AICPA® PCPS
Private Companies Practice Section

June 2017

Technical Issues Alert

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

TIC Monitors FASB Developments

How will planned accounting guidance affect private companies? What modifications could best address the needs of private company financial statement users? These are the kinds of questions discussed in TIC's regular interactions with Financial Accounting Standards Board staff. During their most recent phone call, TIC and FASB staff members covered:

Nonemployee Share-Based Payments. TIC generally agreed with a proposed Accounting Standards Update, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. In particular, TIC appreciated the alignment within the current accounting rules for employee share-based payments that the ED would achieve. In the meeting with FASB staff and in its comment letter submitted on May 12, TIC members also discussed some general comments on simplifications and other recommendations related to share-based payments, including some disclosure relief for private companies.

Liabilities and equity. TIC received an update on this project, including the board's latest thinking on down round features in financial instruments. TIC still thinks some additional improvements could be made in FASB ASC 480 and has communicated some of those issues in its comment letter on the Agenda Consultation ITC dated October 17, 2016.

Disclosure Framework. This project is examining disclosures in four areas. In January, the board issued a proposed Accounting Standards Update, *Inventory (Topic 330): Disclosure Framework—Changes to the Disclosure Requirements for Inventory*. The FASB staff is now planning to present the board with a formal summary of comment letters received on this ED. Additionally, on June 6, the board met with its Investor Advisory Committee to discuss the disclosure framework project. After that meeting, the staff will develop and present a plan for redeliberations. Read TIC's comment letter here.

Consolidation Reorganization and Targeted Improvements. FASB staff and TIC members discussed progress on this project, which is aimed at addressing complexity in this area. A TIC member attended the FASB roundtables in January 2017 where this was one of the major topics discussed. Recently, FASB announced that they have directed the staff to draft a proposed ASU that would provide some relief from the VIE guidance where common control exists.

Proposed Accounting Standards Update Debt (Topic 470) Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent). In its comments, TIC generally supported the objectives of this ED, which the FASB says aims to "replace the existing, fact-specific guidance with an overarching, cohesive principle." TIC did express strong reservations about the proposed treatment of short-term debt that is refinanced on a long-term basis after the balance sheet date. As a result of this change, decision-useful information would be found in the notes rather than on the face of the financial statements. Since licensing agencies,

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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:

- July 11 through 13, Norwalk, CT (TIC's annual liaison with the FASB, GASB and PCC)
- September 26 and 27, Coronado, CA
- November 14 and 15, Savannah, GA (TIC's annual liaison with the ARSC)
- January 17 and 18, San Juan, PR (TIC's annual liaison with the ASB)

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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banks, and other lenders often focus mainly on the financial statements, this could have negative consequences for entities that would be required to show the debt as current. TIC also offered observations on the ED's current proposed waiver requirements and its probability assessment of covenant waivers. TIC also suggested that private companies be given additional time to adopt this standard. ■

CPA and EBP Sponsor Comments Encouraged on an ERISA-Plan Audit ED

A new Auditing Standards Board ED, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, would make meaningful changes to audits of financial statements of employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974 (ERISA). TIC members recommend that practitioners involved in this practice area review and consider commenting on the ED and encourage clients who are plan sponsors do the same.

The proposed SAS addresses the auditor's responsibilities to form an opinion and report on the financial statements of ERISA plan financial statements, and the form and content of such reporting, including reporting on specific plan provisions relating to the ERISA plan financial statements and reporting when management imposes a limitation on the scope of the audit in accordance with ERISA section 103(a)(3)(C).

Additional information can be found in a blog on the AICPA Insights site. The proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2018. Comments are due by August 21.■

PEEC Proposals on Definition of a Client and NOCLAR

The AICPA Professional Ethics Executive Committee has issued an ED on *Client and Attest Client: Proposed Revised Definitions of Client and Attest Client as well as Related Definitions, Interpretations, and Other Guidance*. In its comment letter, TIC agreed with some portions of the ED, including a proposal that members would only be required to be independent of the subject entity when the engaging entity and the subject entity are different. The ED also clarifies that married couples should be considered one client for tax returns, a change that TIC believes will be helpful to many tax practitioners.

PEEC's proposed interpretations on *Responding to Non-Compliance with Laws and Regulations* would apply to CPAs in public practice and in business and industry. The proposal would provide new guidance for CPAs who encounter actual or suspected act of non-compliance with laws or regulations (NOCLAR) from a client or within the employing organization. TIC raised some concerns in a comment letter dated May 23, mainly related to the introduction of new documentation requirements.

In addition to other points made in its comment letters, TIC has provided questions on these EDs to representatives of the respective PEEC Client Task Forces and may have further comments based on their responses. ■

TIC in Action with Standard Setters

Advocacy on behalf of local firms and their clients in the standards-setting process is at the core of TIC's mission. Its outreach to standard setters may include discussing a proposal's cost-benefit analysis for private companies, pointing out a proposed requirement's unintended consequences, or providing standard setters with contacts in the user community who can offer some perspective on the potential effects of a proposed standard. TIC's cooperation with standard setters has resulted in important accomplishments that benefit our constituents. For example, FASB recently decided to give private companies more time to document and conduct what are known as hedge-effectiveness tests related to a proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815) Targeting Improvements to Accounting for Hedging Activities*. This well-advised decision by the FASB, which TIC recommended, is responsive to the unique financial reporting concerns of local firms and their clients and demonstrates the importance of a collaborative approach to standard setting.■

TIC Meets with PCPS Executive Committee

TIC was established by the Private Companies Practice Section (PCPS) to represent the interests of local and regional firms on technical issues. In a recent meeting with the PCPS Executive Committee, TIC Chair Mike Westervelt reviewed the many standard-setting developments that TIC is monitoring in accounting; auditing and attestation; preparation, compilation and review; ethics; government; and peer review. (Learn more about TIC's comment letters here.) TIC members also discussed the standard-setting task forces on which they're involved and the roundtables and public hearings they have attended to weigh in on important issues in development and described their most recent contacts with standard setters. ■

Comments Sought on Proposed Yellow Book Changes

The Government Accountability Office is seeking comments on proposed changes to *Government Auditing Standards* (the Yellow Book). The summary to the ED lists the major proposed changes. Comments, which are due by July 6, should be sent to the GAO's Yellow Book Comments inbox at YellowBookComments@gao.gov. TIC has submitted comments to representatives at the Governmental Audit Quality Center that will be incorporated into an all-encompassing letter from the AICPA. ■

Audit Update

- The AICPA's Question and Answer (Q&A) section 8200.17–.21 (*AICPA Technical Questions and Answers*) offers nonauthoritative guidance on internal control. The TQAs address many questions received from auditors and other members about what is meant, in AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, by controls relevant to the audit and control activities relevant to the audit.

- An updated audit and accounting guide on revenue recognition includes additional efforts of the AICPA's 16 industry task forces that were created to address industry-specific accounting implementation issues related to FASB Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, and related updates through ASU No. 2016-12. The update includes chapters on accounting implementation issues finalized to date in industries such as broker dealer, gaming, health care, not-for-profit, and software. Accounting and auditing content of this guide will be updated as additional implementation issues are finalized. Additional implementation issues are included in chapters 3, "Aerospace and Defense Entities," and 4, "Asset Management."

- The ASB has issued SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, AU-C sec. 570), to supersede SAS No. 126 of the same title. The primary objective for the new SAS was to consider the accounting provisions of FASB 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*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The SAS becomes effective for (i) audits of financial statements for periods ending on or after December 15, 2017, and (ii) reviews of interim financial information for interim periods beginning after fiscal years ending on or after December 15, 2017.

- The ASB's Attestation Interpretation No. 4 to AT-C section 105, *Concepts Common to All Attestation Engagements* (AICPA, Professional Standards), indicates that a practitioner may perform and report on an attestation engagement in accordance with AICPA attestation standards in addition to another set of attestation standards, as long as both sets of attestation standards are followed in their entirety. The interpretation includes examples of additional language that a practitioner may include in attestation reports to indicate that the engagement was conducted in accordance with AICPA attestation standards and another set of standards, if the practitioner chooses to reference both sets of attestation standards in the attestation report. ■

New AICPA Cybersecurity Risk Management Reporting Framework

With cybersecurity threats and attacks increasing around the world, the AICPA has introduced a market-driven, flexible and voluntary cybersecurity risk management reporting framework. The framework is designed to enable all organizations – in industries worldwide – to take a proactive and agile approach to cybersecurity risk management and to communicate on those activities with stakeholders. Related resources for CPAs include:

- Description criteria that management can use to offer consistent explanations of its cybersecurity risk management program and that CPAs can use to report on management's description.
- Control criteria for CPAs to use to provide advisory or attestation services to evaluate and report on the effectiveness of the controls within a client's program.
- An attest guide, *Reporting on an Entity's Cybersecurity Risk Management Program and Controls*, to assist CPAs engaged to examine and report on an entity's cybersecurity risk management program.

For more information and links to valuable resources for CPAs providing cybersecurity advisory and assurance services, visit the AICPA Cybersecurity Resource Center. ■

Interested in Joining TIC?

The PCPS Technical Issues Committee (TIC) is a respected voice for local CPA firms in the standard-setting process. TIC monitors standard-setting developments that will affect private companies and the CPAs who serve them, offering standard setters a unique perspective on accounting, auditing, and reporting issues. TIC is currently seeking volunteers to fill openings on the committee beginning in February 2018. Applications are due July 10. If you're interested in becoming a part of this influential committee, please apply on the AICPA Volunteer Central site. ■

Let Us Hear From You
If you have questions, local firm advocacy issues or suggestions for TIC, contact:

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