



Technical Issues Alert

Information on technical issues affecting small businesses and the CPAs who serve them.

TIC Holds Liaisons with FASB and PCC

To ensure that the private company perspective is considered when standards are developed, TIC holds regular meetings with standard setters to offer feedback on planned guidance and to report on implementation challenges with existing standards. Some of the topics discussed at TIC's recent meeting with the Financial Accounting Standards Board were:

- *Delayed effective dates.* In May, TIC sent an [unsolicited letter](#) to the board describing challenges for private companies related to several recent standards and urging postponement of effective dates for recent guidance on leases. Subsequently, the FASB proposed delaying dates for private company implementation of standards related to lease accounting, as well as accounting for credit losses, derivatives and hedging and long-duration insurance contracts. In its [comments](#), TIC expressed appreciation for the board's quick action in issuing the EDs, [Financial Instruments—Credit Losses \(Topic 326\)](#), [Derivatives and Hedging \(Topic 815\)](#), and [Leases \(Topic 842\): Effective Dates](#) and [Financial Services—Insurance \(Topic 944\): Effective Date](#).
- *Implementation of lease accounting requirements.* In a wide-ranging discussion, TIC members reviewed some of the lease relief and simplification ideas covered in a paper they prepared for the meeting. TIC advocated disclosure relief for private companies and recommended that private companies be able to selectively apply a risk-free discount rate depending on the facts and circumstances. Other areas with implementation challenges for private companies included the short-term lease exception, embedded

leases, finance vs. operating leases, related-party guidance and lessee allocation of variable lease payments.

- *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent).* After redeliberating an initial proposal, the FASB released a revised ED on this topic. TIC made recommendations on areas in need of clarification. Comments are due by October 28.
- *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* The board is drafting a final accounting standards update of this proposal, which is expected to incorporate some of the changes suggested in TIC's [comment letter](#).
- *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The proposal offers guidance on dealing with the replacement of the London Interbank Offered Rate (LIBOR), the global interest rate benchmark, with new benchmarks. TIC discussed the need to alert clients to potential risk exposure during the transition to new benchmarks and the overall need for education on this change and its implications. Comments are due October 7.

In a separate liaison with the Private Company Council, TIC discussed some of the same topics, as well as:

- *Revenue Recognition Implementation Issues.* TIC described the challenges that small companies face in implementing the [FASB revenue recognition guidance](#),

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Future Meetings

TIC meetings offer local practitioners the chance to provide their unique perspectives in the standard-setting process. All CPAs are invited to attend. Contact Kristy Illuzzi, CPA, TIC Staff Liaison, at the AICPA at (919) 402-4057 to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- November 12 and 13, Miami, FL
- January 14 and 15, 2020, San Diego, CA: TIC liaison meeting with the ASB
- May 5 and 6, 2020, Nashville, TN
- June 8 to 10, 2020, Las Vegas, NV: Engage Conference and TIC meeting
- September 21 to 23, 2020, Norwalk, CT: TIC's FASB, GASB and PCC liaison meetings

The PCPS Technical Issues Committee (TIC) provides standard setters with the unique perspective of local CPA firms on accounting, auditing and reporting issues. We hope these highlights of issues that affect local firms will help you, your firm or your group to participate in the standard-setting process.

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particularly in the area of internal controls, whereby many private companies do not have adequate controls over contracts to properly adopt the standard. Some TIC members reported seeing clients move to other reporting frameworks to avoid the cost and complexity of adopting the guidance. One TIC member in particular has seen about 40% of their client base recently switch to an alternative accounting framework.

- [PCC Issue No. 18-01, Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards](#). TIC told the PCC that private companies would welcome relief from some requirements in this area, but also emphasized that practical expedients for the FASB

lease standard were a more pervasive and pressing issue for private companies.

- [Profits Interest](#). TIC has been seeing more of these agreements—which are an equity right that gives the holder an interest in the future profits and appreciation of an LLC—as they have grown in popularity over the past few years. TIC members noted diversity in practice when it comes to liabilities versus equity classification and valuation approaches. TIC recommended further authoritative or non-authoritative guidance and offered to create a working group to develop solutions in collaboration with the PCC. ■

TIC Meets with GASB

Government accounting topics were on the agenda when TIC held its annual meeting with representatives of the Governmental Accounting Standards Board. Issues discussed included:

- [Subscription-Based Information Technology Arrangements \(SBITA\)](#). The board is set to begin redeliberating this ED in light of comments received. TIC reviewed some of the points in its [comment letter](#), including a question on whether the proposed definition would encompass SBITA contractual agreements involving a third party, and a call for clarification in references to multi-phase implementation efforts. During a GASB discussion of comments on note disclosures that the board has received, TIC offered insights on the merits of self-contained note disclosures. TIC provided suggestions on issues to address in implementation guidance and also recommended that the GASB consider incorporating some of the guidance in standards' Basis for Conclusions into the codification.
- [Public-Private and Public-Public Partnerships and Availability Payment Arrangements](#). In its [comment letter](#), TIC generally supported this ED, believing that it will improve the comparability of financial statements of governments that enter into these arrangements, adding greater relevance, reliability and consistency. To help users better understand the standard's scope, TIC asked for greater diversity in the examples given, since the ED mostly focuses on bridges and tolls. TIC also raised some accounting questions related to the proposed revenue recognition in service concession arrangement versus non-service concession arrangement situations.

- [Internal Revenue Code Section 457 Deferred Compensation Plans that Meet the Definition of a Pension Plan and Supersession of GASB Statement 32](#). The ED would clarify guidance specifically for Section 457 plans. In its [comment letter](#), TIC offered suggestions on topics that could be included in an implementation guide for a final standard, including more examples of what constituted a benefit, and discussed useful definitions to cover. TIC also asked for clarification of language in the ED's Basis for Conclusions on how various employer contributions scenarios affect the determination of when a plan should be included in the financial statements.
- [Omnibus 20XX](#). TIC generally approved of this ED, which encompasses a variety of topics, including pensions and OPEB benefits. See TIC's [comment letter here](#).
- [GASB Statement No. 87, Leases](#). GASB representatives said they were not planning on delaying the effective date, which is for periods beginning after December 15, 2019. Among other discussion points, TIC members requested additional guidance for lessors who are having trouble determining the discount rate to be used. GASB has published an [implementation guide](#) for the standard.
- [Projects in process](#). TIC and GASB representatives discussed the board's plans for new guidance on the [financial reporting model](#) (an ED is expected in the third quarter of 2020) and on [revenue and expense recognition](#) (a preliminary views document is expected in the second quarter of 2020). ■

Attest Update

- [Proposed Statement on Auditing Standards, Audit Evidence](#). In its comment letter, TIC offered recommendations to improve the understandability of a graphic in the application material. TIC also called for moving the material on management specialists to a separate AU-C, preferably in the AU-C 600 series adjacent to related standards. TIC also expressed some concern that adding the requirements to consider "risk of bias" and "contradictory" information could increase required audit documentation.
- [Proposed Statement on Standards for Accounting and Review Services: Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks](#). TIC's comments focused mainly on clarifying the document and making it easier to implement. TIC agreed with the proposed requirement to inform management of the reasons for withdrawing from a preparation engagement, but it noted areas of redundancy and offered editing suggestions. TIC also provided a proposed revision of a confusing definition of limited assurance in the ED. TIC questioned the need for additional application material on professional skepticism, but did call for more application guidance on the considerations and calculation of materiality to be used in designing review procedures and evaluating the results of those procedures, as well as added illustrations and examples. TIC thought that further comparisons to distinguish between materiality in an audit and in a review would be helpful.
- The Auditing Standards Board issued an ED of a proposed Statement on Auditing Standards (SAS) [Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134](#). In the ASB's effort to conform GAAS to the new auditor reporting standards, the proposed SAS aligns AU-C sections 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, and 810, *Engagements to Report on Summary Financial Statements* (the AU-C 800 series) with the reporting provisions of SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, and other recently issued SASs. Comments are due by October 28.
- The ASB's proposed SAS, [Auditing Accounting Estimates and Related Disclosures](#), will supersede SAS No. 122 section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and amend various other AU-C sections in *AICPA Professional Standards*. The proposed SAS is one piece of a larger project to enhance audit quality (as part of the AICPA's [Enhancing Audit Quality Initiative](#)) and is intended to enable auditors to appropriately address the increasingly complex scenarios that arise today from new accounting standards that include estimates and related disclosures, and to enhance the auditor's focus on factors driving estimation uncertainty and potential management bias. The ASB also believes the proposed changes will drive auditors to exercise professional skepticism, thereby improving audit quality. The comment period ends November 22.
- [AICPA Technical Questions and Answers \(TQA\) 9110.24–.27](#) (*AICPA, Technical Questions and Answers*) provide nonauthoritative guidance relating to the use of the Office of Management and Budget's 2019 *Compliance Supplement* for compliance audits performed under the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, also referred to as single audits. The TQAs provide background information on revisions made in the 2019 Supplement that change how an auditor determines which compliance requirements to audit and discuss whether an auditor may provide an opinion on compliance if the Supplement excludes certain direct and material types of compliance requirements from the scope of the audit, whether the Supplement's change of approach requires the auditor to revise the report on compliance, and whether an auditor may include an other-matter paragraph in the report to communicate information about the change to the Supplement. Please visit the [AICPA Governmental Audit Quality Center](#) website for additional information about single audits and the 2019 Supplement. ■

TIC Broadens Outreach on International Stage

Generally, U.S. accounting and auditing standard setters attempt to converge our standards as much as possible with international standards. As a result, in many cases, the standards adopted in the United States include guidance initiated by international standard-setting bodies. In response, TIC has taken a proactive stance in ensuring that all standards in development, in the U.S. and by international bodies, consider the unique needs of private companies. In one recent example, TIC worked with the Auditing Standards

Board to draft the AICPA [comment letter](#) on an International Auditing and Assurance Standards Board discussion paper on *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the International Standards on Auditing (ISAs)*. The discussion paper seeks ways to address long-standing scalability issues regarding the auditing guidance applied to private companies. ■

New Accounting and Valuation Guide

The AICPA released the new [Accounting and Valuation Guide, Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies](#), which provides nonauthoritative guidance and illustrations about the accounting for and valuation of portfolio company investments held by investment

companies within the scope of FASB ASC 946. This guide may also be useful for non-investment companies, such as corporate venture capital groups or pension funds, which make similar investments. For more information, see [the press release](#). ■

Let Us Hear from You

If you have questions, local firm advocacy issues or suggestions for TIC, contact:

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