Issue No 2021-3

US DESK NEWSLETTER

A ROUNDUP OF ACCOUNTING, AUDITING, AND REGULATORY MATTERS

October 2021

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GUIDE TO THE US DESK NEWSLETTER

The US Desk Newsletter is a high-level summary of key developments from the standard setters, regulators, and compliance agencies that have recently affected the accounting profession. The Newsletter is best read in electronic format due to the embedded hyperlinks to supporting information.

EXECUTIVE SUMMARY

This edition of our US Desk Newsletter addresses relevant activities from **July 5, 2021 to October 30, 2021**. It covers accounting and auditing updates from the regulators. Most noteworthy:

FASB

The Financial Accounting Standards Board (FASB) issued account standards updates (ASU) relating to: (1) Topic 805- Business combination, (2) Topic 718 – Compensation – Stock Compensation, (3) Presentation of financial statements (4) Topic 942 – Financial services- Depository and lending, and (5) Topic 842-Leases.

In addition, the FASB has also proposed guidance related to: Topic 820 – Fair value measurement.

SEC

The SEC adopted final rules related to the adoption of its updated EDGAR filers manual.

AICPA

The American Institute of Certified Public Accountants (AICPA) issued SAS No. 145- Understanding the entity and its environment and assessing the risk of material misstatement.

PCAOB

The PCAOB proposed amendments relating to the supervision of audits involving other auditors and dividing responsibility for the audit with another accounting firm.

We welcome your feedback on our newsletters.
Please send questions or comments to USDesk@mazars.fr
Thank you.

Financial Accounting Standards Board (FASB)

(For current information related to FASB projects, please refer to the FASB TECHNICAL AGENDA PAGE on the FASB's website.)

NEW STANDARDS

UPDATE 2021-08—BUSINESS COMBINATIONS (TOPIC 805): ACCOUNTING FOR CONTRACT ASSETS AND CONTRACT LIABILITIES FROM CONTRACTS WITH CUSTOMERS

The amendments in this Update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. To achieve this, an acquirer may assess how the acquiree applied Topic 606 to determine what to record for the acquired revenue contracts. Generally, this should result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements (if the acquiree prepared financial statements in accordance with generally accepted accounting principles [GAAP]). However, there may be circumstances in which the acquirer is unable to assess or rely on how the acquiree applied Topic 606, such as if the acquiree does not follow GAAP, if there were errors identified in the acquiree's accounting, or if there were changes identified to conform with the acquirer's accounting policies. In those circumstances, the acquirer should consider the terms of the acquired contracts, such as timing of payment, identify each performance obligation in the contracts, and allocate the total transaction price to each identified performance obligation on a relative standalone selling price basis as of contract inception (that is, the date the acquiree entered into the contracts) or contract modification to determine what should be recorded at the acquisition date. The amendments in this Update also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination.

The amendments in this Update do not affect the accounting for other assets or liabilities that may arise from revenue contracts with customers in accordance with Topic 606, such as refund liabilities, or in a business combination, such as customer-related intangible assets and contract-based intangible assets. For example, if acquired revenue contracts are considered to have terms that are unfavorable or favorable relative to market terms, the acquirer should recognize a liability or asset for the off-market contract terms at the acquisition date.

Effective Date Transition Requirements
Public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

All other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.

The amendments in this Update should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. An entity that early adopts in an interim period should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application.

Link: [Update 2021-08]

UPDATE 2021-07—COMPENSATION—STOCK COMPENSATION (TOPIC 718): DETERMINING THE CURRENT PRICE OF AN UNDERLYING SHARE FOR EQUITY-CLASSIFIED SHARE-BASED AWARDS (A CONSENSUS OF THE PRIVATE COMPANY COUNCIL)

As a practical expedient, a nonpublic entity is allowed to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees using the reasonable application of a reasonable valuation method. The practical expedient describes the characteristics of the reasonable application of a reasonable valuation method including (1) the date on which a valuation's reasonableness is evaluated, (2) the factors that a reasonable valuation should consider, (3) the scope of information that a reasonable valuation should consider, and (4) the criteria that should be met for the use of a previously calculated value to be considered reasonable. The same characteristics are used in the regulations of the U.S. Department of the Treasury related to Section 409A of the U.S. Internal Revenue Code (the Treasury Regulations) to describe the reasonable application of a reasonable valuation method for income tax purposes. A reasonable valuation performed in accordance with the Treasury Regulations is an example of a way to achieve the practical expedient.

Effective Date Transition Requirements

The practical expedient in this Update is effective prospectively for all qualifying awards granted or modified during fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application, including application in an interim period, is permitted for financial statements that have not yet been issued or made available for issuance as of October 25, 2021.

Link: [Update 2021-07]

UPDATE 2021-06—PRESENTATION OF FINANCIAL STATEMENTS (TOPIC 205), FINANCIAL SERVICES—DEPOSITORY AND LENDING (TOPIC 942), AND FINANCIAL SERVICES—INVESTMENT COMPANIES (TOPIC 946): AMENDMENTS TO SEC PARAGRAPHS PURSUANT TO SEC FINAL RULE RELEASES NO. 33-10786, AMENDMENTS TO FINANCIAL DISCLOSURES ABOUT ACQUIRED AND DISPOSED BUSINESSES, AND NO. 33-10835, UPDATE OF STATISTICAL DISCLOSURES FOR BANK AND SAVINGS AND LOAN REGISTRANTS (SEC UPDATE)

The amendments in this Update amends certain SEC paragraphs from the Codification in response to the issuance of SEC Final Rule Nos. 33-10786, Amendments to Financial Disclosures About Acquired and Disposed Businesses, and 33-10835, Update of Statistical Disclosures for Bank and Savings and

Loan Registrants. This update also requires improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy which will be incorporated into the 2022 Taxomony.

Effective Date Transition Requirements
The amendments in this Update are effective on upon issuance.

Link: [Update 2021-06]

UPDATE 2021-05—LEASES (TOPIC 842): LESSORS—CERTAIN LEASES WITH VARIABLE LEASE PAYMENTS

The amendments in this Update require a lessor to classify a lease with variable lease payments that do not depend on an index or rate (hereafter referred to as "variable payments") as an operating lease on the commencement date of the lease if specified criteria are met.

Before the release of this update, sales-type leases or direct financing leases with significant variable payments may have resulted in a day 1 loss on the arrangement even if the overall economics of the arrangement were expected to be profitable. This is because, under ASC 842,2 variable payments are excluded from the definition of lease payments for both lessees and lessors. Accordingly, lessors exclude variable payments when measuring the net investment in the lease. As a result, the recognition of the net investment in the lease may be less than the derecognition of the underlying asset.

Effective Date Transition Requirements
For entities that have not adopted ASC 842 on or before July 19, 2021, lessors should apply the transition requirements in ASC 842-10-65-1 when adopting ASU 2021-05. An entity should adopt the ASU on the same date on which it adopts ASC 842.
Lessors that have adopted ASC 842 as of July 19, 2021, should apply the transition requirements below for fiscal years beginning after December 15, 2021. The amendments in ASU 2021-05 should be applied by using either of the following approaches:

1. Retrospective application to leases that commence or are modified on or after the adoption of ASC 842, when the modification does not meet the conditions to be accounted for as a separate contract (as defined in ASC 842-10-25-8).
2. Prospective application to leases that commence or are modified on or after the date on which a lessor first applies the amendments in ASU 2021-05, when the modification does not meet the conditions to be accounted for as a separate contract (as defined in ASC 842-10-25-8).

Early adoption of ASU 2021-05 is permitted, as long as the adoption of this ASU does not occur before the adoption of ASC 842.

Link: [Update 2021-05]

PROPOSED STANDARDS

The FASB issues various types of exposure documents to solicit input on its standards-setting activities, such as Exposure Drafts, Discussion Papers, Preliminary Views, and Invitations to Comment. Documents issued after 2002 are available [here].

PROPOSED ASU NO. 2021-005 | PROPOSED ACCOUNTING STANDARDS UPDATE—FAIR VALUE MEASUREMENT (TOPIC 820): FAIR VALUE MEASUREMENT OF EQUITY SECURITIES SUBJECT TO CONTRACTUAL SALE RESTRICTIONS. ISSUED SEPTEMBER 15, 2021; COMMENTS WERE DUE NOVEMBER 14, 2021

The amendments in this proposed Update would clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The proposed amendments would affect all entities that have investments in equity securities measured at fair value that are subject to contractual restrictions preventing the sale of those securities.

Link: [Exposure Draft]

OTHER UPDATES AND ACTIVITIES

FASB ISSUES 2021 INVESTOR OUTREACH REPORT

August 25, 2021—The Financial Accounting Standards Board (FASB) has issued its 2021 Investor Outreach Report.

The annual report theme is "Standards That Work from Main Street to Wall Street." The report provides a look at how the FASB and GASB supported stakeholders through an unprecedented year. By monitoring and responding to the situation as it evolved, the Boards sought to reduce the impact of the COVID-19 pandemic by providing technical assistance, delaying standard implementations, and always ensuring stakeholder needs were the top priority.

Link: [2021 Investor Outreach Report]

Securities and Exchange Commission (SEC)

FINAL RULES

RELEASE NO. 33-10984 – ADOPTION OF UPDATED EDGAR FILER MANUAL

On September 20, 2021, the SEC adopted revisions to the Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR") Filer Manual and related rules to reflect updates to the EDGAR system. The EDGAR system was scheduled to be upgraded on September 20, 2021.

Effective Date: This rule is effective September 20, 2021.

Link: [Release No. 33-10984]

PROPOSED RULES

NO RELEVANT RULES WERE PROPOSED DURING THE PERIOD COVERED BY THIS NEWSLETTER.

OTHER UPDATES AND ACTIVITIES

POST-SPAC MUSIC STREAMING COMPANY REACHES $38.8 MILLION SETTLEMENT IN ONGOING FRAUD ACTION

October 27, 2021- The Securities and Exchange Commission today announced a $38.8 million settlement of charges against Akazoo S.A., a purported music streaming business based in Greece, for allegedly defrauding investors out of tens of millions of dollars in connection with a 2019 special purpose acquisition company (SPAC) business combination. Akazoo's assets were previously frozen as the result of an emergency action filed by the SEC in September 2020.

According to the SEC's complaint, Akazoo represented to investors that it was a rapidly growing music streaming company focused on emerging markets with more than 38.2 million registered users, 4.6 million paying subscribers, and over $120 million in annual revenue. In actuality, the complaint alleged that the company had no paying users and, at most, negligible revenue. Akazoo allegedly leveraged these misrepresentations to enter into a SPAC business combination in 2019, in which the company received nearly $55 million from the SPAC and other investors. According to the complaint, after the business combination, Akazoo became listed on Nasdaq and proceeded to defraud retail investors by misrepresenting, among other things, that it had earned tens of millions of dollars in revenue during 2019 and increased its paying subscriber base by 28% year-over-year. In reality, the company allegedly continued to have limited operations, no subscribers, and marginal revenue, all while depleting more than $20 million of investor funds.

Link: [SEC Press Release]

SEC ISSUES REWARD TO WHISTLEBLOWERS

October 15, 2021 —The SEC announced an award of approximately $40 million to a whistleblower whose information and assistance led to multiple successful SEC enforcement actions. The whistleblower provided SEC staff with valuable information and ongoing assistance, which included participating in interviews with the staff.

“Today's whistleblowers underscore the importance of the SEC's whistleblower program to the agency's enforcement efforts," said Emily Pasquinelli, Acting Chief of the SEC's Office of the Whistleblower. "These whistleblowers reported critical information that aided the Commission's investigation and provided extensive, ongoing cooperation that helped the Commission to stop the wrongdoing and protect the capital markets."

The SEC has awarded approximately $1.1 billion to 218 individuals since issuing its first award in 2012. All payments are made out of an investor protection fund established by Congress that is financed entirely through monetary sanctions paid to the SEC by securities law violators. No money has been taken or withheld from harmed investors to pay whistleblower awards. Whistleblowers may be eligible for an award when they voluntarily provide the SEC with original, timely, and credible information that leads to a successful enforcement action. Whistleblower awards can range from 10-30% of the money collected when the monetary sanctions exceed $1 million.

As set forth in the Dodd-Frank Act, the SEC protects the confidentiality of whistleblowers and does not disclose information that could reveal a whistleblower's identity.

Link: [SEC Press Release]

American Institute of Certified Public Accountants (AICPA)

ISSUED STANDARDS

SAS NO. 145 - UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

October, 2021 – SAS No. 145 supersede SAS No. 122, as amended, section 315 of the same title, and to amend various AU-C sections in AICPA Professional Standards. SAS No.145 enhances (1) Requirements and guidance related to the auditor's risk assessment, in particular, obtaining an understanding of the entity's system of internal control and assessing control risk and (2) Guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate

SAS No. 145 also includes, among other things, the following:

- Revised requirements to evaluate the design of certain controls within the control activities component, including general IT controls, and to determine whether such controls have been implemented
- New requirement to separately assess inherent risk and control risk
- New requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk
- A revised definition of significant risk
- New guidance on scalability
- New guidance on maintaining professional skepticism
- A new "stand-back" requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures
- Revised requirements relating to audit documentation
- A conforming amendment to perform substantive procedures for each relevant assertion of each significant class of transactions, account balance, and disclosure, regardless of the assessed level of control risk (rather than for all relevant assertions related to each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement, as previously required)

Effective Date: This SAS is effective for audits of financial statements for periods ending on or after

December 15, 2023.

Link: [SAS No. 145]

PROPOSED STANDARDS

NO AICPA GUIDANCE WAS PROPOSED DURING THE PERIOD COVERED BY THIS NEWSLETTER.

OTHER UPDATES AND ACTIVITIES

HOW CLIMATE RISKS ARE REFLECTED IN CURRENT FINANCIAL STATEMENTS

September 14, 2021 – Climate-related risk considerations are continuing to evolve for financial statements as environmental, social, and governance (ESG) issues receive increasing attention from investors and others who use financial statements.

Regulatory developments are driving change in this area, as SEC Chair Gary Gensler has asked the SEC staff to develop a mandatory risk disclosure rule proposal by the end of the year, and the IFRS Foundation is considering creating a new International Sustainability Standards Board.

U.S. GAAP requires management to disclose any risks whose effect might be material for the financial statements. While GAAP doesn't refer specifically to climate-related risks, these are understood to be included in the risk disclosure requirements.

Link: [Journal of Accountancy Article]

Public Company Accounting Oversight Board (PCAOB)

FINAL STANDARDS

NO PCAOB FINAL RULES WERE ADOPTED DURING THE PERIOD COVERED BY THIS NEWSLETTER.

PROPOSED STANDARDS

PCAOB PROPOSED RULE No. 2021-005 - PCAOB SOLICITS ADDITIONAL PUBLIC COMMENT ON PROPOSED NEW REQUIREMENTS FOR LEAD AUDITOR'S USE OF OTHER AUDITORS, REISSUED SEPTEMBER 28, 2021. COMMENTS ARE DUE BY NOVEMBER 30, 2021.

The PCAOB is requesting additional comment on proposed amendments to its auditing standards related to the supervision of audits that involve accounting firms and individual accountants outside the accounting firm that issues the audit report. This release is a second supplemental request for comment ("2021 SRC") on amendments that were first proposed in a 2016 proposing release ("2016 Proposal") and were revised in a 2017 supplemental request for comment ("2017 SRC"). This request for comment seeks commenters' views on revisions that the Board is considering for adoption, and on other matters discussed in this release. The Board also welcomes comments on any other aspects of this project.

Link: [PCAOB Proposed rule]

OTHER UPDATES AND ACTIVITIES

FORUM FOR AUDITORS OF SMALL BUSINESSES AND BROKER-DEALERS

In September 2021, the PCAOB announced that its Forum for Auditors of Small Businesses and Broker-Dealers would not take place in person in 2021 due to the COVID-19 pandemic. The following link has resources that were offered in place of the in-person Forum.

Link: [Forum of Auditors of Small Business and Broker-Dealers]

Other

CENTER FOR AUDIT QUALITY

CAQ - PUBLIC POLICY AND TECHNICAL ALERT

As part of the Center for Audit Quality's ongoing effort to keep members and stakeholders informed on significant public policy and accounting matters, please see below the latest Public Policy and Technical Alerts (PPTA):

- PPTA- September 2021
- PPTA- August 2021
- PPTA- July 2021

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For all inquiries regarding this alert and/or PCAOB/SEC/US GAAP and US GAAS matters, please contact us via the US Desk Mailbox at: usdesk@mazars.fr or via our contact information above.

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