Issue No 2022-2

US DESK NEWSLETTER

A ROUNDUP OF ACCOUNTING, AUDITING, AND REGULATORY MATTERS

July 2022

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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 **March 1, 2022, to June 5, 2022**. 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 820-Fair Value Measurement, (2) Topic 326-Financial Instruments-Credit Losses, and (3) Topic 815-Derivative and Hedging. In addition, the FASB has also proposed guidance related to: (1) Topic 848-Reference Rate Reform and Topic 815- Derivative and Hedging, and (2) invited to comment on Accounting for Government Grants.

SEC

The SEC adopted final rules related to the adoption of its updated EDGAR filers manual and the Holding Foreign Companies Accountable Act Disclosure and issued a final rule updating EDGAR filing requirement and Form 144 filings. The Commission also proposed amendments relating to the Environmental, Social, and Governance disclosures.

AICPA

The American Institute of Certified Public Accountants (AICPA) proposed a statement on auditing standards on Audits of Group Financial Statements.

PCAOB

The PCAOB issued a final rule relating to Planning and Supervision of Audits involving other Auditors and Dividing Responsibility for the Audit.

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

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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 2022-03—FAIR VALUE MEASUREMENT (TOPIC 820): FAIR VALUE MEASUREMENT OF EQUITY SECURITIES SUBJECT TO CONTRACTUAL SALE RESTRICTIONS

The amendments in this Update 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 amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments in this Update also require the following disclosures for equity securities subject to contractual sale restrictions:

1. The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet
2. The nature and remaining duration of the restriction(s)
3. The circumstances that could cause a lapse in the restriction(s).

Effective Date Transition Requirements

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years.

Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. For all entities except investment companies as defined under Topic 946, Financial Services—Investment Companies, the amendments in this Update should be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption.

Link: [Update 2022-03]

UPDATE 2022-02—FINANCIAL INSTRUMENTS—CREDIT LOSSES (TOPIC 326): TROUBLED DEBT RESTRUCTURINGS AND VINTAGE DISCLOSURES

The amendments in this Update respond to feedback received during the Post-Implementation Review process related to the issuance of Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

Issue 1: Troubled Debt Restructurings by Creditors
The amendments in this Update eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.
Issue 2: Vintage Disclosures—Gross Writeoffs
For public business entities, the amendments in this Update require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

Effective Date Transition Requirements

For entities that have adopted the amendments in Update 2016-13, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

For entities that have not yet adopted the amendments in Update 2016-13, the effective dates for the amendments in this Update are the same as the effective dates in Update 2016-13.

The amendments in this Update should be applied prospectively, except as provided in the next sentence. For the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption.

Link: [Update 2022-02]

UPDATE 2022-01—DERIVATIVES AND HEDGING (TOPIC 815): FAIR VALUE HEDGING—PORTFOLIO LAYER METHOD

The amendments in this Update:

1) expand the current last-of-layer method that permits only one hedged layer, to allow multiple hedged layers of a single closed portfolio and, accordingly, renames the last-of-layer method the portfolio layer method;
2) expand the scope of the (newly named) portfolio layer method to include non-prepayable financial assets;
3) specify that eligible hedging instruments in a single-layer hedge may include spot-starting or forward-starting constant-notional swaps, or spot- or forward-starting amortizing-notional swaps and that the number of hedged layers corresponds to the number of hedges designated;
4) provide additional guidance on accounting for and disclosure of hedge basis adjustments applicable to the portfolio layer method (i.e., whether a single hedged layer or multiple hedged layers are designated); and
5) provide guidance on how hedge basis adjustments should be considered when determining credit losses for assets included in the closed portfolio.

Effective Date Transition Requirements
For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years.

Early adoption is permitted on any date on or after the issuance of this Update for any entity that has adopted the amendments in Update 2017-12 for the corresponding period. If an entity adopts the amendments in an interim period, the effect of adopting the amendments related to basis adjustments should be reflected as of the beginning of the fiscal year of adoption (that is, the initial application date).

Link: [Update 2022-01]

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. 2022-002 | INVITATION TO COMMENT—ACCOUNTING FOR GOVERNMENT GRANTS BY BUSINESS ENTITIES: POTENTIAL INCORPORATION OF IAS 20, ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE, INTO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. ISSUED JUNE 20, 2022; COMMENTS ARE DUE SEPTEMBER 12, 2022

The FASB is soliciting additional feedback on whether certain requirements in IAS 20 related to the accounting for government grants should be incorporated into GAAP. The research project is focused solely on the accounting for government grants as it is included in IAS 20 (paragraphs 7–33) and not the broader category of government assistance that is included in IAS 20 (paragraphs 34–38). It seeks feedback on the subset of government activity referred to in IAS 20 as government grants.

Link: [Invitation to Comment]

PROPOSED ASU NO. 2022-001 | PROPOSED ACCOUNTING STANDARDS UPDATE—REFERENCE RATE REFORM (TOPIC 848) AND DERIVATIVES AND HEDGING (TOPIC 815): DEFERRAL OF THE SUNSET DATE OF TOPIC 848 AND AMENDMENTS TO THE DEFINITION OF THE SECURED OVERNIGHT FINANCING RATE (SOFR) OVERNIGHT INDEX SWAP RATE. ISSUED APRIL 20, 2022; COMMENTS WERE DUE JUNE 6, 2022

The amendments of this proposed Update would:

Issue 1	defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities would no longer be permitted to apply the relief in Topic 848.
Issue 2	amend the definition of the SOFR Swap Rate to include SOFR term as a U.S. benchmark interest rate under Topic 815.

Link: [Exposure Draft]

OTHER UPDATES AND ACTIVITIES

FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL MEETING RECAP

June 30, 2022—The Financial Accounting Standards Advisory Council (FASAC) held its quarterly meeting on Thursday, June 9, 2022. The FASB chair provided highlights on FASB activities that were not otherwise on the agenda for the Council meeting, and SEC, AICPA, and PCAOB staff members commented on current issues and activities

Disaggregation—Income Statement Expenses: Council members discussed alternative principles for consolidated expense disaggregation. Overall, Council members were supportive of the current direction of the Board in developing a flexible, high-level principle, with clear examples and the potential inclusion of a quantitative threshold. Council members suggested that the Board consider leveraging existing disaggregation principles in GAAP.

Link: [FASB Press release]

Securities and Exchange Commission (SEC)

FINAL RULES

RELEASE NO. 33-11075 – ADOPTION OF UPDATED EDGAR FILER MANUAL

On June 21, 2022, 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 June 21, 2022.

Effective Date: This rule is effective June 30, 2022.

Link: [Release No. 33-11075]

RELEASE NO. 33-11070 – UPDATING EDGAR FILING REQUIREMENTS AND FORM 144 FILINGS

The SEC adopted a final rule to mandate the electronic filing or submission of documents that are currently permitted electronic submissions, including the "glossy" annual report to security holders, notices of exempt solicitations and exempt preliminary roll-up communications, notices of sales of securities of certain issuers, filings of required reports by foreign private issuers and filings made by multilateral development banks the Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system. The SEC is also adopting rules that will mandate the electronic submission of the "glossy" annual report to security holders, the electronic filing of the certification made pursuant to the Exchange Act and its rules that a security has been approved by an exchange for listing and registration, the use of Inline eXtensible Business Reporting Language ("Inline XBRL") for the filing of the financial statements and accompanying notes to the financial statements required in the annual reports of employee stock purchase, savings and similar plans, and that will allow for the electronic submission of certain foreign language documents.

Effective Date: The amendments are effective on July 11, 2022.

Link: [Release No. 33-11070]

PROPOSED RULES

RELEASE NO. 33-11068 – ENVIRONMENTAL, SOCIAL, AND GOVERNANCE DISCLOSURES FOR INVESTMENT ADVISERS AND INVESTMENT COMPANIES, ISSUED MAY 25, 2022, COMMENTS ARE DUE ON AUGUST 16, 2022.

The SEC is proposing to amend rules and forms under both the Investment Advisers Act of 1940 (“Advisers Act”) and the Investment Company Act of 1940 (“Investment Company Act”) to require registered investment advisers, certain advisers that are exempt from registration, registered investment companies, and business development companies, to provide additional information regarding their environmental, social, and governance (“ESG”) investment practices. The proposed amendments to these forms and associated rules seek to facilitate enhanced disclosure of ESG issues to clients and shareholders. The proposed rules and form amendments are designed to create a consistent, comparable, and decision-useful regulatory framework for ESG advisory services and investment companies to inform and protect investors while facilitating further innovation in this evolving area of the asset management industry. In addition, the SEC is proposing an amendment to Form N-CEN applicable to all Index Funds, as defined in Form N-CEN, to provide identifying information about the index.

Link: [Release No. 33-11068]

OTHER UPDATES AND ACTIVITIES

ERNST & YOUNG TO PAY $100 MILLION PENALTY FOR EMPLOYEES CHEATING ON CPA ETHICS EXAMS AND MISLEADING INVESTIGATION

June 28, 2022 —The SEC charged Ernst & Young LLP (EY) for cheating by its audit professionals on exams required to obtain and maintain Certified Public Accountant (CPA) licenses, and for withholding evidence of this misconduct from the SEC’s Enforcement Division during the Division’s investigation of the matter. EY admits the facts underlying the SEC’s charges and agrees to pay a $100 million penalty and undertake extensive remedial measures to fix the firm’s ethical issues.

In addition to paying a $100 million penalty, the Order requires EY to engage in extensive undertakings, including retaining two separate independent consultants to help remediate its deficiencies. One consultant will review the firm’s policies and procedures relating to ethics and integrity. The other will review EY’s conduct regarding its disclosure failures, including whether any EY employees contributed to the firm’s failure to correct its misleading submission.

Link: [SEC Press Release]

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American Institute of Certified Public Accountants (AICPA)

ISSUED STANDARDS

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

PROPOSED STANDARDS

EXPOSURE DRAFT-PROPOSED STATEMENT ON AUDITING STANDARDS SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS AND AUDITS OF REFERRED-TO AUDITORS), ISSUED MARCH 23, 2022. COMMENTS WERE DUE BY JUNE 21, 2022.

The following summarizes what the ASB believes are the fundamental aspects of the proposed SAS:

- Clarifies that all AU-C sections need to be applied in a group audit and establishes stronger links to the other AU-C sections, particularly the proposed QM SAS; AU-C section 230, Audit Documentation; AU-C section 300; AU-C section 315; and AU-C section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained. The requirements and application material in the proposed SAS build on, and are consistent with, the principles and requirements in those AU-C sections.
- Includes a subsection in each section of the proposed SAS that provides considerations for the group auditor when component auditors are involved and identifies those subsections as such. This provides scalability for circumstances in which the group auditor does not involve component auditors and makes it easier for the group auditor to identify which requirements apply and which do not.
- Clarifies the scope and applicability of extant AU-C section 600 (the entry point into the AU-C section)
- Introduces a principles-based approach that is adaptable to a wide variety of circumstances and scalable for audits of groups of different complexity
- Establishes a framework for planning and performing a group audit engagement.
- Enhances the documentation requirements and application material to emphasize the linkage to the requirements in AU-C section 230 and the documentation requirements in other relevant AU-C sections and to clarify what the group auditor may need to document in different situations, including when there are restrictions on access to component auditor audit documentation.
- Clarifies how to address restrictions on access to people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components.
- Clarifies how the requirements in the proposed QM SAS apply to manage and achieve 12 of 161 audit quality in a group audit, including sufficient and appropriate resources to perform the engagement, and the direction and supervision of the engagement team and the review of their work.

- Emphasizes the importance of professional skepticism.
- Introduces the term referred-to auditor and includes all the paragraphs related to making reference to the audit of a referred-to auditor together in one section within the proposed SAS, located towards the end of the proposed SAS.

Link: [Exposure Draft]

OTHER UPDATES AND ACTIVITIES

OUTLOOK FOR U.S. ECONOMY TUMBLES TO 11-YEAR LOW AS FEAR OF RECESSION GROWS, AICPA SURVEY FINDS

June 2, 2022 – Inflation worries, a tight labor market and global fallout from the Russo-Ukraine war have dropped business executives' view of U.S. economic prospects to its lowest level since 2011, according to the second-quarter AICPA Economic Outlook Survey. The survey polls chief executive officers, chief financial officers, controllers and other certified public accountants in U.S. companies who hold executive and senior management accounting roles.

Only 18% of business executives expressed optimism about the U.S. economy's outlook over the next 12 months, down from 36% last quarter. That's less than during the initial shock of the COVID-19 pandemic two years ago (20% optimism) and the lowest it's been since the third quarter of 2011, when it stood at nine percent.

Link: [AICPA Press release]

Public Company Accounting Oversight Board (PCAOB)

FINAL STANDARDS

PCAOB FINAL RULE No. 2022-002 - PLANNING AND SUPERVISION OF AUDITS INVOLVING OTHER AUDITORS AND DIVIDING RESPONSIBILITY FOR THE AUDIT WITH ANOTHER ACCOUNTING FIRM

On June 21,2022, the PCAOB adopted amendments to its auditing standards to strengthen the requirements and responsibilities that apply to auditors who plan and perform audits that involve other accounting firms and individual accountants. The amendments are designed to improve the quality of audits in these circumstances by increasing the lead auditor's involvement in and evaluation of the work of other auditors, and to align the applicable requirements with the PCAOB's risk-based supervisory standards.

Link: [PCAOB Final Rule 2022-002]

PROPOSED STANDARDS

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

OTHER UPDATES AND ACTIVITIES

PCAOB ISSUES SPOTLIGHT PROVIDING STAFF OVERVIEW FOR PLANNED 2022 INSPECTIONS

The PCAOB issued a Spotlight report that highlights selected areas of planned inspection focus in 2022. Selected areas of inspection focus include fraud and other risks, IPOs and M&A activity, audit firms' execution challenges, broker-deal specific considerations, independence, use of service providers in the confirmation process, critical audit matters, audit areas with continued deficiencies, firms' quality control systems, and technology.

Link: [PCAOB Spotlight]

PCAOB SANCTIONS ENGAGEMENT QUALITY REVIEWER FOR INADEQUATE REVIEWS AND FALSE DOCUMENTATION CREATED IN ADVANCE OF INSPECTION

June 22, 2022, the PCAOB announced that it has sanctioned Kevin F. Pickard, CPA(PDF) ("Pickard") for violations of PCAOB rules and standards in connection with his engagement quality reviews for audits of Soldino Group Corp's financial statements for the period ended April 30, 2017, and Vado Corp.'s financial statements for the period ended November 30, 2017.

The PCAOB found that, in both audits, Pickard failed to perform procedures required by AS 1220, Engagement Quality Review. The PCAOB also found that, many months after providing concurring approval of issuance for the audits and in advance of a PCAOB inspection, Pickard violated PCAOB rules and standards when he completed and backdated audit documentation that falsely indicated he had completed all of the procedures required by AS 1220

Link: [PCAOB News Release]

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- June 2022
- PPTA- May 2022
- PPTA- Avril 2022
- PPTA- March 2022
- PPTA- February 2022

OTHER INDUSTRY NEWS

MIND THE GAP! HOW TO MEET ESG DISCLOSURE REQUIREMENTS AND EXPECTATIONS IN THE US AND EU

May 25, 2022, For Ethisphere's 2022 Global Ethics Summit, the Center for Audit Quality hosted the panel, Mind the Gap! How to Meet ESG Disclosure Requirements and Expectations in the US and EU. In this replay of the panel, panelists discussed how to reconcile the differing approaches to reporting ESG metrics in both the US and the EU, how to satisfy multiple stakeholders, and collaborate across business functions to achieve ESG goals.

Link: [Video Link]

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The US Desk Newsletter is a summary of information taken from materials published by the FASB, PCAOB, SEC, COSO, CAQ, AICPA, and other standard setting bodies, regulatory agencies, and professional agencies, as appropriate. It is therefore not comprehensive. To obtain a complete understanding of the referenced material, please access the complete text through the links presented within the document headings.

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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