



# Technical Issues Alert

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

## TIC Liaison with the ASB

TIC meets annually with members of the Auditing Standards Board to discuss planned standards and implementation concerns with existing guidance. In their most recent liaison meeting, TIC and ASB members broke out into smaller groups that focused on specific issues, then reported on their discussions to the entire group. Topics included:

*ASB Proposed Strategy and Work Plan.* TIC members generally supported this proposal, which would establish the board's standard-setting strategy through 2022. They urged the board to do more outreach, however, to gather feedback from smaller entities and firms. TIC recommended using technology solutions for this feedback, including web-based conferencing, videos and online surveys. TIC also suggested that the ASB reach out to vendors to understand the timeline for creating the educational and software tools that smaller organizations and firms depend on for implementation and to consider that timeline in the board's planning. An acknowledgement of the intended scalability and flexibility of some guidance could also help clarify the expectations in a peer review, TIC members noted.

After the liaison meeting, TIC submitted a [comment letter](#) on this exposure draft that urged the ASB to keep in mind the impact of the pace of change and complexity on smaller firms as it develops new standards, recommending that it include scalability of standards in its mission. TIC also recommended that the ASB consider whether convergence

with international standard setters is always the right course, especially given different levels of complexity and legal challenges in the United States. TIC suggested creating an advisory board made up of a diverse group of audit practitioners, users and other stakeholders that would offer ideas on potential ASB projects, implementation solutions and scalability of standards, and restated the need for outreach to vendors that create software and educational materials.

*Audits of less complex entities (LCEs).* TIC provided significant input to the ASB [comment letter](#) in response to an International Auditing and Assurance Standards Board (IAASB) invitation to comment on *Audits of Less Complex Entities*. At their liaison meeting, the discussion included the potential scalability of existing standards and areas in which it might be appropriate to limit procedures for LCEs. The group also discussed the need for a clear definition of "less complex," since it might not always depend on or correspond to an organization's size.

*Risk assessment.* Scalability for smaller entities and firms was also top of mind for this group. TIC offered input on the unique control environment characteristics at smaller entities, and whether the standards can be sufficiently scalable to audits of these organizations. The group also discussed how to minimize the length of a standard while still offering sufficient guidance for implementation.

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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:

- May 5 and 6, 2020, Nashville, TN
- June 10, 2020, Las Vegas, NV: TIC meeting at Engage Conference
- September 21 to 23, 2020, Norwalk, CT: TIC's FASB, GASB and PCC liaison meetings
- November 10 and 11, 2020, location TBD

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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*Quality control standards.* The group discussed the IAASB's recent [ED on quality management](#) and how potential convergence of U.S. standards with the ED's guidelines would affect CPA firms that serve private U.S. companies, as well

as U.S. firms that act as component auditors on international engagements. The ASB is also monitoring the progress of a Public Company Accounting Oversight Board [project on firms' system of quality control](#). ■

## TIC Receives FASB and PCC Project Updates

TIC connects regularly with members of the FASB staff to offer input and receive information on standard-setting projects. Topics in their most recent discussion were:

- *Revenue implementation issues.* TIC and FASB staff members discussed the best ways to address questions or diversity that TIC has seen in practice. They included issues related to the effective date of Topic 606 when there is a business combination under Accounting Standards Codification 805 and the acquirer presents short-period financial statements beginning on the acquisition date, as well as questions relating to construction contractors addressing the classification and presentation of retainage.
- *Leases.* FASB continues to conduct outreach to gather information on questions and challenges in practice.
- *Accounting by a Joint Venture for Nonmonetary Assets Contributed by Investors.* FASB staff updated TIC on this project in progress. The FASB has done extensive research on the topic, which is not currently covered in the literature.
- *Identifiable Intangible Assets and Subsequent Accounting for Goodwill.* The staff is summarizing responses received in over 100 comment letters on this invitation to comment, and the board plans to meet soon to review them. The FASB has held two public roundtables on the topic.
- *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent).* The board issued a revised proposed Accounting Standards Update on this topic in the fall and the staff is now reviewing comment letters received.
- *EITF Issue No. 19-C: Warrant Modifications: Issuers' Accounting for Modifications of Equity Classified*

*Freestanding Call Options That Are Not within the Scope of Topic 718, Compensation—Stock Compensation, or Topic 815, Derivatives and Hedging.* This project in progress was added to the board's agenda to address diversity in practice.

- *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The final guidance on dealing with the replacement of the London Interbank Offered Rate (LIBOR), the global interest rate benchmark, with new benchmarks, is expected in the first quarter of 2020.

In addition, Private Company Council member Jeremy Dillard, a former TIC member, sat in on a recent TIC meeting and updated the committee on current PCC projects.

- *Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards.* The PCC has conducted extensive outreach with stakeholders on possible private company simplifications for standards on share-based compensation.
- *Profits interest.* The conversation covered the need for further guidance on this issue. TIC discussed the increase of these agreements—which are an equity right that gives the holder an interest in the future profits and appreciation of an LLC—with the PCC and the Financial Accounting Standards Board at its liaison meetings last fall, calling for further authoritative or non-authoritative guidance.
- *Accounting for digital assets.* TIC members discussed the uses of digital assets that they are seeing in practice and the need for consistent guidance. Practitioners can find more information in a recent AICPA practice aid, [Accounting for and Auditing of Digital Assets](#). ■

## ARSC Update

Accounting and Review Services Committee staff liaison Mike Glynn attended a recent TIC meeting and offered details of planned ARSC activities. Highlights included:

- ARSC voted to issue SSARS 25, based on its ED on [Materiality in a Review of Financial Statements, Adverse](#)

*Conclusions, and Special Purpose Frameworks.* The group discussed the definition of limited assurance that will be included in that standard, which is currently in production.

- ARSC next plans to review guidance on special purpose frameworks and TIC members offered suggestions for revisions.

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- ARSC plans to issue fewer standards going forward, having clarified and updated many standards in recent years.
- ARSC is working with the publications team on any changes needed to the *Preparation, Compilation, and Review Engagements Guide* for 2020. ■

## The Future of Ethics Standard Setting

[Strategy and Work Plan](#), a consultation paper from the AICPA Professional Ethics Division, addresses ethics issues to be considered in the near term in areas that include:

- Business relationships
- The definition of an office
- Client affiliates
- Artificial intelligence
- Simultaneous employment
- Digital assets
- 529 savings plans
- Reporting an independence breach
- De minimis fees
- New member enrichment projects

TIC plans to comment by the February 28 deadline. ■

## GASB Updates Implementation Guidance

The Governmental Accounting Standards Board's [Implementation Guidance Update--2020](#) offers clarification on a variety of areas, including the financial reporting entity, postretirement benefits, fiduciary activities, leases, certain asset retirement obligations and conduit debt obligations. In its [comments](#), TIC appreciated the proposed updates,

but recommended a different approach to the new Q&As on administrative involvement in fiduciary activities. Also, based on questions that practitioners are hearing in practice, TIC questioned if the practical expedient pertaining to the use of the lessor's incremental borrowing rate would resolve the difficulties with the discount rate that TIC's constituents are facing. ■

## Audit Update

- AICPA [Technical Questions and Answers \(TQA\) 6950.23--24](#) (AICPA, *Technical Questions and Answers*) provide nonauthoritative guidance relating to the application of GASB Statement No. 84, *Fiduciary Activities*. The [TQAs](#) provide background information on the standard's changes to the framework used to evaluate whether activities are fiduciary in nature and the standard's clarification that the reporting of fiduciary activities applies also to special-

purpose governments engaged in business-type activities (BTAs). One result of this standard is that some BTAs will be reporting fiduciary activities for the first time. Read about how an auditor would assess the appropriateness of a BTA's omission of its only fiduciary fund in the financial statements when the BTA considers the omission to be immaterial. ■

### Let Us Hear from You

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

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