

Stockbrokerage and Investment Banking Expert Panel

Highlights of the March 8, 2017 Meeting



The Stockbrokerage and Investment Banking Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the depository institutions industry to deliberate and come to agreement on key depository institutions issues.

The following are brief highlights of the meeting:

I. Accounting Update

1. The EP discussed accounting and reporting considerations in connection with the following completed and proposed FASB projects:
 - a. Accounting for Financial Instruments:
 - i. [Recognition and Measurement](#)
 - ii. [Credit Losses](#)
 - b. [Leases—Joint Project of the FASB and the IASB](#). The EP continued discussing the impact of this standard on broker-dealers, especially if a broker-dealer is a part of a consolidated group. In November 2016, the SEC issued a [no-action letter regarding treatment of certain leases](#) under SEC Rule 15c3-1. As the EP and observers noted, the CFTC has not yet issued a similar no-action letter for those entities registered with the CFTC.
 - c. [Proposed Accounting Standards Update Derivatives and Hedging \(TOPIC 815\): Targeted Improvements to Accounting for Hedging Activities](#)
 - d. [ASU 2016-18](#). *Statement of Cash Flows (Topic 230), Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* The EP continued considering whether the ASU has an impact on certain cash and securities on the broker-dealer's balance sheet. The EP will resume this discussion at the June EP meeting.
 - e. FASB is [finalizing issuance of a standard on Premium Amortization on Purchased Callable Debt Securities](#). Discounts will continue to be amortized to maturity (legal final) while all premiums, regardless of how they were generated, should be amortized to the earliest call date. Affected public business entities will start adopting new guidance in fiscal years and interim periods within those fiscal years starting after December 15, 2018. Early adoption is permitted.

2. The EP considered accounting and tax impact of certain rulebook changes made by the Chicago Mercantile Exchange and LCH.Clearnet Limited related to the characterization of variation margin payments.
3. [Revenue Recognition—Joint Project of the FASB and IASB](#). The AICPA Broker-Dealer Revenue Recognition Task Force member and staff updated the EP on the [efforts](#) to date. Several papers developed by the task force have been finalized and/or issued for public comments. Draft issues on advisory income and underwriting fees, soft dollars, and selling and distribution income are still being developed.

II. Regulatory Update

1. The following regulators updated the panel members on regulatory developments:

1. SEC
 - The SEC staff is continuing to draft the following rules:
 - security swap dealer rules.
 - leverage and liquidity rules.
 - The SEC staff has simplified their electronic filing system and in January 2017, in response to comments from filers the instructions for filing broker-dealer annual reports have been updated to include the new process. The SEC staff indicated that as of early March 2017, about 400 SEC-registered broker-dealers have filed electronically.
 - The SEC staff is considering potential interpretation letter about broker-dealer's possession and control of collateral requirement, except for when federal laws prevent a customer from giving collateral to a broker.
2. CFTC
 - CFTC staff shared that the CFTC is considering extending the comment period on its [proposed capital requirements applicable to swap dealers and major swap participants](#) for an additional 60 days. **Update:** the CFTC announced extension on March 13, 2017.
 - [Exams findings:](#)
 - a. [Volcker rules requirements, including calculation of residual interest requirement, need to evaluate policies and procedures requirements.](#)
 - b. [For cause – if something was reported by SRO or self-reported, CFTC exam would supplement what SRO is doing.](#)
3. FINRA:
 - annual information notice for [filing due dates](#) for appropriate FOCUS reports, short interest reports, annual audits and customer complaints by member firms by their due dates.
 - [2017 Exam Priorities letter](#)
4. NFA:
 - Cybersecurity – The NFA Interpretive Notice regarding information systems security programs became effective in March 2016, yet, the NFA staff noted a wide range of exam findings related to information technology (IT) to date. These types of exams and scoping for general IT controls will continue.
 - CTAs and CPOs:
 - a. CFTC issued new rules for those entities to use not only US GAAP but also certain international GAAP.
 - b. NFA system changed to allow for filing under different GAAP or allow for stub period reporting under different GAAPs.
 - c. Effective for 9/30/16 filings, an increase in late filing fees resulted in a compliance rate to almost 100% of timely filings.
 - d. Financial ratios to be filed with June 30 quarterly report.
 - e. NFA staff plans future member workshops, including focus on cybersecurity.
5. [CME Group](#):

a. CME is focusing on similar priorities as FINRA.

2. The EP and regulators discussed that certain EP members noticed inconsistencies in being able to make auditor inquiries of regulators regarding open exams. In some cases, it has been quite easy to coordinate and execute, while in others, it has been challenging, causing delays in completing audits. The EP members inquired if regulators have updated internal guidance or policies to facilitate.

III. AICPA matters

1. Upcoming conferences:
 - a. The AICPA/SIFMA conference - October 11-12, 2017, at the New York Law School.
 - b. Financial Management Society (FMS) Regional Conference - June 7-9, 2017, at Fairmont Chicago.
2. The AICPA staff discussed timing of the 2017 AICPA Accounting Guide *Brokers and Dealers in Securities* (the Guide).

IV. Practice Issues (EP only portion of the meeting)

1. The EP members considered a draft potential enhance update to the Guide regarding initial margin guidance.
2. The EP started discussing accounting treatment for incremental costs of obtaining a contract and plans to continue this discussion at its June EP meeting.
3. The EP is monitoring a potential dual reporting requirement for certain attest reports.
4. The EP members will review and provide industry feedback on draft technical questions and answers on public business entity (PBE) definition.