Special Engage Conference Issue

TIC once again played an important role at the AICPA Engage Conference this year, held at the MGM Grand Hotel in Las Vegas. TIC Staff Liaison Kristy Illuzzi led two sessions given by the Center for Plain English Accounting on hot topics, one on SSARS and audit and attest developments and FAQs, and one on accounting and financial reporting issues. Other current and former TIC members participated in numerous sessions on a variety of technical issues. A Private Company Council Town Hall featured current and former TIC members and was led by PCC chair and former TIC chair Candace Wright.

Also at Engage, TIC’s new chair, Danielle Supkis Cheek, was recognized by the AICPA and CPA Practice Advisor as one of the 25 Most Powerful Women in Accounting.

At a TIC meeting held at Engage, TIC discussed issues with representatives of the FASB and PCC attending the conference or calling in. This issue of the TIC Alert reports on some of the topics discussed at that meeting and their importance to private companies and the CPAs who work with them.

TIC Meets with PCC Members

At Engage, TIC met with several members of the Private Company Council, including PCC chair Candace Wright and members Jeremy Dillard and Tim Curt. Topics discussed included:

Leases. TIC recently sent an unsolicited comment letter to the FASB calling for a one-year delay in private-company implementation of ASC Topic 842, Leases. The standard will have a significant impact on a majority of private companies and will become effective just as small businesses are tackling implementation of complicated revenue recognition guidance. The PCC also addressed lease implementation issues at its June meeting. FASB will meet on July 17 to discuss a potential delay for private companies further.

Income tax accounting. TIC and the PCC discussed the FASB exposure draft, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. TIC generally agreed with many of the proposals in the ED, which would remove specific exceptions to the general principles in Topic 740, including those related to the incremental approach for intraperiod tax allocation, accounting for basis differences when there are

Future Meetings

TIC meetings offer local practitioners the chance to provide their unique perspectives in the standard-setting process. All CPAs are invited to attend. Contact Kristy Illuzzi, CPA, TIC Staff Liaison, at the AICPA at (919) 402-4057 to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:
• September 10 and 11, 2019, Norwalk, CT: TIC liaison meetings with the FASB, PCC and GASB
• November 12 and 13, 2019, Miami, FL
• January 14 and 15, 2020, San Diego, CA: TIC liaison meeting with the ASB
• May 5 and 6, 2020, Nashville, TN
• June 8 to 10, 2020, Las Vegas, NV: Engage Conference and TIC meeting
• September 21 to 23, 2020, Norwalk, CT: TIC’s FASB, GASB and PCC liaison meetings

The PCPS Technical Issues Committee (TIC) provides standard setters with the unique perspective of local CPA firms on accounting, auditing and reporting issues. We hope these highlights of issues that affect local firms will help you, your firm or your group to participate in the standard-setting process.
ownership changes in foreign investments, and the exception for interim period income tax accounting for year-to-date losses that exceed anticipated losses. In its comment letter, TIC did point out that, under current implementation guidance, there is an example using a “cumulative probability” analysis to determine the measurement of each tax position that meets the recognition criteria. TIC said, “In practice, preparers develop their best estimate of the tax position using the facts, circumstances, and information available at the reporting date but, then, back into the final number by constructing a table with multiple possible outcomes and individual probabilities as demonstrated in the standard.” TIC recommended presenting the measurement illustration in the standard as one possible approach to determining a “best estimate” using the facts, circumstances and information available at the reporting date, noting that “the current rule requires application of an objective analysis to subjective accounting.” Comments were due by June 28. TIC submitted a comment letter on June 25.

Employee share-based payment. TIC received an update on outreach that the PCC has been doing with firms seeking feedback on a possible practical expedient in this area, including questions on the cost benefits of an expedient and what form one would take. The discussion covered issues with profits-interest awards. TIC offered to assist the PCC in compiling real-life examples of structures and terms of these awards. In its discussions with the FASB, TIC has raised the issue of the cost and complexity of many disclosures related to employee share-based payment that don’t offer commensurate benefits to private companies.

Balance sheet classification of debt. TIC and PCC members discussed challenges in practice with guidance in this area. An ED on this topic is expected later this summer. FASB is expected to address concerns related to unused financing arrangements, which have resulted in some pushback from constituents.

FASB Update with TIC

FASB staff member Jeff Mechanick attended the TIC meeting at Engage, and Rick Cole and FASB project team members called into it. Topics covered included:

Proposed Accounting Standards Update—Compensation—Stock Compensation (Topic 718) and Revenue From Contracts With Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer. The FASB is reviewing comment letters received on this proposal and planning further discussions on it this summer.

Consolidations reorganization and targeted improvements. The board undertook this project based on feedback from practitioners about implementation issues and the need for further clarification. The FASB staff noted they continue to review feedback and may need to re-expose some of the issues based on constituent feedback received to date.

Practice issues related to not-for-profit (NFP) entities.

• Accounting Standards Update 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and

TIC Comments on FASB SEC Disclosure Improvements ED

A FASB proposal on Disclosure Improvements: Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative would incorporate disclosure requirements referred to the board by the Securities and Exchange Commission into the FASB Codification. The requirements were developed under the SEC’s Disclosure Update and Simplification initiative.

While some of the proposals do not apply to private companies, in its comments TIC did recommend against requiring that

continued on page 3
The Auditing Standards Board has issued an ED of a proposed statement on auditing standards, *Amendments to the Description of the Concept of Materiality*, and a proposed statement on standards for attestation engagements of the same title to amend various AU-C and AT-C sections in AICPA Professional Standards. The ASB’s current description of the concept of materiality is consistent with the definition of materiality used by the International Accounting Standards Board and the International Auditing and Assurance Standards Board. The ASB is proposing amendments to align the materiality concepts discussed in AICPA Professional Standards with the definition of materiality used by the U.S. judicial system, the auditing standards of the PCAOB, the U.S. Securities and Exchange Commission, and the Financial Accounting Standards Board. U.S. practice is not expected to be significantly affected because the inconsistency with international standards is not significant. The ASB believes it is in the public interest to eliminate inconsistencies between the AICPA Professional Standards and the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators. Comments are due August 5. TIC expressed its support of this initiative to the ASB but decided not to submit a formal comment letter.

### TIC to Address Audits of Less Complex Entities

TIC has been asked to draft the AICPA comment letter on an International Auditing and Assurance Standards Board discussion paper on *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the International Standards on Auditing (ISAs)*. The discussion paper is seeking ways to address long-standing scalability issues regarding guidance applied to private companies. TIC discussed initial perspectives with AICPA chief auditor Bob Dohrer, who attended the session and offered information on international approaches to this issue. Comments are due by September 12.

### New Proposals on Materiality to Align with International Standards

In addition, the Accounting and Review Services Committee has issued an ED of a proposed statement on standards for accounting and review services, *Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks*, to amend AR-C sections 60, 70, 80, and 90 in AICPA Professional Standards. The proposed SSARS further converges AR-C section 90, *Review of Financial Statements*, with International Standard for Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*. The ARSC believes that it is important for the SSARSs literature to be as closely converged with ISRE 2400 (Revised) as possible in order to facilitate the accountant’s ability to perform and report on engagements in accordance with both sets of standards and mitigate the likelihood of confusion regarding the level of assurance obtained in accordance with either set of standards. In addition, even though there are significant differences between an audit engagement and an engagement performed in accordance with SSARSs, there are certain concepts, such as materiality, that are consistent regardless of the level of services performed on the financial statements. This exposure draft proposes to better align those concepts in the SSARSs. Comments are due September 20.

### ASB Proposes New Audit Evidence Standard

The ASB has issued proposed statement on auditing standards, *Audit Evidence*, to supersede SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended, section 500, *Audit Evidence*, and amend various other AU-C sections in AICPA Professional Standards. The proposed SAS addresses the evolving nature of business and audit services and issues that have arisen since extant AU-C section 500 was originally issued. Those issues include the use of emerging technologies by both preparers and auditors (for example, audit data analytics and use of
SAS Nos. 136 and 137 Issued by the ASB

Codified as new AU-C section 703 in AICPA Professional Standards, Statement on Auditing Standards (SAS) No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, addresses the auditor’s responsibility to form an opinion and report on the audit of financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), and the form and content of the auditor’s report issued as a result of an audit of ERISA plan financial statements. In an effort to enhance the communicative value and transparency of the auditor’s report, this SAS reflects a new reporting model for audits of ERISA plans that, among other things, changes the form and content of the auditor’s report when management elects to exclude from the audit certain investment information held and certified by a qualified institution, as permitted by ERISA. This SAS also includes incremental performance requirements to effect certain of the new reporting requirements in addition to those currently set forth in the existing AU-C sections in AICPA Professional Standards. It is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

SAS No. 137, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports, supersedes SAS No. 118, Other Information in Documents Containing Audited Financial Statements, as amended (AICPA, Professional Standards, AU-C sec. 720), and will benefit users of audited financial statements by providing transparency related to the auditor’s responsibility for other information when the auditor has obtained all of the other information at the date of the auditor’s report on the financial statements. It is also expected to reduce diversity in practice with respect to information and documents that are considered to be within the scope of this SAS. This SAS becomes effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

Become a Member of TIC!

The AICPA is now accepting volunteer applications for CPAs interested in serving on AICPA committees, including TIC. TIC membership offers the opportunity to share your expertise and to work with other CPAs to influence standards that will affect private companies. Applications are being accepted through October 1. You can apply online at AICPA Volunteer Central.

If you know someone who is thinking about applying, please encourage them to do so.

<table>
<thead>
<tr>
<th>Let Us Hear from You</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Danielle Supkis Cheek, CPA</strong></td>
</tr>
<tr>
<td>TIC Chair</td>
</tr>
<tr>
<td>Email: <a href="mailto:dcheek@pkftexas.com">dcheek@pkftexas.com</a></td>
</tr>
<tr>
<td><strong>Kristy Illuzzi, CPA</strong></td>
</tr>
<tr>
<td>TIC Staff Liaison</td>
</tr>
<tr>
<td>Email: <a href="mailto:kristy.illuzzi@aicpa-cima.com">kristy.illuzzi@aicpa-cima.com</a></td>
</tr>
</tbody>
</table>

This publication has not been approved, disapproved or otherwise acted upon by any senior technical committees of, and does not represent an official position of, the American Institute of Certified Public Accountants. It is distributed with the understanding that the contributing authors and editors, and the publisher, are not rendering legal, accounting, or other professional services in this publication. The views expressed are those of the authors and not the publisher. If legal advice or other expert assistance is required, the services of a competent professional should be sought.