



March 2013

# A&A Update

## The Technical Standards Update of Crowe Horwath International From the Standards Setters

### **Hoogervorst Declares 2013 “End of the Convergence Era”**

At the January meeting of the IFRS Foundation, the IASB’s parent organization, IASB Chairman Hans Hoogervorst said 2013 will mark the end of the convergence process that has defined the IASB since its creation in 2001 and begin a new phase of the board’s existence. With the end of the effort to converge IFRS with U.S. GAAP approaching, the international board is putting more effort into working with standard-setting bodies from Asia, Africa, and South America.

The IFRS Foundation proposed in November creating a 12-member panel of international standard setters to serve as a sounding board for the IASB on accounting issues and advise the board on its agenda. There was some early controversy about it, but as is reported below, the FASB will likely be represented on the advisory panel whether or not the U.S. formally adopts IFRS.

### **FASB Issues Standard on Reclassifying out of Other Comprehensive Income**

ASU 2013-02, “*Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*,” aims to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments in the update do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that the update addresses already is required to be disclosed in the financial statements, but the ASU requires more prominent disclosure, i.e. either on the face of the statement where net income is presented or in the notes, report the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

To view the ASU, click [here](#).

### **AICPA Provides Sample Auditor’s Reports under the Clarified Auditing Standards**

The AICPA, via the [Governmental Audit Quality Center](#), has released sample auditor’s reports that provide illustrative wording applicable to both governmental entities and not-for-profit entities.

### **FASB Limits Fair Value Requirements for Private Companies and Nonprofits**

ASU 2013-03, “*Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*,” clarifies the scope and applicability of a disclosure exemption that is specific to private companies and not-for-profit organizations that resulted from the issuance of ASU 2011-04, “*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*.”

The ASU clarifies that the requirement to disclose “the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)” does not apply to private companies and nonpublic not-for-profit organizations for items that are **not** measured at fair value in the statement of financial position, but for which fair value is disclosed. The amendments were effective upon issuance.

### **FASB Revises Proposed Changes in Financial Instruments Accounting Standards**

Under the proposal, the classification and measurement of a financial asset would be based on the asset’s cash flow characteristics and the entity’s business model for managing the asset, rather than on its legal form, that is, whether the asset is a loan or a security. Based on this assessment, financial assets would be classified into one of three categories:

- Amortized Cost – financial assets comprised solely of payments of principal and interest that are held for the collection of contractual cash flows
- Fair Value through Other Comprehensive Income (OCI) – financial assets comprised solely of payments of principal and interest that are both held for the collection of contractual cash flows and for sale
- Fair Value through Net Income – financial assets that do not qualify for measurement at either amortized cost or fair value through other comprehensive income.

All equity investments (excluding those accounted for under the equity method of accounting) would be measured at fair value with changes in fair value recognized in net income, because such investments do not have payments of principal and interest.

The proposal also would require financial liabilities to generally be carried at cost, unless the reporting organization’s business strategy is to subsequently transact at fair value or the obligation results from a short sale.

The ED can be downloaded [here](#).

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## From the Regulators

### **Is Your Firm Doing Work in Connection with Audits Filed with the SEC?**

The Sarbanes-Oxley Act requires accounting firms to register with the PCAOB in order to prepare, issue, or participate in audit reports of issuers, brokers, and dealers. **Non-U.S. accounting firms** that furnish, prepare, or play a substantial role in preparing an audit report for any issuer, broker, and dealer also are subject to PCAOB rules.

To get more information, including about how to register with the PCAOB and what forms are required to be filed annually after you register, click [here](#).

### **Forum of Firms (FOF) Issues Information Paper – EQCR: Practical Considerations**

Although not authoritative literature, FOF Information Papers are a good source of guidance. This paper discusses best practices for performing engagement quality control reviews (EQCR). Of course, such reviews are generally only required for listed company audits, but many firms have policies in place that mandate such reviews for selected other audit engagements as well.

The paper can be accessed by clicking [here](#).

## SEC Launches Online Fraud Detection Tool

The SEC has developed an XBRL-based computerized diagnostic tool to spot early warnings of suspicious accounting practices. The tool, working on the SEC's Accounting Quality Model (AQM), will monitor official filings such as annual reports. The model, using quantitative analytics, is designed to identify anomalies within financial statements, and the degree to which such statements deviate from the norm.

XBRL tagging is now mandatory for most SEC filings. XBRL enables easier comparison of financial statements from different businesses and periods by highlighting comparable items such as revenue or pre-tax profit. For more information about SEC XBRL tagging requirements click [here](#).

## Audit Requirements for Conflict Minerals will be Somewhat Limited

Companies that use minerals found in a war-torn region of western Africa will have to inform investors about the sources of the minerals they use, and auditors will have to verify the information. SEC officials say much of the information on the audit of the conflict minerals report can be found in Release No. 34-67716. Click [here](#) to read the release.

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# Headlines from Around the World

## International Accounting Panel Offers U.S. a Seat

The IASB is offering the U.S. a seat on its newly established 12-nation forum.

## UK Competition Commission (CC) Issues Provisional Findings

The CC, which has been conducting an investigation into the "Statutory Audit Services Market," released its provisional findings 22 February. There are five provisional findings with "adverse effects on competition" (AEC). The CC concludes that "as a result of the AEC, we provisionally found that companies are offered higher prices, lower quality and less innovation and differentiation of offering than would be the case in a market without the features, and shareholders and investors (as potential future shareholders) have demand which is unmet."

Although the summary of provisional findings itself does not contain any recommendations that address the provisional findings, the CC also issued a "notice of possible remedies," and the press release announcing the publication of the provision findings includes the following statement: "The CC is now looking at possible ways to encourage greater competition through mandatory tendering and rotation; increasing information and transparency with more frequent reviews and extended reporting requirements; and strengthening accountability and independence by giving audit committees and shareholders greater control of external audit."

The notice of possible remedies states that the CC is exploring the following possible combination of remedies:

- Mandatory tendering;
- Mandatory rotation of audit firm;
- Expanded remit and/or frequency of Audit Quality Review team (under auspices of Financial Reporting Council (FRC)) reviews;
- Prohibition of 'Big-4-only' clauses in loan documentation;
- Strengthened accountability of the External Auditor to the Audit Committee;
- Enhanced shareholder-auditor engagement; and
- Extended reporting requirements.

A summary of the provisional findings is available [here](#). The press release is available [here](#). The notice of possible remedies is available [here](#).

### **IFRS Foundation Eases Way for FASB to Join Global Forum**

The IFRS Foundation's departure from requirements initially proposed in November 2012 could clear the way for FASB membership in a new global forum of national and regional standard setters. Promoting the adoption of IFRS will not be a prerequisite for standard setters to participate in a new forum the IFRS Foundation is forming to advise the IASB on technical standard-setting issues.

### **PCAOB Signs Agreement with French and Finnish Regulators**

In February, The PCAOB signed an agreement with the French High Council for Statutory Auditors (H3C) and the Auditing Board of the Central Chamber of Commerce (AB3C) of Finland providing a framework for joint inspections and confidential information exchange.

### **FRC Consults on Auditor's Report Requirements**

In February, the UK Financial Reporting Council (FRC) launched a consultation on the content of the auditor's report. The consultation, *Consultation Paper: Revision to ISA (UK and Ireland) 700*, includes proposals that require the auditor's report to discuss:

- How the auditor applied the concept of materiality,
- Which risks of material misstatements were identified, and how this affected the audit strategy, and
- How the audit scope responded to these matters.

### **EFRAG and National Standard Setters of France, Germany, Italy and UK Publish Strategy on Revision of IFRS Conceptual Framework**

The European Financial Reporting Advisory Group (EFRAG) and the National Standard Setters of France (ANC), Germany (ASCG), Italy (OIC) and the UK (FRC) are collaborating to investigate aspects of the Conceptual Framework they believe are particularly significant to European constituents. The aim of this is to facilitate the participation of European constituents in this critical debate for the future of IFRS and to ensure ultimately that the revised conceptual framework reflects an underlying accounting model that European stakeholders believe is conducive to robust and effective financial reporting standards.

### **Private Company Council (PCC) Sets Agenda**

The PCC was established by the FAF last year and will work with the FASB, on recommending differences to accounting standards for private companies. The PCC held its second meeting in February and decided to focus on three projects:

- Consolidating variable interest entities, specifically when applied to related party arrangements (FIN 46(R))
- Accounting for "plain vanilla" interest rate swaps with single counterparties, which are used to convert variable interest rates on loans to fixed interest rates
- Recognizing and measuring various identifiable intangible assets acquired in business combinations, including the use of Level 3 fair value measurements and the disclosures associated with them.

The PCC and FASB also voted to seek additional public input on a proposed private company decision-making framework. The framework outlines criteria to determine whether and in what circumstances it is appropriate to adjust financial reporting requirements for private companies following U.S. GAAP.

## CICA, CMA Canada Merge to Form CPA Canada

The Canadian Institute of Chartered Accountants (CICA) and the Certified Management Accountants of Canada (CMA Canada) have merged on a national level to form the Chartered Professional Accountants of Canada (CPA Canada). The merger was finalized in January. The Canadian CPA will be an accounting and business credential with the aim to become an internationally recognized and respected designation.

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## Useful Links

- International Accounting Standards Board (IASB) [www.iasb.org](http://www.iasb.org)
  - IASB Exposure Drafts open for comment <http://www.ifrs.org/Open-to-Comment/Pages/International-Accounting-Standards-Board-Open-to-Comment.aspx>
  - International Auditing and Assurance Standards Board (IAASB) [www.ifac.org/iaasb](http://www.ifac.org/iaasb)
  - International Federation of Accountants (IFAC) [www.ifac.org](http://www.ifac.org)
  - IFRS Interpretations Committee (IFRIC) <http://www.ifrs.org/IFRSs/Pages/IFRICs.aspx>
  - Financial Accounting Standards Board (FASB) [www.fasb.org](http://www.fasb.org)
  - Public Company Accounting Oversight Board (PCAOB) [www.pcaob.org](http://www.pcaob.org)
  - American Institute of CPAs Auditing Standards Board (AICPA ASB) <http://www.aicpa.org/Research/Standards/AuditAttest/Pages/audit%20and%20attest%20standards.aspx>
  - United States Securities and Exchange Commission (SEC) [www.sec.gov](http://www.sec.gov)
  - European Commission (EC) [ec.europa.eu/internal\\_market/index\\_en.htm](http://ec.europa.eu/internal_market/index_en.htm)
  - Forum of Firms (FoF) [www.ifac.org/Forum\\_of\\_Firms](http://www.ifac.org/Forum_of_Firms)
  - Transnational Auditors Committee (TAC) [www.ifac.org/TransnationalAuditors](http://www.ifac.org/TransnationalAuditors)
  - TAC Guidance Statement No. 1, Definition of Transnational Audit - [web.ifac.org/download/TAC\\_Guidance\\_Statement\\_1.pdf](http://web.ifac.org/download/TAC_Guidance_Statement_1.pdf)
  - UK Financial Reporting Council [www.frc.org.uk](http://www.frc.org.uk)
  - AICPA Center for Audit Quality document explaining PCAOB inspections <http://www.theacq.org/resources/pdfs/GuidetoPCAOBInspections.pdf>
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