ACCOUNTING

New broadly applicable financial instruments guidance taking effect

Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, starts coming into effect the first quarter of 2020 for calendar-year-end public business entities that are SEC filers, except for those that are eligible to be smaller reporting companies (SRCs) (as defined by the SEC). An SEC filer’s status as an SRC should be based on its most recent past SRC determination as of November 15, 2019. While the ramifications of the new credit losses guidance on financial institutions and other lenders has received a great deal of press, it is important to keep in mind that the scope of this guidance extends to all entities and to assets that are routinely held by nonlending institutions, including trade accounts receivable, contract assets and investments in debt securities. Refer to Chapters 4 and 6 of our recently updated publication, A guide to accounting for investments, loans and other receivables, for an in-depth analysis of the provisions of ASU 2016-13 (as subsequently amended), including comparisons of its provisions to the guidance it replaced.

ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, comes into effect for private companies for fiscal years beginning after December 15, 2018 (and interim periods in fiscal years thereafter), and was effective for public business entities for fiscal years beginning after December 15, 2017 (and interim periods therein). Among other provisions, it requires equity securities to be measured at fair value, with changes in fair value recognized through earnings. An election can be made to account for certain equity securities that do not have a readily determinable fair value at cost, with adjustments to fair value through earnings if indications of impairment are present or upon the occurrence of an observable price change in an orderly transaction for the identical or similar investment of the same issuer. ASU 2016-01 also requires the portion of the change in the fair value of a financial liability accounted for under a fair value election that results from a change in the instrument-specific credit risk to be presented separately in other comprehensive income rather than reflected in the income statement. For additional information on the ramifications of ASU 2016-01 (as subsequently amended) to equity securities and financial liabilities accounted for under a fair value election, refer to Chapter 2 and Section 7.3.1, respectively, of our recently updated publication, A guide to accounting for investments, loans and other receivables.
Practice aid: Accounting for digital assets

The American Institute of Certified Public Accountants Digital Assets Working Group recently issued a practice aid, *Accounting for and Auditing of Digital Assets*. Accounting matters discussed in this practice aid include:

- Classification and measurement when an entity purchases crypto assets
- Recognition and initial measurement when an entity receives digital assets that are classified as indefinite-lived intangible assets
- Accounting for digital assets classified as indefinite-lived intangible assets
- Measurement of cost basis of digital assets that are classified as indefinite-lived intangible assets
- Derecognition of digital asset holdings that are classified as indefinite-lived intangible assets
- Recognition of digital assets when an entity uses a third-party hosted wallet service

The audit-related content for this practice aid is coming soon.

RSM’s National Director of Accounting, Rick Day, is a member of the Digital Assets Working Group Accounting Subgroup.

AUDITING

NASBA and AICPA propose new CPA licensure model

The National Association of State Boards of Accountancy (NASBA) and the American Institute of Certified Public Accountants (AICPA) recently issued a proposed CPA licensure model that uses a “core + disciplines” approach. The model starts with a deep and strong core in accounting, auditing, tax and technology that all CPA candidates would be required to complete. Then each candidate would choose one of the following disciplines in which to demonstrate deeper skills and knowledge:

- Tax compliance and planning
- Business reporting and analysis
- Information systems and controls

Regardless of the chosen discipline, the model leads to full CPA licensure with rights and privileges consistent with any other CPA. A discipline selected for testing would not mean the CPA is limited to that practice area.

NASBA and the AICPA continue to gather feedback and aim to finalize an approach for an updated CPA licensure model in the summer of 2020.

SEC

SEC proposes amendments to certain auditor independence requirements

The SEC recently issued a proposed rule, *Amendments to Rule 2-01, “Qualifications of Accountants,”* to update certain of its auditor independence requirements. The proposed changes are intended to more effectively focus the independence analysis on those relationships or services that are more likely to pose threats to an auditor’s objectivity and impartiality. The proposed amendments primarily focus on fact patterns in which relationships and services would not pose threats to an auditor’s objectivity and impartiality but currently would trigger non-substantive rule breaches. Among other updates, the SEC proposes to:
• Amend the definition of an affiliate of the audit client to address certain affiliate relationships in common control scenarios and the definition of investment company complex. The proposed amendments include the addition of materiality qualifiers to the common control provisions and distinguish how the definition applies when an accountant is auditing a portfolio company, an investment company, or an investment adviser or sponsor.

• Amend the definition of the audit and professional engagement period to shorten the look-back period to the most recently completed fiscal year for domestic first-time filers in assessing compliance with the independence requirements to be consistent with the definition that applies to foreign private issuers.

• Add certain student loans and de minimis consumer loans to the categorical exclusions from independence-impairing lending relationships.

• Replace the reference to “substantial stockholders” in the business relationship rule with the concept of beneficial owners with significant influence.

• Provide a transition framework for corporate merger and acquisition transactions so the auditor and its audit client can transition out of prohibited services and relationships that were not prohibited prior to the transaction in an orderly manner.

The proposed amendments are available for comment for 60 days after publication in the Federal Register.

Highlights of recent SEC Regulations Committee meeting

In a recent meeting of the Center for Audit Quality SEC Regulations Committee with SEC staff members, the following emerging financial reporting issues, among others, were discussed:

• Cash outflows in the contractual obligations table pursuant to Regulation S-K Item 303(a)(5) should continue to be consistent with disclosures in accordance with U.S. generally accepted accounting principles (GAAP) upon adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, Leases. If, however, these amounts do not adequately capture liquidity needs and expected future cash outflows, registrants should consider whether incremental footnote disclosures are necessary, as discussed in Section 9240.7 of the Division of Corporation Finance Financial Reporting Manual (FRM) as well as the Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management’s Discussion and Analysis.

• Registrants are encouraged to look to the provisions of Regulation S-K Item 301 when determining whether years 4 and 5 of the selected financial data table should be recast or whether additional explanatory disclosures would be sufficient to explain factors that materially affect the comparability of information reflected in the selected financial data upon a retrospective accounting change, other than the adoption of ASC 606, Revenue from Contracts with Customers.

• A SPAC (or blank check company) cannot avail itself of the accommodation in FRM 2025.3 to use pro forma information to measure significance for the inclusion of financial statements of a subsequent acquisition in accordance with Regulation S-X3-05.

• The SEC staff stated there should be internal controls surrounding the non-GAAP financial measures process and engagement of audit committees when non-GAAP measures are based on individually tailored accounting principles and/or include multiple significant adjustments to earnings. The staff also noted that disclosures of non-GAAP margins (e.g., contribution margins) only are acceptable if the registrant also discloses a reconciliation from the non-GAAP measure to the most directly comparable GAAP financial measure (e.g., gross margin). Further, the staff communicated that registrants generally should not adjust a non-GAAP performance measure to remove the impact of

+1 800 274 3978
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