the board's activities in 2016 and beyond.

Mackintosh hinted at the new tack the IASB might take following the consultation in his November 2014 speech.

Companies in Europe and elsewhere have undergone nearly a decade of frequent changes in financial reporting, Mackintosh pointed out. ''For companies here in Europe, the upheaval of making the transition to IFRS is well behind you, and the major convergence projects of the last decade are now largely complete,'' he said.

''We could see more stability in our standards: more targeted improvements, less wholesale change.''

IASB VICE-PRESIDENT IAN MACKINTOSH

IASB could continue developing standards at a breakneck pace, as it has for the past 10 years, or it could enter a period of relative calm.

''We could see more stability in our standards: more targeted improvements, less wholesale change,'' Mackintosh said.

Regardless of whether a period of calm sets in, he said, IASB will place a high priority on fostering consistent implementation among IFRS users.

Mackintosh highlighted the work of the IASB's Emerging Economies Group, which tackles the challenges of applying IFRS in countries without deep and liquid capital markets, and its Islamic Finance consultative group, which addresses IFRS application in Shariah-compliant transactions.

''These are just some of the ways by which we ensure that IFRS are capable of being applied on a consistent basis,'' Mackintosh said.

Hoogervorst echoed this view, saying that though the topics of the agenda consultation are still be to determined, ''it may be that one outcome of that will be a greater focus on the maintenance and consistent application of IFRS.''

One certainty will be that the IASB's efforts to promote IFRS globally will carry on into 2016 and beyond.

Recent board research shows that 114 countries of 138 countries surveyed require IFRS use for all or most publicly listed companies—80 percent of the countries researched (10 APPR 920, 10/10/14).

An additional 12 jurisdictions, including India and Japan, permit but don't require IFRS use.

The board, Hoogervorst said, will ''continue to work on the adoption of IFRS, consistent with the IASB's mission to develop a single set of high quality, understandable, enforceable and globally accepted IFRS.''

BY DAVID R. JONES

To contact the reporter on this story: David R. Jones in London at correspondents@bna.com

To contact the editor responsible for this story: Steven Marcy at smarcy@bna.com

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

Outlook 2015—Governmental Accounting

GASB's Vaudt Cites Investment Pools, OPEB, Financial Reporting Model as 2015 Priorities

The Governmental Accounting Standards Board has accelerated a project that will address accounting concerns arising from the Securities and Exchange Commission's regulatory changes for 2a-7 type investment pools, which function like money market funds in the private sector, GASB Chairman David Vaudt told Bloomberg BNA Jan. 6.

GASB will issue a public comment exposure document in the second quarter of 2015 on external investment pools, and a final standard in the fourth quarter of 2015, Vaudt said in an interview with Bloomberg BNA on the board's outlook for the new year (*please see related interview*).

In July 2014, the SEC issued Release No. 33-9616, Money Market Fund Reform, Amendments to Form PF, which is expected to lower the possibility of investors redeeming money market funds during a market crisis. The new rules will take effect October 2016.

As a result of the SEC's changes, governmental entities that have state-managed funds that handle short-term investments and cash awards will have to change their reporting, practitioners have said.

In the interview, Vaudt commented on why state and local governments are concerned about the regulation.

He also highlighted other top priorities for GASB, including forthcoming rules for other post-employment benefits (OPEB) and potential revisions to the financial reporting model under Statement No. 34, Basic Financial Statements—and Management Discussion and Analysis for State and Local Governments.

Moreover, he stressed the importance of developing high quality standards and broadening the board's outreach. ''One of the things I'm focused on is making sure that we broaden that outreach, trying to get to users of all types—elected officials and others—so that we get their input on what they're trying to do; what their issues are and how we can help them,'' said Vaudt. ''So stakeholder input in always welcomed and encouraged,'' he said.

BY DENISE LUGO

To contact the reporter on this story: Denise Lugo in New York at dlugo@bna.com

To contact the editor responsible for this story: Steven Marcy at smarcy@bna.com

Outlook 2015—Private Company Reporting

Private Companies Face Conundrums About Applying PCC's GAAP Alternatives

Although private companies have enthusiastically welcomed the new financial reporting alternatives issued by the Financial Accounting Standards Board and the Private Company Council, practitioners say companies have to think long and hard about whether adopting them will prove beneficial.

Private companies that make frequent acquisitions or plan on issuing an initial public offerings (IPOs) shouldn't apply GAAP modifications because the effort would prove more costly in the long run, Mark Zyla, Managing Director of Acuitas Inc., an Atlanta-based valuation and litigation consulting firm, told Bloomberg BNA Jan. 7.

''Because once a private company makes an election for the private company alternatives, if they ever decide to go public, they'll have to go back and restate their financial statements as if they hadn't made the election,'' he said.

''Because once a private company makes an election for the private company alternatives, if they ever decide to go public, they'll have to go back and restate their financial statements as if they hadn't made the election.''

MARK ZYLA, ACUITAS INC.

For example, if a private equity-backed company and the private equity firm thinks it will eventually take it public, the entities wouldn't likely choose the private-company election because of the cost and complexity of redoing everything, said Zyla.

Still, there's benefit for smaller private companies that aren't going public or making acquisitions, but which are seeking simpler accounting guidance, practitioners said. ''Initially, they've been very well received; they are simpler,'' Peter Bible, chief risk office at EisnerAmper told Bloomberg BNA Jan. 2. ''The accounting world got a lot more complicated when fair value was introduced, and where that really resided is with smaller companies.''

There are about 28 million small private companies in the U.S., according to a 2012 report published by the American Institute of CPAs.

Devil in the Fair Value Details. The decision to provide U.S. GAAP alternatives for private companies grew from concerns raised by preparers and users of financial statements about the cost and complexity of preparing private company financial statements, compared with the requirements for public companies.

Private company preparers said that some of the requirements for fair value measurements didn't make sense for the users of their financial statements. They also said the requirements were costly and complex.

The PCC was therefore established by the Financial Accounting Foundation in 2012 to work jointly with the FASB to develop cost effective financial reporting simplifications for private companies (08 APPR 451, 5/25/12).

The PCC also advises FASB on the appropriate treatment for private companies for items under active consideration on the FASB's technical agenda.

''To date, they have focused on the right topics for this constituency, and we appreciate their continued outreach to determine other priority topics,'' Dan Noll, AICPA's director of accounting standards, told Bloomberg BNA in a Jan. 6 e-mail.

In 2014, FASB endorsed and issued the following four new accounting standards updates, which were developed by the PCC:

- Identifiable Intangible Assets in a Business Combination, issued Dec. 23;
- Accounting for Goodwill, issued Jan. 16;
- Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach, issued Jan. 16; and
- Variable Interest Entity Guidance to Common Control Leasing Arrangements, issued in March.

Weighing Cost Savings. The GAAP alternatives for intangibles in a business combination and testing goodwill for impairment have generated the most interest from private companies that seek relief from costs and complexity, practitioners said.

For private companies that elect to adopt the accounting for goodwill, they will be able to both amortize goodwill and apply the simplified impairment test for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Earlier application is allowed.

But a company must weigh the impact of applying the standard on its key financial metrics, and the potential cost of unwinding the accounting and reapplying the existing goodwill accounting standard in its reporting requirements change if it no longer meets the definition of a private company, according to a 2014 PricewaterhouseCoopers report.

The rules on identifiable intangible assets in a business combination were issued to provide cost savings by eliminating the requirement for private companies to measure customer relationships and noncompetition agreements at fair value.

Any company that elects this alternative is also required to adopt the alternative accounting on goodwill. Once elected, the guidance must be applied to all future business combinations occurring in the first annual period beginning after Dec. 15, 2015, according to Deloitte's IASPlus analysis in December 2014.

The cost saving that companies think they would gain might not necessarily emerge, said Zyla. ''Or there may be some but not a great amount of cost savings, because they'll still have to measure things like technology, domain names—other intangible assets that they've acquired, still have to be measured at fair value,'' he said.

Simplification Extended to Public Companies? Nevertheless, practitioners said they welcomed the move toward simplification for private companies and said they would like some of it extended to public companies as well. ''I hope that some of what they're doing with the PCC's work on GAAP alternatives will find its way into public companies, too, but then you have the regulator you have to deal with, too,'' said Bible.

Indeed, there's no doubt that some upcoming private company simplifications would be welcomed for public companies. For example, FASB's current work to allow private companies to use the simplified method to estimate the expected term of stock option awards with service conditions and those with probable performance conditions would be well received. An accounting standard update is expected to be issued early this year.

The guidance will be a welcomed relief, practitioners said, because private companies often lack the necessary historical data to derive an expected term from history, and therefore need to use a non-data-driven—or a short-cut—approach, such as the Securities and Exchange Commission's ''Simplified Method.''

The prior limitation of this method to awards with only service conditions left private companies caught between a rock and a hard place when issuing stock options with performance conditions, Takis Makridis, President & CEO of Equity Method, told Bloomberg BNA Jan. 9.

''I hope that some of what they're doing with the PCC's work on GAAP alternatives will find its way into public companies, too, but then you have the regulator you have to deal with.''

Peter Bible
EisnerAmper

''On the one hand, they still needed a short-cut approach for estimating expected term, but the only one available was off limits due to the presence of a performance condition in the award terms,'' he said.

An interesting point, said Makridis, is that the guidance doesn't pertain to public companies. ''Public companies can face very similar situations, and the scope limitation to private companies suggests that public companies may still be expected to perform finer analyses in developing expected term estimates,'' he said.

PCC Currently Working on Two Projects. More from the PCC is in the queue for private companies in 2015 as the council approaches its three-year term, and thus is under review by the Trustees of the FAF.

As part of its goals for 2015, the PCC plans to continue in its advisory capacity on the FASB's current projects, Daryl Buck, FASB member and PCC liaison, told Bloomberg BNA Jan. 5.

In addition, the PCC has two projects on its own agenda, said Buck: phase two of the definition of a public business entity and partnership accounting related to accounting for nonmonetary assets contributed by a partner.

By Denise Lugo

To contact the reporter on this story: Denise Lugo in New York., at dlugo@bna.com

To contact the editor responsible for this story: Steven Marcy at smarcy@bna.com

Outlook 2015—PCAOB

Integrating Conflicting Auditing Standards Will Be PCAOB's Challenge in 2015

Accounting and auditing professionals can expect a lot of standard-setting activity from the Public Company Accounting Oversight Board in the first half of 2015.

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

First up will be:

- a reproposal of the first part of the auditor's reporting model, with the companion release of the ''other information'' standard shortly afterwards;
- a supplemental request for comments on the naming of the engagement partner;
- a proposal about supervising other auditors and multi-location audit engagements; and
- consultation papers regarding the use of specialists and going concern.

January 2015 to June 2015 Projects. The consultation papers, estimated for first quarter release, will include going concern assessments and use of specialists. Resolving the conflicting auditing standards in the areas of going concern, third parties, and specialists is the first of the year's challenges facing the PCAOB.

This determination will affect the fourth quarter accounting estimates and fair values project. The Office of Chief Auditor's (OCA) standard-setting agenda says ''the role of specialists continues to take on greater significance in audits due to the increased number of accounting estimates, including fair value measurements, in financial statements.''

The long-promised release of the audit quality indicator project has been demoted from the first quarter to the second quarter. A framework for reorganization of the PCAOB auditing standards into one comprehensive system—with a single, integrated numbering system, (09 APPR 532, 6/21/13)—is also on the schedule for adoption in the first half of 2015.

In 2015 the inspections staff will be ramping up inspections in the areas of multi-national, multi-location audits and expanding into other areas identified as high risk (11 APPR 24, 1/2/15).

OCA's Standard-Setting Agenda. The PCAOB's Office of Chief Auditor released Jan. 9 an updated Standard-Setting Agenda for 2015.

Plans for the first half of 2015 include:

- improving transparency through disclosure of engagement partner and certain other participants in audit—OCA plans to issue a supplemental request for comment;
- auditor's reporting model—OCA plans to issue a reproposal;
- supervision of other auditors and multi-location audit engagements—OCA plans to issue a proposal;
- use of specialists—OCA plans to issue a staff consultation paper;
- framework for reorganization of PCAOB auditing standards—OCA plans to adopt;
- going concern—OCA plans to issue staff consultation paper.

Auditor's Reporting Model The auditor's reporting model will be completed in two parts, according to statements made in 2014 by chief auditor Martin Baumann.

In November and December 2014, Baumann said he planned to issue a reproposal early in 2015 on the first part of the auditor's reporting model, which deals with requiring auditors to comment on the most complex, difficult matters ''that kept them up at night'' (10 APPR 621, 7/4/14).

Narrow Category of Critical Audit Matters. In a Jan. 9, 2015 interview with Bloomberg BNA—after making a disclaimer that any opinions expressed throughout the interview were personal and not to be attributed to the PCAOB—Baumann clarified that his reproposal will likely ''narrow the critical audit matters to those matters communicated only to the audit committee or those matters that were required to have been communicated to the audit committee and to those items that are material to the financial statements.''

The first part of the auditor's reporting model reproposal will likely "narrow the critical audit matters to those matters communicated only to the audit committee or those matters that were required to have been communicated to the audit committee and to those items that are material to the financial statements."

MARTIN BAUMANN, PCAOB CHIEF AUDITOR

During the interview, he said that he hoped this reproposal would alleviate the concerns raised by auditors that they would be required under the new model, to discuss things that were not raised in the financial statements.

He had said Dec. 10, 2014, at the American Institute of CPA's conference, that, in his view, ''if the particular contingency is not in the financial statements, then it is not likely to be a critical audit matter.''

Compliance With EU, U.K. by 2016. Baumann reiterated at different speaking engagements that the PCAOB's goal is to bring the U.S. auditor's reporting model into alignment with the EU (11 APPR 50, 1/2/15) and the U.K. standards by 2016.

He said that any difference in the language of the various standards, ''critical'' versus ''key,'' was not relevant. ''The language is different but the bottom line is the same,'' said Baumann Dec. 9, 2014. The various standards have the same effect of bringing some ''sunshine'' for investors into the ''black box'' of the audit, he said.

According to the standard-setting agenda, the reporting model reproposal will consider the ''addition of new elements to the auditor's report related to auditor independence, auditor tenure, and the auditor's responsibilities for fraud and notes to the financial statements''—all issues that sparked considerable controversy since the model was released (9 APPR 695, 8/16/13), (10 APPR 117, 1/31/14).

Other Information Standard. Baumann told the PCAOB's Standing Advisory Group meeting Nov. 20, 2014 (9 APPR 1010, 11/22/13), that the ''companion other information'' aspect of the model, which requires auditors to provide their evaluation of ''other information'' in a company's annual report filed with the SEC, is more ''technical'' and will probably take longer to resolve the issues that the model raised (10 APPR 352, 4/11/14).

The existing standard—AU 550—requires auditors only to ''read and consider'' other information, while the reworked proposed model standard expands the auditor's responsibilities and accountability by:

- requiring the auditor to evaluate the other information for a material misstatement of fact as well as for a material inconsistency with amounts or information, or the manner of their presentation, in the audited financial statements; and
- requiring communication in the auditor's report regarding the auditor's responsibilities for, and the results of, the auditor's evaluation of the other information.

In the Jan. 9, 2015 Bloomberg BNA interview, Baumann confirmed that the issues will take more time to resolve, but said the PCAOB ''hasn't dropped the project.''

Transparency, Identifying Engagement Partner. Another high priority for the first half of 2015 is the project, ''Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits.''

This project was originally proposed Dec. 4, 2013 (10 APPR 381, 4/25/14).

The agenda paper says that the ''staff is drafting for the board's consideration a supplemental request for comment that takes into account comments received on the reproposal, including comments relating to liability and an alternative location for the disclosure.''

Speaking at the AICPA conference Dec. 10, 2014, Baumann told attendees to expect a ''compromise'' from the PCAOB in 2015 regarding its proposal to improve transparency through disclosure, in a separate form, of the engagement partner.

Supervision of Other Auditors, Multi- Locations. The fourth item on the standard-setting agenda is a proposal to address supervision of other auditors and multi-location audit engagements.

The OCA's standard-setting agenda states it is drafting a proposal to improve the various auditing standards that ''govern the planning, supervision, and performance of audits involving other auditors and multi-location audit engagements.''

''Observations from the Board's oversight activities illustrate the need for improvement in audit procedures performed by the lead auditor with respect to the work performed by other auditors,'' says the agenda.

According to the standard-setting agenda, the ''increasingly global operations of companies'' means that the ''lead auditor often involves other auditors at various locations of the company in areas of high risk of material misstatement in the financial statements.''

Consultation Papers, Going Concern. Describing them as ''critical'' issues, PCAOB Chairman James Doty said to expect going concern and use of specialists consultation papers to be issued in the first quarter of 2015 (11 APPR 43, 1/2/15).

Both Doty and Baumann have stressed the importance of resolving the different auditing standards on going concern as well as the different thresholds in standards between international financial reporting standards and U.S. generally accepted accounting principles.

“Observations from the Board’s oversight activities illustrate the need for improvement in audit procedures performed by the lead auditor with respect to the work performed by other auditors.”

OCA's Standard-Setting Agenda

On Aug. 27, 2014, the Financial Accounting Standards Board issued Accounting Standards Update 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 ASU places the burden of ''going concern'' assessment and disclosures firmly on the management, rather than on the auditor as traditionally required by AU 341, which Baumann said was drafted after the savings and loan crisis of 1980's. AU 341 requires the auditor to modify the auditor's report by including an explanatory paragraph when substantial doubt exists about the company's ability to continue as a going concern.

Baumann said the question the board needs to resolve is whether AU 341's ''early warning system'' is still sufficient.

FASB's ASU 2014-15 says management should report when going concern doubts raise to the level of ''substantial doubt'' and evaluate for each annual and interim reporting period whether it is probable that the entity will not be able to meet its obligations as they become due within one year after the date that financial statements are issued (10 APPR 785, 8/29/14).

On Sept. 22, 2014, the PCAOB staff issued Staff Audit Practice Alert No. 13 to remind auditors to continue to follow existing auditing standards on going concern, which currently include:

- AU Sec. 341;
- Section 10 A(a)(3) of the Securities and Exchange Act of 1934, which requires ''an evaluation of whether there is substantial doubt about the ability of the issuer to continue as a going concern during the ensuing fiscal year'';
- FASB's ASU No. 2014-15; and
- Auditing Standard No. 14, which asks the auditor to assess whether the financial statements are presented fairly, in all material respects, as required by the applicable financial reporting framework.

Unlike FASB, International Accounting Standard 1 requires management to look ahead in its ''going concern'' evaluation for at least a year but doesn't stop at a year ((10 APPR 882, 9/26/14)(10 APPR 882, 9/26/14), while requiring management to consider ''all available information about the future.''

Specialists, Third Parties Consultation Papers. Doty—speaking at a D.C. Bar section meeting Nov. 5, 2014—said that the consultation paper on the auditor's use and supervision of specialists and third parties, also slated for release early in 2015, will attempt to resolve the

 Copyright © 2015 by Tax Management Inc. ISSN 1558-6642

problems caused by conflicting auditing standards such as:

- AU 336—Using the Work of a Specialist;
- AU 543—Part of Audit Performed by Other Independent Auditors; and
- AS 9—Audit Planning.

The standard-setting agenda states that ''the role of specialists continues to take on greater significance in audits due to the increased number of accounting estimates, including fair value measurements, in financial statements because companies are increasingly using the work of specialists in high risk areas of the financial statements.''

Baumann told Bloomberg BNA that the PCAOB will try to ''rationalize differences between AS 9 and AU 336.''

Issues Doty raised Nov. 5, 2014, that will probably surface in the consultation paper in the initial effort to address the conflicting auditing standards will include:

- whether the requirements should be different if the specialist is hired by the auditor or hired by management;
- whether auditors oversight of employee specialists should be different from their oversight of auditor's third party engagements;
- how should an auditor who, is not a financial analyst, supervise a financial analyst; and
- how should the lead U.S. audit firm supervise the work of foreign audit firms.

Accounting Estimates, Fair Values. Doty said Nov. 5 that ''some would say it is the most difficult problem facing the auditor right now.'' He was referring to the accounting estimates and fair value project.

The PCAOB issued a staff consultation paper on Aug. 19, 2014 (10 APPR 796, 8/29/14).

In Baumann's Dec. 9, 2014, summary of the comments received on its ''Fair Value Measurements and Accounting Estimates'' staff consultation paper (10 APPR 914, 10/10/14), he said that some comments suggested:

- because measurement uncertainty is such a complicated area, the PCAOB should work with other standards setters;
- that the projects on accounting estimates and fair value and use of third parties and specialists should happen contemporaneously; and
- concerns about what an auditor should do when measurement uncertainty is wider than materiality.

According to the OCA standard-setting agenda, ''the staff anticipates recommending that the Board propose a standard and related amendments on auditing accounting estimates, including fair value measurements and related disclosures, for public comment in the fourth quarter of 2015.''

Quality Control Standards, Supervisory Responsibilities. A project to produce a staff consultation paper in the second half of 2015 on quality control and audit firm responsibilities is to be based on deficiencies identified by PCAOB inspectors, ''which suggest that improvements are needed in firms' systems of quality control,'' according to the OCA standard-setting agenda.

This project combines the work done to date on the audit quality indicators initiatives and root cause analysis (10 APPR 394, 4/25/14).

Greg Jonas, PCAOB's Office of Research and Analysis director in charge of the audit quality indicators project, said that the AQI concept paper was initially scheduled for release early in 2014, but in the course of their research, the PCAOB ''perceived that the notion of AQIs was gathering momentum around the world.'' That prompted a need for more study, he said.

The extra year' s research means that the list of AQIs have been narrowed from around 30 to around 10 to 15 AQIs (11 APPR 48, 1/2/15), he said Dec. 10, 2014, at the AICPA conference.

Jonas told the AICPA conference that the concept release will focus on the most sensitive or controversial AQIs, which include:

- measures related to a firm's incentives system;
- anonymous surveys about examples and tone set by a firm's management;
- whether a firm distinguishes audit partners based on audit quality;
- reporting of going concern issues; and
- percentage and nature of the firm's work that is outsourced.

Inspection Findings: Risk Areas for 2015. The PCAOB inspections team will intensify its efforts in the area of multiple-national, multiple-firm audits in 2015, known as ''referred work,'' according to Helen Munter, PCAOB's director of registrations and inspections.

Inspection reports will aim to be more timely, and will include more context and expand into riskier areas of focus for 2015 that Munter identified at the AICPA conference (11 APPR 24, 1/2/15).

She said that because PCAOB inspectors identified in 2013 significant audit deficiencies in more than a third of the multi-nationals' multiple firms audits done in the U.S. and abroad, more attention will be focused on multi-firm audits.

While financial statement areas related to internal control still have the highest number of audit deficiencies, (11 APPR 24, 1/2/15), there are new risk areas for 2015, Munter said.

Munter said inspections staff will be paying more attention to:

- merger and acquisition activity—high cash levels, low interest rates, and shareholder pressure for growth have stimulated M&A activity;
- income taxes—U.S. companies' profiting from undistributed earnings and cash held overseas in lower tax jurisdictions;
- investment returns— inspections will be focused on whether auditors are attuned to risks in investment portfolios and hard-to-value securities;
- whether firms are keeping pace with technology advances—inspections staff will be looking at what controls firms have to ensure that the software used to test the data works;
- cybersecurity risks—how are engagement teams evaluating them;
- whether auditors are considering the effect, negative or positive, of falling oil prices on their clients;
- broker-dealer standards, with emphasis on independence; and
- statement of cash flows, including the identification of significant transactions.

International Audit Inspections. Doty, speaking to PCAOB's Standing Advisory Group meeting, said that he believed that the PCAOB had reached an ''eye to eye view with China'' after years of being in a ''difficult and frustrating place'' regarding audit inspections (10 APPR 1036, 11/21/14).

The Securities and Exchange Commission believes it is within a few months of an agreement that would resolve the standoff between the U.S. regulators and the Chinese affiliates of the four largest accounting firms (11 APPR 44, 1/2/15) over access to audit documents belonging to the firms' clients.

The PCAOB will continue in 2015 to work closely with the International Forum of Independent Audit Regulators to gain more international access (10 APPR 257, 3/14/14).

Other 2015 Plans. Doty in a statement Nov. 25, 2014, accompanying the PCAOB's budget and strategic plan (10 APPR 1117, 12/5/14) said that the board's budget will allow it to:

- deepen the PCAOB's use of data in information technology and economic analysis;
- expand the interim broker-dealer inspection program;
- establish a permanent broker-dealer inspection program;
- continue to apply economic analysis to standards setting;
- spur economic research on the role of auditing in capital markets and capital formation;
- use economic tools to develop a program to conduct post-implementation review of standards; and
- study auditor incentives in the area of fraud detection.

By Laura Tieger Salisbury

To contact the reporter on this story: Laura Tieger Salisbury in Washington at lsalisbury@bna.com

To contact the editor responsible for this story: Steven Marcy at smarcy@bna.com

☐ *The PCAOB's Standard-Setting Agenda is at http://pcaobus.org/Standards/Documents/201412_Standard_Setting_Agenda.pdf.*

Outlook 2015—Management Commentary

Continuing a Trend, MD&A Disclosures Will Be a Major Focus of SEC Staff in 2015

The adequacy of disclosures in the management discussion and analysis (MD&A) section of financial reports will once again be a major concern to the staff of the Securities and Exchange Commission in 2015, accounting practitioners and legal experts say.

It will be a trend that continues from the past several years (10 APPR 110, 1/31/14).

Former SEC Director of Corporation Finance Chief Accountant and current PricewaterhouseCoopers partner Wayne Carnall told a Dec. 2 PwC webcast that MD&A is rapidly becoming the most important part of the financial statement for investors (10 APPR 1125, 12/5/14).

Deloitte in a Nov. 20, 2014, overview of SEC comment letter trends also concluded that the recent interest placed on MD&A would continue into 2015.

''The staff continues to indicate that MD&A is the leading source of comments and that well over half of all MD&A-related comments are about the results of operations sections.''

Deloitte report

''The staff continues to indicate that MD&A is the leading source of comments and that well over half of all MD&A-related comments are about the results of operations sections,'' Deloitte said in SEC Comment Letters—Including Industry Insights: A Recap of Recent Trends.

''Consequently, the SEC staff's comments have addressed most topics of MD&A, but have continued to focus on greater transparency in registrants' disclosures about (1) material trends and uncertainties that affect results of operations (2) liquidity and resources, (3) estimates in critical accounting policies, and (4) obligations subject to uncertainties.''

The Deloitte report noted that the SEC staff continues to say that filers should include an overview section that discusses the key factors affecting overall business operations and liquidity.

Deloitte said management also should disclose the past record of accuracy in its estimations and the degree to which of its assumptions about performance or likely asset or debt impairment have changed.

BoA Settlement Triggers Concern. The shortcomings that the SEC alleged in Bank of America's MD&A disclosures about the bank's possible liability to repurchase mortgage loans in a $2 trillion portfolio it accumulated from 2004 to 2008 because of loan quality deterioration has caught the attention of the accounting and legal professionals.

Many practitioners expect a tougher stance from the SEC—especially towards the financial institutions sector—based on its settlement with BoA announced Aug. 21, 2014. In that agreement, the SEC extracted an acknowledgement from BoA that it had failed to make ''required disclosures'' in its MD&A about factors that could degrade financial performance.

The SEC said BoA violated Regulation S-K Item 303, which requires a company to disclose in MD&A ''any known trends or uncertainties that have had or that the registrant reasonably expects will have a material'' and ''unfavorable impact on net sales or revenues or income from continuing operations.''

The BoA settlement and SEC enforcement division commentary in 2014 indicated that the division is renewing its focus on financial disclosures that ''are timely reminders for banking organizations to review and reinvigorate the disclosure controls and procedures underpinning the preparation of MD&A, including by employing a clean slate approach,'' Debevoise & Plimpton LLP wrote in an Oct. 10, 2014, ''Client Update'' on 2015 issues for the banking sector.

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

''Each business unit should be required to identify and report the factors that affect their business units to senior management, who should in turn substantively review and provide input on MD&A based on their understanding of broader trends and uncertainties,'' Debevoise & Plimpton said. ''Finally, the staff of the SEC has provided guidance on a host of MD&A topics, and strong disclosure controls and procedures should include regular review of a banking organization's MD&A against SEC guidance.''

Yafit Cohn, Simpson Thacher & Bartlett LLP, told Bloomberg BNA Jan. 7 that the BoA settlement ''is likely to result in issuers' heightened focus on these issues'' of known trends and uncertainties. ''I think the settlement is a good reminder that companies must have a robust process to ensure that known material trends and uncertainties are appropriately disclosed in their periodic filings,'' she said.

''I think issuers will continue to focus on making sure that all material trends and uncertainties are appropriately disclosed,'' Cohn said.

This heightened focus will come despite Cohn's observation that ''in my experience, the vast majority of issuers are thoughtful about how and when to disclose known trends and uncertainties in the MD&A section of their public filings.''

Cybersecurity the Next Emphasis? Nonetheless, ''it is unlikely that the Bank of America settlement will result in a change in issuers' focus on risk factors, which, in my experience, is already significant. That said, the environment in which an issuer operates absolutely affects how issuers think about risk,'' Cohn said. ''For example, I suspect we will see much more robust disclosure surrounding cybersecurity issues and concerns given all the recent publicity surrounding cybersecurity.''

Morgan Lewis law firm partner Linda Griggs said the SEC's apparent appetite to disclose the uncertainties about what could have a material effect on their performance and why, faces companies with a dilemma. ''That is a difficult assessment,'' she told Bloomberg BNA Jan. 6.

Griggs, who is a member of the Financial Accounting Standards Board's Financial Accounting Standards Advisory Council and previously chief counsel to the SEC chief accountant, cited the example of a company in the oil and gas sector.

The company would have to assess the uncertainty over the course of oil and gas prices, and whether that course would have a material effect on operations. If it decides the uncertainty won't have a material effect after making a good faith determination effort, normally it wouldn't have to disclose that fact. But the question is whether that will satisfy the SEC, and whether the SEC wants a description of the assumptions and processes that were employed to determine whether an uncertainty would have a material effect. ''That seems to me would make for a lot of disclosure,'' she said.

Income Taxes. Steven Schaefer, PwC tax partner, told his firm's Jan. 7 webcast on upcoming tax accounting issues that recent SEC comment letters have asked for fuller explanations in MD&A of companies' income tax accounting.

''Generally speaking, the SEC is looking for income tax disclosures in MD&A that are specific to companies' fact patterns and are more meaningful to investors,'' Schaefer said. This is ''a push to move away from more general boiler-plate statements,'' he said, adding that ''your company should be ready to expand upon or provide additional clarity around income tax matters.''

SEC comment letters have asked for more consistency in disclosures surrounding income tax accounting, how valuation allowances created against deferred tax assets might indicate future company performance, and the impact on earnings of repatriation of foreign earnings, Schaefer said.

By Steven Marcy

To contact the reporter on this story: Steven Marcy in Washington at smarcy@bna.com

To contact the editor responsible for this story: Ali Sartipzadeh in Washington at asartipzadeh@bna.com

☐ *The Deloitte report on recent SEC comment letter trends can be found at http://www.iasplus.com/en-us/publications/us/sec-cl/sec-comment-letters-including-industry-insights. The BoA-SEC settlement is at http://www.sec.gov/litigation/admin/2014/34-72888.pdf.*

Accounting&Disclosure

Financial Instruments

Split FASB Advances on Instruments Rules Much Less Change Than Previous Proposals

A divided Financial Accounting Standards Board voted 4-3 to advance toward issuing what board members acknowledged as relatively modest changes to how banks and other companies classify and measure financial assets and liabilities.

The planned standard that FASB hopes to issue in the middle of this year would be a substantial pullback from the board's 2010 and 2013 proposals, board members said Jan. 14 at their weekly meeting.

Investors favored the exposure draft of five years ago—partly because it proposed more extensive use of fair value-based measurements. Bankers strongly opposed the 2010 proposal, especially for its mark-to-market treatment of loans in balance sheet reporting (06 APPR 400, 6/11/10).

FASB later retreated on the fair value-based accounting of loans. The board voted to retain current principles' use of amortized cost accounting for loans.

No Disclosures on Core Deposit Liabilities. In other action Jan. 14 FASB recorded a split vote to drop a proposed requirement for banks and other companies to make core deposit liabilities footnote disclosures.

The disclosure call on core deposits was part of the pending 2013 proposal on classification and measurement of instruments. Investors deem information on core deposits—those stemming from long-term retail customer accounts, for example—an indicator of a bank's overall health and ability to weather sudden, big downturns in assets' value or increases in liabilities.

FASB's opponents on the disclosure faulted that path, citing reasons, among others, of a lack of definition or precision in terminology that would lead to consistent or comparable reporting among financial institutions.

The decision to remove the disclosure requirement also carried on a 4-3 tally.

Spurred by the 2008 Crisis. FASB's project on classification of instruments, which was added to the board's agenda in late 2008, was spurred by that years financial crisis.

However, the U.S. board's effort on instruments is ending with a significantly scaled-back level of change that the unusually large number of dissenters suggest represents a lost opportunity to comprehensively address and improve a complex area of accounting.

The FASB project on instruments' classification and measurement had been conducted jointly for some five years with the International Accounting Standards Board. Last year IASB issued its own standards on financial instruments, not aligned with the forthcoming FASB rules (10 APPR 206, 2/28/14; 08 APPR 611, 7/20/12).

Formal Dissents Planned. FASB Chairman Russell Golden, FASB Vice Chairman James Kroeker and members Daryl Buck and Lawrence Smith voted in the majority in the two key votes Jan. 4.

Marc Siegel, Thomas Linsmeier and Harold Schroeder voted in the minority. The latter three plan to formally dissent to the forthcoming instruments accounting standard on classification and measurement.

"I think the improvement where you present the remeasurement of your own debt is a substantial improvement, a substantial benefit" to generally accepted accounting principles. That treatment carries "substantial benefit at little cost."

FASB Chairman Russell Golden

FASB also expects to issue, in mid-year, a related but separate set of rules on impairment of financial instruments, including accounting for loan and other credit losses, at about the same time it issues the new standard on classification and measurement.

Project Called a 'Fairly Ugly Journey.' Smith, who supported the long-gestating package of decisions on classification and measurement, on Jan. 14 called FASB's long process toward the final rules "a fairly ugly journey."

Smith and the other board members prefaced their votes with their reasons—pro and con—why they believe that the long list of tentative decisions in the six-year-old project carry benefits that outweigh the costs of financial reporting.

Golden: Benefits, Improvements Outweigh Costs. FASB's chairman was the first to state his reasons for concluding that, all in all, the pluses outweigh the minuses of application.

He took issue with the planned classification and measurement rules' prescription for equity securities: having those reported at fair value, with changes booked in earnings. Golden acknowledged that would reduce costs to banks and other financial statement preparers because it would remove the requirement to gauge for "other-than-temporary impairment" for available-for-sale securities.

"I do think that we've also made substantial improvements on reducing the costs" for a preparer and

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

an auditor ''when one has to remeasure non-public investments,'' Golden said.

''I think the improvement where you present the remeasurement of your own debt is a substantial improvement, a substantial benefit'' to generally accepted accounting principles, said the FASB chief. That treatment carries ''substantial benefit at little cost,'' he said.

''In the package of decisions, I would be supportive of moving forward and, as a whole, conclude that the benefits that come from all of the decisions justify the costs of both implementing'' the standard and following it ''on a recurring basis,'' Golden said.

Dissenters Say a Big Opportunity Missed. Dissenter Siegel suggested FASB had missed a ''once-in-a-generation opportunity to really take a look at financial instrument accounting as a whole.''

''And by many of the decisions to retain current GAAP, we're actually retaining costs that are in the system,'' Siegel added. He cited the example of ''tainting'' of held-to-maturity securities that aren't actually held to maturity but instead are sold. He also suggested the board didn't take advantage of chances to cut complexity in instruments accounting.

Another board member who opposes issuance of the evolved instruments classification proposal, Linsmeier, said that, by his count, the forthcoming standard would prescribe ''13 different measures for financial assets and liabilities,'' not counting prescriptions for impairment.

Linsmeier said he agreed with Smith that ''this has been a journey, but I would characterize it as the most disappointing journey that I've had as a board member.''

Linsmeier added that ''I think we've lost a huge opportunity to improve information for investors in understanding risks, some of which have caused billions of dollars of loss in our economies over time.''

FASB plans to continue drafting the forthcoming standard and conduct an external review of its tenets before carrying out final clearance votes later this year.

By Steve Burkholder

To contact the reporter on this story: Steve Burkholder in Norwalk, Conn., at sburkholder@bna.com

To contact the editor responsible for this story: Laura Tieger Salisbury at lsalisbury@bna.com

Financial Instruments

Canada Regulator Requires Big Banks to Adopt IFRS 9 Early

Canada's federal financial services regulator has issued a final advisory on early adoption by domestic systemically important banks of new international accounting standards on measuring losses on loans, derivatives and other assets.

The final advisory confirms the expectation for domestic, systemically important banks to adopt the International Accounting Standards Board's IFRS 9 for annual periods starting Nov. 1, 2017, Deputy Superintendent of Financial Institutions Mark Zelmer said Jan. 9 in a letter to all federally regulated financial entities.

Early adoption of the new accounting standards will better align implementation of the new requirements with those of other federally regulated financial entities and foreign banks that report under international financial reporting standards, including many global systemically important banks based in Europe, Zelmer said.

''It will also help to ensure that implementation details in Canada are worked out with domestic systemically important banks before smaller, less systemic federally regulated entities with annual periods beginning Jan. 1, 2018 have to adopt the standard,'' he said. ''During the implementation period, OSFI [the Office of the Superintendent of Financial Institutions] will monitor the endorsement process of other jurisdictions, including the European Union.''

The final advisory document also incorporates—to consolidate the agency's guidance to major banks on IFRS implementation—the applicable sections of OSFI's March 2010 advisory entitled Conversion to International Financial Reporting Standards by Federally Regulated Entities and its February 2014 letter entitled Early Adoption of Amendments to IFRS 9—General Hedging and Own Credit Risk.

''IFRS 9 is a significant standard for federally regulated entities and OSFI believes it is important for federally regulated entities to adopt this standard as soon as possible.''

Canada's Office of the Superintendent of Financial Institutions

---

Implementation of IASB's new IFRS 9 standards, the final version of which were issued in July 2014, is mandatory for Canadian banks as of Jan. 1, 2018, the federal agency said in the final advisory. Early adoption of the standards was not initially recommended for most Canadian banks, based on the significant impact of the new reporting requirements, it said.

However, an assessment of the costs and benefits of early implementation for Canadian systemically important banks concluded that early adoption for annual periods starting Nov. 1, 2017, would be appropriate, it said.

Other federally regulated financial entities with an Oct. 31 year-end are also permitted to adopt IFRS 9 on Nov. 1, 2017, but are not expected to do so, it said.

''The replacement of IAS 39 with IFRS 9 is a key IASB project in response to the global financial crisis,'' the agency said. ''IFRS 9 is a significant standard for federally regulated entities and OSFI believes it is important for federally regulated entities to adopt this standard as soon as possible. The mandatory effective date of 2018 is 10 years after the financial crisis.''

Agency Responds to Industry Comments. The regulatory body's letter included an annex summarizing industry comments on the draft version of the advisory that was issued for public comment on Oct. 10, 2014, as well as the agency's responses.

Some entities argued early adoption would not provide enough time for data aggregation, systems changes, and implementation of necessary internal controls, it said. While OSFI believes that early adoption should be possible as all federally regulated entities have had three years since the finalization of IFRS 9 to prepare, only systemically important banks are being recommended for early adoption, it said.

OSFI also rejected suggestions that early adoption would disadvantage Canadian banks because the timing of interpretations of the new standards will be driven by the timing of their adoption by European regulators. Some entities suggested that significant interpretations could emerge that could call into question early accounting conclusions, potentially increasing implementation costs and risking the need for restatements, it said.

Canada's domestic systemically important banks, defined as those whose failure could have a detrimental impact on the functioning of the financial system and the economy, are the Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto-Dominion Bank.

OSFI understands the importance of having as much interpretative guidance available as soon as possible and is working closely with its international peer regulators to have the Basel Committee on Banking Supervision provide further guidance as quickly as possible, the regulator said.

The regulator also dismissed comments suggesting that the requirement for retrospective application of IFRS 9 could be problematic. The comments suggested that as regulated entities are required to present one year's comparative information, with U.S. Securities and Exchange Commission filers allowed to elect to provide an additional year's income statement, there might not be sufficient time to finalize methodologies and inputs for the first reporting period.

"The IFRS 9 transition requirements permit, but do not require, the restatement of comparative periods," it said. "Therefore, this issue with SEC filers is not caused by OSFI's proposals. Global systemically important banks that are SEC registrants will have the same issue if they elect to prepare comparative financial information."

Canada's domestic systemically important banks, defined as those whose failure could have a detrimental impact on the functioning of the financial system and the economy, are the Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto-Dominion Bank.

By Peter Menyasz

To contact the reporter on this story: Peter Menyasz in Ottawa at correspondents@bna.com

To contact the editor responsible for this story: Joe Tinkelman at jtinkelman@bna.com

☐ *The final advisory is available at http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/adv-prv/Pages/freifrs9.aspx. The accompanying letter and summary of comments is available at http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/adv-prv/Pages/freifrs9_let.aspx.*

International Standards

India Sets Timetable for Adopting Standards Largely Converged With IFRS

India plans to adopt national accounting standards over the next few years that are largely converged with international financial reporting standards, the International Accounting Standards Board reported Jan. 5.

The board cited a statement that the Indian Ministry of Corporate Affairs published Jan. 2 in which the ministry unveiled plans to implement the Indian Accounting Standards, dubbed Ind AS.

Voluntary Adoption. The new standards, which the ministry intends to implement soon after the companies affected are notified, replace for most large companies the country's current accounting rules—India's Generally Accepted Accounting Principles.

Under the ministry's road map for putting Ind AS into effect, companies may adopt the new standards voluntarily for accounting periods beginning on or after April 1, 2015.

Mandatory Implementation. Most listed companies meeting certain financial thresholds must implement the new standards in consolidated financial statements for accounting periods beginning on or after April 1, 2016.

Other companies that exceed lesser financial thresholds will have until April 1, 2017 to put Ind AS into practice.

Compliance Deadlines. The 2016 reporting requirements cover companies whose equity, debt securities, or both are listed—or are in the process of listing—on an Indian or foreign stock exchange and have a net worth of five billion rupees ($79 million).

Non-listed companies with five billion rupees of net worth also must apply Ind AS by April 1, 2016.

Listed companies with less than five billion rupees net worth, and unlisted companies with net worth of 2.5 billion to five billion rupees, must meet the April 1, 2017 compliance deadline.

Requirements for adopting Ind AS also apply to the subsidiaries, joint ventures, associates, and holding companies of corporations covered under the new rules.

Exemptions From Rules. The new standards exempt insurance companies, banks, and non-banking financial companies.

In addition, companies whose securities are listed on, or are in the process of being listed on, small and

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

Financial Statement Presentation

FASB Issues Rules Eliminating Concept of Extraordinary Items

The Financial Accounting Standards Board issued a new Accounting Standards Update Jan. 9, 2015, as a part of its Simplification Initiative, to eliminate the concept of extraordinary items from U.S. generally accepted accounting principles (GAAP).

The guidance also eliminates the requirements that companies separately present extraordinary items in the income statements and disclose them in the footnotes. Extraordinary items were those that were clearly abnormal in nature and that occurred only very infrequently. Such items were required to be presented separately from an entity's ordinary operations.

Entities would still, however, be required to present and disclose an event that is either unusual in nature or infrequent in occurrence, FASB said.

The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2015 for both public and private companies.

FASB issued the guidance as ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (10 APPR 987, 11/7/14).

Choice in Application. Companies are allowed a choice on how to apply the guidance, the ASU indicates. Specifically, they may apply the amendments either prospectively or retrospectively. They are also allowed to early adopt the guidance, provided that it is applied from the beginning of the fiscal year of adoption.

However, should a company chose to prospectively adopt the guidance, a transitional disclosure would be required, the ASU states.

The guidance stems from FASB's simplification initiative and is expected to save time and reduce costs for companies, while the stakeholders have said that it is rare for an event or transaction to meet the requirements to be presented as an extraordinary item.

To contact the reporter on this story: Denise Lugo in New York at dlugo@bna.com.

To contact the editor responsible for this story: Steven Marcy at smarcy@bna.com

☐ *For a copy of the ASU, go to http://www.fasb.org.*

BY DENISE LUGO

medium sized enterprise (SME) exchanges won't be required to apply Ind AS.

SME exchange companies ''shall continue to comply with the existing accounting standards unless they choose otherwise,'' according to the ministry's statement.

Permanent Adoption. Companies not covered by Ind AS—and which decide against voluntary adoption—will continue to follow India's current accounting rules.

Once a company implements the new standards, however, ''it shall be required to follow the Ind AS for all the subsequent financial statements,'' the ministry said.

Delays in Approval. Adoption of Ind AS follows several years of delays in issuing the new standards.

The ministry initially intended to phase in Ind AS starting in 2011, IASB noted, but postponed the transition to the new standards.

Ministry Support. Ind AS was revived in April 2014 when the Institute of Chartered Accountants of India (ICAI) recommended a schedule to the ministry for adopting the new standards.

There is 'an urgent need to converge the current Indian accounting standards with IFRS.'

ARUN JAITLEY
INCOMING FINANCE MINISTER OF INDIA

Incoming Finance Minister Arun Jaitley quickly lined up behind Ind AS, highlighting what he called ''an urgent need to converge the current Indian accounting standards with IFRS.''

Similar But Not Identical to IFRS. Though Ind AS moves the country's accounting standards closer to IFRS, the new Indian rules won't be identical to international standards.

In a March 2014 speech to the Asia-Oceania Regional Policy Forum, IASB Chairman Hans Hoogervorst called for full IFRS adoption in India, saying it ''would greatly strengthen the appeal of the Indian capital market to foreign investors.''

Convergence, he said, can never serve as a substitute for fully adopting IFRS.

Doubts About IFRS Adoption. IASB noted that ICAI President K Raghur in an institute blog posting had voiced doubts about the need for full IFRS adoption in

India—a challenge IASB could face in other countries, particularly developing nations.

''We have very consciously decided to converge with IFRS and not fully adopt it, mainly because a resurgent India is very different from its peers in the West or elsewhere, with its own priorities and preferences,'' Raghur said.

India might reconsider whether to incorporate IFRS in full down the road, he said—but only after it assesses the effects of its converged Ind AS on the private sector.

By David R. Jones

To contact the reporter on this story: David R. Jones in London at correspondents@bna.com

To contact the editor responsible for this story: Steven Marcy at smarcy@bna.com

☐ *The Ministry of Corporate Affairs statement is available at http://pib.nic.in/newsite/PrintRelease.aspx?relid=114300.*

Copyright © 2015 by Tax Management Inc.
APPR ISSN 1558-6642

Audit Developments

Audit Guides

U.K. Spending Overseer Issues Updated Code for Local Public Audits

The U.K. National Audit Office's updated draft code for auditing local public bodies is largely unchanged from the proposal it issued last year, an NAO representative told Bloomberg BNA Jan. 13.

NAO spokesman Angharad Thomas said that the office made ''just a few minor changes'' to the proposal based on the comments it received to a consultation last year.

The NAO, an independent agency that scrutinizes public spending for Parliament, issued the updated Code of Audit Practice on Jan. 13.

Parliament still must approve the draft code before it becomes final.

Statutory Responsibilities. Under the Local Audit and Accountability Act 2014, the U.K. Audit Commission is being abolished, and responsibility for preparing and maintaining the audit code was transferred to Comptroller and Auditor General (C&AG), the head of the NAO.

The code sets out what local auditors must do to meet their statutory responsibilities under the 2014 law, which expanded the scope of external audits to include National Health Service (NHS) trusts—divisions that serve geographical areas or which perform specialized functions, such as ambulance services.

Establishing a Single Code. The C&AG last year issued a proposed 33-page draft code that would replace three current Codes of Audit Practice with a single code covering audits of different types of local public bodies.

This strategy ''reflects the fact that the core statutory responsibilities placed on the auditors of the different types of public audit body covered by the Code are essentially the same,'' the NAO said.

The audit office began a six-week consultation on the draft code in September 2014, receiving 60 responses from accounting firms, NHS trusts, local authorities, and government auditing offices.

Value for Money. The consultation sought feedback on such questions as whether a single code could work well for all the types of audited bodies that needed to be covered, and whether it should be framed at a principles-based level, to be supported as required by more detailed NAO guidance.

The C&AG also expressed particular interest in the work that auditors should carry out in assessing local bodies' efforts to secure value for money (VFM).

The office defines good value for money as the optimal use of resources to achieve intended outcomes.

Favorable Response. The draft code generally won strong support from respondents, including U.K. accounting firms, according to a 2014 Bloomberg BNA analysis of responses to the consultation (10 APPR 1057, 11/21/14).

The NAO's summary of responses, released Jan. 13, found that the proposal to create a single code had solid backing, along with the principles-based approach.

Both provisions were retained in final draft.

Clarifying the Code. Some respondents expressed concern about provisions that, they warned, could place new burdens on local auditors.

In response, the NAO revised some sections of the code ''to provide clarity that the Code is not seeking to place additional responsibilities upon auditors'' beyond those set out in legislation, the responses summary said.

The audit office also redrafted a paragraph to make clear its purpose is to provide flexibility in its guidance to auditors to address specific circumstances that local public bodies face, such as preparing and auditing part-year accounts.

Forthcoming Guidance. The NAO's draft code acknowledged that its principles-based approach would require guidance for local auditors in the coming years.

''Key components of this guidance will include such matters as planning NHS and local government audits, and auditors' work on value-for-money arrangements at local bodies,'' the audit office said in a Jan. 13 statement.

''Key components of this guidance will include such matters as planning NHS and local government audits, and auditors' work on value-for-money arrangements at local bodies.''

U.K. National Audit Office

Balancing Consistency, Flexibility. Guidance will seek to promote consistency in auditing approaches, the NAO said, while recognizing that a one-size-fits-all approach might not prove suitable in all situations.

In addition, forthcoming guidance to auditors would not hamstring their independence, the audit office said.

''The auditor will remain responsible for the detailed planning and conduct of the audit, and for the professional judgments underpinning their audit conclusions,'' according to the responses summary.

Soliciting Input on Guidance. Some respondents indicated that they wanted to be consulted on guidance, with some calling for guidance to undergo consultation before publication.

The NAO cautioned, though, that the volume of guidance required and the need to issue it on a timely basis would make public consultation on all guidance for auditors ''impractical.''

Collaboration With Auditors. Still, the audit office expressed its commitment to working with auditing professionals and representative of local bodies in drafting its guidance.

''This will be particularly important for those components of guidance where stakeholder interest is likely to be greatest—for example, the auditor's work on value-for-money arrangements, and smaller authority assurance engagements,'' the responses summary said.

The NAO currently is developing a core body of guidance for audit work in the 2015-16 financial year onwards, and said it would draft additional guidance to address emerging issues as required.

Awaiting Parliamentary Action. The draft code was put before Parliament on Jan. 12.

Subject to Parliament's approval, the final code will take effect from April 1, 2015 for audit work beginning in the 2015-16 financial year.

By David R. Jones

To contact the reporter on this story: David R. Jones in London at correspondents@bna.com

To contact the editor responsible for this story: Steven Marcy at smarcy@bna.com

☐ *The updated draft Code of Practices is available at:http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2014/09/Final_Draft_Code_of_Audit_Practice.pdf.*

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

Accounting Practice

Income Taxes

Applying Valuation Allowances to Tax Assets Grows in Complexity, PwC Partner Says

Many companies are finding it increasingly difficult to avoid creating a valuation allowance—essentially a declaration of impairment—on their deferred tax assets, a PricewaterhouseCoopers presenter told listeners in the firm's webcast on tax accounting.

A major problem stems from the ''prescriptive'' tests that must be applied to deferred tax assets to see if a valuation allowance for them is warranted, PwC tax partner Ed Abahoonie told the Jan. 7 webcast.

The test factors for applying an allowance tend to be weighted more heavily on actual reported values of the assets rather than on any outlook of future economic performance and the likelihood of future tax obligations, Abahoonie said. This has been especially true in the years since the 2008 financial crisis.

"The accounting model looks more towards the past than the future. In fact, you can wind up posting a valuation allowance while you're at the threshold of returning to profitability."

ED ABAHOONIE
PWC TAX PARTNER

More Past Than Future. The valuation allowance is more of a current, real time measure, Abahoonie said. The impairment of a tax asset through a valuation allowance is not any indicator of a company's future viability as a going concern, he said. ''The accounting model looks more towards the past than the future,'' he said. ''In fact, you can wind up posting a valuation allowance while you're at the threshold of returning to profitability.''

Abahoonie said financial report filers must be cautious in relying on ''tax planning strategies'' in recognizing a tax asset. Such strategies ''in a generic sense might be economic,'' but, ''for the purposes of this model and what it takes to support a deferred tax asset,'' they ''may not be appropriate to consider,'' he said.

Foreign Can't Offset U.S. Abahoonie also noted that companies with operations or subsidiaries abroad can't use foreign earnings as support for existing deferred tax assets in the U.S. ''That's kind of off limits,'' he said. ''It would just be an inconsistency in assertions.''

Abahoonie also urged caution in using deferred tax liabilities to directly offset deferred tax assets. Preparers might be able to assert the offset in situations where unlimited carry-forward is allowed. But otherwise, preparers should make sure that the underlying deferred tax liabilities ''to be sure they have a reversal pattern—in other words, they will result in taxable income in periods in which they can be used to offset particular deferred tax assets,'' he said. Preparers must make sure that the items and conditions in the tax liability accounts exactly matches those in the tax asset accounts, he said.

Beware of Improper Substitution. Valuation allowances also shouldn't be used as a ''substitute'' for other items, Abahoonie said. The allowances aren't ''really a substitute for any type of income tax reserve that might be needed for uncertainties, for uncertain tax positions,'' he said.

Under accounting for uncertain tax positions, companies must hold a reserve for a possible tax liability if they determine there is less than a 50 percent chance that a tax authority would recognize an assertion they don't owe a particular tax.

Write-off Sometimes More Appropriate Than Allowance. If a company concludes that a tax asset ultimately can't be realized, it should be written off entirely and not offset by a valuation allowance, Abahoonie said.

Regulators also are demanding more information through disclosures (10 APPR 11, 1/3/14) about valuation allowances and the factors that triggered a financial report filer's decision for creating them and how they relate to the accounting model the filer uses, Abahoonie said. Regulators and enforcement officials also are requiring more information and justification for the recognition and measurement of deferred tax assets, he said.

BY STEVEN MARCY

To contact the reporter on this story: Steven Marcy in Washington at smarcy@bna.com

To contact the editor responsible for this story: Ali Sartipzadeh in Washington at asartipzadeh@bna.com

Income Taxes

IRS Crafting Corporate Inversion Rules, Accounting Method Changes, Official Says

The Internal Revenue Service is actively working on regulations to implement the anti-inversions Notice 2014-52, and may have additional guidance in the works that could include action on earnings-stripping, a senior official said.

Erik H. Corwin, IRS deputy chief counsel (technical), addressed the pending regulations during a Jan. 5 forum sponsored by Bloomberg BNA Tax & Accounting and hosted by Buchanan Ingersoll & Rooney PC. ''We are actively working on reg-ifying that notice,'' Corwin said.

Accounting Method Changes. In the domestic area, Corwin said, the IRS is close to issuing two revenue procedures on changes in accounting methods. One will consolidate and update the procedures for making automatic and non-automatic accounting method changes, he said.

The second will provide an updated, consolidated list of the types of changes in methods of accounting for which taxpayers can get automatic consent, he said.

When asked about further guidance and potential action on earnings-stripping, Corwin pointed to language in the September notice that the government is considering more guidance, and said the issue is still being reviewed.

Corwin spoke about a range of forthcoming guidance in the partnership, corporate, domestic and international areas.

Among international issues, in addition to the inversions guidance, the official said practitioners should expect final rules on dividend equivalents under Section 871(m) in the near term.

Regarding foreign tax credits, he said the government is working on final rules to beat the Feb. 9 sunset of temporary rules to put the brakes on foreign credit splitter transactions under tax code Section 909.

By Alison Bennett

To contact the reporter on this story: Alison Bennett in Washington at abennett@bna.com

To contact the editor responsible for this story: Cheryl Saenz at csaenz@bna.com

Corporate Governance

To Build Fraud Resistance, Companies Need 'Manageable Dissent,' Right Tone at Middle

In building a fraud-resistant organization, companies must encourage ''manageable dissent,'' where employees feel they can voice views that diverge from ''group think,'' a panelist said Jan. 8.

Ken Daly, president and chief executive officer of the National Association of Corporate Directors, also said that although setting the tone at the top is easy, ''setting the tone at the middle'' is just as important. He observed that a lot of financial reporting fraud starts somewhere at the middle of the organization.

''What my experience indicates is that evangelizing'' the tone at the middle ''can be extremely difficult, and we need to look at different ways to get that accomplished,'' he said.

Daly spoke at a webcast sponsored by the Anti-Fraud Collaboration to discuss a recent report, ''The Fraud-Resistant Organization: Tools, Traits, and Techniques to Deter and Detect Financial Reporting Fraud.''

Ethical Culture. The Anti-Fraud Collaboration is a joint effort by the Center for Audit Quality, Financial Executives International (FEI), the Institute of Internal Auditors and the NACD that seeks to mitigate the risks of financial reporting fraud.

Issued by the group in November, the report found that the risks for such fraud increases when individuals in a corporation's financial reporting supply chain—including its board, audit committee or auditors—don't fully understand their responsibilities or fail to execute them properly.

The report also found that three factors foster an environment in which financial reporting fraud is likely to occur:

- lack of an ethical culture and tone at the top;
- insufficient skepticism by players within the financial reporting supply chain; and
- insufficient communication among chain members.

During the webcast, Tracy McBride, FEI vice president of research and accounting policy, stressed that management should focus on setting the tone at the top by establishing appropriate expectations and through ''positive daily behavior.'' Senior managers must ''not only talk the talk but also walk the walk,'' she said.

A recent report by the Ethics Resource Center found that the most important factor in setting the right ethical tone is workers' perception of their leaders' characters.

Karl Erhardt, senior vice president and general auditor for MetLife, urged management to make the ethical message a ''constant drumbeat,'' even when things are going right. There are ''tangible techniques'' that provide ''positive reinforcement'' throughout the corporation, such as a system in which employees can give awards to each other, he said.

Rick Ueltschy, managing partner, U.S. Audit Services, at Crowe Horwath LLP, also suggested that to elevate the importance of the corporation's code of conduct and ethical framework, there should be more frequent and explicit discussions of the framework in day-to-day decision making.

Risk Oversight. As to improving boards' risk oversight, Daly suggested that directors should fully educate themselves on:

- their companies' strategies;
- the incentives—not only compensation—that drive management and employees;
- how management deals with the pressures of achieving corporate goals; and
- emerging issues.

The education process will provide a great opportunity for the board to interact with the staff and management, Daly said.

In terms of whistle-blower hotlines—a key measure to uncover corporate fraud—Erhardt urged companies to put themselves in the position of the complaining employee. That individual probably hasn't slept for days, and made the complaint because he or she thought it was the right thing to do, he said. By responding consistently, promptly and thoughtfully to the whistleblower and adequately investigating his or her complaint, the company can foster a positive environment around its hotline, he said.

Ueltschy also said the hotlines may provide a ''barometer'' for the tone in the company. If a company is not receiving comments, that may not be a sign that everything is fine, he said. ''When we're getting those calls, it's because people are comfortable making them,'' he said. If the calls are not coming, ''we need to

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

ask what is in the culture that is stopping people from'' stepping forward.

As to strengthening communications between the board and other supply chain participants, Daly suggested that ''a lot of it is going to be tough love.'' The first thing the board must do is build trust and support with the other chain members, he said.

Second, the board must set the expectation of what constitutes ''good communication,'' Daly said. Third, the board and management must learn to ''speak in a common language.''

Auditor, Board Skepticism. In discussing board skepticism, Ueltschy urged auditors to understand their own psychology and biases. For one, they seldom find negative evidence pointing to corporate wrongdoing, and often that negative evidence results from management's misunderstanding of what is required rather than actual misconduct, he noted. This can lead to auditors being complacent when they do find negative evidence. ''So one thing we try to ingrain'' is that once auditors find negative evidence, they should search even harder for more negative evidence, he said.

In addition, auditors should put themselves in the place of the people who prepared the financial statements, Ueltschy said. For example, in the case of accounting estimates, auditors should consider whether such individuals may have been unduly influenced by management goals.

As to the board's skepticism, Daly warned that ''asymmetric information''—the gap of information between the board and senior managers—is inherent. What the board must do is determine—through observation and inquiry—whether the risk of that asymmetric information has become too high, he said.

''Recognize that that risk is out there, and have some form of tripwire'' for when the risk becomes too great, Daly suggested. Factors that may raise flags include corporate profits that differ from those of other industry players, he said.

Daly said that, moreover, boards should:

- set the stage for the even flow of information. For example, the board should call for executive sessions even when there is nothing that needs to be discussed;
- be careful about how they frame their questions to ensure the questions aren't driven by their own agendas; and
- educate themselves on the issues before a meeting so that the meeting can focus on actionable items, and everyone present has a common understanding of the issues.

Daly also said boards should foster an environment that allows C-level executives to say, ''I don't know.'' The culture has to be a place where people feel comfortable saying, ''I don't know, I'll get back to you,'' he said.

Key Messages. The panelists offered some other key takeaways. Companies should elevate the prominence of fraud risk and antifraud efforts by ensuring they allocate enough ''agenda time'' for such matters when boards meet with the other supply chain constituents, Ueltschy said.

Daly said that board and management reports should be ''more actionable,'' perhaps by focusing on anomalies that raise ''yellow flags.''

Erhardt called for more transparency and communication within an organization, but warned that to be effective, the communication must be ''concise.''

McBride urged management to take the lead in detecting and deterring fraud. In doing so, they should seek support from supply chain partners and keep up to date on issues that could impact financial reporting, she said. ''Don't rest on your laurels—if you see something, say something.''

By Yin Wilczek

To contact the reporter on this story: Yin Wilczek in Washington at ywilczek@bna.com

To contact the editor responsible for this story: Ryan Tuck at rtuck@bna.com

☐ *The report is available at http://www.thecaq.org/docs/anti-fraud-collaboration-report/the-fraud-resistant-organization.pdf?sfvrsn=2.*

Corporate Governance

Female Board Members Linked To Higher Accounting Returns

Having female board representation leads to higher accounting returns, and the effect is greater in countries with higher shareholder protections, according to new research conducted by Lehigh University and Syracuse University.

In a forthcoming article in the Academy of Management Journal, the study's co-authors, Corinne Post, a professor of management at Lehigh's college of business and economics, and Kris Byron, a professor at Syracuse's Whitman School of Management, discuss some of the practical implications of their research, which statistically combined the results of 140 studies about the effect of women on corporate boards from 1989 to 2014.

'Not a Simple Numbers Game.' In their forthcoming ''Women on Boards and Firm Financial Performance: A Meta-Analysis,'' the professors appear to refute other studies, such as one by Credit Suisse, that suggest that having more women on a board by itself increases a company's financial performance.

The professors say their findings suggest ''that board gender diversity is not a simple 'numbers game.' '' They added: ''[f]or the presence of female directors to yield higher accounting returns, our findings suggest the importance of developing a board culture in which dissenting voices are heard and considered.''

Post told Bloomberg BNA that ''groups generally make better decisions when they are highly motivated [to do so]. When you hold a group accountable for their decisions they are going to spend much more time and effort deliberating in order to come up with best possible outcome.''

Although the number of women on U.S. boards is slightly increasing, the percentage of women on boards for Fortune 1000 Index companies only inched up from 16.6 percent in 2013 to 17.7 percent in 2014, according to the 2020 Women on Boards Gender Diversity Index.

According to the professors' research, firms with female board representation have better accounting returns. Moreover, this positive relationship is ''even stronger when boards experience an information-processing stimulus that motivates them to leverage the decision-making resources (i.e., knowledge, experience and values) that women bring to the board (i.e., when shareholder protections are stronger).''

BY MICHAEL GREENE

To contact the reporter on this story: Michael Greene in Washington at mgreene@bna.com

To contact the editor responsible for this story: Ryan Tuck at rtuck@bna.com

Disclosures

Reporting to SEC Required For Dodd-Frank Whistle-Blower Status

A corporate financial official who claimed he was fired for complaining to management about certain accounting irregularities wasn't a whistle-blower for Dodd Frank Wall Street Reform and Consumer Protection Act anti-retaliation purposes, the U.S. District Court for the Southern District of New York concluded Dec. 4 (*Berman v. NEO@Ogilvy LLC*, S.D.N.Y., No. 1:14-cv-523-GHW-SN, 12/04/14).

In a decision by Judge Gregory Woods, it said the statute ''unambiguously requires'' that the plaintiff provide information to the Securities and Exchange Commission to qualify as a whistle-blower under the act.

Traditional Canons. According to the court, plaintiff Daniel Berman allegedly was fired after telling his supervisors about a number of transactions he believed were intended to make the company look more profitable than it actually was. Although he later filed a Form TCR with the SEC and cooperated with investigators, Berman didn't report his concerns to the agency before the defendants took the allegedly retaliatory action.

The defendants moved to dismiss the complaint, arguing among other matters that because Berman hadn't reported his concerns to the commission, he wasn't a whistle-blower entitled to Dodd Frank anti-retaliation protections. Berman, in turn, argued that the law is ambiguous, and that the court accordingly should defer to the commission's interpretation of the statute.

The SEC has argued that employees who allegedly suffer adverse action for exposing unlawful conduct within their company don't have to report their concerns to the commission in order to be protected The U.S. Court of Appeals for the Fifth Circuit—the only federal appeals court to consider the issue—has ruled otherwise (10 APPR 509, 5/23/14, 10 APPR 470, 5/9/14). The federal district courts, meanwhile, are divided on the question.

In this case, the court agreed with the Fifth Circuit, saying its decision ''relies on the text of the statute and applies traditional canons of statutory construction to understand the statute's meaning.''

BY PHYLLIS DIAMOND

☐ *To see the decision, go to http://www.bloomberglaw.com.*

Enforcement

U.K. Watchdog Files Complaint Against Deloitte for Audit of Aircraft-Parts Supplier

The U.K. Financial Reporting Council said Jan. 12 that it has filed a formal compliant against Deloitte LLP over audits conducted for an aircraft-parts supplier currently in administration.

The FRC, an independent regulator that sets the U.K.'s accounting and auditing standards, lodged the complaint against Deloitte and two individuals over their work for Aero Inventory plc and an Aero subsidiary stemming from events leading up to Aero Inventory being placed into administration in November 2009.

All three are members of the Institute of Chartered Accountants in England and Wales (ICAEW).

Falling 'Significantly Short' of Standards. The complaint focuses on the auditing work of Deloitte and audit engagement partner John Clennett for Aero Inventory and its subsidiary, Aero Inventory (UK), for the years ended June 30, 2006, 2007 and 2008, and on former Aero Inventory Finance Director Hugh Bevan's preparation and approval of financial statements over the same period.

The conduct of the three ''fell significantly short of the standards reasonably to be expected of Members and Member Firms in that they failed to act in accordance with the Fundamental Principles of the ICAEW's Guide to Professional Ethics and Code of Ethics,'' the FRC charged.

The ICAEW guide required them to perform their professional work with ''due skill, care and diligence and to act with professional competence and due care,'' the council said.

The FRC started an investigation in March 2011 under its investigative program known as the Accountancy Scheme following a reference from the ICAEW.

Appointing a Tribunal. The FRC's conduct committee will instruct a convener to appoint an independent disciplinary tribunal that will hear the complaint.

The complaint is still in draft form and won't be released until the tribunal is announced, ''probably in the next few weeks,'' FRC spokesman Sophie Broom told BNA Bloomberg Jan. 13.

If the tribunal affirms the complaint, it could assess a fine against Deloitte and could suspend Clennett and Bevan from practice, she said.

Deloitte still is awaiting the outcome of its appeal of the FRC's sanctions, including a $22 million fine, that the council imposed in a case involving car manufacturer MG Rover (10 APPR 1013, 11/7/14).

BY DAVID R. JONES

To contact the reporter on this story: David R. Jones in London at correspondents@bna.com

To contact the editor responsible for this story: Laura Tieger Salisbury at lsalisbury@bna.com

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

Enforcement

CSC Agrees to Pay $190M In Settlement of SEC Accounting Probe

Computer Sciences Corp. reached a proposed settlement with the Securities and Exchange Commission over an accounting probe, agreeing to pay a penalty of $190 million and adjust its financial statements for three fiscal years.

CSC, as the company is known, said the ''understanding'' reached with SEC staff will result in a pretax charge of about $200 million in the quarter that ends Dec. 31. The company said it won't admit or deny the allegations, and the SEC will file an administrative enforcement action alleging violations of securities laws provisions including anti-fraud and reporting.

The technology consultant for governments and companies said the settlement will reduce net income by about $50 million in fiscal 2010 and by about $3.69 billion in 2011, according to a Dec. 30 regulatory filing. Net income for fiscal 2012 will rise by about $3.9 billion, CSC said.

Accounting Probe Expanded. The accounting probe, started in January 2011, initially involved the former managed-services division and focused on the Nordic region. While the SEC investigation was under way, CSC's auditors expanded their own internal investigation to include operations in Australia and a contract with the U.K.'s National Health Service.

CSC also said Dec. 30 that it had agreed to have an independent consultant review its compliance policies.

Rich Adamonis, a spokesman for CSC, said the company has reached an agreement in principle with the SEC and declined to comment beyond the filing. Judy Burns, a spokeswoman for the SEC, declined to comment.

CSC runs data centers for the U.S. government and also has a separate commercial business for consumer, financial, defense and health-care clients.

By Alex Barinka

To contact the reporter on this story: Alex Barinka in New York at abarinka2@bloomberg.net

To contact the editor responsible for this story: Sarah Rabil at srabil@bloomberg.net

©2014 Bloomberg L.P. All rights reserved. Used with permission.

Valuation

Securities Group Calls on Treasury To Oppose Mark-to-Market Valuation

The administration should oppose efforts to implement mark-to-market valuation for exchange-traded options as part of any tax overhaul deal, a top securities group said in a letter to the Treasury Department.

Members of the U.S. Securities Markets Coalition said in the letter to Mark Mazur, Treasury assistant secretary for tax policy, that mark-to-market tax provisions for derivatives ''paint with too broad a brush,'' and unfairly target those looking to hedge certain stock ownership.

Under recent tax proposals such as the overhaul draft released by former House Ways and Means Chairman Dave Camp (R-Mich.), and in several of President Barack Obama's budget proposals, options would be treated as sold at the end of the year for tax purposes.

Appreciated stock would also be treated as sold if the owner enters into an option related to the stock. Critics say those provisions would increase the complexity of year-end tax calculations.

Risk-Management Problems. Such proposals ''would adversely affect taxpayers using exchange-traded options to manage risk, including many individuals using basic options strategies,'' the letter said.

The mark-to-market rules would also distort rational economic decision-making and replace the well-established tax rules for exchange-traded options with a ''harsh, burdensome and overly complicated regime,'' the letter said.

The new rules wouldn't only affect big traders. The letter said that approximately one-fourth of the volume of trades on U.S. options exchanges are from individuals.

Tax Penalties, Timing. The provisions could impact taxpayers in a variety of ways, the U.S. Securities Markets Coalition said.

First, they would effectively impose a tax penalty on traders who use listed options to manage the risks of certain stock ownership, the coalition said.

''While such deemed sale treatment may make sense as a matter of tax policy if the taxpayer eliminates substantially all of the economics of owning the stock, the mere fact that a taxpayer has reduced risk is not a sound basis for treating the taxpayer as having sold the stock,'' the letter said.

Moreover, such proposals don't similarly treat losses on the stock for tax purposes, it said.

Mark-to-market valuation would also require complex new tax rules to coordinate the timing of the gain or loss of the stock with its offsetting option. Additionally, treating gains and losses as ordinary income would lead to ''character whipsaws,'' the letter said.

Taxpayers with equity options could end up with ordinary income from their options activity for tax purposes, but with capital losses on their stock transactions that couldn't be used to offset ordinary income from the option, it said.

Alternatives. If the goal of mark-to-market valuation is to achieve uniform tax treatment for all derivatives, there are other options, the letter said.

''For example, one uniform approach to financial products would be to tax financial products with similar economics according to similar tax rules regardless of the particular 'cubbyhole' a particular financial product might fall into,'' the letter said.

That approach would increase efficiency while discouraging a taxpayer from selecting one financial product over another simply because of its tax treatment.

By Casey Wooten

To contact the reporter on this story: Casey Wooten in Washington at cwooten@bna.com

To contact the editor responsible for this story: Cheryl Saenz at csaenz@bna.com

Transfer Pricing

As Amazon Trial Closes, Tax Court Judge Alludes to One Conclusion About Cost Pool

As Amazon's five-week transfer pricing trial came to a close Dec. 23, presiding Judge Albert G. Lauber offered a glimpse into one aspect of how he will rule in the dispute over the valuation of intangibles under a cost sharing arrangement between the U.S. Internet giant and its Luxembourg affiliate. **[*Amazon.com Inc. v. Comr.*, T.C., No. 31197-12, trial concluded 12/23/14]**

The trial has featured a dazzling array of intellectual firepower as experts armed with Ivy League doctorates have variously argued for or against the Internal Revenue Service's contention that Amazon grossly underpriced the transfer of intangibles to Amazon Europe Holding Technologies (AEHT) in a 2004 restructuring. Amazon valued the transferred intangibles at $216 million; the IRS claims they actually were worth $3.6 billion. The IRS also contends that Amazon undercharged AEHT for its share of the cost pool, increasing the payments by more than $130 million for tax years 2005 and 2006.

The dispute involves a tax deficiency of $234 million, but Amazon has said it could face as much as $1.5 billion in back taxes over a seven-year period if the court rules in favor of the IRS. Virtually all of the fact testimony in the case—including cross-examination of expert witnesses—has taken place in a closed courtroom, under a protective order.

In the closing moments of the trial, Lauber told the two dozen tax attorneys in the courtroom that he rejects an assumption made by Daniel J. Frisch, a pivotal IRS expert witness, on one aspect related to the intangible development costs, or IDCs, included in the cost pool.

''I am going to find as a fact that Dr. Frisch's 5 percent increase a year in IDCs cannot be sustained,'' Lauber said.

Rather, he said, some higher projected IDC—perhaps as high as projected revenues—will be the ''right number'' for IDCs going forward.

A 'Substantial Investment.' Lauber said that means a very substantial investment in technology over time. In describing the time frame of the investment, the judge made clear he envisioned a long period, at one point using the word ''perpetuity.''

A key element of debate in the Amazon case has been the useful life of the technology and other intangibles. Amazon's experts have testified to the short life of the underlying software. They maintained that the transferred intangibles had a useful life of seven years.

In testimony Dec. 15, Frisch, a former director of International Taxation for the U.S. Treasury Department's Office of Tax Analysis, said Amazon's seven-year useful life argument defies economic common sense.

Lauber told the attorneys that he must assume that Amazon and its Luxembourg affiliate will be making ongoing investments to keep the ''technology up to snuff.''

Numerous expert witnesses in the case have said that it's critical the online retailer make such investments to maintain its website and service capabilities and the value of its brand.

The outcome in *Amazon.com Inc. v. Comr.* could have a profound impact on cost sharing cases, as it represents an effort by the IRS to resurrect the legitimacy of the discounted cash flow method used to value the company's intangibles. Amazon claims the discounted cash flow method was rejected by the Tax Court in *Veritas Software Corp. v. Comr.* (6 APPR 453, 6/25/10).

Using a simple valuation model assuming indefinite useful life for transferred intellectual property, Frisch calculated a $3.5 billion buy-in. In testimony, Frisch also made a point of saying that proper intangible development costs affect the buy-in; the larger the IDC, the smaller the buy-in value.

'Once in a Lifetime Case.' ''Seven years was clearly too short,'' Frisch said. ''I took the indefinite terminal value approach which is very common'' in such analyses. In commenting on the ramp-down in value of the technology intangibles, Frisch said: ''It makes no sense to me from the point of economics that future IDCs have anything to do with pre-existing intangibles.''

Before dismissing the participants with his thanks, Lauber called the proceedings ''a once in a lifetime case,'' then had his clerk present an orchid to the hardworking court reporter for her efforts in transcribing the rapid-fire testimony of a panoply of experts.

By Paul Shukovsky

To contact the reporter on this story: Paul Shukovsky in Seattle at pshukovsky@bna.com

To contact the editor responsible for this story: Molly Moses at mmoses@bna.com

In Brief

Senate Democrats Urge Finalization of CEO Pay Rule

Senate Democrats want the SEC to complete by the first quarter of 2016 rulemaking that would require public companies to disclose the ratio of their chief executive's compensation to their other employees.

Sen. Robert Menendez (D-N.J.), who pushed for the disclosure to be part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and 14 other members of the Democratic caucus signed a Dec. 16 letter to Securities and Exchange Commission Chairman Mary Jo White asking for swift action on the proposed rule. However, several influential House Republicans wrote the SEC in November asking for the rule to be delayed in favor of other initiatives.

For a copy of the letter, visit http://www.menendez.senate.gov/download/?id=0221B510-93B9-40D3-B8E0-E8E34B43AEB9.

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

Official Actions

Jan. 1-Jan.14

Financial Accounting Standards Board

Final Actions

FASB Jan. 9 issued ASU No. ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, as a part of its simplification initiative (Page 105).

Meeting Discussions

In a Jan. 14 meeting, FASB:

- tentatively voted 4-3 to advance what board members acknowledged are relatively modest changes to how banks and other companies classify and measure financial assets and liabilities in a substantial pullback from earlier proposals. The board also voted 4-3 against proceeding with earlier proposal to require footnote disclosures on banks' core deposit liabilities (Page 102).

EDITOR'S NOTE: This section is intended to summarize significant actions of standard-setters for the prior two-week period. Summaries link to articles in this report on those actions. This summary may not cover every activity of the standards setters.

Calendar

Recent Financial Restatements

The following list summarizes financial restatements reported to the Securities and Exchange Commission between Dec. 29, and Jan. 9, based on BNA reviews of reports submitted to the SEC on Forms 8-K, 8-K/A, and 10-K/A.

Company	Date	Statement	Form
Daily Journal Corp. (CIK: 0000783412)	12/30/14	The Los Angeles, Calif., company determined that the financial statements contained in its Form 10-Q for the quarter ended June 30, 2014, should no longer be relied on. It expects to restate its financial statements to set up a liability for an uncertain tax position regarding the income tax treatment of deferred revenue from the acquisition of New Dawn Technologies, Inc., which would offset the substantial tax benefit previously recorded in the third quarter of 2014.	8–K
Huayue Electronics, Inc. (CIK: 0001315756)	1/7/15	The Jiangsu, China, company restated its financial statements for the year ended May 31, 2014, and its Annual Report on Form 10-K. It determined that its estimates of inventory value should be reduced by $1,553,366 to the lower of cost or market for the fiscal year ended May 31, 2014.	10–K/A
Medbox, Inc. (CIK: 0001547996)	12/30/14	The West Hollywood, Calif., company decided that its consolidated financial statements for the year ended Dec. 31, 2013, and for the third and fourth quarters therein, as well as for the quarters ended March 31, 2014, June 30, 2014 and Sept. 30, 2014, should no longer be relied upon. The company said that the revenue for the periods mentioned above had been recognized too soon, the revenue should be deferred until key contingencies are removed and it is clear the revenue has been earned in accordance with GAAP and SEC regulations.	8–K
Rentech, Inc. (CIK: 0000868725)	12/29/14	The Los Angeles, Calif., company decided it didn't design and maintain effective internal controls over: (i) the review of the cash flow forecasts used in the accounting for goodwill, (ii) the determination of the goodwill impairment charge, and (iii) maintaining proper documentation as of Dec. 31, 2013. Therefore, it restated its present opinion on internal control over financial reporting.	10–K/A
Source: Bloomberg BNA.			

Copyright © 2015 by Tax Management Inc.
APPR ISSN 1558-6642

Comment Deadlines for Pending Accounting and Auditing Rulemaking Projects

FASB PROJECTS

Comments Due	Project Description
Feb. 17, 2015	Proposed Accounting Standards Update—*Financial Services—Investment Companies (Topic 946) Disclosures About Investments in Other Investment Companies* Issued Dec. 4, 2014 http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1175805074609

GASB PROJECTS

Comments Due	Project Description
Jan. 30, 2015	Preliminary Views, *Tax Abatement Disclosures* Issued Oct. 31, 2014 http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1175804830991
March 6, 2015	Preliminary Views, *Financial Reporting for Fiduciary Responsibilities* Issued Nov. 11, 2014 http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1175804830991
March 6, 2015	Preliminary Views, *Leases* Issued Nov. 11, 2014 http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1175804830991

IASB PROJECTS

Comments Due	Project Description
Jan. 16, 2015	IASB Exposure Draft, *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed Amendments to IFRS 10, IFRS 12, IAS 27, IAS 28, and IAS 36 and Illustrative Examples From IFRS 13)* Issued Sept. 16, 2014 http://www.ifrs.org/Current-Projects/IASB-Projects/FVM-unit-of-account/Pages/FVM-unit-of-account.aspx
Feb. 17, 2015	IASB Exposure Draft, *Proposed Interim Release 3 to the IFRS Taxonomy 2014* Issued Dec. 19, 2014 http://www.ifrs.org/XBRL/IFRS-Taxonomy/2014/Pages/Proposed-Interim-Release-3-to-the-IFRS-Taxonomy-2014---files-and-support-materials-.aspx
March 25, 2015	IASB Exposure Draftl, *Classification and Measurement of Share-based Payment Transactions-three proposed amendments to IFRS 2.* Issued Nov. 25, 2014 http://www.ifrs.org/Alerts/Publication/Pages/IASB-publishes-Exposure-Draft-proposing-amendments-to-IFRS-2-Share-based-Payment-November-2014.aspx
April 17, 2015	IASB Exposure Draft,*Proposed Amendments to IAS 7: Statement of Cash Flows* Issued Dec. 18, 2014 http://www.ifrs.org/Current-Projects/IASB-Projects/Debt-disclosures/Exposure-Draft-December-2014/Pages/Exposure-Draft-and-comment-letters.aspx

IFAC PROJECTS

Comments Due	Project Description
Feb. 4, 2015	IESBA exposure draft, *Improving the Structure of the Code of Ethics for Prof. Accountants* Issued Nov. 4, 2014 http://www.ifac.org/publications-resources/improving-structure-code-ethics-professional-accountants

IFAC PROJECTS – Continued

Comments Due	Project Description
April 15, 2015	IPSASB exposure draft, *Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles* Issued Nov. 24, 2014 http://www.ifac.org/publications-resources/proposed-changes-part-c-code-addressing-presentation-information-and-pressure

AICPA PROJECTS

Comments Due	Project Description
June 15, 2015	Exposure Draft, *Evolving the CPA Profession's Peer Review Program for the Future* Issued Dec. 2, 2014 http://community.aicpa.org/future-practice-mentoring/m/mediagallery/600.aspx

Dates of Accounting, Auditing Standards & Rules From Dec. 15, 2014

FASB GUIDANCE AND STANDARDS

Effective Date	Title	Date Issued
Effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities	ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20):Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	1/9/15
Effective for fiscal years beginning after Dec. 15. 2015, and the effective date of adoption depends on the timing of that first in-scope transaction. If the first in-scope transaction occurs in the first fiscal year beginning after Dec. 15, 2015, the elective adoption will be effective for that fiscal year's annual financial reporting and all interim and annual periods thereafter.	ASU No. 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	12/23/14
For public business entities the guidance is effective for fiscal years and interim periods within those fiscal years, beginning after Dec. 15, 2015. For all other entities, it's effective for fiscal years after Dec. 15, 2015, and interim periods within fiscal years beginning after Dec. 15, 2016. Early adoption is permitted.	ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	11/3/14
Effective for annual periods ending after Dec. 15, 2016, and interim periods within annual periods beginning after Dec. 15, 2016. Early application permitted.	ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	8/27/14
Effective for public business entities for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2014. For all other entities, the amendments in this Update are effective for annual periods ending after Dec. 15, 2015, and interim periods beginning after Dec. 15, 2015. An entity should adopt the amendments in this Update using either a prospective transition method or a modified retrospective transition method	ASU No. 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	8/8/14

 Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

FASB GUIDANCE AND STANDARDS – Continued

Effective Date	Title	Date Issued
Effective for public business entities for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2015. For all other entities, effective for annual periods ending after Dec. 15, 2016, and interim periods beginning after Dec. 15, 2016. Early adoption is permitted as of the beginning of an annual period.	ASU No. 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	8/5/14
Effective for all entities for annual periods and interim periods within those annual periods beginning after Dec. 15, 2015. Earlier adoption is permitted.	ASU No. 2014-12, Compensation—Stock Compensation (Topic 718.) http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	6/19/14
Effective for public entities for the first interim or annual period beginning after Dec. 15, 2014. For all other entities, effective for annual periods beginning after Dec. 15, 2014 and interim periods beginning after Dec. 15, 2015. For disclosure transactions accounted as sales effective for interim and annual periods beginning on or after Dec. 15, 2014. Disclosures for secured borrowing effective for annual periods beginning after Dec. 15, 2014 and interim periods beginning after March 15, 2015. Disclosures for sales effective for interim and annual periods beginning on or after Dec. 15, 2014. Disclosures for secured borrowings effective for annual periods beginning after Dec. 15, 2014 and interim periods beginning after March 15, 2015.	ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	6/12/14
For public companies effective in annual periods beginning after Dec. 15, 2015, and early adoption is permitted. For all other organizations, presentation and disclosure requirements in ASC 915 no longer required, effective the first annual period beginning after Dec. 15, 2014. For all other entities, revised consolidation standards effective in annual periods beginning after Dec. 15, 2016. Early adoption allowed.	ASU No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	6/10/14
Effective in the first quarter of 2015 for public organizations with calendar year ends. For most nonpublic organizations, it is effective for annual financial statements with fiscal years beginning on or after Dec. 15, 2014.	ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	4/10/14
Effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early application is permitted for all financial statements that have not yet been made available for issuance.	ASU No. 2014-07, Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the Private Company Council). http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	3/20/14
Effective for public business entities for annual periods and interim reporting beginning after Dec. 15, 2014. Early adoption is permitted.	ASU No. 2014-05, Service Concessions Arrangements (Topic 853) (a consensus of the FASB Emerging Issues Task Force). http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	1/23/14
Effective for private companies for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early adoption is permitted.	ASU No. 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council). http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	1/16/14

FASB GUIDANCE AND STANDARDS – Continued

Effective Date	Title	Date Issued
Effective for private companies for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early adoption permitted.	ASU No. 2014-03, Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps-Simplified Hedge Accounting Approach (a consensus of the Private Company Council) http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	1/16/14
After Dec. 15, 2014 for public business entities and after Dec. 15, 2015, for nonpublic entities. Early adoption is permitted.	ASU No. 2014-04, Receivables (Topic 815): Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure (a consensus of the FASB Emerging Issues Task Force). http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	1/16/14
Effective for public business entities for annual periods and interim reporting beginning after Dec. 15, 2014. Early adoption is permitted.	ASU No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force). http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	1/15/14

FASB, IASB JOINT GUIDANCE AND STANDARDS

Effective Date	Title	Date Issued
For a public entity, effective for annual reporting periods beginning after Dec. 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, effective for annual reporting periods beginning after Dec. 15, 2017, and interim periods within annual periods beginning after Dec. 15, 2018. A nonpublic entity may elect to apply this guidance earlier, however, only as of the following: 1. An annual reporting period beginning after Dec. 15, 2016, including interim periods within that reporting period (public entity effective date) 2. An annual reporting period beginning after Dec. 15, 2016, and interim periods within annual periods beginning after Dec. 15, 2017 3. An annual reporting period beginning after Dec. 15, 2017, including interim periods within that reporting period.	ASU No. 2014-09—Revenue From Contracts With Customers (ASC 606 http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498), and IFRS 15, Revenue From Contracts With Customers http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-and-FASB-issue-converged-Standard-on-revenue-recognition-May-2014.aspx	5/28/14

AICPA STANDARDS AND GUIDANCE

Effective Date	Title	Web Access
Effective for periods ending on or after Dec. 15, 2015. Early implementation is permitted. Issued Oct. 23.	SSARS No. 21, Statement on Standards for Accounting and Review Service: Clarification and Recodification	http://www.aicpa.org/

SEC RULES

Effective Date	Title	Web Access
Dec. 23, 2014	Adoption of Updated EDGAR Filer manual Release No. 33-9692 Other Release Nos. 34-73868 39-2499; IC-31383 Federal Register (79 FR 76878) Issued Dec. 18, 2014	http://www.sec.gov/rules/final.shtml

Copyright © 2015 by Tax Management Inc.
APPR ISSN 1558-6642

SEC RULES – Continued

Effective Date	Title	Web Access
Effective for audits of financial statements for fiscal years beginning on or after Dec. 15, 2014	Order Granting Approval of Proposed Rules on Auditing Standard No. 18, Related Parties, Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Amendments to PCAOB Auditing Standards SEC Release No. 34-73396: File No. PCAOB-2014-01 Issued Oct. 24, 2014	http://www.sec.gov/rules/pcaob/2014/34-73396.pdf

IASB STANDARDS AND GUIDANCE

Effective Date	Title	Date Issued
The amendments can be applied immediately and become mandatory for annual periods on or after Jan. 1, 2016.	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12, and IAS 28 http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-10-IAS-28-Investment-Entities/Pages/Home.aspx	12/18/14
The amendments are effective for annual periods beginning on or after Jan. 1, 2016, with early application permitted.	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) http://www.ifrs.org/Current-Projects/IASB-Projects/FVM-unit-of-account/Exposure-Draft-September-2014/Pages/Exposure-Draft-and-Comment-letters.aspx	9/11/14
The amendments are effective for annual periods beginning on or after Jan. 1, 2016, with early application permitted.	Equity Method in Separate Financial Statements Financial Instruments, Amendments to IAS 27 http://eifrs.ifrs.org/eifrs/WhatsNew	8/12/14
Effective from annual periods beginning on or after Jan. 1, 2018, with early application permitted.	IFRS 9 Financial Instruments http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Instruments-A-Replacement-of-IAS-39-Financial-Instruments-Recognitio/Documents/IFRS-9-Project-Summary-July-2014.pdf	7/24/14
Effective from annual periods beginning on or after Jan. 1, 2016, with early application permitted.	Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture http://www.ifrs.org/Current-Projects/IASB-Projects/Bearer-biological-assets/Documents/FINAL_Agriculture_Bearer%20Plants_JUNE%202014_WEBSITE.pdf	6/30/14
Effective from annual periods beginning on or after Jan. 1, 2016, with early application permitted.	Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of acceptable methods of depreciation and amortisation. http://www.ifrs.org/Current-Projects/IASB-Projects/Depreciation-and-Amortisation/Pages/Depreciation-and-Amortisation.aspx	5/12/14
Effective for annual periods beginning on or after Jan. 1, 2016, with early application permitted.	Amendments to IFRS 11, Acquisitions of Interests in Joint Operations. http://www.ifrs.org/Current-Projects/IASB-Projects/Acquisition-Joint-Operation/Pages/Acquisition.aspx	5/6/14
Effective from Jan. 1, 2016, with early application permitted.	Interim Standard, IFRS 14, Regulatory Deferral Accounts. http://www.ifrs.org/Current-Projects/IASB-Projects/rate-regulated-activities-interim-IFRS/Pages/rate-regulated-activities-interim-IFRS.aspx	1/30/14

GASB STANDARDS AND GUIDANCE

Effective Date	Title	Date Issued
Does not contain effective dates.	Concepts Statement No. 6, *Measurement of Elements of Financial Statements.* http://gasb.org	4/14/14

Upcoming Meetings of Standards-Setters

For FASB's calendar, go to http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220079452. For IASB's calendar, go to the Diary page on http://www.ifrs.org/Meetings/Pages/Meetings-Page.aspx. For AICPA FinREC meetings go to http://www.aicpa.org.

STANDARD-SETTING MEETINGS

1/20-22/15	IASB meeting	London
1/21/15	FASB meeting	Norwalk, Conn.
1/22/15	EITF meeting	Norwalk, Conn.
1/26/15	FASB-IASB Joint Transition Resource Group for Revenue Recognition	Norwalk, Conn. London
1/27/15	GASB meeting	Norwalk, Conn.
1/27-28/15	IFRS Interpretations Committee	London
1/28/15	FASB meeting	Norwalk, Conn.
1/29/15	Webcast presentation on IASB's Disclosure Initiative	London
2/2-3/15	IFRS Foundation Trustees	Zurich
2/11/15	XBRL- ITCG conference call	London
2/13/15	IASB education session	London
2/16-20/15	IASB meeting	London
2/17/15	GASB teleconference	Norwalk, Conn.
2/23-24/15	IFRS Advisory Council	London
2/27/15	Capital Markets Advisory Committee meeting	London
3/5/15	Global Preparers Forum meeting	London
3/9-10/15	GASAC meeting	Norwalk, Conn.
3/10-12/15	GASB meeting	Norwalk, Conn.
3/13/15	IASB education session	London
3/16-20/15	IASB meeting	London
3/24-25/15	IFRS Interpretations Committee	London
3/26-27/15	Accounting Standards Advisory Forum	London
3/30/15	FASB-IASB Joint Transition Resource Group for Revenue Recognition	Norwalk, Conn. London
3/30/15	GASB teleconference	Norwalk, Conn.
4/14-16/15	IFRS Foundation Trustees	Toronto
4/21/15	XBRL meeting ITCG face to face meeting	London
4/21-23/15	GASB meeting	Norwalk, Conn.
4/22/15	Transition Resource Group for Impairment of Financial Instruments	London
4/24/15	IASB education session	London
4/27-30/15	IASB meeting	London
5/6/15	XBRL meeting- ITCG conference call	London
5/11/15	GASB teleconference	Norwalk, Conn.
5/12-13/15	IFRS Interpretations Committee	London
5/15/15	IASB education session	London
5/18-22/15/	IASB meeting	London
6/2/15	GASB meeting	Norwalk, Conn.
6/9-10/15	IFRS Advisory Council	London
6/11-12/15	Capital Markets Advisory Comm. and Global Preparers Forum	London

Copyright © 2015 by Tax Management Inc. APPR ISSN 1558-6642

STANDARD-SETTING MEETINGS – Continued

6/17-18/15	PCAOB SAG Committee	Washington
6/18-19/15	IFRS Foundation Trustees	London
6/22/15	GASB teleconference	Norwalk, Conn.
6/22-26/15	IASB meeting	London
6/29-30/15	IFRS Foundation IFRS conference	Paris
7/8/15	XBRL meeting ITCG conferencecall	London
7/13/15	FASB/IASB Joint Transition Resource Group for Revenue Recognition	Norwalk, Conn./ London
7/14-15/15	IFRS Interpretations Committee	London
7/16-17/15	Accounting Standards Advisory Forum	London
7/20-21/15	GASAC meeting	Nashville, TN
7/20-24/15	IASB meeting	London
7/21/15	GASB meeting	Nashville, TN
7/22-23/15	GASB meeting	Norwalk, Conn.
8/3/15	GASB teleconference	Norwalk, Conn.
9/1-3/15	GASB meeting	Norwalk, Conn.
9/8-9/15	IFRS Interpretations Committee	London
9/16/15	XBRL meeting ITCG conference call	London
9/16/15	Transition Resource Group for Impairment of Financial Instruments	London
9/18/15	IASB education session	London
9/21/15	GASB teleconference.	Norwalk, Conn.
9/21-25/15	IASB meeting	London
9/28-29/15	World Standard Setters meeting	London
10/1-2/15	Accounting Standards Advisory Forum	London
10/6-8/15	GASB meeting	Norwalk, Conn.
10/13-15/15	IFRS Foundation Trustees	Beijing
10/16/15	IASB education session	London
10/19-23/15	IASB meeting	London
10/26/15	GASB teleconference	Norwalk, Conn.
10/27/15	XBRL meeting ITCG conference call	London
11/2-3/15	IFRS Advisory Council	London
11/2-3/15	GASAC	New York
11/6/15	Capital Markets Advisory Committee	London
11/9/15	IASB/FASB Joint Transition Resource Group for Revenue Recognition	London Norwalk, Conn.
11/10-11/15	IFRS Interpretations Comm.	London
11/12-13/15	PCAOB SAG committee.	Washington
11/13/15	IASB education session	London
11/16-20/15	IASB meeting	London
11/18-20/15	GASB meeting	Norwalk, Conn.
12/7/15	GASB teleconference	Norwalk, Conn.
12/7-8/15	Accounting Standards Advisory Forum	London
12/9/15	XBRL meeting ITCG conference call	London
12/11/15	Transition Resource Group for Impairment of Financial Instruments	London
12/14-18/15	IASB meeting	London

EVERYDAY ESSENTIAL