



May 2012

# A&A Update

## The Technical Standards Update of Crowe Horwath International

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### From The Standards Setters

#### **Good Practice Checklist for Small Business**

The following message was recently received by David Chitty, a member of the IFAC SMP Committee.

“We are pleased to offer you the attached Good Practice Checklist for Small Business for you to distribute to your constituents who operate in small- and medium-sized practices (SMPs). This multi-part checklist features standalone sections on financial tasks, strategic management tasks, and regulatory requirements, among others. The checklist can be used both by small businesses, to determine what business advice they may need from an accountant, and/or by SMPs, as a marketing or diagnostic tool to help them determine the advice a small business client may need.”

[Click here to access the checklist](#)

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### From The Regulators

#### **Reminder for all PCAOB registered firms**

The annual reporting period has ended (31 March) with Form 2 due by 30 June. Please [click here](#) for additional information.

#### **JOBS Act Impacts the SEC**

The JOBS Act is going to impact the SEC in a number of ways. The SEC has started to post on its website information about how it will handle its new responsibilities.

[Click here to access it](#)

#### **What the JOBS Act Means for Emerging Growth Companies and Sarbanes-Oxley Compliance: A Practical Approach (Courtesy of Crowe Horwath LLP)**

As a result of the Jumpstart Our Business Startups (JOBS) Act, signed into law by President Obama on April 5, emerging growth companies will be exempt from certain requirements of the Sarbanes-Oxley Act (SOX).

Companies planning an initial public offering (IPO) will have more time to ramp up their SOX programs, allowing the companies to focus on expanding their business.

What exemptions does the JOBS Act provide? For the first five years after issuing an IPO, companies with revenues of less than \$1 billion a year will no longer need to comply with Section 404(b) of SOX – which requires that the company's external auditors attest to its internal control over financial reporting – unless:

- The company's revenue grows to more than US\$1 billion,
- The company issues more than US\$1 billion in nonconvertible debt over a three-year period, or
- The company's worldwide public float exceeds US\$700 million.

Although exempt from the Section 404(b) requirement, these companies (like their larger counterparts) must continue to comply with the other provisions of SOX. Management still must certify that internal controls are operating effectively, meaning that controls must be documented and tested.

By delaying the auditor attestation, the management of an emerging growth company can take a gradual approach to Section 404(b) compliance. The JOBS Act will allow the company to build the scale and complexity of its compliance program over time, save on initial implementation costs, and focus on business growth.

During the five years following the IPO, emerging growth companies should take a risk-focused approach to SOX compliance – in particular, managing the organization's risk of costly restatements or other material weaknesses that can hurt its reputation. Management should aim for the right balance between, on the one hand, implementing internal controls that enable management to certify with confidence and, on the other hand, maintaining the entrepreneurial culture that's so vital to growing companies.

### **Crowdfunding Blocked Until Rule Is Written**

The SEC decided that it needs to write rules on crowdfunding before companies can use the practice. The JOBS Act permits securities offerings of less than US\$1 million to avoid the registration process when raising funds from investors, but the SEC said on April 23, 2012, that small companies can't use the crowdfunding option from the JOBS Act until the agency writes a rule permitting it.

### **SEC Staff Updates Financial Reporting Manual**

The SEC's corporation finance division released the latest quarterly update to its **Financial Reporting Manual** on April 13.

[Click here to access it](#)

### **PCAOB issues reports critical of audit work of several firms (none of them members of Crowe Horwath International)**

It is our editorial policy not to name the accounting firms receiving reports from the PCAOB critical of their performance on inspected engagements. However, these reports are, to a certain extent, matters of public record, and you may find the experiences of other firms to be informative. Accordingly, you are reminded that these reports are available at [www.pcaob.org](http://www.pcaob.org).

## Headlines From Around The World

### **Will the U.S. be to blame if accounting rules aren't so converged after all?**

In an interesting analysis in Reuters, the author identifies U.S. reluctance to adopting IFRS means the goal of converged standards is still a distant prospect. The author notes that while the IASB and FASB have been talking for years, the work has bogged down in technical debates and pressure from auditors - such as KPMG, PwC, Deloitte and Ernst & Young - to "take time to get it right." Policymakers are losing patience as investors are left waiting. Finance ministers from the world's top 20 economies (G20) gave, at the April meeting, an ultimatum, saying they must finish alignment by mid-2013 "at the latest," 30 months after the original G20 deadline. **Editor's note** – is this really an ultimatum as there is no or else \_\_\_\_\_ ? Nevertheless, the G20 demand is noteworthy.

To view the full Reuters story [click here](#).

### **FRC limits ten-year retendering to FTSE 350**

The Financial Reporting Council (FRC) plans to limit the scope of its suggested ten-year audit retendering to FTSE 350 companies only. In a consultation on a possible revision of the UK Corporate Governance Code and International Standards on Auditing (UK and Ireland) the FRC watered down its initial proposal to include all listed companies in the ten-year retendering to the FTSE 350 only. The FRC said it made the amendment because of expectations the market (read Big 4) would struggle to cope with the overwhelming number of requests that would result from all listed companies having to tender every 10 years.

### **President Obama signs JOBS Act for Small Business**

As noted above, President Obama signed the JOBS Act. Some brief bullet points about the contents of the act appeared in last month's newsletter. For a more thorough summary please click the link below. Of course, as in all matters related to securities regulation in the U.S., clients will need legal representation to assure compliance with the securities laws.

<https://crowehorwathinternational.sharefile.com/d/s1e09d682b2e48f2a>

### **PCAOB Strikes Deal with Germany on Audit Inspections**

The PCAOB signed a deal with German authorities that will allow officials to conduct joint inspections of auditing firms in both the U.S. and Germany.

So far, the PCAOB has reached agreements with regulators in two other European Union member states, the United Kingdom and the Netherlands, along with Switzerland and Norway. The board said it is continuing to negotiate with regulators in numerous other European countries. Cooperative arrangements have also been reached with regulators in Canada, some Middle Eastern countries such as Dubai and Israel, and in several Asian countries such as Japan, Taiwan and Singapore.

### **New pension accounting rules may decimate European profits in 2013**

A tightening of IAS 19 from 2013 will bar companies from using the so-called "corridor rule," which defers actuarial losses suffered by their pension schemes and allows them to be absorbed over time. The new accounting rules require immediate recognition of such losses (and gains) and given the current state of the markets, the anticipated losses recognition will slash hundreds of millions of euros from the profits of many European companies next year.

Companies will also have to align the forecast rate of return from their pension fund assets with the discount rate used to value future liabilities in their profit and loss accounts.

## EC Extends GAAP Recognition for Three More Years

The European Commission will recognize U.S. GAAP for three more years. The EC's mutual recognition process treats U.S. GAAP and accounting principles from nations that are converging their standards with IFRS as legally equivalent with IFRS. The move will give more time to countries that are committed to converging or replacing their national accounting standards with IFRS. The extension expires at the end of 2014.

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## Useful Links

- Crowe Horwath International ShareFile site [www.crowehorwathinternational.sharefile.com](http://www.crowehorwathinternational.sharefile.com)
  - International Accounting Standards Board (IASB) [www.iasb.org](http://www.iasb.org)
  - IASB Exposure Drafts open for comment [www.iasb.org/Open+to+Comment/International+Accounting+Standards+Board++Open+to+Comment.htm](http://www.iasb.org/Open+to+Comment/International+Accounting+Standards+Board++Open+to+Comment.htm)
  - 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) [www.iasb.org/Updates/IFRIC+Updates/IFRIC+Updates.htm](http://www.iasb.org/Updates/IFRIC+Updates/IFRIC+Updates.htm)
  - 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) [www.aicpa.org/InterestAreas/AccountingAndAuditing/Pages/AccountingandAuditing.aspx](http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Pages/AccountingandAuditing.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)
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