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Accounting and Auditing Supplement No. 4 – 2021





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Introduction

This update includes the more significant accounting and auditing developments from October 1, 2021 through December 31, 2021. Included in this update are standard-setting and project activities of the Auditing Standards Board (ASB), Accounting and Review Services Committee (ARSC), Professional Ethics Executive Committee (PEEC), FASB, the PCAOB, and the SEC.

These developments, although believed to be complete at the date at which they were prepared for this supplement, may not cover all areas within accounting and auditing relevant to all users of this material.

This update may refer you to other sources of information, in which case, you are strongly encouraged to review that information if relevant to your needs.

Audit and accounting final and proposed standards

Final standards, interpretations, and regulations

AICPA

Auditing Standards Board

Statement on Auditing Standards

In October 2021, the ASB issued Statement on Auditing Standards (SAS) No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

SAS No. 145 supersedes SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended, AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and amends various AU-C sections in AICPA Professional Standards.

SAS No. 145 enhances the following:

- Requirements and guidance related to the auditor's risk assessment, in particular, obtaining an understanding of the entity's system of internal control and assessing control risk
- Guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate

SAS No. 145 also includes revised and new requirements, including the following:

- Revised requirements to evaluate the design of certain controls within the control activities component
- New requirement to separately assess inherent risk and control risk
- New requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk
- A revised definition of *significant risk*
- New guidance on scalability
- New guidance on maintaining professional skepticism
- A new "stand-back" requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures
- Revised requirements relating to audit documentation
- A conforming amendment to perform substantive procedures for each relevant assertion of each significant class of transactions, account balance, and disclosure, regardless of the assessed level of control risk (rather than for all relevant assertions related to each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement, as previously required).

SAS No. 145 provides additional clarity and enhances the identification and assessment of risks because the evaluation of risks drives the audit quality.

Effective date

SAS No. 145 is effective for audits of financial statements for periods ending on or after December 15, 2023. Early implementation is permitted.

Statement on Standards for Attestation Engagements

The ASB did not issue any Statements on Standards for Attestation Engagements (SSAEs) in this period.

Accounting and Review Services Committee

Statements on Standards for Accounting and Review Services

The Accounting and Review Services Committee (ARSC) did not issue any Statements on Standards for Accounting and Review Services (SSARs) in this period.

Technical Questions and Answers (Nonauthoritative)

The following are summaries of Technical Questions and Answers (Q&A) sections issued in the fourth quarter of 2021. The full text of recently issued Q&A sections can be accessed via the Financial Reporting Center at www.aicpa.org/frc.

Q&A section 9160, *Other Reporting Issues*.¹

Issue date

October 2021

Q&A section 9160.36, "Reporting on the Provider Relief Fund in the Schedule of Expenditures of Federal Awards in Relation to the Financial Statements in a Single Audit"

This Q&A section states that there are situations when, in practice, the SEFA (Schedule of Expenditure of Federal Awards) and financial statements do not align exactly. The auditor may provide an in-relation-to opinion on the SEFA as long as the schedule can be reconciled back to the underlying accounting and other records used in financial statement preparation, and as long as the other conditions and requirements of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, are met.

Professional Ethics Executive Committee

The Professional Ethics Executive Committee (PEEC) did not issue any final guidance in this period.

¹ All Q&A sections can be found in *Technical Questions and Answers*.

FASB

Accounting Standards Updates

Accounting Standards Update No. 2021-07, *Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council)*

Issue date

October 2021

Major provisions and significant changes

The practical expedient in Accounting Standards Update (ASU) No. 2021-07 allows a nonpublic entity to determine the current price input of an equity-classified share-based award using the reasonable application of a reasonable valuation method. The characteristics of such a method include 1) the date on which a valuation's reasonableness is evaluated, 2) the factors that a reasonable valuation should consider, 3) the scope of information to be considered, and 4) the criteria that should be met for the use of a previously calculated value to be considered reasonable.

The practical expedient may be elected on a measurement-date-by-measurement-date basis by nonpublic entities. The election of practical expedient must also be disclosed.

Effective date

The amendments in this ASU are effective prospectively for all qualifying awards granted or modified during fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted for financial statements that have not yet been issued or made available for issuance as of October 25, 2021.

ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*

Issue date

October 2021

Major provisions and significant changes

This ASU provides guidance on how to recognize and measure contract assets and contract liabilities acquired under FASB *Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers*, in business combination. It also will improve comparability for financial statement users. The ASU will require the acquirer to record the related revenue contracts in accordance with FASB ASC 606 at the acquisition date as if it had originated the contracts, rather than recording at fair value.

Effective date

For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.

ASU No. 2021-09, Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities

Issue date

November 2021

Major provisions and significant changes

ASU No. 2021-09 allows lessees that are not public business entities to make an accounting policy election, by class of underlying asset, to use a risk-free rate as the discount rate for all leases. The ASU requires the entity to disclose the asset classes election used to apply the risk-free rate. The ASU also requires lessees to use the rate implicit in the lease when it is readily determinable, rather than the risk-free rate, regardless of whether the practical expedient has been elected.

Effective date

Entities that have not yet adopted FASB ASC 842 as of November 11, 2021, are required to adopt the amendments in this ASU at the same time that they adopt FASB ASC 842. Those entities should apply the existing transition provisions in paragraph 1 of FASB ASC 842-10-65.

For entities that have adopted FASB ASC 842 as of November 11, 2021, the amendments in this ASU are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted.

ASU No. 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance

Issue date

November 2021

Major provisions and significant changes

The amendments require business entities (all entities except for not-for-profit entities and employee benefit plans) that have received government assistance to disclose the transaction with the government, including 1) the nature of the transactions and the related accounting policy used to account for the transactions; 2) the line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item; and 3) significant terms and conditions of the transactions, including commitments and contingencies.

Effective date

The amendments in this ASU are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. Early application of the amendments is permitted.

SEC

SEC Final Rules

The following is a summary of the final rule issued by the SEC in the fourth quarter of 2021. The SEC's final rules can be found on the final rule page of SEC.gov under the "Regulation" topic of the website's ribbon.

Filing Fee Disclosure and Payment Methods Modernization

Major provisions and significant changes

This release intends to modernize filing fee disclosure and payment methods. It amends most fee-bearing forms, schedules, statements, and related rules to require each filing fee table and accompanying disclosure to include all required information for fee calculation in a structured format.

Effective date

January 31, 2022 with certain exceptions

Performance-Based Investment Advisory Fees

Major provisions and significant changes

This release amends specific dollar amount thresholds in the rule under the Investment Advisers Act of 1940 that permits investment advisers to charge performance-based compensation to "qualified clients."

Effective date

November 10, 2021

Universal Proxy

Major provisions and significant changes

This release amends the federal proxy rules to require public companies to use universal proxy cards in all non-exempt solicitations involving director election contests. It enhances the ability of shareholders to elect directors in the proxy process in a manner consistent with their ability to vote in person at a shareholder meeting.

Effective date

January 31, 2022

Holding Foreign Companies Accountable Act Disclosure

Major provisions and significant changes

This release amends interim final rules that revised Forms 20-F, 40-F, 10-K, and N-CSR to implement the disclosure and submission requirements of the Holding Foreign Companies Accountable Act. The amendments require the submission of documentation to the SEC establishing that such a registrant is not owned or controlled by a governmental entity in that foreign jurisdiction. The amendments also require disclosure in a foreign issuer's annual report regarding the audit arrangements of and governmental influence on such registrants.

Effective date

January 10, 2022 with the exception of the addition of Section 232.405(c)(1)(iii)(C), which is effective from January 10, 2022 until July 1, 2023

Adoption of Updated EDGAR Filer Manual**Major provisions and significant changes**

This release amends Volume II of the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system Filer Manual and related rules and forms.

Effective date

January 5, 2022

PCAOB

PCAOB Final Guidance

The PCAOB did not issue any final guidance in this period.

Proposed standards, interpretations, and regulations

AICPA

Auditing Standards Board**Proposed SASs**

The ASB did not issue any proposed SASs in this period.

Proposed SSAEs

The ASB did not issue any proposed SSAEs in this period.

Accounting and Review Services Committee**Proposed SSARs**

ARSC did not issue any proposed SSARs or interpretations in this period.

Professional Ethics Executive Committee

Exposure draft – Proposed revised interpretations and definition – Loans, acquisitions, and other transactions

Issue date

October 2021

Major provisions and significant changes

This proposal is part of PEEC's project to evaluate the amended independence rules the SEC issued and determine whether revisions to the AICPA Code of Professional Conduct are required. This exposure draft is an explanation of the proposed revisions and the full text of the guidance being considered.

Comment deadline

Responses are requested by January 5, 2022.

FASB

Proposed Accounting Standards Updates

Proposed ASU Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements

Issued

November 2021

Main provisions

This proposed ASU was issued as part of FASB's disclosure framework to improve disclosure effectiveness. The amendments in this proposed ASU would add a principle to FASB ASC 270, *Interim Reporting*, based on the removed portion of Regulation S-X, Rule 10-01, that would apply to all entities that provide interim financial statements and notes in accordance with generally accepted accounting principles.

Comment deadline

January 31, 2022

Proposed ASU Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures

Issued

November 2021

Main provisions

This proposed ASU would eliminate the accounting guidance for troubled debt restructuring by creditors while enhancing disclosure requirements for loan refinancing and restructuring by creditors made to borrowers experiencing financial difficulty.

Comment deadline

December 23, 2021

Proposed ASU Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations

Issued

December 2021

Main provisions

FASB issued this proposed ASU to enhance transparency about an entity's use of a supplier finance program. The amendments in this proposed ASU would require that a buyer in a supplier finance program disclose sufficient information about the program to allow an investor to understand the program's nature, activity during the period, changes from period to period, and potential magnitude.

Comment deadline

March 21, 2022

SEC

SEC Proposed Rules

SEC Release No. 33-10998; IC-34399; File No. S7-12-15, *Reopening of Comment Period for Listing Standards for Recovery of Erroneously Awarded Compensation*

Main provisions

This SEC Release proposed to establish listing standards that would require each issuer to develop and implement a policy providing for the recovery, under certain circumstances, of incentive-based compensation based on financial information required to be reported under the securities laws that is received by current or former executive officers, and require disclosure of the policy.

Comment deadline

November 22, 2021

SEC Release No. 34-93518; IC-34415; File No. S7-15-21, *Electronic Submission of Applications for Orders under the Advisers Act and the Investment Company Act, Confidential Treatment Requests for Filings on Form 13F, and Form ADV-NR; Amendments to Form 13F*

Main provisions

This SEC Release proposed to convert the filing of certain applications, confidential treatment requests, and forms from paper to electronic submission.

Comment deadline

December 20, 2021

SEC Release No. 33-11005; File No. S7-16-21, *Updating EDGAR Filing Requirements*

Main provisions

This SEC Release proposed to update filing requirements under the EDGAR system.

Comment deadline

December 22, 2021

SEC Release No. 34-93595; File No. S7-17-21, *Proxy Voting Advice*

Main provisions

The proposed amendments would remove 1) a condition to the availability of certain exemptions from the information and filing requirements of the federal proxy rules for proxy voting advice businesses, and 2) a note that provides examples of situations in which the failure to disclose certain information in proxy voting advice may be considered misleading. The release also includes a discussion regarding the application of that prohibition to proxy voting advice, in particular, with respect to statements of opinion.

Comment deadline

December 27, 2021

SEC Release No. 34-93613; File No. S7-18-21, *Reporting of Securities Loans***Main provisions**

The proposed amendments intend to increase the transparency and efficiency of the securities lending market by requiring the material terms of the transactions and related information about the securities to be reported.

Comment deadline

January 7, 2022

SEC Release No. 34-93614; File No. S7-19-21, *Electronic Recordkeeping Requirements for Broker-Dealers, Security-Based Swap Dealers, and Major Security-Based Swap Participants***Main provisions**

This SEC Release intends to amend the electronic record-keeping requirements for broker-dealers, security-based swap dealers (SBSDs), and major security-based swap participants (MSBSPs).

Comment deadline

January 3, 2022

SEC Release No. 34-93783; IC-34440; S7-21-21, *Share Repurchase Disclosure Modernization***Main provisions**

The proposed amendments intend to modernize and improve disclosure about repurchases of an issuer's equity securities that are registered under Section 12 of the Securities Exchange Act of 1934.

Comment deadline

45 days after publication in the Federal Register

SEC Release IC-34441; File No. S7-22-21, *Money Market Fund Reforms***Main provisions**

The proposed amendments intend to improve the resilience and transparency of money market funds. The proposed amendments would remove liquidity fee and redemption gate provisions from Rule 2a-7; implement swing pricing policies for non-government institutional money funds; amend certain reporting requirements in Forms N-MFP and N-CR; and require money funds to calculate weighted average maturity and weighted average life. The SEC is also proposing to increase the daily liquid asset and

weekly liquid asset minimum liquidity requirements in order to provide a more substantial buffer for rapid redemptions.

Comment deadline

60 days after publication in the Federal Register

SEC Release 34-93784; File No. S7-32-10, *Prohibition Against Fraud, Manipulation, or Deception in Connection with Security-Based Swaps; Prohibition against Undue Influence over Chief Compliance Officers; Position Reporting of Large Security-Based Swap Positions*

Main provisions

This SEC Release proposed a new rule designed to prevent fraud, manipulation, and deception in security-based swap transactions.

Comment deadline

45 days after publication in the Federal Register

PCAOB

PCAOB Proposed Rules

The PCAOB did not issue any proposed guidance in this period.

