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Feature Reports

FASB Tackles Business Versus Asset Issues in Acquisitions, Sales

Companies will have a clearer definition of a business entity—a key factor in accounting for the purchase or sale of a businesses or a group of assets—if U.S. accounting rulemakers make headway in a new standard-setting project that entails some coordination with their international counterparts.

The Financial Accounting Standards Board set out its tentative course Oct. 8 on a project to clarify the definition of a business, and later resolve related issues.

In the discussions at its weekly meeting FASB members voiced concerns about ''deconvergence'' with the International Accounting Standards Board on the two panels' similarly worded rules on business combinations—FASB's Accounting Standards Codification 805, formerly FASB 141(R), and IASB's IFRS 3).

Possible Friction. The U.S. board also engaged in debate Oct. 8 that might presage future discussions on topics and potential changes that could spark controversy, particularly among large companies in the U.S.

Some of the possible points of friction in the accounting rulemaking arena include:

- contingent consideration;
- the reporting of in-process research and development; and
- capitalization-versus-expensing of acquisition costs.

At its meeting, FASB signaled that it would focus first on clarifying the definition of a business, as FASB Chairman Russell Golden said. It would follow a ''phased'' approach, as Golden said—or an ''integrated'' approach, as board colleague Harold Schroeder phrased it—as FASB also would continue to search for ''potential solutions for differences in the recognition and derecognition accounting for assets and businesses,'' a FASB staff summary of board decisions said.

Along the way, FASB plans to study in-substance nonfinancial assets, partial sales, and retained interests and other asset-versus-entity differences.

Intersection With New Revenue Standards. The work that FASB might carry out—specifically on derecognition or disposal of nonfinancial assets—also holds the possibility of intersecting with the new, far-reaching revenue reporting standards that the FASB and IASB jointly issued in May (10 APPR 525, 6/6/14), (10 APPS 5, 6/6/14).

In coming weeks, FASB and its staff plan to refine the project plan and look toward discussing that with IASB.

The London-based international board is carrying out a post-implementation review of its combinations standard. However, any decision by IASB to possibly conduct standard-setting that might be spurred by the pending review wouldn't be made until the end of this year at the earliest, a FASB staff accountant said.

FASB's parent group, the Financial Accounting Foundation, completed in 2013 its own post-implementation review of the U.S. board's longstanding rules on combinations. The review spawned FASB's nascent work on clarifying the definition of a business (9 APPR 472, 6/7/13).

Why Business Definition Is Key. In accounting, the definition of a business is significant ''because it determines which accounting model, on acquisition and disposal of a business or a group of nonfinancial assets,'' is to be used, a FASB staff accountant told the board Oct. 8.

Issues arise with the definition because, during the FAF review of FASB's business combinations standard, ''we learned that preparers view the definition as being very broad and difficult to apply,'' said the staff accountant, Nick Burgmeier.

''We also know that it is a factor in determining the scope of the derecognition guidance under the new revenue standard and determining whether or not something is in the scope of that standard or in the deconsolidation guidance in [ASC] Topic 810.''

FASB STAFF ACCOUNTANT NICK BURGMEIE

''We also know that it is a factor in determining the scope of the derecognition guidance under the new revenue standard and determining whether or not something is in the scope of that standard or in the deconsolidation guidance in [ASC] Topic 810,'' Burgmeier said.

Definition Presents Challenges. The current definition of a business is found in ASC 805 signals a departure from a narrower definition worked out after great effort by FASB's Emerging Issues Task Force in EITF Issue No. 98-3. The EITF guidance pertains to determining whether a nonmonetary transaction involves receipt of productive assets or of a business.

The definition of a business in the EITF guidance and in ASC 805 differ significantly in several ways, according to a FASB staff handout prepared for the Oct. 8 meeting.

Those differences include the FASB combinations standard's removal of the requirement, found in EITF

98-3, ''that a business had to be a self-sustaining set of activities and have outputs,'' FASB's staff wrote.

In addition, the FASB standard states that ''a business need not include all of the inputs and processes that the seller used in operating the business if a market participant (not specifically the acquirer) is capable of acquiring the business and continuing to produce outputs by integrating the business with its own outputs and processes,'' according to the FASB meeting handout.

Burgmeier identified several challenges presented by the definition of a business, including ''understanding and interpreting what 'capable of producing outputs' means.'' The terms have been ''interpreted very broadly'' by companies, he said.

In addition, evaluating what is a ''process'' and what sort of processes should be included in the set of activities and assets acquired in order to meet the definition of a business also presented difficulties, Burgmeier suggested.

''Also, there's limited guidance on what isn't a business,'' he said.

Accounting Challenges in Certain Sectors. The interpretation of and use of the definition of a business have been particularly challenging in a number of sectors, such as pharmaceuticals, real estate and the extractive industries, or oil, gas and mining, Burgmeier told FASB.

He cited one example in real estate: the acquisition of a single-family home with a lease has been interpreted to be a business. ''And people find that to be kind of a broad interpretation,'' said Burgmeier.

Golden: 'People Pushing the Envelope.' Golden spoke of the accounting standards having ''incentivized people to push the envelope to determine if it's a business or an asset, depending on what they want.''

''I think that if we open it up, it's very likely that our compatriots in London will not want to change the accounting for IFRS 3. And if we move toward asset accounting rather than business accounting in some of these areas, we're going to be divergent on a major standard.''

FASB MEMBER THOMAS LINSMEIER

That view led the FASB chairman to say that he preferred to focus first on resolving differences in asset-versus-business accounting on topics such as contingent consideration, in-process research and development, acquisition–related costs and initial measurement.

FASB member Thomas Linsmeier said he believes ''there are too many things that are viewed as a business now.'' He also cautioned against opening a ''Pandora's box'' that he sees in trying to address— initially and full-on, he suggested—the differences in business-versus-asset accounting outlined above. Linsmeier voiced concerns about potential divergence from IASB on some key accounting rules.

''I think that if we open it up, it's very likely that our compatriots in London will not want to change the accounting for IFRS 3,'' he said. ''And if we move toward asset accounting rather than business accounting in some of these areas, we're going to be divergent on a major standard.''

In addition, Linsmeier voiced concern ''that some of these are vexatious issues and they're going to be huge arguments about which way we go and we could get entangled in a very long argument about how to be developing some of these things.'' He added: ''And I think we may potentially even create some other inconsistencies related to these transactions elsewhere in the literature.''

FASB Chairman's View of Roots of Problems. Golden stated his view that the differences in asset-versus-business accounting do not stem from fundamental differences in the economics of the transactions. Instead, said the FASB chairman, the problems largely arose because of ''how the board scoped 141(R).''

''I struggle with concluding that there's a fundamental, different economic phenomenon between purchasing an asset and purchasing a business, or selling an asset and selling a business.''

FASB CHAIRMAN RUSSELL GOLDEN

''Personally, some of these, I would go and vote on how you do it in an asset acquisition and some of these I would go and vote on how you do it in a business combination,'' Golden said of the issues such as contingent consideration and ''IPR&D,'' areas of differences in accounting. ''But I struggle with concluding that there's a fundamental, different economic phenomenon between purchasing an asset and purchasing a business, or selling an asset and selling a business.

''Yet we have substantially different accounting as a result of that,'' the FASB chairman added. ''And I think that's what puts pressure on the definition of a business.''

Smith on What He 'Hates the Most' in Accounting. One board member, Lawrence Smith, strongly criticized the current, fair value-based accounting prescriptions for contingent consideration contained in ASC 805.

He was new to the board in 2007 when the rules were revised, so he abstained the vote on those rules, he said Oct. 8. However, he would have cast his vote against issuing the standard over the contingent-consideration issue.

The treatment of contingent consideration is ''the one thing that I hate the most about accounting,'' Smith said. ''To me it's nonsensical that we cause people to fair value it when it's an item, it's contingent because the two parties that are closest to the transaction can't figure out exactly how to resolve the issue.''

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To him, Smith said, ''to think that we can come up with a fair value for that number is just totally nonsensical.''

In business combinations accounting, contingent consideration is recognized at the acquisition-date fair value, while changes in estimate are matched up through earnings after the acquisition date, according to the FASB meeting handout.

The FASB staff's Burgmeier said that preparers of financial statements—companies—''think that contingent consideration, if you aligned assets to the business combinations model, contingent consideration would be costly and burdensome.'' In carrying out such accounting, companies would have to ''update their fair value measurements on a quarterly basis,'' he said.

Burgmeier said FASB's staff believes that direction ''would be controversial with preparers.''

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: Steven Marcy at smarcy@bna.com

☐ *FASB background materials on issues discussed at the Oct. 8 meeting are available at http://www.fasb.org/resources/ccurl/939/208/2014-10-08_bmho.pdf.*

Accounting&Disclosure

Income Taxes

FASB Votes to Issue Proposal On Amendments to Income Tax Accounting

The Financial Accounting Standards Board said it will issue a proposed accounting standards update to eliminate the exception under current income tax accounting rules for intra-entity asset transfers and the balance sheet classification requirement for deferred taxes.

The proposed guidance would amend the decades old standard, ASC 740 (formerly FASB Statement No. 109), Income Taxes, to address concerns that certain rules make it difficult to apply the standard. They also produce information that is hard to understand.

Especially daunting has been the number of exceptions to the fundamental principles of the accounting for income taxes that increases complexity and decreases transparency, preparers have said.

FASB Oct. 22 voted 6-1 to eliminate an exemption to the income taxes accounting model that prohibits the recognition of income tax consequences of intra-entity transfer of assets.

The board said it would simplify the guidance by requiring that an entity account for the tax effects arising from the transfer when the transfer occurs.

"I believe that this would result in a better depiction of the economics of the tax impacts of these transfers. Recognizing of course that perhaps it may accelerate recognition of some things on the beneficial side that might cause some confusion."

FASB MEMBER DARYL BUCK

"I believe that this would result in a better depiction of the economics of the tax impacts of these transfers," said FASB member Daryl Buck. "Recognizing of course that perhaps it may accelerate recognition of some things on the beneficial side that might cause some confusion," he said.

Classify All Deferred tax Assets, Liabilities as Noncurrent. FASB also voted to eliminate the requirement for an entity that presents a classified statement of financial position to classify deferred tax assets and liabilities as current and noncurrent.

The board, by a 5-2 majority, said it will instead require that the entity classify all deferred tax assets and liabilities as noncurrent in the statement of financial position.

Current accounting guidance for income taxes requires deferred taxes for each tax-paying component to be presented in two classifications: a net current asset or liability and a net noncurrent asset or liability.

The requirement to present deferred tax accounts as current and noncurrent in a classified statement of financial position is costly and provides little to no incremental benefits to users of financial statements, because the classification doesn't always align with the time period in which the recognized deferred tax amounts are expected to be recovered or settled, according to a board handout.

"I was okay with putting them all in one place and calling it noncurrent, because I think the predominant deferred tax asset and deferred tax liability will roll more than a year out and is related to assets and liabilities that are more associated with noncurrent," said FASB Chairman Russell Golden.

"I recognize [the label noncurrent] is not pure, but it's a cost savings; it's all in one place and I thought it'd give investors enough to know what the changes are for deferred tax assets and deferred tax liabilities," he said.

Transition, Disclosures. Related to the changes for intra-entity transfers of assets, FASB said it would require modified retrospective transition with a cumulative catch-up adjustment to opening retained earnings in the period of adoption.

Related to the issue of classification of deferred tax assets and liabilities as noncurrent, companies would be required to apply the guidance prospectively.

In terms of disclosure requirements, at a minimum, companies would be required to disclose the nature and reason for the change.

Effective Date. FASB said it would propose that the guidance should be effective for annual periods including interim periods within those annual periods beginning after Dec. 15, 2016 for public companies.

Private companies would have an additional year to adopt the guidance for annual periods and interim periods thereafter, the board said. Early adoption would be permitted.

The proposal, part of the board's simplification initiative, is expected to be issued for public comment in January with a 120-day comment period, the board's discussions indicated.

BY DENISE LUGO

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

To contact the editor on this story: Ali Sartipzadeh at asartipzadeh@bna.com

☐ *For a copy of the board's handout go to: http://www.fasb.org/*

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Asset Impairment

FASB to Keep Other-Than-Temporary Impairment for Certain Equity Securities

A controversial practice for potential write-downs known as ''other-than-temporary impairment'' would be left in current rules for equity securities accounted for using the equity method for investments, according to a tentative decision made by a divided Financial Accounting Standards Board.

By a 4-3 vote at its Oct. 22 meeting, FASB concluded that equity method investments should be removed from the scope of its financial instruments project.

The FASB's taking that approach would retain current generally accepted accounting principles for gauging impairment of the equity method investments, as the board's staff wrote in a meeting handout.

That approach would mean an enterprise would not record an impairment, or a loss in fair value below book value, if the enterprise believes that the value of the investment would recover, a staff accountant said.

Path Would Allow Forecasts of Recovery. FASB Chairman Russell Golden suggested that the alternative ultimately chosen by the board ''allows you to forecast recovery.'' The approach that was rejected by the board doesn't.

More specifically, the panel didn't endorse an alternative that called for the one-step impairment guidance prescribed in an exposure draft on classification and measurement of instruments. That modified one-step approach would have allowed an insignificant difference between the fair value and the carrying amount not to be recorded as an impairment loss.

Under the rejected approach, impairment would be defined as the presence of one or more specified impairment indicators. Those indicators, according to the FASB's proposed accounting standards update, would include:

- ''a significant deterioration in earnings performance, credit rating, asset quality or business prospects of the investee'';
- ''a significant adverse change'' in the regulatory or economic environment of the investee; and
- a significant negative change in general market conditions of either the geographic area or the commercial sector in which the investee operates.

Under the rejected approach, when an impairment is identified, an entity would have to determine the difference between the fair value and the carrying value to be recognized as an impairment loss in earnings, FASB's staff wrote in the meeting handout.

The equity method of accounting is defined in Kohler's Dictionary for Accountants as the periodic adjustment of a parent company's investment in a subsidiary—consolidated or not—to the book value reflected in the subsidiary's records and for the eliminations required for consolidated statements.

Not a Major Issue. Several board members didn't regard the issue as a major one, especially in the context of the larger project on accounting for financial instruments and how to classify and measure instruments.

However, board members whose positions tend to align more with those of analysts and users of financial statements signaled that they take a dim view of the notion of ''other-than-temporary'' impairment.

Thomas Linsmeier, a FASB member, said that the practice known commonly as ''OTTI'' is inoperable as a concept, especially for equity securities. Leaving other-than-temporary impairment in GAAP for equity method investments as one available model for accounting is ''troublesome,'' he said.

"I don't think you can ever predict when equity securities are going to turn around or not."

FASB MEMBER THOMAS LINSMEIER

''I don't think you can ever predict when equity securities are going to turn around or not,'' Linsmeier said.

Those who voted in the majority, including Lawrence Smith, have often pointed out what they view as the shortcoming of other-than-temporary impairment as an accounting method or principle.

FASB Vice Chairman James Kroeker, who voted in the majority, suggested he would ''preserve the status quo'' for now until the board could consider broader, related issues in a separate rule-making effort.

FASB Chooses One Impairment-Probability Threshold. In related action Oct. 22, the board chose a single probability threshold that would be key in the proposed impairment assessment of investments in equity securities gauged under a practical expedient it tentatively endorsed earlier this year.

FASB unanimously supported removing the threshold of ''more likely than not'' from the one-step impairment assessment of equity securities investments measured by way of the practical expedient.

The board's formal timetable doesn't contain an entry for the calendar quarter in which it plans to complete its long-running project on financial instruments.

However, FASB expects to publish new standards for instruments sometime in 2015.

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: Steven Marcy at smarcy@bna.com

☐ *A detailed FASB handout on the equity securities accounting issues discussed Oct. 22 is available at http://www.fasb.org/resources/ccurl/451/398/20141022-bmho.pdf.*

An update on the financial instruments project is posted at http://www.fasb.org/jsp/FASB/FASBContent_C/ProjectUpdatePage&cid=1176159267718.

Leasing

FASB, IASB Continue to Wrestle With Sharpening Definition of a Lease

How to sharpen the definition of a lease—a critical issue in high-priority rulemaking in leases—consumed about 90 minutes of ultimately inconclusive discussions by the Financial Accounting Standards Board and its international counterpart.

Meeting by video-conference Oct. 22, FASB and the International Accounting Standards Board made tentative plans to meet again in November and arrive at decisions on how each board would define a lease and make clearer concepts staked out in earlier rulemaking in the long-running, high-priority joint project.

In the meantime, staff accountants expect to further mull the points made by various board members and consider further refinements of language.

As has been the case fairly often in the leases effort, a number of FASB members recorded leanings toward one defined approach and several IASB members said they leaned toward or supported an alternative.

Making a Workable, Appropriate Distinction. The two panels probed how they might make a workable and appropriate distinction between the alternative approaches.

A key purpose of the refining would be to distinguish between those contracts and transactions that would trigger different lease accounting prescriptions proposed by IASB and FASB and those that wouldn't be treated as leases, but as service arrangements.

Although they differ on expense recognition stemming from leases, the boards have both concluded that leases should be recorded on the balance sheet—a treatment that, for many enterprises, would be vastly different than today's off balance sheet reporting of many leased assets.

Although they differ on expense recognition stemming from leases, the boards have both concluded that leases should be recorded on the balance sheet—a treatment that, for many enterprises, would be vastly different than today's off balance sheet reporting of many leased assets.

Under an alternative tentatively favored by a number of FASB members, the linchpin notion of a lease would be that "the customer must have the ability (the possession of the means or skill) to derive the economic benefits from directing the use of the identified asset on its own or together with other resources that are readily available to the customer," according to a FASB and IASB agenda paper presented to the boards.

That alternative suggests that the above notion "must be the case for the supplier's performance at lease commencement to result in probable future economic benefits to the customer (separate from the supplier's continued or ongoing performance)," staff accountants added.

By contrast, the alternative toward which several IASB members leaned "would not include a requirement in the final leases standard that the customer must be able to derive the economic benefits from directing the use of an identified asset on its own or together with other resources that are readily available to the customer in order for the contract to contain a lease," according to the staff-written memo.

That alternative therefore would lead to a conclusion "that a customer controls the use of an asset if it directs the use of the asset and has the right to obtain substantially all the economic benefits from directing the use of the asset during the period of use," the IASB and FASB staff accountants wrote.

How to Differentiate, More Simply. To distill core, differentiating concepts, Scott Muir, a FASB staff manager of the leases project, pointed to a key paragraph in the memo. That paragraph (number 28) states that "the staff proposes clarifying a customer has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used. That would include the right to change how and for what purpose the asset is used throughout the applicable period of use."

"In contrast, if the supplier has that right, it directs the use of the underlying asset, and a lease wouldn't exist," the staff accountants wrote.

During the extensive discussions, several members of the boards and staff accountants suggested one task in the rulemaking would be avoiding language that could present opportunities for companies to structure transactions to make end runs around on balance sheet accounting in order to manage earnings.

One Decision, Jointly Made. "At their joint meeting, FASB and IASB tentatively agreed to support their staffs' recommendations on more basic clarifications and simplifications with regard to a customer's right to direct the use of an identified asset before you get to the two alternatives debated by the boards," said Muir.

"Those tunings of language are contained in paragraph 89 of the agenda paper prepared for the Oct. 22 meeting," said Henry Rees, a senior staff accountant at IASB.

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: Ali Sartipzadeh at asartipzadeh@bna.com

☐ *The detailed agenda paper (Paper 3A) on leases is available athttp://www.ifrs.orgunder "Meetings Diary," for Oct. 22.*

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Accounting Standards

FASB Okays 'Pushdown Accounting' Opposed by Banking Regulators, Other Items

New rules that would expand the use of ''pushdown accounting'' over the objections of banking regulators have been endorsed by the Financial Accounting Standards Board.

FASB voted 5-2 to ratify final guidance containing an option to carry out pushdown accounting, a form of post-acquisition reporting. Board members Marc Siegel and Thomas Linsmeier plan to formally dissent on the guidance, which is built on the collective view of FASB's Emerging Issues Task Force.

Other Items Approved. At its Oct. 8 meeting, FASB also ratified another item of final EITF-derived guidance on certain hybrid financial instruments that have traits of debt and equity (EITF Issue No. 13-G).

In addition, the board cleared two items of proposed ''consensus positions'' of EITF for 75-day comment periods:

- Issue 14-A, on earnings-per-unit impacts of ''master limited partnership dropdown transactions''; and

Accounting Standards

FASB Proposals on Retirement Benefits to Simplify GAAP

Companies would be required to present debt issuance costs on the balance sheet in a way that aligns such reporting with how debt discounts or premiums are shown if a proposed prescription by the Financial Accounting Standards Board becomes a final standard.

The exposure draft on debt issuance costs, issued by FASB Oct. 14 as part of a broad simplification effort, calls for presentation of the debt issuance costs as a direct deduction from the carrying amount of debt liability. The proposal is Interest—Imputation of Interest Accounting Standards Codification Topic 835-30: Simplifying the Presentation of Debt Issuance Cost.

In related action by FASB to counter complexity in financial reporting rules, the board also issued on the same date a proposal that would offer an easier route for employers on when they measure defined benefit plan assets and obligations.

If those employers' fiscal year-ends don't land on a month-end, they would be allowed to gauge plan assets and liabilities as of the month-end that is closest to the entity's fiscal year-end. Going forward, if they elect that measurement methodology, they would follow it consistently from year to year, according to the FASB exposure draft, Compensation—Retirement Benefits ASC Topic 715: Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plans Assets. FASB requests that interested parties submit comments on each exposure draft by Dec. 15.

Proposals to Cut Complexity. The two Oct. 14 exposure drafts represent FASB's latest efforts in a series of narrow-scope proposals to cut complexity in accounting standards. The board started what it calls its ''simplification initiative'' in June. In the initiative, FASB aims to address some of the more complicated areas of generally accepted accounting principles by carrying out relatively quick-hit projects. The board plans to finish each small project ''in a relatively short time period,'' panel Chairman Russell Golden wrote in a recent edition of ''FASB Outlook.''

On July 15, FASB issued an exposure draft on measurement of inventory under ASC 330 (136 DTR G-3, 7/16/14; 10 APPR 661, 7/18/14).

In that, the board acted on shareholder concerns ''about the complexity of current guidance on measuring inventory by requiring organizations to estimate only net realizable value when measuring inventory,'' according to Golden's ''From the Chairman's Desk'' memo in FASB Outlook. Also on July 15, the board published a proposed standard that would eliminate the category in income statements known as ''extraordinary items'' under ASC 225-20.

Comment periods for each of those proposals ended Sept. 30. FASB is studying respondents' comment letters and plans redeliberations in coming weeks.

'Many More Projects.' In his memo for ''FASB Outlook,'' Golden wrote that the board anticipates ''adding many more projects'' to its simplification initiative ''down the road.''

In the memo, Golden gave credit to Albert Einstein for the statement the FASB chief quoted: ''If you can't explain it to a six year old, you don't understand it yourself.'' He wrote that the quotation puts ''a stake in the ground for the FASB as it seeks to reduce complexity in GAAP.''

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

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

☐ *The Oct. 14 exposure drafts that are part of FASB's broad-front simplification effort are available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1175805074609. A summary of the simplification effort, written by FASB's chairman, is posted at http://www.fasb.org.*

BY STEVE BURKHOLDER

■ Issue 14-B, on fair value gaugings for certain investments measured at net asset value.

Pushdown Accounting Choice: Unconstrained? In the new rules on pushdown accounting (Issue No.12-F), an acquired entity would have the choice of reporting on the basis of its parent's accounting—effectively ''pushed down''—in revaluing assets and liabilities.

Over the summer, before EITF voted out the proposed guidance Sept. 18, the chief accountants of the federal banking regulatory agencies wrote a letter criticizing the collective view of the standing task force. The regulators stated that the guidance would ''detract from accounting consistency and comparability'' and provide ''an unconstrained choice of accounting policy'' (10 APPR 872, 9/26/14).

Banks such as Citicorp, as well as insurer MetLife and the Technical Issues Committee of the American Institute of CPAs, are among the companies and groups that support the ratified rules on pushdown accounting.

In the new rules on pushdown accounting, EITF aims to remedy diversity in accounting among nonpublic enterprises. Private companies don't apply a Securities and Exchange Commission staff accounting bulletin on the topic—SAB 5-J.

Applied by Acquired Entity. The new guidance, which goes into effect on issuance of an accounting standards update built on the EITF view, would be applied by the acquired entity, both public and nonpublic.

Earlier this year, FASB cited ''practice issues'' that exist in the application of pushdown accounting principles ''for all entities'' in light of the limited guidance that exists.

Banks such as Citicorp, as well as insurer MetLife and the Technical Issues Committee of the American Institute of CPAs, are among the companies and groups that support the ratified rules on pushdown accounting.

FASB Members' Dissenting Views. At FASB's Oct. 8 meeting, Siegel suggested that the changes that EITF made recently to the proposed guidance, as outlined by a staff accountant, didn't address his concerns. Those concerns—shared by Linsmeier—were laid out in their ''alternative views'' in the April 28 proposed Accounting Standards Update that described the pushdown accounting policy path cut by the task force.

Linsmeier said at the board meeting, referring to the final EITF guidance, ''the changes made it worse, in my view.''

''And I don't remotely understand decisions to let someone, after the fact, push down,'' he added. That would afford a choice ''of looking at what the accounting would have been if I had pushed down, and if hadn't pushed down over a period of time,'' he said. ''And if my reports don't look as good as I liked, and the alternative would be better, you have an opportunity to make a choice.''

Linsmeier also said that he doesn't understand ''remotely the noncomparability that's introduced by having the pushdown skip over the parent of the sub[sidiary], and then end up consolidating that sub to the parent.'' He suggested that would result ultimately ''in having the parent of the sub, either having a 100 percent pushdown, or whatever they're consolidating have a partial pushdown, in the parent's books, unless the parent has a choice to ignore the pushdown in the sub's books in the consolidation decision.''

''I believe the separate financial statements of the acquiree primarily are not for the parent's use. Those separate statements are primarily for the noncontrolling interest and the debt holders.''

FASB MEMBER THOMAS LINSMEIER

Linsmeier cited his primary reason for dissenting against pushdown accounting: ''I believe the separate financial statements of the acquiree primarily are not for the parent's use. Those separate statements are primarily for the noncontrolling interest and the debt holders.''

'Great Problems.' Linsmeier noted the new guidance's change-of-control threshold, now based on a certainty level—effectively ''a change of control at 50 percent,'' he said—also criticized by banking regulators. He argued that there are ''great problems,'' especially with the language on change of control, ''in serving those other stakeholders by pushing down the parent's point of view to the separate financial statements.''

In their formally stated alternative views, Siegel and Linsmeier also focused in part on the lack of suitability, in their view, of an option to take the pushdown accounting path. Linsmeier suggested Oct. 8 that the availability of the option to apply pushdown accounting reinforced his opposition.

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: Steven Marcy at smarcy@bna.com

☐ *A FASB meeting handout on the four EITF items discussed Oct. 8 is available at http://www.fasb.org/resources/ccurl/939/208/2014-10-08_bmho.pdf. The April 28 draft ASU on pushdown accounting, which contains the alternative views, is posted at http://www.fasb.org.*

Share-Based Payment

FASB Starts Work to Improve Accounting for Stock Compensation

The Financial Accounting Standards Board has begun work on several tax-related issues in its nascent effort to improve accounting for stock-based compensation.

FASB, which plans to issue draft standards on share-based payment accounting in coming months, seeks to curb diversity in practice and clarify or simplify existing generally accepted accounting principles, ASC 718, formerly FAS 123(R).

Scope of Project. The board's Oct. 8 tentative decisions defined the scope of the new project and include:

- classifying as a financing activity the cash flow stemming from cash paid to meet minimum statutory tax withholding requirements when the employer directly withholds shares to meet those requirements;
- prescribing that a share-based payment award partially cash-settled for tax withholding purposes, in which the withheld amount is the maximum marginal tax rate in a given jurisdiction, would not lead, by itself, to the award being deemed a liability;
- allowing companies to choose to either estimate forfeitures or to account for forfeitures as they occur on accounting for forfeitures, or awards that will not vest ;
- calling for recognition of all excess tax benefits and all tax deficiencies within the income statement, and, relatedly, removing the requirement to not recognize an excess tax benefit until it is realized on income taxes upon vesting or settlement of stock awards; and
- prescribing that all income tax cash flows should be presented as cash from operations on presentation of excess tax benefits on the cash flows statement.

On the last issue, as FASB's staff explained in background materials for the meeting, ''excess tax benefits result in a reduction of income taxes an entity has to pay.''

Diverting from the APIC treatment, the board elected that the excess tax benefits and all tax deficiencies should go to the income statement.

FASB's related tentative decision on excess income tax benefits and tax deficiencies would result in elimination of ''additional paid-in capital,'' or APIC. Such accounting has led to accumulated excess tax benefits forming what is known as the ''APIC pool,'' treatment that FASB Vice Chairman James Kroeker, for one, criticized Oct. 8.

Diverting from the APIC treatment, the board elected that the excess tax benefits and all tax deficiencies should go to the income statement.

FASB to Spin Off Non-Employee Issues. In other action Oct. 8, FASB decided to not take up non-employee share-based payment transactions in the fresh project on improving accounting for stock-based awards.

Instead, as FASB Chairman Russell Golden proposed, certain types of activities related to non-employee services and ''unresolved performance conditions'' would be considered by the board in a separate ''spin-off'' project. Non-employee stock awards hinge on achieving counterparty performance conditions, FASB's staff suggested in a board meeting handout.

The planned route toward a spin-off project would require a formal decision on whether to add such a rule-making effort to the board's agenda. In preparation for that decision, FASB directed its staff to carry out more research on the issue.

As board member Lawrence Smith phrased it, such a project on non-employee share-based payment transactions would be ''effectively looking at changing the scope of 123(R),'' or ASC 718, the existing main GAAP on accounting for stock-based compensation.

Staff to Study Private Company Questions. The accounting issues that FASB tentatively decided on Oct. 8 pertain to both private and public companies. Some of the issues, such as accounting forfeitures, appear to be more salient for private companies as well as smaller public companies.

FASB also elected at its weekly meeting to have its staff do more research on several possible avenues to ease the burden for private companies in accounting for share-based payment awards issued to employees.

The preliminary list of topics of study related to private company accounting includes:

- the possibility of practical expedients related to expected term and intrinsic value for awards classified as liabilities;
- formula value plans, marked by purchase prices based on formulas derived from or as proxies for fair value; and
- classification of awards.

FASB hopes to issue an exposure draft containing the proposed improvements to accounting for share-based payment in coming months. That most likely would take place early next 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: Steven Marcy at smarcy@bna.com

☐ *A FASB staff handout on the share-based payment accounting issues discussed Oct. 8 is available at http://www.fasb.org/resources/ccurl/939/208/2014-10-08_bmho.pdf. FASB expects to post a summary of the board's tentative decisions on the project at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220079432.*

International Standards

IASB Panel Mulls Various Approaches For Shaping Board Research Agenda

The International Accounting Standards Board needs to involve stakeholders at the initial stages of research on particular topics, several members of an IASB advisory panel said Oct. 16.

''Get us involved early,'' a member of the board's Capital Markets Advisory Committee (CMAC) recommended during its meeting in London.

Early engagement, a committee member said, requires IASB to conduct investor education on key topics before it prepares exposure drafts on changes to its standards.

IASB Senior Technical Director Alan Teixeira, who briefed the committee on the board's research plans, noted that financial report preparers typically are the major responders to research initiatives.

Board Wants Wider Array of Input. The board, however, wants to solicit the views of investors and other users of financial information in its research activities, he said.

Teixeira queried CMAC members about what stages in project development are best suited for soliciting feedback from stakeholders, such as early in research initiatives, during project development or in post-implementation reviews.

He also asked meeting participants what types of input—for instance, one-to-one discussions, meetings and surveys—are most effective.

Problems With Early Involvement. Though some CMAC members urged IASB to foster early stakeholder involvement in research projects, others highlighted the challenges in this approach.

''Everybody who disagrees with you will jump in early and make your life miserable,'' a committee member said.

He pointed to the ongoing debate over accounting in extractive industries, a controversy that has lingered for more than a decade without consensus.

Degrees of Interest. Other meeting participants said that feedback on research most likely will come from stakeholders with particular concerns, and that those who are satisfied with current research approaches might see no need to make their voices heard.

The intensity of interest in a particular topic also drives participation, a CMAC member said.

He cited as an example a recent meeting in Stockholm on the IASB's leasing proposal, which drew a large number of participants.

Broader Concerns. Challenges in soliciting feedback from stakeholders on the IASB's research agenda reflect a fundamental problem with the board's standard setting, a committee member said.

Many stakeholders lack the time to participate effectively in IASB deliberations, he said, and find it difficult to justify to their employers the effort needed for involvement in board activities.

He called on the IASB to seize the initiative in garnering input, rather than waiting for responses.

''You have to go to them,'' he said, with special presentations geared to particular stakeholder concerns.

Supporting Evidence. The IASB research program plays a key role in the board's process of setting international financial reporting standards, Teixeira said in his briefing to the committee, by gathering evidence that underpins board decisions.

The board's parent organization, the IFRS Foundation, in 2012 ''supported a move to more evidence-supported decision making, with more emphasis put on the research phase of the process,'' he said.

A strong body of evidence is critical for standard setting, Teixeira noted, as observers increasingly are demanding that IASB justify its decisions on such thorny topics as leases and revenue recognition.

Defining Problems. The research program emphasizes defining problems—identifying whether there is a financial reporting matter that, based on the evidence, justifies an IASB effort.

The research program 'is designed to shorten the time needed to develop improvements to financial reporting.'

IASB SENIOR TECHNICAL DIRECTOR ALAN TEIXEIRA

This can lead to further research or adding a topic to the IASB's standards-level program—or recommending that the board not develop a standard, Teixeira said.

Reducing Development Time. The research program ''is designed to shorten the time needed to develop improvements to financial reporting,'' he said.

This might involve clarifying a concern in the early stages of standard setting—before a solution is developed—and feeding research findings into a proposal, as was done with the IASB's current Disclosure Initiative.

Setting the Agenda. The research program currently has more than a dozen topics on its agenda, divided into priority, medium priority or longer-term initiatives.

The priority list comprises nine topics, such as business combinations under common control, dynamic risk management, the equity method and rate-regulated activities.

Liabilities—amendments to International Accounting Standard 37—along with performance reporting and emissions trading schemes are designated medium priority, while longer-term initiatives include extractive activities and post-employment benefits.

Problems With Labels. Labeling projects as priority, medium priority or longer-term can generate confusion, Teixeira told Bloomberg BNA on the sidelines of the meeting.

The labels don't indicate the importance IASB places on a research project, he said, and the IASB doesn't necessarily allocate greater resources to, say, a priority project than to a medium priority initiative.

Rather, the labels should be viewed in terms of timetables, with priority projects set for completion ahead of others.

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

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☐ *The CMAC research briefing is available at http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2014/October/CMAC-AP-5-Research-Projects-and-Investor-Involvement.pdf.*

International Standards

More Japanese Firms Likely to Adopt IFRS in Coming Years, PwC Predicts

Japanese companies continue to move toward voluntary adoption of International Financial Reporting Standards, though significant challenges remain, PricewaterhouseCoopers said in a study published Oct. 21.

The analysis, which compares and contrasts Japan's Generally Accepted Accounting Principles with IFRS, forecasts ''that the number of entities in Japan that voluntarily adopt IFRS will increase as they take account of global business activities and strategies or mid and long term business plans.''

As a result, PwC said, IFRS in general is expected to take on growing importance for corporate managers and investors in Japan, and for practitioners in Japanese accounting and finance.

Moving Toward Convergence. The 148-page study followed developments in Japan through December 2013.

The Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board reached a formal agreement in 2007 on moving toward convergence of Japan's GAAP and IFRS when they signed a pact known as the Tokyo Agreement (4 APPR 364, 4/18/08).

An assessment by the IFRS Foundation. last updated in March, found that 34 Japanese companies have either applied IFRS or have publicly indicated their intention to use it for preparing consolidated financial statements.

When Japan joined the Accounting Standards Advisory Forum this agreement was superseded, the International Financial Reporting Standards Foundation, the IASB's parent organization, said in a separate analysis.

Fostering Voluntary Application. Certain companies in Japan have been permitted to voluntarily adopt IFRS since 2010, and through the fiscal year ending March 2014, 25 listed entities have applied it, PwC said.

An assessment by the IFRS Foundation. last updated in March, found that 34 Japanese companies have either applied IFRS or have publicly indicated their intention to use it for preparing consolidated financial statements.

PwC credited efforts by the Business Accounting Council of Japan to relax requirements for voluntary IFRS application with increasing the number of companies eligible to adopt IFRS. The Business Accounting Council of Japan is a part of Japan's national financial services regulator, the Financial Services Authority.

Treating Business Combinations. IFRS and Japan's GAAP have largely converged in some areas, such as business combinations, PwC found.

Still, differences on accounting for business combinations persist. The two standards, for example, treat amortization of goodwill and accounting for non-controlling interest differently.

Accounting for Derivatives. Even greater differences remain between IFRS and Japan's GAAP on derivatives and hedge accounting.

''In the area of derivatives, there are differences in the definitions and the bifurcation criteria for embedded derivatives.'' the study said.

Further, IFRS establishes requirements for whether day one gains and losses can be recognized at initial recognition.

In contrast, Japan's GAAP has no requirements for recognizing day one gains and losses.

Key Changes Needed. Companies in Europe and Asia that have converted from GAAP to IFRS, which begins with IFRS 1, First-Time Adoption of International Financial Reporting Standards, often have found the effort to be drawn-out and complicated, PwC said, and Japanese companies likely will face similar challenges.

''Many companies will need to make changes to existing accounting policies to comply with IFRS, including in key areas such as revenue recognition, inventory accounting, financial instruments and hedging, employee benefit plans, impairment testing, provisions, and stock-based compensation.'' according to the PwC analysis.

Assessing Accounting Policies. For instance, they might need to gather and calculate information required under IFRS that was not required under GAAP.

Japanese companies adopting IFRS also might be required to consolidate entities that were not consolidated under GAAP.

PwC advised Japanese companies to use the transition from GAAP to IFRS to take a fresh look at their accounting practices.

''Companies should consider the opportunity to explore alternative IFRS accounting policies that might better reflect the economic substance of their transactions and enhance their communications with investors.'' PwC recommended.

New Proposed Standard. The release of the PwC study comes as the ASBJ, the nation's standard setter, is accepting public comments on its proposed fourth accounting standard.

The ASBJ this year published an exposure draft, Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRS and the ASBJ Modifications, on the fourth standard(10 APPR 743, 8/15/14).

Addressing Goodwill. The proposed changes in the fourth standard include treatment of goodwill amortization, a topic on which IFRS and Japan's GAAP diverge, PwC found.

Under the exposure draft, goodwill constitutes the cost of an investment and should be amortized, and it should be recognized as an expense so that it corresponds with the operating results after a business combination is completed.

The proposed standard suggests a 20-year time frame for the amortization of goodwill (10 APPR 293, 3/28/14).

The deadline for submitting comments on the exposure draft is Oct. 31.

Expanding Eligibility. Of 138 jurisdictions the IFRS Foundation has surveyed, Japan is among 12 nations, including India and Switzerland, that allow but do not require IFRS use (10 APPR 920, 9/25/14).

A foundation 2014 profile of Japan echoed PwC's findings that the nation's Financial Services Authority has smoothed the way for more Japanese companies to apply IFRS by eliminating in 2013 several requirements that limited the number of companies that could adopt it.

''As a result, the number of companies eligible to apply IFRS was increased from 621 to 4,061, covering virtually all listed companies and unlisted companies preparing consolidated financial statements for listing purposes.'' the foundation said.

Uncertain Future. Despite progress in allowing more Japanese companies to adopt IFRS, the future of convergence between international and Japanese accounting standards remains cloudy.

FSA's Business Accounting Council issued in 2013 a report, The Present Policy on the Application of International Financial Reporting Standards, that emphasized the nation's commitment to high-quality global accounting standards, but cautioned that IFRS might not prove suitable for all Japanese companies.

The council said, ''Current IFRS include provisions that are hard to be accepted as basic concepts, items that do not fit with the reality of Japanese business management and business activities and cost too much to introduce, and items that are under development by IASB.''

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: Ali Sartipzadeh at asartipzadeh@bna.com

Financial Restatements

U.K. Watchdog to Identify Companies It Directs to Restate Financial Reports

U.K. companies that the Financial Reporting Council requires to significantly revise their corporate reports and accounts would be identified in an FRC annual report under revised council procedures unveiled Oct. 7.

The FRC, which sets national standards for accounting, auditing, and actuarial work, issued the updated procedures for the operations of its Conduct Committee.

The committee is authorized under the U.K. Companies Act 2006 to review and investigate the annual accounts, strategic reports, and directors' reports of public and large private companies to ensure they comply with the 2006 law and accounting standards.

Formally Recognizing Practice. The revisions give formal recognition to the Conduct Committee's practice of asking an entity to include a reference to its interaction with the committee in its restated reports when the intervention results in a significant correction or improvement. The intervention is known as a Committee Reference.

''Those companies that make a significant change to their report and accounts, and at the request of the FRC refer to its intervention, will be identified in the FRC's Corporate Reporting Review annual report.'' the council said.

Allowing Press Notices. In addition, under the procedures the Conduct Committee can issue a press notice on a Committee Reference if it concludes that the change is ''sufficiently material to the annual report and accounts taken as a whole, or is a material error, which investors, other preparers, and their advisors or the public ought to be aware of.''

A committee press notice could also be appropriate, according to the procedures. If the committee decides that disclosure of the change can't wait until a company publishes its next report and accounts, for example, when a change sets a precedent.

Promoting Transparency. The 17–page amended operating procedures, which take effect immediately, were last updated in March 2012.

''The revised procedures will allow greater transparency to investors while setting best practices for companies.'' council spokesman Sophie Broom told Bloomberg BNA in an Oct. 9 interview.

''They will help us to meet the expectations of a regulatory environment where increased transparency is both expected and required in order to enhance trust in corporate reporting.'' Conduct Committee Chairman David Childs said in an Oct. 7 statement.

Change to Rolls-Royce Accounting. The Conduct Committee in 2014 has directed two companies, Rolls-Royce Plc. and Anglo-Eastern Plantations Plc., to restate their financial reports, Broom noted.

In its 2013 Full Year Results, published Feb. 13, 2014, Rolls-Royce said that as a result of a Conduct Committee review, it has changed its accounting policy for entry fees.

''In prior years, entry fees were recognized as other operating income at the time they were paid,'' according to the 2013 Full Year Results.

The company's policy for entry fees has been changed to align with its policy for capitalizing development costs.

The change cut Rolls-Royce's underlying profits in 2013 by 39 million pounds ($62.9 million).

Falling Short of International Standards. The Conduct Committee's inquiry into Anglo-Eastern Plantations' reporting centered on the company's use in its 2010 annual report of historical rather than current data to es-

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timate the fair value of palm oil trees, which are recognized in the balance sheet as biological assets using a discounted cash flow method

''The company used historical percentages to allocate the plantation estate values between land, palm oil trees, and equipment,'' the FRC said in a Feb. 24, 2014 statement, but this approach failed to achieve fair value for the biological assets, as required by International Accounting StandardsIAS 41, Agriculture.

Overstating Biological Assets' Value. ''As a result, the fair value of biological assets was overstated.'' the council said.

Following discussions with the Conduct Committee, Anglo-Eastern Plantations has used current market data to estimate the cost for the use of land in its discounted cash flow, reducing the value of its biological assets at December 2012 from $245 million to $208 million and its 2012 profit after tax by $1.6 million.

Oversight Expansion? The Conduct Committee currently focuses on ensuring that companies comply with the U.K. Companies Act 2006.

Once the European Union Accounting Regulation (No. 1606/2002) is implemented in the U.K., though, ''this may mean compliance with UK or International Financial Reporting Standards.'' the council said Oct. 7.

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 Conduct Committee: Operating procedures for reviewing corporate reporting is available athttps://frc.org.uk/Our-Work/Publications/Corporate-Reporting-Review/Revised-operating-procedures-for-reviewing-corpora.pdf.*

International Developments

EFRAG Calls for Revising Proposal On Reporting Non-GAAP Financial Measures

The International Organization of Securities Commissions needs to clearly define the basis for its statement proposing standards for reporting on financial measures that fall outside of generally accepted accounting principles, the European Financial Reporting Advisory Group said Oct. 13.

''In particular, we are concerned that the scope of the Statement could result in lengthy disclosures that contain relatively little valuable information.'' according to EFRAG's letter commenting on IOSCO's proposal on reporting non-GAAP financial measures.

The Brussels-based EFRAG called on IOSCO to narrow the statement's requirements ''to avoid clutter and boilerplate language in financial reporting.''

IOSCO Proposal. EFRAG's letter comes in response to IOSCO's proposed Statement on Non-GAAP Financial Measures, issued Sept. 8, 2014. (10 APPR 834, 9/12/14)

The proposal is designed to help financial statement issuers present clear disclosures to investors and other users about non-GAAP financial measures, IOSCO said, as well as reduce the likelihood that these measures would provide misleading information.

Variety of Measures. Many financial statement issuers provide financial information using measures other than those prescribed or defined in GAAP, or both, the statement noted.

IOSCO defines a non-GAAP financial measure as ''a numerical measure of an issuer's current, historical or future earnings, financial performance, financial position or cash flow that is not determined by the GAAP used to prepare the issuer's financial statements and is reported outside of the financial statements.''

Commonly used non-GAAP financial measures include underlying earnings, cash earnings, earnings before interest, tax, depreciation and amortization, and adjusted earnings.

Difficulties With Financial Measures. ''Problems can emerge when non-GAAP financial measures are presented inconsistently, defined inadequately, or obscure financial results determined in accordance with GAAP,'' the proposal said.

In addition, non-GAAP financial measures usually lack standardized definitions, and as a result typically can't be compared with those of other issuers.

Previous Action. IOSCO issued a release in 2002 that recommended issuers, investors, and other users of financial information exercise caution when presenting and interpreting non-GAAP measures.

The organization since then has observed how issuers present non-GAAP financial measures and has noted that some fail to explain their use of the measures adequately or apply them consistently.

Expectations for Issuers. In response, IOSCO issued the Sept. 8, 2014 proposal, which when finalized will replace the 2002 release.

The new proposal outlines a series of expectations for issuers that publish non-GAAP financial measures, including:

- defining each non-GAAP measure presented and offering a clear explanation for the basis of calculation;
- clearly labeling the non-GAAP measures to distinguish them from GAAP measures;
- explaining why the measures are useful to investors; and
- presenting the measures consistently from period to period.

''The statement is intended for both an issuer that prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and an issuer that prepares financial statements using accounting principles other than IFRS,'' IOSCO said.

Supporting Non-GAAP Reporting. Overall, EFRAG applauded the notion of issuers offering non-GAAP financial measures, saying these measures can provide helpful information if used and presented properly.

It agreed with IOSCO that issuers should clearly define and explain non-GAAP measures and present them consistently over time.

EFRAG also praised IOSCO's statement for not being ''overly prescriptive as to where the disclosures on non-GAAP financial measures should be presented'' and allowing incorporation of disclosures by reference.

Focusing Requirements. EFRAG, however, urged IOSCO to better target its requirements.

''Applying the guidance on non-GAAP measures in the context of the IFRS financial reporting framework would result in an overly broad scope because IFRS is principle-based and defines very few performance measures,'' EFRAG said.

Too Broad a Net? Unless the proposal excludes information contained in financial statements, the group said, the IOSCO statement would comprise a broad array of measures that EFRAG doesn't define as non-GAAP reporting.

These include line items, including totals and subtotals, ''presented on the face of the balance sheet, income statement, statement of changes in equity, or cash flow statements that are not specifically required by IFRS.'' according to the EFRAG letter.

Excluding Prospectuses. ''Further, IOSCO's proposal makes no specific mention of prospectuses and related documents,'' EFRAG pointed out, ''though the statement would apply broadly whenever the measure is disclosed outside of the financial statements.''

EFRAG recommended that IOSCO specifically exclude prospectuses from its definition of non-GAAP measures, noting that the European Union's Prospectus Directive already regulates information in prospectuses.

A Model for Regulators? Other observers have assessed the proposal as well.

''The statement is a step forward toward achieving worldwide consensus on regulating non-GAAP information disclosure that will benefit all stakeholders in the financial reporting process.'' KPMG executive Mark Vaessen said soon after the proposal was released.

''As IOSCO encompasses most securities regulatory agencies, the proposal's development will be followed closely as a possible future direction of national requirements.'' KPMG said.

No Substitute. IOSCO is now accepting comments on the proposal through Dec. 5, 2014.

Though the proposal is designed to assist issuers in disclosing non-GAAP financial measures and presenting them in accordance with the statement, IOSCO emphasized, it is not a substitute for compliance with national regulatory requirements.

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: Ali Sartipzadeh in Washington at asartipzadeh@bna.com

☐ *The EFRAG letter is available at http://www.efrag.org/files/EFRAG%20public%20letters/IOSCO%20Non%20GAAP%20%20Measures/IOSCO_Non_GAAP__Measures_-_EFRAG_Final_Comment_Letter.pdf. The IOSCO proposal can be downloaded at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD447.pdf.*

Not-for-Profit Organizations

FASB Nears Final Proposal On Nonprofit Financial Statements

The Financial Accounting Standards Board has wrapped up its core discussions on a proposal for not-for-profit financial statements and will develop a staff draft for external review.

FASB said Oct. 8 it would wait for the response from the external review before voting on issuing a proposal, tentatively set for the first quarter of 2015.

The ultimate concerns, said FASB Chairman Russell Golden, is whether the costs of applying the guidance justify its benefits.

The board also revisited decisions made in September on two areas that affect the reported intermediate measure of operations in the statement of activities:

- the treatment of capital gifts; and
- the use of board designations and transfers.

Concern Among Hospitals, Universities. The redetermination was in response to feedback from the board's Not-for-Profit Advisory Committee (NAC), FASB said.

NAC raised concerns that the board's decision for capital-like transactions was conceptually at odds with how most nonprofits think of their operations and how they think of the initial gift of a long-lived asset.

Nonprofits think of capital gifts as a means of financing their capacity to fund future services, generate future revenues or both, FASB staff accountants told the board during the discussions. They don't necessarily see that initial gift as operating revenue in any period.

The issue would likely affect capital intensive nonprofits, such as universities and hospitals, which might get gifts for some type of capital purpose.

Related to board designations and transfers, NAC raised concerns about the degree of flexibility permitted by the board's September decisions regarding the use of resources not subject to donor imposed restrictions.

Revisions for Capital Gifts. To more conceptually align with how nonprofits think of capital gifts, FASB said it would propose that entities report the gift of a long-lived asset without donor restrictions initially within operating revenue.

If the nonprofit places the asset in service, rather than sell it, the entity would be required to report a transfer out of operations for the entire amount.

Unlike its September decision, FASB said it wouldn't require the entity to transfer the gift back into operations in subsequent periods.

''It would be transferred out, but it wouldn't be transferred back in reflecting the NAC's view that when you start using capital like assets, what covers the depreciation that will be recorded is future revenues generated from the activities related to the depreciation,'' said FASB member Thomas Linsmeier.

''Rather than having to recycle it back in and net out the depreciation, that's not really what covers the depreciation—it's future revenues from the activities,

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FASB

FASB Plans More Effort on Increasing Diversity Among Accountants

Collaborative work to increase the low numbers of African-American and Hispanic accountants is supported by the Financial Accounting Standards Board, the FASB chairman said.

Russell Golden, speaking before leaders of the American Institute of CPAs in Boston, said that African-Americans and Hispanics, who together make up about 30 percent of the U.S. population, represent only four percent of all partners in the accounting profession.

'Diversity Pipeline Project.' ''Caucasians still hold approximately 75 percent of the professional positions in accounting and 90 percent of the partnerships,'' the FASB chief said Oct. 21. FASB is working with the AICPA on what is called the ''diversity pipeline project,'' which is led by Frank Ross, a retired long-time KPMG partner, at Howard University business school's Center for Accounting Education.

AICPA is working in partnership with the ''Pipeline Working Group,'' created by the center, to develop nationwide initiatives in the effort, according to an article in the Journal of Accountancy by Ross and Howard colleagues Jean Wells and Allyson Clarke. Members of the 20-person working group include delegates from AICPA, the Big Four accounting firms, BDO, the National Association of Black Accountants, the Association of Latino Professionals in Finance and Accounting, the New Jersey Society of CPAs and other groups, according to a report of Ross, Wells and Clarke published by the Howard University center, ''Attracting Underrepresented Minorities to the Accounting Profession.''

FASB's Parent Another Advocate. ''I know that many firms, associations and other groups in our profession have been working for years to implement programs to increase diversity of their organizations,'' Golden said in his speech at AICPA's autumn council meeting. ''It's an important effort—and one to which we at the FASB need, and plan, to devote more attention.''

Golden told his audience of accountants that ''the notion of working collaboratively to help increase the pipeline of diverse talent into our profession as a whole is a new idea—and one that I believe deserves all of your support.''

The Financial Accounting Foundation, the parent of FASB and the Governmental Accounting Standards Board, also supports the efforts of the Pipeline Working Group, according to Teresa Polley, FAF's president and chief executive officer. In a column on the FAF's home page, Polley cited the statistics noted by Golden. She added more. ''While the accounting profession is expected to grow by 16 percent between 2010 and 2020, applications by minorities to accounting programs at colleges and universities are declining,'' Polley wrote, attributing the numbers to research reported by AICPA in 2013. ''This is occurring while the number of minority-owned businesses is projected to skyrocket. ''Clearly something is out of balance,'' she added. ''And I believe it is up to all of us in the profession to work together to address this critical issue.''

'Talent Pipeline Not Full Enough.' In their April 2014 report published by Howard's Center for Accounting Education, Ross, Wells and Clarke wrote that, in weighing ''why the profession is falling short, one significant area for attention is the talent pipeline and clear evidence that it is not full enough.''

The three authors cited AICPA data, including those showing:

- a steady decline in the percentage of African-Americans enrolled in bachelor's degree accounting programs over the last decade, from about 11 percent in 2001-2002 to 7.2 percent in 2011-12;
- ''volatile'' numbers for the percentages of Hispanic accounting students in recent years, with 8 percent of such enrollments 10 years ago, then a drop to 6 percent from 2007 through 2011, then 8.4 percent of bachelor's degree accounting students identified as Hispanic in 2011-12; and
- that, ''on the other hand,'' the number of accounting students of Asian- Pacific islands ancestry rose ''significantly'' from 6.3 percent in 2009-10 to 9 percent in 2011-12.

Among the efforts undertaken by the Pipeline Working Group are those which aim ''to reach out to underrepresented minority students at high schools and community colleges—as well as to their teachers, guidance counselors and parents—to educate them'' about the accounting profession, according to the article by Ross, Wells and Clarke in the August 2014 edition of Journal of Accountancy.

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

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

☐ *Reports on attracting underrepresented minorities to accounting and the ''diversity pipeline'' effort are available at http://www.howardcae.com/about-us-2/news-and-publications/.*

The FAF president's column on increasing diversity in the accounting profession is posted at http://www.accountingfoundation.org.

By Steve Burkholder

which I think would be consistent with what they were talking about,'' he said.

This would also be consistent with not having to do all the tracking, reduce clutter in the transfer section, plus allow the board to be consistent with the definition of its mission, Linsmeier said.

Donor-Restricted Gift of Cash. For a donor-restricted gift of cash for the acquisition or construction of a long-lived asset, an entity would be required to initially report the cash gift as revenue that increase net assets with donor restrictions, which is reported outside of operations, FASB said.

When the asset is placed in service, the release of the donor restriction should be reported as an increase in net assets without donor restrictions within operating activity. There would be a corresponding decrease in net assets with donor restrictions, FASB said.

That amount would also be reported as a transfer from operations to nonoperating activities, which is consistent with the treatment of gifts of long-lived assets, the board agreed.

There would be no transfers back into operations in subsequent periods.

Designations, Appropriations and Transfers. To address concerns raised by NAC about the degree of flexibility related to the issue of designations, appropriations and transfers, FASB said it would require that nonprofits present:

- all transfers in a separate discrete section;
- a subtotal of operating revenues and expenses before such transfers, an add-on to its prior decision to require a subtotal after such transfers.

A nonprofit should, at a minimum, separately present the aggregate of transfers out of operating activities from transfers in operating activities, the board agreed.

If the nonprofit doesn't choose to display all transfers as discrete line items on the face of the statement of activities, it would then need to provide details for aggregated transfers in a note, FASB said.

All nonprofits, however, would be required to describe qualitatively the purpose amounts and types of transfers. Examples would be those done because of standing board policies as one-time decisions or for other reasons.

By Denise Lugo

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

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

☐ *For a copy of the board's handout go to: http://www.fasb.org/resources/ccurl/939/208/2014-10-08_bmho.pdf.*

Disclosures

FASB to Include Foreign Governments In Disclosures of Government Assistance

Assistance from foreign governments will be included in the scope of disclosure requirements being developed for government assistance transactions, the Financial Accounting Standards Board tentatively agreed.

Including foreign assistance to entities as part of the scope of the project would be consistent with other areas of U.S. generally accepted accounting principles (GAAP) such as ASC 740, Income Taxes, which applies to all federal, foreign, state and local taxes on the basis of income, the board's Oct. 8 discussions indicated.

Worldwide Application. ''There are many multinational corporations that we're looking at and there's assistance all over the world—I don't think limiting this assistance to domestic programs will make a lot of sense,'' said FASB member Thomas Linsmeier.

''If we go to a proposed [accounting standards update], we ought to ask very pointedly about foreign programs that are at issue here in applying the guidance,'' he said.

"There are many multinational corporations that we're looking at and there's assistance all over the world—I don't think limiting this assistance to domestic programs will make a lot of sense."

FASB member Thomas Linsmeier

FASB said it would use a principle to describe government assistance transactions, which will determine which government assistance transactions will be included within the scope of the project.

The project would also seek to define ''government'' to determine the range of governmental type entities to which the accounting guidance would apply. At issue is whether bodies like North American Free Trade Agreement, World Bank, and International Monetary Fund, among others, would fall under the scope.

Research Indicates Future Increase. Research done by FASB's staff indicated that the number of credits, incentives, and other programs available to companies globally are expected to increase significantly, according to a FASB handout.

Governments often compete to bring businesses to their jurisdictions by offering various incentives, including tax breaks, capital grants, grants for rent reduction, and others.

The technology industry appears to be receiving a material amount of assistance from foreign governments, the FASB handout states. The assistance is offered to attract the income and research and development associated with those entities.

Issues of Competitive Disadvantage. FASB members suggested that its staff look at requirements under international financial reporting standards to have a comparison as to how companies report government assistance transactions.

IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, includes governmental agencies and similar bodies, no matter whether they are local, national or international, the discussions indicated.

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One board member suggested further research into unintended consequences that could ensue by including foreign countries into the scope of the project.

''I'm concerned about the notion 'will this put U.S. companies, based on U.S. GAAP, at some competitive disadvantage,' '' said FASB member Harold Schroeder.

That warrants additional discussions related to whether the requirement under U.S. GAAP would pose issues in countries that are not as transparent and therefore create longer term implications for companies using GAAP, he said.

Developing a Principle. In developing the principle to describe government assistance, the board said the principle would be based on an entity's receipt and provision of value in a government assistance transaction, the discussions indicated.

Loosely stated, the transactions should meet criteria that the assistance is provided to an entity for a particular purpose, and that entity then takes specific action directly linked to the assistance program or transaction, according to the discussions.

Areas like tax assistance for which entity would automatically qualify under the tax code would be excluded, the board said. Also excluded would be exchange transactions like revenue recognition, insurance contracts, and certain types of debt.

''We might need some more thought on where the line ought to be based on actual facts; we know we don't want the available-for-everybody tax deduction,'' said FASB Chairman Russell Golden.

The board also considered—but ultimately decided against—including not-for-profit entities within the scope of the project.

By Denise Lugo

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

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

☐ *For a copy of the board handout on this topic go to http://www.fasb.org/resources/ccurl/939/208/2014-10-08_bmho.pdf.*

In Brief

FASB to Hold Forum on Financial Disclosures

A forum aimed at helping the Financial Accounting Standards Board engage in constructive dialogue about the current state of financial disclosures will be held Dec. 1 at Pace University's Schimmel Center in New York, the board announced. Registration for the forum, which is open to the public, will close Nov. 26.

The board will address its current efforts to improve the effectiveness of disclosures, the Oct. 15 announcement said. FASB has been developing a disclosure framework with the goal of improving the effectiveness of disclosures in the notes to financial statements. The framework is expected to promote consistent decisions about the board's disclosure requirements and the appropriate exercise of discretion by reporting entities.

For a copy of the Board's announcement, including how to register, go to http://www.fasb.org/.

Audit Developments

Auditing

Investor Confidence in Audited Statements Climbs to the Highest Level Since '08 Crisis

Confidence by retail investors in audited financial statements climbed to its highest level in 2014 since the 2008 financial crisis, a survey conducted for the Center for Audit Quality has found.

Results of CAQ's eighth annual Main Street Investor Confidence Survey released Oct. 9 show 75 percent of investors have confidence in audited statements by public companies, the highest level since the 80 percent in 2007, the year before the financial crisis.

Confidence Lowest in 2011. The confidence was at its lowest in 2011 and 2012, at 69 percent, and climbed to 72 percent in 2013 before reaching this year's 75 percent, survey results show (8 APPR 422, 5/11/12).

The 75 percent confidence rating for auditors was the most among all other market participants, with 71 percent saying they had confidence in audit committees, followed by 70 percent in brokers and in stock exchanges, CAQ said.

Retail investors probably aren't generally aware of all the details that are behind company restatements, but they are aware that a restatement usually spells trouble for a public company. Consequently, the recent decline in restatements probably plays some factor in investor confidence in audited financial statements, CAQ executive director Cynthia Fornelli said.

Other Findings. The study also found that investor confidence

- continues to rebound in U.S. capital markets, rising to 73 percent in 2014 after falling to 61 percent in 2011;
- continues to trail in markets outside U.S. with only 43 percent expressing confidence; and
- continues to increase in U.S. publicly traded companies, with 80 percent expressing confidence after a low of 70 percent in 2011.

The Glover Park Group conducted the survey for CAQ via telephone. The survey contacted 1,049 investors Aug. 12-20. Its margin of error is plus or minus 3 percentage points.

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 at asartipzadeh@bna.com

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Accounting Practice

Accounting Standards

AICPA Issues Major Modernizing Revisions to Non-Audit Standards

The American Institute of CPAs has issued Statement on Standards for Accounting and Review Service (SSARS) No. 21, which revises for small private companies decades-old rules by creating a clear boundary between accounting preparation services and reporting compilation or review services.

SSARS No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification, was approved by the AICPA's Accounting and Review Services Committee (ARSC) in August, the AICPA said Oct. 21.

The Oct. 23 guidance is part of ARSC's efforts to clarify the standards for reviews, compilations, and engagements, as well as make them relevant in today's electronic environment.

"Therefore, to ensure that users are not misled by thinking that an accountant is providing any assurance on the financial statements, the standard requires a legend on each page of the financial statements indicating, at a minimum, that 'no assurance is provided' on the financial statements."

AICPA Senior Technical Manager Michael Glynn.

Modernizing the guidance, which has been around since 1978, is critical in today's electronic environment, especially for cloud-computing applications where the client and CPA are working on the accounting together, the AICPA said.

Sometimes that work is done in "real time," and it is impossible to segregate who prepared the financial statements, let alone whether the CPA submitted financial statements, said Michael L. Brand, chair of the ARSC and a partner with the firm of Johnson, Feigley, Newton & Brand in Athens, Ala.

Section 80 of SSARS No. 21 will eliminate the need for such decisions by making the compilation literature apply when the accountant is engaged to perform a compilation service, said Brand.

To help firms that are asked by their smaller clients to prepare financial statements when that client doesn't need a compilation or review report, SSARS No. 21 includes a new preparation standard, the AICPA said.

The guidance also doesn't require an accountant's name or report to be associated with the preparation of the financial statements, but neither does it prohibit it a CPA from doing so.

"Therefore, to ensure that users are not misled by thinking that an accountant is providing any assurance on the financial statements, the standard requires a legend on each page of the financial statements indicating, at a minimum, that 'no assurance is provided' on the financial statements," said AICPA Senior Technical Manager Michael Glynn.

The guidance will be effective for periods ending on or after Dec. 15, 2015, and allows for earlier implementation.

By Denise Lugo

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

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

Income Taxes

Timing Change for Credit Default Swap Gains Held to Trigger Accounting Method Change

A change in an investment adviser's treatment of its participation interest in credit default swaps to recognize gains in the year of realization constitutes a change in method of accounting under tax code Section 446, the IRS Office of Chief Counsel said in a chief counsel advice memorandum.

The resulting Section 481(a) adjustment includes participation agreement gains from a closed tax year, the Internal Revenue Service office said in CCA 201442049, released Oct. 17.

The investment adviser claimed that it entered the participation agreements to hedge price risk with respect to deferred incentive fees that were deemed reinvested in certain offshore funds, and contended that recognition of gains is deferred until gains or losses from the incentive fees are recognized.

On audit, the IRS is considering whether the participation interest gains were properly deferred and is considering the Section 481(a) adjustment to prevent omission of such income from the closed tax year.

Change in Timing, Change in Method. The office said that Treasury Regulations Section 1.446-4(b) "provides that the method of accounting for a hedging transaction must clearly reflect income, which is achieved by reasonably matching the timing of income, deduction, gain, or loss from the hedging transaction with the timing of income, deduction, gain, or loss from the item being hedged."

The change in treatment from deferring recognition of the gains from the participation agreements until the gains or losses from the incentive fees are recognized under Treas. Reg. Section 1.446-4 to recognizing the gain in the year of realization constitutes a change in method of accounting for a material item, it said.

''The only difference is the taxable year in which the income is reported,'' it said.

Section 481 Adjustment Required. An examining agent that changes a taxpayer's method of accounting ordinarily will impose a Section 481(a) adjustment, taken into account entirely in the year of the change, the office said. ''A §481(a) adjustment can include amounts attributable to taxable years that are closed by the statute of limitations,'' it said.

Gains on the participation interests from closed tax years won't be recognized under either the old or new method of accounting if the accounting method change is imposed, so an adjustment is required to remedy the omission, the CCA said.

The CCA was dated June 26.

☐ *Text of CCA 201442049 can be found at http://op.bna.com/eeu.nsf/r?Open=jbrn-9pz2xp.*

Income Taxes

Switch From Lease to Purchase Treatment For Oil, Gas Contracts Needs IRS Consent

Worldwide energy companies are precluded from changing their U.S. income tax reporting of foreign oil and gas operations where they failed to first seek consent of the IRS, the Office of Chief Counsel said in chief counsel advice memorandums.

The Internal Revenue Service office in CCA 201442050 and CCA 201442051 rejected the companies' contentions that they weren't making an accounting method change when they recharacterized foreign exploration contracts—previously treated as leases—as purchase transactions. The CCAs were released Oct. 17.

The energy companies considered in the memorandums conduct business in a foreign country through wholly owned subsidiaries that are members of their U.S. consolidated return groups.

The gas and oil exploration contracts considered in CCA 201442050 provide the company a share of in-kind production as reimbursement of its costs and expenses and an additional share as profit on its investment. The foreign firm with which it contracts receives a share of production as royalties and, after the energy company's cost recovery, a share representing its profit.

The company for years reported the contract arrangements as leases granted by the foreign firm to exploit the oil and gas properties in exchange for a share of production, with the foreign firm retaining an economic interest in the properties. Under the lease method, the company recognized gross income equal to the value of oil it received for costs and oil received as profit, and amortized or deducted as expenses reimbursed and nonreimbursed costs, including depletion and depreciation on capital expenditures, operating costs and cash payments made to the foreign firm for certain expenses.

The company subsequently submitted adjustments on audit that it asserted correct its U.S. tax reporting with respect to the foreign contracts. The adjustments shift to a contingent purchase price (CPP) method, under which the company purports to purchase its production share and a proportionate share of the foreign firm's production share in exchange for future in-kind payments equaling the gross income from the foreign firm production share and the cash payments the company makes to the firm.

The company considered in CCA 201442051 entered similar ventures with a foreign firm to develop oil and gas properties through various subsidiaries; it also submitted affirmative adjustments to change its reporting from a lease method to a CPP method.

Appropriateness of CPP Method Not Addressed. In each case, the office said, the energy company contended that payments to the foreign firm should have been treated as deferred payments subject to adjustment under tax code Section 483, resulting in each payment being reported in part as a payment of interest and in part as a payment of principal, the CCA said.

The office said it wasn't addressing whether the CPP method is a permissible method of accounting or whether the payments should be treated as the energy companies contend.

Under both the lease and CPP methods, the company recognizes the same cumulative amount of taxable income over the lifetime of a transaction, the office said. For the situation in CCA 201442050, it said, ''Under the CPP Method, TAXPAYER recognizes additional gross income attributed to the proportionate FIRM production. Under the CPP Method TAXPAYER also recognizes additional interest expense and principal (subject to depletion and other cost recovery) which is equal to, and thus offsets, the additional gross income from the proportionate FIRM production share.''

But use of the CPP method results in additional amounts of foreign source gross income, and additional amounts of interest expense, with the effect of reducing U.S. source taxable income, it said. This increases the foreign tax credit limitation and results in U.S. refund claims, it said.

Recharacterization Doesn't Preclude Method Change. The office said an exploration contract constitutes a material item under the Section 446 regulations, so that a change in its treatment presumptively constitutes a change in method of accounting unless the change falls within a recognized exception.

The purported errors in reporting the contracts as leases rather than sales ''do not involve any of the exceptions listed in Treas. Reg. §1.466- 1(e)(2)(ii)(b). The errors are not mathematical errors, posting errors, or errors in the computation of tax liability. The correction of these 'errors' does involve timing of income and deductions,'' the office said in both CCAs. ''Finally, the 'errors' do not result from a change in the underlying facts since the facts have remained the same; only TAXPAYER's tax interpretation of those facts has changed.''

The office rejected the companies' contentions they weren't making an accounting method change but merely changing the characterization of the exploration contracts, or correcting an erroneous deviation from an established accounting method.

There is no evidence that the companies ever treated the foreign contracts as purchases rather than leases, so that wasn't a previously established method, the office said, and ''the fact that a change in accounting practice

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for an item may involve or reflect a change in the characterization of the item does not preclude that change in practice from constituting an accounting method change if it involves only timing and would otherwise qualify as an accounting method change under sections 446 and 481.''

''Similarly, the fact that the Lease Method and the CPP Method report differently labeled items of gross income or expense does not disqualify the change between such methods from qualifying as a change in method of accounting,'' it concluded.

CCA 201442050 was dated July 7; CCA 201442051 was dated June 20.

☐ *Text of CCA 201442050 can be found at http://op.bna.com/eeu.nsf/r?Open=jbrn-9pz37t.*

Text of CCA 201442051 can be found at http://op.bna.com/eeu.nsf/r?Open=jbrn-9pz38s.

Internal Controls

Look for Standalone Cases Over Internal Controls, SEC Official Says

The Securities and Exchange Commission Enforcement Division will continue to focus on internal controls violations, Associate Enforcement Director Stephen Cohen said Oct. 14.

''There will be standalone internal controls cases,'' he said.

He also said that in his view, the focus on internal controls is not an offshoot of the agency's ''broken windows'' philosophy, as some may believe. ''It's more of a recognition of the reality of what we're seeing in public companies,'' Cohen said. He spoke at a securities enforcement conference sponsored by Securities Docket and cosponsored by Bloomberg BNA.

Cohen, who appeared on a panel devoted to financial and reporting fraud, said he spoke only his own views, and not necessarily those of the commission or other staff members.

Widespread Problems. Even though the number of large restatements may be decreasing, Cohen explained, the enforcement staff is seeing an increase in the types of revisions to financial statements. While there may be good reasons for those revisions as opposed to restatements, Cohen said, ''oftentimes we see these as part of widespread problems with internal controls.''

During investigations, he added, the staff sometimes sees very large frauds; however, those frauds ''might be at a place in the company where there isn't a lot of visibility to senior management.''

''How is the CFO supposed to know about a fraud being committed by a subsidiary across the Atlantic Ocean?'' Cohen queried. He said the focus on internal controls is an important opportunity for the commission to help put the focus on what senior management does have control over. If there's a widespread fraud, it may not be known by senior management. But what is in senior management's control is the internal controls environment that allowed the fraud to occur at a lower level.

''So I think you can expect the focus on internal controls to continue.''

In response to a question from the audience, Cohen also said the division is very focused on the role of gatekeepers, auditors in particular. ''We have seen and will continue to see a willingness by the SEC, much like we talked about with internal controls, to bring cases against auditors for audit failures,'' regardless of whether it has found fraud with respect to the company's accounting.

Biggest Change. On another topic, Washington lawyer William R. Baker III, Latham & Watkins LLP, cautioned the defense bar to be wary of staff inquiries that may appear routine, but that could have significant enforcement consequences.

With the commission's Financial Reporting and Audit Task Force now entering its second year, Baker said one of the biggest changes he has seen involves ''the kind of request that could just as easily have the Division of Corporation Finance letterhead on the top of it that asks for an explanation of certain accounting practices or disclosure practices that doesn't strike anybody at first blush as fraudulent or even inappropriate.''

The company's initial reaction may be to treat that like a Corp Fin comment letter and respond accordingly, Baker said. However, he cautioned, it's important to educate people on the reporting side about the risk that attaches to that kind of approach. If you provide something to the Division of Enforcement, or even Corp Fin, in the context of an investigation that isn't ''rock solid,'' it could come back haunt you six or nine months down the road.

So be very careful in this environment about how you respond to that kind of request, he warned the gathering. ''It's the biggest single change that I've noticed since the advent of the task force.''

Other cautionary signs, according to Baker, include the appearance of senior people very early on. Task force chief David Woodcock ''has not been bashful about being present at meetings early on,'' he noted. That carries its own risks with it. Rather than starting with the front line and following it up to senior people, ''when they're there at the very beginning, take that into account,'' Baker advised.

In another change, he noted, the inquiry letter may be sent to the chief financial officer rather than the general counsel. ''It might even just be a phone call. That's a much less formal process than defense lawyers were used to.''

People in the company may not distinguish between Corp Fin and Enforcement attorneys and accountants, Baker commented. ''And before you know it, they're sending over hard drives and spread sheets.''

Admissions Policy. Finally, the panel addressed the SEC's revised admissions policy, under which parties in certain ''egregious cases'' may be required to acknowledge wrongdoing as part of a settlement. According to Cohen, the decision to require an admission is not a bargaining chip. ''We don't consider it a negotiable part of the settlement.''

However, he acknowledged, at an early point, when the staff is considering requiring an admission, it could be persuaded that the case doesn't warrant an admission. ''But I don't think people should expect that you can bargain something for admissions, or that it's otherwise part of the negotiations.''

Cohen also commented that scienter is not the only criterion by which the commission measures the importance of a case for admissions purposes. ''The problems are either egregious enough or widespread enough'' that even if scienter isn't in the mix, the commission will consider if admissions are appropriate.

He added, however, that while the commission will be ''looking at a broader range of cases'' in which to require admissions, doing so is likely to remain the exception rather than the rule.

Nonetheless, several panelists suggested that parties facing the prospect of an admission on top of an industry bar and other remedies may have a strong incentive to litigate. ''That's fine with us,'' Cohen rejoined. ''From our perspective, the accountability of an admission is critical. If it's important to us and we're unwilling to accept a settlement without it, then you can assume that that's our line.''

''It is what it is.'' If it means litigation, then we're going to litigate, Cohen said.

To contact the reporter on this story: Phyllis Diamond at pdiamond@bna.com

To contact the editor responsible for this story: Susan Jenkins at sjenkins@bna.com

SEC

SEC Accountant Says Disclosure Review Has Staff Considering Changes to EDGAR

Staff of the Securities and Exchange Commission is considering revamping the way public company reports are formatted and disseminated to investors as part of the agency's review of disclosure requirements, Mark Kronforst, chief accountant in the SEC's Division of Corporation Finance, said Oct. 8.

Kronforst said the staff is considering moving to ''more of a company file,'' wherein investors could ''click into'' categories such as business information or financial information.

Such a system would replace the current platform for such reporting—EDGAR, which Kronforst characterized as ''really just a digital filing cabinet.'' He spoke during a Practising Law Institute-sponsored webcast and noted that he spoke only for himself.

''Navigating that can be a little bit frustrating,'' he said. ''I think we all consume information differently now'' than when EDGAR first was introduced. ''We're thinking about [whether there are] ways to make it easier to consume the information,'' Kronforst said. ''That is something we are actively thinking about.''

The review of EDGAR and public delivery of public company reports is part of the SEC's review of disclosure requirements announced in December. The review was recommended by Corporation Finance staff in a report mandated by the Jumpstart Our Business Startups Act.

Updating Guides. The division also is considering updating at least two industry guides—on mining and banks—as part of the review. The guides have been around ''for a long for a long time,'' Kronforst said, ''so we are actively thinking about what we can do with respect to those guides.''

The division has been soliciting recommendations on possible changes. Some commenters have suggested that the staff consider:

- removing certain presumptive materiality determinations, such as in legal proceedings and in significance tests for determining financial statements of an acquired business;
- revising the time periods required to be disclosed as part of a company's management discussion and analysis (MD&A) so disclosures focus more on recent information; and
- streamlining SEC and Financial Accounting Standards Board disclosure requirements.

Overall, Kronforst said, staff is thinking in terms of ''what do investors need? How do investors view the information? Is there information that can be delivered in a different way? Is there more information they need?''

He added the division is not seeking to reduce the amount of information delivered to investors. ''It's trying to get better information in a better way.''

Kronforst said no decision has been made as to what format the changes might be proposed in—either as a concept release or as a proposed rule—nor is there a timeline for releasing proposed changes for comment.

By Richard Hill

To contact the reporter on this story: Richard Hill in Washington at rhill@bna.com

To contact the editor responsible for this story: Susan Jenkins at sjenkins@bna.com

International Developments

Most Large U.K. Companies Issue Quality Financial Reports, Report Finds

Large public companies in the United Kingdom, particularly those on the FTSE 350, generally produced quality corporate reports for the year ending March 31, 2014, the U.K. Financial Reporting Council (FRC) said Oct. 14.

The FRC's latest annual roundup of its Corporate Reporting Review (CCR) activities agreed with its previous annual assessment on the quality of large-company financial reports.

The 30-page 2014 report, though, found that smaller companies and those listed on the AIM—previously known as the Alternative Investment Market, the London Stock Exchange's market for smaller, growing companies—continue to generate ''a higher proportion of poorer quality accounts.''

New Initiative for Smaller Companies. Accounting for complicated transactions, such as derivatives, has proven particularly troublesome for smaller companies, the council found.

In response, the FRC launched an initiative to strengthen reporting by smaller companies within the next three years.

Seeking Further Information. The council sets the U.K. Corporate Governance and Stewardship Codes, along with U.K. standards for accounting, auditing and actuarial work.

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Its CCR in 2013-2014 involved reviews of 271 sets of reports and accounts, up slightly from 264 sets in 2012-2013, but down from 326 sets in 2011-2012.

The FRC, after reviewing sets of reports and accounts, decides whether companies need to provide the council with further information.

As a result of the reviews in 2013-2014, 100 companies were contacted for additional information and explanations.

Agreeing to Make Changes. ''Virtually all of our correspondence resulted in companies agreeing to make some change to their next reports and accounts,'' the FRC said.

These changes involve minor modifications—such as the replacement of generic language in a company's accounting policy with wording better suited to its operations— as well as less frequently required corrections in significant data, such as amending earnings per share.

As of March 31, the council had wrapped up 90 percent of its cases, with the rest still in correspondence.

''Of the 79 company reviews that were closed in the reporting year following the exchange of correspondence, we accepted 252 undertakings from 78 companies to make specific improvements or changes to their future reporting''

U.K. FINANCIAL REPORTING COUNCIL

''Of the 79 company reviews that were closed in the reporting year following the exchange of correspondence, we accepted 252 undertakings from 78 companies to make specific improvements or changes to their future reporting,'' the FRC reported.

Conduct Committee Challenges Practices. In a companion technical document issued Oct. 14, the FRC's Conduct Committee highlighted questions it posed most frequently to U.K. companies.

Share-Based Payment

Restricted Stock Grants Leading Options at Large Companies, PwC Finds

Equity compensation grants made by large U.S. companies in traditional and high-tech industries favor restricted stock awards in 2013, continuing a trend away from stock options, according to a study of publicly traded companies' stock compensation disclosures.

The ''Stock Compensation 2014 Assumption and Disclosure Study,'' released Oct. 7 by PricewaterhouseCoopers LLP, analyzed 2013 Form 10-K filings of companies with a Dec. 31 fiscal year-end and disclosing stock compensation expense. Companies included in the study are the top 100 companies in the Standard & Poor's 500 index and the top 100 high-tech companies on the Nasdaq technology, biotechnology and pharmaceutical industry lists.

The study found that, among the large companies, equity award grant types were split 51 percent restricted stock to 49 percent stock options. Among large high-tech companies, the split was even more pronounced, at 59 percent restricted stock and 41 percent stock options.

The value of restricted stock awards far exceeds the value of stock options granted in 2013 in both large companies and large high-tech companies, according to the study. In terms of value, among the large companies, in 2009 the ratio of stock to option awards was about 2.5-to-1, growing to almost 6-to-1 in 2013. On the high-tech side, the ratio grew from about 3-to-2 in 2009 to almost 6-to-1 in 2013, the study said.

Ken Stoler, a PwC partner based in Los Angeles, told Bloomberg BNA in an Oct. 8 e-mail that the ''trend in the shift away from options to restricted stock continues, as well as the trend in continuing increase in use of performance-based equity.'' Stoler said that ''some experts think the shift away from options has gone too far and that options should remain a valuable component of equity compensation programs, but companies haven't yet taken this to heart.'' This may be due, in part, ''to investor advisory firms' preference for performance shares,'' he said.

In addition to comparing the prevalence of restricted stock to stock options, PwC prepared a side-by-side comparison for the two groups on stock compensation as a percentage of income, the types of equity awards granted, the use of the Black-Scholes valuation model and assumptions used for the Black-Scholes model.

To contact the reporter on this story: Mary Hughes in Washington atmhughes@bna.com

To contact the editor responsible for this story: Phil Kushin at pkushin@bna.com

☐ *The study is at http://www.pwc.com/en_US/us/hr-management/publications/assets/pwc-stock-compensation-september-2014.pdf.*

BY MARY HUGHES

Under the U.K. Companies Act 2006, the committee is authorized to review and investigate the annual accounts, strategic reports and directors' reports of public and large private companies to ensure they comply with the 2006 law, including accounting standards.

The committee's Financial Reporting Review Panel said that from December 2012 to September 2013, it questioned companies on a variety of financial-reporting practices, including accounting policies, revenue recognition and presentation of financial statements.

Companies Must Describe Practices. The panel reported that it challenged companies on their accounting policies if they didn't describe a company's specific application in practice, such as its valuation methods for insurance contracts.

It also raised concerns about companies that reported on requirements in new international financial reporting standards that would have ''little or no effect on future financial statements.''

Revenue recognition came under scrutiny as well—for instance, failing to disclose revenue by category or to explain the effects on costs of delays in revenue recognition.

In addition, the panel questioned companies' failures to disclose in their financial statements proposed dividends, as well as reclassifications and restatements ''where no quantified explanation was provided.''

The panel's technical summary contained no statistics about the challenges it posed to companies.

Accounting for Pensions. ''IFRS is about to go through some of its most significant changes since it became mandatory for UK listed companies to adopt EU-endorsed IFRS in 2005,'' the council said.

U.K. companies, for example, must begin to incorporate the requirements of international standards on pensions, issued in 2013, the FRC said.

The revised pension accounting standard, International Accounting Standard 19, changed how companies recognize and measure their pension costs, the council noted, and established new requirements for disclosing risks associated with defined benefit plans.

''As the standard applies to periods beginning after 1 January 2013, we have seen only the first examples of those changes being implemented as part of our 2014/15 reviews,'' according to the Oct. 14 report.

Though substantive concerns about pensions reporting have yet to emerge, the FRC said it has found an array of company practices for quantifying their minimum requirements for funding pensions.

''We will continue to monitor whether the information provided is adequate.''

U.K. Financial Reporting Council

''We will continue to monitor whether the information provided is adequate,'' it said.

Control of Subsidiaries. Under IFRS 10, which takes effect in 2014, companies must assess whether they exercise so-called de facto control of subsidiaries.

If they do, they must include this information in their consolidated financial statements, the council pointed out.

''As the requirement is a substantive change from the previous standard, we encourage boards to consider this particular change carefully when applying the standard for the first time,'' the FRC said.

More to Come. Still more changes to U.K. corporate accounting loom, the council said.

IFRS 15, Revenue from Contracts with Customers, will carry wide-ranging consequences for some companies when it comes into force in 2017, the report said.

The FRC advised companies to ''consider the effects of these new standards early and estimate and report the possible effect of their implementation if they are likely to impact significantly their reports and accounts.''

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

☐ *FRC's 2014 Corporate Reporting Annual Review is available at https://www.frc.org.uk/Our-Work/Publications/Corporate-Reporting-Review/Corporate-Reporting-Review-Annual-Report-2014.pdf.*

European Union

EU Ministers to Review FATCA-Inspired Law Requiring Exchange of Financial Data

The European Union is expected to take its next major step in combating tax evasion Oct. 14 when finance ministers vote on a FATCA-inspired measure requiring automatic exchange of data about dividends, capital gains and other income generated from assets held in a financial account.

The move to expand the EU administrative cooperation legislation, modeled after the Foreign Account Tax Compliance Act, will also incorporate the Organization for Economic Cooperation and Development's common reporting standards adopted in July.

''The legislation will require unanimous consent of the 28 member states, and we think there will be a consensus,'' said an EU diplomat who spoke to journalists on condition of anonymity.

The main snag that could hold up a deal, the EU diplomat said, is the date the new legislation will take effect. As a number of EU member states are early implementers of the CRS, they want the new changes to take effect in January 2016, instead of the originally foreseen entry into force of 2017.

Another potential hurdle involves data privacy issues.

In a September letter to the OECD, the Article 29 Working Party outlined a range of problems it has with the reporting standards. Although the OECD's standards have been incorporated into the EU legislation's amendments, the European Commission expressed confidence the working party concerns will be resolved by the finance ministers' vote.

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The EU administration cooperative legislation was originally approved several years ago, and it is due to take effect Jan. 1. From that date, EU member states will be required to exchange data on non-resident EU citizens concerning employment, directors' fees, life insurance products, pensions and ownership and income from immovable property.

BY JOE KIRWIN

To contact the reporter on this story: Joe Kirwin in Brussels at correspondents@bna.com

To contact the editor responsible for this story: Brett Ferguson at bferguson@bna.com

Risk Assessment

Banks Face Regulator Clampdown on Risks To Avert Understatement of Possible Losses

Global regulators are preparing to narrow banks' options for assessing credit risk in a bid to prevent the understatement of possible losses.

The Basel Committee on Banking Supervision plans to publish a report by early November on ''excessive'' variability in the models banks use to assign risk and measure capital needs, Secretary General Bill Coen said in an interview at the regulator's headquarters in Basel, Switzerland. The document has been prepared for the Group of 20 nations.

The report ''will include things like a non-risk-based leverage ratio and the introduction of floors or benchmarks, which is requiring banks to publish what its capital requirement would be if they used the simpler standardized, non-model based approaches,'' Coen said.

Some global banks have improved their capital ratios since the financial crisis in part by understating the riskiness of their assets, a practice the Bank for International Settlements, which contains the Basel committee, has compared to ''window dressing.''

Studies by the BIS and the Bank of England have found unexplained differences in risk weightings for identical assets. At the same time, the euro-area debt crisis put into doubt rules allowing sovereign debt to be generally treated as risk-free.

As a result, regulators are looking at leverage, a measure of a company's reliance on debt to finance its activities, to gauge banks' financial strength. Their focus intensified as some banks improved capital ratios by altering internal models or cutting risk-weighted assets without also shrinking their balance sheets.

International Developments

Singapore Regulatory Authority Announces Six New Business Fees

Singapore's Accounting and Corporate Regulatory Authority (ACRA) announced six new charges amidst changes to its fee structure for businesses in an Oct. 8 statement.

The six new fees are for:

- applications for registration or annual renewal as a Qualified Individual for Corporate Service Providers;
- applications for registration or annual renewal as a Filing Agent for Corporate Service Providers;
- access to the authoritative registers of members for private companies, and of directors, secretaries, auditors, and chief executive officers for all companies in Singapore to be set up and maintained by ACRA;
- registration by persons wishing to reflect alternate addresses instead of their residential addresses in ACRA's records;
- applications for ACRA's consent for auditor resignation; and
- applications to file revised financial statements.

These new fees were required by the Singapore Parliament's recent passing of the Companies (Amendment) Bill, the Business Names Registration Bill and the ACRA (Amendment) Bill.

Change in Structure. ACRA's fee structure will also be changed, with over 100 ad hoc transactions previously charged under a pay-per-use model to be made free of charge. Some charges, though, are being increased.

''Fees related to ad hoc applications for waivers, exemptions or extension of time to comply with statutory requirements such as filing of accounts and holding the annual general meeting, will also increase by a range of $30 Singapore (US $23.62) to $170, to adequately reflect the resources spent to process such applications,'' the authority said.

This will also level the playing field for businesses adhering to statutory requirements, with the additional costs discouraging businesses seeking exemptions from full compliance, the authority said.

''With the streamlining of the current regulatory fee structure, some businesses can expect a slight increase in their annual fees,'' ACRA's Oct. 8 statement said. Fees had to increase so ACRA could keep operating on a cost recovery basis.

The new fee structure is expected to take effect no later than first quarter of 2015, ACRA said.

To contact the reporter on this story: Michael Mackey in Bangkok at correspondents@bna.com

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

BY MICHAEL MACKEY

'Variety of Drivers.' ''A lot of our analytical work shows that there isn't a single factor that leads to variability of risk weightings from bank to bank,'' Coen said. ''It's a variety of drivers.''

Given this variety, there isn't a single silver bullet for fixing the problem, Coen said. The committee's proposal will in part aim to improve transparency, for example by forcing banks to publish capital ratios based on different models.

''There are a number of technical fixes we are considering that would constrict the degrees of freedom banks have when they use their models,'' he said.

Bankers including Jamie Dimon, chief executive officer of JPMorgan Chase & Co., have said that flexible implementation of previous rounds of Basel rules in the European Union has allowed the region's lenders to hold less capital against some assets than their U.S. counterparts.

The Basel committee has consistently said that relying only on the leverage ratio may create additional risks because it gives banks no incentive to make a judgment of an asset's propensity to create losses and therefore isn't advisable.

'Active Debate.' ''There is an active debate around the extent to which banks should use internal models for regulatory purposes but the committee's position is that there must be both a leverage ratio along with a risk-weighted approach—the belt-and-braces approach,'' Coen said. ''Banks can arbitrage one, but you can't game both.''

The Basel committee, a group of regulators from nations including the China, France, the U.K. and the U.S., is in the process of reviewing the implementation of global rules known as Basel III. It plans to publish its review of EU and U.S. legislation this year.

''This way in which we do our business has been one of the more dramatic changes for the Basel committee,'' Coen said. ''After finalizing a global standard, we never systematically evaluated compliance and adherence to those rules. This is now a significant component of our work. We examine very closely how the national adaptation of the Basel standard compares to the global rule and the materiality of any departures.''

In a preliminary scorecard, published two years ago, the committee concluded that the EU's proposals were not specific enough in limiting the range of instruments banks may count as core capital and also said lenders were given too much scope to label government debt as risk-free.

By Boris Groendahl and Rebecca Christie

With assistance from Jim Brunsden in Brussels

To contact the reporters on this story: Boris Groendahl in Vienna at bgroendahl@bloomberg.net; Rebecca Christie in Brussels at rchristie4@bloomberg.net

To contact the editor responsible for this story: Patrick Henry at phenry8@bloomberg.net

Transfer Pricing

Transfer Pricing Analysis Has Advantage Over Special Measures, Dutch Official Says

A transfer pricing analysis has a significant advantage over the adoption of ''special measures'' to tackle base erosion and profit shifting (BEPS) situations involving the outsourcing of research and development to a related party, or a cost-sharing arrangement, a Dutch Ministry of Finance official said.

Harry Roodbeen, director of international tax and consumer tax, said Oct. 13 that ''the arm's-length principle has the huge advantage that it can be subject to a mutual agreement procedure. Special measures are much more difficult.''

Roodbeen, the Netherlands' delegate to the Organization for Economic Cooperation and Development's Committee on Fiscal Affairs, said a difference of opinion exists among delegates on the question of special measures. ''Some countries are of the view that BEPS in these kind of situations can only be solved by special measures, but other countries think the arm's-length principle answers the question,'' he said.

Speaking at the International Fiscal Association's annual congress in Mumbai, Roodbeen said OECD Working Party No. 6 currently is discussing whether transfer pricing solutions or special measures are more appropriate to address the situations set forth in the OECD's Sept. 16 draft guidance on the transfer pricing aspects of intangibles.

The working party is continuing to work on the Sept. 16 draft, under BEPS Action 8, and simultaneously is working on the related issue of allocating risk and capital under Action 9.

At a recent conference in Toronto, Michael McDonald, a senior economist with the U.S. Department of Treasury and a delegate to the working group, said some of the comments on the draft indicate that the issue is confusion about the particulars and not disagreement over policy.

At the IFA conference, Roodbeen made his comments in the context of Example 7 of the draft. In this example, company A provides all of the funding to develop a new intangible, assuming legal ownership of the intangible, while its related party, company B, performs and controls all of the activities related to the development, maintenance and exploitation of the intangible.

Example 7. In Example 7, company A anticipates that the new intangible will be highly profitable based on company B's existing intangibles, its track record and its experienced R&D staff.

Company A expects that it will take five years to develop the intangible, which will be commercially valuable for 10 years. A provides B funding of $100 million per year for five years to develop the intangible.

Once developed, the intangible is expected to result in profits of $550 million per year for years 6 to 15. Company B licenses the intangible from A and makes contingent payments to A for the right to use the intangible, based on returns of purportedly comparable licensees. After the projected contingent payments, B is left with an anticipated return of $200 million per year from selling products based on the intangible.

Functional Analysis. In Example 7, the tax administration of company B conducts a functional analysis of the functions performed, assets used and contributed, and risks assumed by both A and B.

According to Example 7, company A performs, through its own personnel, all of the functions expected from an independent entity providing funding for an R&D project. These include the analysis of the intangible at stake and the anticipated profits that can be derived from the investment; the evaluation of the funding risk, including the risk that further investment may be required to complete the project; the capacity of A to take that risk; and the making of decisions to bear, cover or mitigate that risk.

Roodbeen said the functional analysis recognizes that A is the legal owner of the intangible and therefore receives the profits.

However, he said that because B has the experienced R&D staff who are developing the intangible, and because B manages and controls the maintenance, development and exploitation of the intangible, ''company B is performing all activities with respect to value creation of the intangibles.''

Roodbeen said that in such a case, B probably would receive a cost plus remuneration. He asked: Is that the correct arm's-length remuneration?

'Real Deal.' Roodbeen said it is important ''to look for the real deal and the true nature of the arrangements''—concepts developed in the Sept. 16 draft.

The concept of the real deal focuses on the actual problems, Roodbeen said. What did the parties really agree? Company A's real activity, he said, is funding the R&D and assuming the risk associated with that funding.

Roodbeen said company B contributes all of the assets associated with the development and exploitation of the intangible and therefore should be entitled to the bulk of the returns derived from the exploitation of the intangible.

Because company A does not control or manage the development and exploitation of the intangible, Roodbeen said, A should not be entitled to the profits of the intangible. ''Maybe the conclusion should be that A is only acting as a finance company.''

Financing Fee. Roodbeen posed the question of what kind of remuneration A should receive. Should it be profit-sharing remuneration, he asked, ''or should A receive the residual profit, because of the amount of capital contributed and the risk assumed? Or should A only receive a financing fee?''

A financing arrangement can take different forms and shapes, Roodbeen said, including a profit participation loan, under which A would receive profit-sharing remuneration because of its financing activities.

The Dutch official said it is doubtful an independent third party would invest at arm's length in such a risky investment. However, banks and finance companies are much more diversified and also are financed by a lot of debt, and third parties with huge amounts of owed capital normally are portfolio investors.

Roodbeen suggested that perhaps a comparison with portfolio investors should be part of the arm's-length principle in this case. ''Maybe owning a risk free rate of return would be adequate remuneration for company A,'' he said.

The BEPS project, Roodbeen said, involves addressing how a group should be financed at arm's length. Thus, he asked, should some part of the capital of A be allocated to B?

Draft Approach. The Sept. 16 draft states that taking into account A's contributions, as well as the realistic alternatives of A and B, A's anticipated remuneration should be a risk-adjusted rate of anticipated return on its funding commitment.

This is determined to be $110 million per year for years 6 to 15. Company B, accordingly, would be entitled to all remaining anticipated income after accounting for A's anticipated return, or $440 million per year—$550 million minus $110 million—rather than $200 million per year as originally claimed by A.

The draft said that based on the functional analysis and application of the most appropriate method, the taxpayer incorrectly chose B rather than A as the tested party. Thus, A would be entitled to 20 percent of the anticipated profits, and B would be entitled to 80 percent of the anticipated profits.

By Kevin A. Bell

To contact the reporter on this story: Kevin A. Bell in Washington at kbell@bna.com

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

Private Company Reporting

FASB's Private Company Alternative On Goodwill Deficient for Users, Panelists Say

An accounting alternative issued by the Financial Accounting Standards Board to provide simplified guidance for private companies accounting for goodwill has resulted in the loss of useful information for financial statement users, according to Jouky Chang, Managing Director of Duff & Phelps' valuation advisory services.

Chang, during an Oct. 14 Duff & Phelps webinar titled U.S. Goodwill Impairment Study Results, said this reduction of cost and complexity comes at a price for users because it reduces comparability of financial statements.

Users of private company financial statements will now need to understand and adjust for differences in accounting for goodwill and assess that affect financial statements, said Chang.

Chang said that in analyzing private company financial statements, users will need to ask, ''did the entity adopt the alternative? At which level did the entity conduct its goodwill impairment test? Was the entity able to avoid an impairment charge by virtue of a goodwill impairment?''

''Answers to these questions would not be readily apparent to the user given the disclosure requirements that will also require good access to management to gain the necessary insights,'' he said.

The guidance, ASU 2014-02, Intangibles Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private company Council), was developed by the PCC and endorsed and issued in January by the

FASB with the aim of reducing cost and complexity in accounting for goodwill (10 APPR 130, 1/31/14).

Private Company Alternative. The accounting alternative under ASU 2014-02, once elected, would require a private company to amortize goodwill over a period of 10 years or less and to decide on whether to conduct its goodwill impairment test at the entity level or the reporting unit level.

Beyond the accounting policy election and the amortization of goodwill, the ASU also introduces a simplified goodwill impairment model. Under this model, the goodwill impairment test is no longer an annual requirement, but only when a triggering event has occurred.

It also eliminates the second step of the current two-step impairment test. The elimination simplifies the quantification of goodwill impairment so it is equal to the lower of the difference between fair value and carrying amount and the goodwill balance.

The guidance applies only to private companies, but companies must carefully look at how the term ''private company'' is defined under the guidance because they might not qualify as a private company.

Goodwill 6 Percent of Total Assets. Goodwill is a significant asset on the balance sheets of U.S. companies, according to the Duff & Phelps webinar. The aggregate balance of goodwill of companies in the U.S. has grown from $1.95 trillion in 2009 to over $2.5 trillion in 2014, representing approximately 6 percent of total assets, according to quoted statistics.

Among other comments, Chang said the simplified impairment model will result in some loss of information, and where impairments exist, it raises the specter of misallocation.

''That is, when a private company chooses to test at the entity level, any impairment would need to be allocated to its individual amortizable unit for goodwill on a pro-rata basis, using their relative carrying amounts or using another reasonable and rational basis,'' Chang said.

Chang said any allocation based on carrying amounts is likely to be disconnected from the economic factors that are the root causes of the impairment in the first place.

Moreover, the simplified, one-step impairment test also raises the question of whether the goodwill impairment test can be conducted based on a comparison of the fair value and carrying amount of equity, he stated.

Public Company Considerations. Currently, FASB has a project on its agenda to revise the accounting for goodwill for public business entities and not-for-profits. In March the board discussed four potential alternatives for public entities, including the private company alternative (10 APPR 342, 4/11/14).

The board said it would defer its deliberations until after the International Accounting Standards Board has completed and issued findings on its post-implementation review of IFRS 3, Business Combinations.

On Sept. 24, IASB met to consider feedback and the relevant academic literature related to its review and said it would prepare a feedback statement before year-end.

By Denise Lugo

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

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

Accounting Oversight

Accounting Groups Offer Principles To Help Tame Information Explosion

Two accounting groups have devised a set of principles intended to help company managers cope with the increasingly intense onslaught of data and innovations that can slow decision-making and make extracting meaningful insights from financial information more difficult.

''Quality decision making has never been more important—or more difficult,'' the American Institute of CPAs and the Chartered Institute of Management Accountants said in their Global Management Accounting Principles document, released Oct. 22.

''Competition is relentless, as new innovations and innovators daily disrupt the status quo,'' the Principles document said. ''The volume and velocity of unstructured data is increasing complexity. Impulse is taking over insight as organizations struggle to keep pace.''

Their principles are intended to help companies confront those challenges by guiding management's accounting practice, the document said.

As part of those principles, the document said companies should:

- try to break down communications barriers to bring a broad array of insights and information into accounting;
- ensure the relevancy of information to decision-making from both financial and nonfinancial resources, which could include social, environmental and economic data;
- develop differing scenarios so that all aspects of a problem can be understood and management accounting is better connected to organization strategy and the business model; and
- devise methods to extract value from an increasing amount of information.

The accounting organizations developed the principles after they received in August the results of a survey by Longitude Research of about 1,100 senior executives. The research covered 20 countries on five continents and also included a 90-day public consultation, in which more than 400 people participated. The survey participants represented organization of many different sizes and in a range of industries, the document 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 at asartipzadeh@bna.com

☐ *The global accounting principles can be downloaded from http://www.cgma.org/Resources/Reports.*

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In Brief

SEC Reports Record Cases, Fines for FY 2014

The Securities and Exchange Commission announced Oct. 16 that according to preliminary results for fiscal 2014, it filed a record 755 enforcement actions, and obtained orders for a total of $4.16 billion in disgorgement and civil penalties.

In a release, the agency said ''new investigative approaches and the innovative use of data and analytical tools contributed to a very strong year for enforcement marked

The SEC said that in FY 2013, it filed 686 enforcement actions and obtained orders totaling $3.4 billion in disgorgement and penalties. In FY 2012, the agency filed 734 enforcement actions and obtained orders totaling $3.1 billion in disgorgement and penalties.

The SEC's press release is available at http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370543184660#.VEAejTh0xD8.

Minerals Disclosure Compliance Costs $700 Million

Corporate entities spent more than $700 million to comply with the Dodd-Frank provisions requiring businesses to disclose their use of conflict minerals, according to a survey by Tulane University's Payson Center for International Development.

Each of the roughly 1,300 stock issuers that filed Form SD under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. No. 111-203) spent more than $540,000 to comply with the law, the survey said. That figure included companies' internal time use, external expenditures and separate categories for information technology expenses.

More information on the Tulane survey is available at http://www.payson.tulane.edu/sites/default/files/content/files/TulanePaysonS1502PostFilingSurvey.pdf.

Tesco Suspends Three More Amid Accounting Probe

Tesco Plc, the largest U.K. supermarket chain, suspended three more employees amid a widening independent probe into a potential 250 million-pound ($400 million) overstatement of a profit estimate.

The three have been asked to step aside to ''facilitate the investigation,'' spokesman Tom Hoskin said, without naming them. It brings to eight the number of workers that have been relieved of their duties for the moment.

Tesco said Sept. 22 that some income was booked before being earned and costs were recognized later than incurred, meaning that its 1.1 billion-pound projection for first-half operating profit was about 250 million pounds too high (10 APPR 890, 9/26/14). The grocer, whose shares have slid to an 11-year low amid falling sales and market share, called in Deloitte LLP and Freshfields Bruckhaus Deringer LLP to conduct an independent investigation.

Russia Warns Brokerages on Reporting Violations

The Russian Central Bank released new financial reporting guidelines applicable to securities brokerages. In Letter No. 06-57/8035, released on Oct. 17, and it warned that securities brokerages must fully comply with all legislative requirements when filing their financial statements. The Central Bank also warned that the amended Section 1, Article 172 of the Russian Criminal Code introduced criminal penalties for forging financial reports from Aug. 2, 2014. The latest compliance audits by the Central Bank discovered a number of violations by securities brokerages in their financial statements, the guidelines said.

The full text of Letter No. 06-57/8035, dated Oct. 13, is available in Russian at: http://www.cbr.ru/sbrfr/legislation/letters/2014/Inf_oct_1314.pdf.

The list of ''typical violations'' is available at: http://www.cbr.ru/sbrfr/print.aspx?file=contributors/financialmarket/market_professional_operators/violations.htm&pid=financialmarket&sid=ITM_48719.

Some Execs Under Report Benefits

Payroll departments should be aware of methods that some executives use to hide payments from proper taxation so they can counteract those methods, an American Payroll Association official said Oct. 9 at a conference in Springfield, Va.

Some executives purposefully acquire taxable payments through accounts payable without ensuring that the payroll department is properly informed of them, with the goal of payroll not learning about the payments and not performing tax withholding, said Michael O'Toole, CPP, senior director of publications at the APA. He spoke at the 2014 Virginia Statewide Payroll Conference.

Policies that do not require executives to thoroughly substantiate personal use of company credit cards or company vehicles could restrict a payroll department's ability to achieve compliance, O'Toole said. The use of subtle or unclear language in severance agreements to establish benefits also could lead to compliance problems, O'Toole said.

Official Actions

Oct. 8-Oct. 22

Financial Accounting Standards Board

Proposals

FASB Oct. 14 issued two narrow exposure drafts intended to simplify accounting rules, one on how to present debt issuance costs and the other prescribing an easier path for employers on when to gauge defined benefit plan assets and liabilities (Page 947).

Meeting Discussions

In an Oct. 22 meeting, FASB:

- voted to issue a proposed accounting standards update to eliminate the exception under current income tax accounting rules for intraentity asset transfers and the balance sheet classification requirement for deferred taxes (Page 944);
- tentatively decided to retain ''other-than-temporary impairment'' in current rules for equity securities accounted for using the equity method for investments, but decided to remove equity method investments from the scope of its financial instruments project (Page 945).

In an Oct. 8 meeting, FASB:

- discussed ways to better define a business entity and to resolve capitalization versus expensing of acquisition costs as part of its business combinations effort (Page 941);
- tentatively decided to include assistance from foreign governments will be included in the scope of disclosure requirements being developed for government assistance transactions (Page 956);
- began work on several tax-related issues in its nascent effort to improve accounting for stock-based compensation (Page 949);
- completed core discussions on nonprofit but must await external reviews on several areas, including the treatment of capital gifts and use of board designations and transfers, before issuing a formal proposal (Page 954).

FASB also on Oct. 8 ratified four decisions of its Emerging Issues Task Force (Page 947):

- expand the use of ''pushdown accounting'' a form of post-acquisition reporting;
- EITF Issue No. 13-G, guidance on certain hybrid financial instruments that have traits of debt and equity;
- Issue 14-A, on earnings-per-unit impacts of ''master limited partnership dropdown transactions'';
- Issue 14-B, on fair value gaugings for certain investments measured at net asset value.

FASB, International Accounting Standards Board

Meeting Discussions

In an Oct. 22 video-conference, the boards:

- tentatively decided to meet in November in hopes of resolving key issues on their leasing project, including sharpening the definition of a lease amid other disagreements on the project (Page 946).

American Institute of CPAs

Final Actions

The AICPA Oct. 23 issued Statement on Standards for Accounting and Review Service (SSARS) No. 21, which revises for small private companies decades-old rules by creating a clear boundary between accounting preparation services and reporting compilation or review services (Page 959).

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.

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Calendar

Recent Financial Restatements

The following list summarizes financial restatements reported to the Securities and Exchange Commission between Oct. 3 and Oct. 17, 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
ActiveCare Inc. (CIK: 0001429896)	10/6/14	The Oreem, Utah, company determined that revenue recognition accounting for chronic illness supplies shipped to distributors should be corrected. Specifically, it was determined that it is better practice to defer revenue recognition until the products are shipped to the end users as opposed to the distributors for the periods ended Dec. 31, 2013-June 30, 2014.	8-K
Bank of the Carolinas Corp. (CIK 0001365997)	10/10/14	The Mocksville, N.C., firm restated its financials to record an increase in deferred tax asset valuation allowance, and the related income tax impact, resulting from a decrease in unrealized gains on investment securities that were incorrectly accounted for under GAAP for the years ended Dec. 31, 2013, 2012, and 2011, and the related disclosures.	10-K/A
Core Resource Management (CIK: 0001581312)	10/10/14	The Dallas company made misstatements for the period ending Dec. 31, 2013, about its filing status and when it had filed financial statements.	10-K/A
Intellicell Biociences Inc. (CIK: 0001125280)	10/9/14	The New York, N.Y., company restated its entire statement for the year ended Dec. 13, 2013, to reflect certain corrections made in connection with its accounting for the application of fair value assessment for transactions involving derivative obligations related to the issuance of convertible debt instruments.	10-K/A
Octagon 88 Resources Inc. (CIK: 0001444837)	10/10/14	The Steinhausen, Germany, company amended the value recorded for the Company's ownership interest in CEC North Star Energy Ltd. to account for certain adjustments received from CEC North Star Energy Ltd. relating to stock-based compensation issued during the period ended June 30, 2013 and a revision to the capitalized value of certain leases held for development.	10-K/A
On4 Communications Inc. (CIK: 0001300867)	10/3/14	The Vancouver, B.C., company filed its Quarterly Report on Form 10-Q and accompanying financial statements and footnotes for the period ending July 31, 2014, without its auditor, Saturna Group Chartered Accountants LLP, having completed its review.	8-K
Resonant Inc. (CIK: 0001579910)	10/8/14	The Santa Barbara, Calif., company failed to permanently reclassify as equity effective as of May 29, 2014 warrants bridge warrants, offering warrants and consulting warrants involved in an initial public offering	8-K
TransCoastal Corp. (CIK: 0001046057)	10/9/14	The Dallas company adjusted its depletion expense and accumulated depletion based on the changes in reserve estimates for each of the years in the two year period ended Dec. 31, 2013.	10-K/A

Company	Date	Statement	Form
Worlds Inc. (CIK: 0000001961)	10/14/14	The Brookline, Mass., company misstated on its 10-K for Dec. 31, 2012, the duration of stock options for a company official as 18 months when the were in fact for five years.	8-K
Source: Bloomberg BNA.			

Comment Deadlines for Pending Accounting and Auditing Rulemaking Projects

FASB PROJECTS

Comments Due	Project Description
Nov. 18, 2014	Proposed Accounting Standards Update—*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Issued Aug. 20, 2014 http://www.fasb.org/
Dec. 1, 2014	Proposed Accounting Standards Update—*Technical Corrections & Improvements*. Issued Sept. 15, 2014 http://www.fasb.org/
Dec. 15, 2014	Proposed Accounting Standards Update—*Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Benefit Obligation and Plan Assets*. Issued Oct. 14, 2014 http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086783
Dec. 15, 2014	Proposed Accounting Standards Update—*Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost* Issued Oct. 14, 2014 http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086783

GASB PROJECTS

Comments Due	Project Description
Dec. 31, 2014	Exposure Draft, *Implementation Guide No. 20XX-1* Issued Feb. 27, 2014 http://www.gasb.org/
Dec. 31, 2014	Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* Issued Dec. 20, 2013 http://www.gasb.org/

IASB PROJECTS

Comments Due	Project Description
Oct. 17, 2014	IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging* Issued April 17, 2014 http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Instruments-A-Replacement-of-IAS-39-Financial-Instruments-Recognitio/Phase-III-Macro-hedge-accounting/Pages/Phase-III-Macro-hedge-accounting.aspx
Oct. 20, 2014	IASB Proposed Interim Release 2 for the IFRS Taxonomy 2014: *IFRS 15- Revenue from Contracts With Customers* Issued Aug. 22, 2014 http://www.ifrs.org/XBRL/IFRS-Taxonomy/2014-IFRS-15-Revenue-Contracts-Customers/Documents/PIR2_IFRSTaxonomy_IFRS15_AUG%202014.pdf
Oct. 20, 2014	IASB Proposed Interim Release 2 for the IFRS Taxonomy 2014: *Common Practice (Transport and Pharmaceuticals)* Issued Aug. 22, 2014 http://www.ifrs.org/XBRL/IFRS-Taxonomy/2014-IFRS-15-Revenue-Contracts-Customers/Documents/PIR2_IFRSTaxonomy_CommonPractice_AUG%202014.pdf

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IASB PROJECTS – Continued

Comments Due	Project Description
Dec. 18, 2014	IASB Exposure Draft *Recognition of Deferred Tax Assets for Unrealized Losses (Proposed Amendments to IAS 12)* Issued Aug. 20, 2014 http://www.ifrs.org/Current-Projects/IASB-Projects/Recognition-of-Deferred-Tax-Assets-for-Unrealised-Losses/ED-August-2014/Pages/Exposure-Draft-comment-letters.aspx
Jan. 15, 2015	IASB Exposure Draft *Reporting the Financial Effects of Rate Regulation* Issued Sept. 17, 2014 http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Discussion-Paper-September-2014/Pages/Discussion-Paper-and-Comment-letters.aspx
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

AICPA PROJECTS

Comments Due	Project Description
Nov. 7, 2014	Discussion Paper, Enhancing Audit Quality: *Plans and Perspectives for the U.S. CPA Profession*. Issued Aug. 7, 2014 http://community.aicpa.org/enhancing_audit_quality_initiative/m/mediagallery/599.aspx
Dec. 10, 2014	Exposure Draft, *Proposed Statement on Auditing Standards: An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*. Issued Sept. 10, 2014 http://www.aicpa.org/Research/ExposureDrafts/AccountingandAuditing/Pages/ExposureDrafts_ASB.aspx
Dec. 18, 2014	Exposure Draft, *Proposed Statement on Standards for Attestation Engagements: Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting: Clarification and Recodification Plans and Perspectives for the U.S. CPA Profession*. Issued Sept. 18, 2014 http://www.aicpa.org/Research/ExposureDrafts/AccountingandAuditing/Pages/ExposureDrafts_ASB.aspx

PCAOB PROJECTS

Comments Due	Project Description
Nov. 3, 2014	Staff Consultation Paper:*Auditing Accounting Estimates and Fair Value Measurements* *Issued Aug. 19, 2014* *http://pcaobus.org/Standards/Documents/SCP_Auditing_Accounting_Estimates_Fair_Value_Measurements.pdf*

Dates of Accounting, Auditing Standards & Rules From Dec. 15, 2013

FASB GUIDANCE AND STANDARDS

Effective Date	Title	Date Issued
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

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, 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
Effective for public business entities for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2015. For all other entities, the amendments in this Update are 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
The amendments in this Update do not have transition guidance and will be effective upon issuance for both public entities and nonpublic entities.	ASU No. 2014-06, Technical Corrections and Improvements Related to Glossary Terms. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	3/14/14

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FASB GUIDANCE AND STANDARDS – Continued

Effective Date	Title	Date Issued
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
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
No actual effective date, but the definition will apply to upcoming ASUs No. 2014-01, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill, and No. 2014-02, Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach.	ASU No. 2013-12, Definition of a Public Business Entity: An Addition to the Master Glossary. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	12/23/13
After Dec. 15, 2013 for public entities and after Dec. 15, 2014 for nonpublic entities. Early adoption is permitted.	ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	7/18/13
Effective immediately, and can be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013.	ASU No. 2013-10, Derivatives and Hedging: Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes). (Topic 815) http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	7/17/13
Effectively on issuance —does not change other disclosure requirements under ASC 820.	ASU No. 2013-09, Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	7/8/13

FASB GUIDANCE AND STANDARDS – Continued

Effective Date	Title	Date Issued
Effective prospectively for fiscal years beginning after Dec. 15, 2013. Early application prohibited.	ASU No. 2013-08, Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	6/7/13
Effective prospectively for fiscal years beginning after June 15, 2014. Early adoption permitted.	ASU No. 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	4/22/13
Effective prospectively for fiscal years beginning after June 15, 2014. Early adoption permitted.	ASU No. 2013-06, Not-for-Profit Entities (Topic 958): Services Received From Personnel of an Affiliate. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	4/19/13
After Dec. 15, 2013 for public entities and after Dec. 15, 2014 for nonpublic entities.	ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	3/4/13
After Dec. 15, 2013 for public entities and after Dec. 15, 2014 for nonpublic entities.	ASU No. 2013-04, Liabilities (Topic 405): Obligations Resulting From Joint & Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	2/28/13
An entity is required to apply the amendments for reporting periods, including interim periods, beginning after Dec. 15, 2012, for public companies and are effective for reporting periods beginning after Dec. 15, 2013 for private companies.	ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	2/5/13
For SEC filers, effective on or after Dec. 15, 2012, for all other entities effective date is on or after Dec. 15, 2013. Prospective application.	ASU No. 2012-07, Entertainment—Films (Topic 926): Accounting for Fair Value Information That Arises After the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	10/24/12
The amendments in this Update are effective for public entities (conduit bond obligors) for fiscal periods beginning after Dec. 15, 2012. For nonpublic entities, the amendments in this Update are effective for fiscal years beginning after Dec. 15, 2013. Early adoption is permitted. The amendments in this Update should be applied retrospectively by recording a cumulative-effect adjustment to opening retained earnings (or unrestricted net assets) as of the beginning of the earliest period presented.	ASU No. 2012-01, Health Care Entities (ASC 954): Continuing Care Retirement Communities-Refundable Advance Fees. ASU No. 2010-26. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	7/24/12
Effective for calendar years beginning after Dec. 31, 2013, when the fee mandated by the Patient Protection and Affordable Care Act initially becomes effective.	ASU No. 2011-06, Other Expenses (ASC 720), Fees Paid to the Federal Government by Health Insurers, a Consensus of the FASB Emerging Issues Task Force. http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498	7/21/11

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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

PCAOB STANDARDS AND RULES

Effective Date	Title	Web Access
Effective for audits of financial statements for fiscal years ending on or after June 1, 2014.	PCAOB Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, and Related Amendments to PCAOB Standards.	http://pcaobus.org/Rules/Rulemaking/Docket036/PCAOB_Release_2013_008.pdf
Effective for audits of financial statements for fiscal years ending on or after June 1, 2014.	Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards.	http://pcaobus.org/Rules/Rulemaking/Docket035/PCAOB_Release_2013_007.pdf
Amendments to the PCAOB's rules, SEC Practice Section membership requirements, and Ethics Code will take effect on June 1, 2014. The amendments to Forms 1, 1-WD, 3, and 4 will take effect July 1, 2014. The amendments to Form 2 will take effect April 1, 2015. Issued May 2, 2013	Notice of Filing of Amendment No. 1, and Order Granting Accelerated Approval of Proposed Rules, Amendments to Conform the Board's Rules and Forms to the Dodd-Frank Act and Make Certain Updates and Clarifications, as Modified by Amendment No. 1, Release No. 34-72087; File No. PCAOB-201303	http://www.sec.gov/rules/pcaob/2014/34-72087.pdf

IASB STANDARDS AND GUIDANCE

Effective Date	Title	Date Issued
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

IASB STANDARDS AND GUIDANCE – Continued

Effective Date	Title	Date Issued
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
Applied retrospectively for annual periods beginning on or after Jan. 1, 2014.	Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39). http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-provides-relief-for-novation-of-derivatives-June-2013.aspx	6/27/13
Applied retrospectively for annual periods beginning on or after Jan. 1, 2014.	Recoverable Amount Disclosures for Non-Financial Assets: Amendments to IAS 36. http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-issues-narrow-scope-amendments-to-IAS-36-Impairment-of-Assets-May-2013.aspx	5/29/13
Effective for annual periods beginning on or after Jan. 1, 2014.	International Financial Reporting Interpretation Committee Interpretation 21: Levies, an Interpretation on the Accounting for Levies Imposed by Governments. http://www.ifrs.org/Current-Projects/IASB-Projects/Provisions-Contingent-Liabilities-and-Contingent-Assets-Levies-interpretation/Pages/Project-summary.aspx	5/20/13
Effective from Jan. 1, 2014, with early adoption permitted.	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). http://www.ifrs.org/Current-Projects/IASB-Projects/Consolidation/Documents/Investment-Entities-Amdments-to-IFRS-10-12-and-IAS-27-summary-and-feedback.pdf	10/31/12

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
Effective for financial statements for fiscal years beginning after June 14, 2014. Earlier application is encouraged.	Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an Amendment of GASB Statement No. 68.* http://gasb.org	11/25/13
Effective for financial statements for fiscal years beginning after Dec. 15, 2013. Earlier application is encouraged.	Statement No. 69, *Government Combinations and Disposals of Government Operations.* http://gasb.org	1/8/13
Effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged.	Statement No. 68, *Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement No. 27.* http://gasb.org	8/2/12

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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

10/28/14	eXtensible Business Reporting Language (XBRL)	IFRS Taxonomy Consultative Group London
10/29/14	FASB meeting	Norwalk, Conn.
10/31/14	FASB/IASB Joint Transition Revenue Recognition Resource Group webcast	Norwalk, Conn./London
11/6/14	IASB meeting with Global Preparers Forum	London
11/11-12/14	IFRS Interpretations Committee	London
11/11-13/14	GASB meeting	Norwalk, Conn.
11/13/14	EITF meeting	Norwalk, Conn.
11/13-14/14	GASAC meeting	Norwalk, Conn.
11/13-14/14	IASB education session	London
11/17-21/14	IASB meeting	London
11/20-21/14	PCAOB Standing Advisory Group	Washington, D.C.
12/1/14	GASB teleconference	Norwalk, Conn.
12/4-5/14	Accounting Standards Advisory Forum	London
12/11/14	eXtensible Business Reporting Language (XBRL)	IFRS Taxonomy Consultative Group conference call (London)
12/11-12/14	IASB education session	London
12/15-17/14	IASB meeting	London
12/15-17/14	GASB meeting	Norwalk, Conn.
1/19-23/15	IASB meeting	London
1/26/15	FASB-IASB Joint Transition Resource Group for Revenue Recognition	Norwalk, Conn./London
1/27-28/15	IFRS Interpretations Committee	London
2/2-3/15	IFRS Foundation Trustees	Zurich
2/13/15	IASB education session	London
2/16-20/15	IASB meeting	London
2/23-24/15	IFRS Advisory Council	London
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.
4/14-16/15	IFRS Foundation Trustees	Toronto
4/24/15	IASB education session	London
4/27-30/15	IASB meeting	London