US DESK NEWSLETTER

A ROUNDUP OF ACCOUNTING, AUDITING, AND REGULATORY MATTERS

October 2016

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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 April through June 30, 2016. It covers accounting and auditing updates from the regulators as well as some happenings on the international front. Most noteworthy:

FASB

The new revenue recognition standards are a hot topic; in its quest to make them just right, based on implementation issues addressed by stakeholders, the FASB issued amended guidance on ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients."* The FASB also issued Financial Instruments - Overall (ASU 2016-01) FASB issued a new standard designed to improve the recognition and measurement of financial instruments through targeted changes to existing GAAP.

AICPA

The AICPA has established 16 industry task forces that are developing industry-specific implementation issues on revenue recognition. The task forces include among others, aerospace and defense, investment asset management, not-for-profits and healthcare. When the process is complete, the AICPA will include helpful hints and illustrative examples in a new revenue recognition guide that is currently in development. The guide will provide non-authoritative guidance on how to implement the new standards.

The AICPA, consistent with the codification of its audit standards and its Statements on Accounting and Review Services (SSARS), has also re-codified its Attestation Standards, effective on reports dated on or after May 1, 2017.

SEC

On June 8, 2016, the SEC adopted rules under the Securities Exchange Act of 1934 requiring security-based swap dealers and major security-based swap participants to provide trade acknowledgments and to verify them in security-based swap transactions.

In addition, on April 13, 2016, the SEC voted to adopt final rules implementing a comprehensive set of business conduct standards and chief compliance officer requirements for security-based swap dealers and major security-based swap participants (security-based swap entities).

PCAOB

On April 6, 2016, the PCAOB released a request for public comment from the PCAOB's Center for Economic Analysis that will inform the first post-implementation review of the overall effect of previously adopted PCAOB rules and standards. The goal of the program is to evaluate whether adopted rules and standards are accomplishing their intended purposes, and identify any unintended consequences, as well as gauge their overall effects.

In addition, on May 11, 2016, the PCAOB re-proposed for public comment the auditor-reporting standard to enhance the auditor's report to make it more informative for investors by requiring auditors to provide information on critical audit matters. The revised proposal would retain the pass/fail model in the existing auditor's report, but would provide additional information in the report, such as the communication of critical audit matters arising from the audit and new elements related to auditor independence and auditor tenure.

Finally, on June 28, 2016, the PCAOB issued staff guidance for firms filing the new Form AP. Audit firms are now required to use the form to disclose the names of engagement partners for all public company audits issued on or after Jan. 31, 2017, along with information about other audit firms that had participated in audits issued on or after June 30, 2017.

We welcome your feedback on our newsletters. 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

Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326).* Financial institutions and other organizations will be required to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable or supportable forecasts. This requirement will eliminate the current incurred loss methodology for recognizing credit losses that delay recognition until it becomes probable that a loss has been incurred. Financial institutions and other organizations will rely on forward-looking information to inform their credit loss estimates.

The new guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The ASU requires enhanced qualitative and quantitative disclosures to help investors and other financial statement users understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

Effective Date and Transition Requirements:
For public business entities that are U.S. SEC filers, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.

For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.
See **Press Release, FASB In Focus, FASB Understanding Costs and Benefits FASB YouTube, Transition Resource Group For Credit Losses ABA YouTube OCC Press Release-Joint Statement, Accounting Today** (June 16, 2016)

ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*

On May 9, 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.* This update amends previous guidance on the new revenue standard regarding collectability, noncash consideration, presentation of sales tax, and transition. The amendments are intended to address implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group ("TRG"), and provide additional practical expedients.

Effective Date and Transition Requirements:

The amendments affect the guidance in ASU No. 2014-09*, Revenue from Contracts with Customers (Topic 606),* which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). ASU No. 2015-14*, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* defers the effective date of Update 2014-09 by one year.

ASU No. 2016-11 *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815) Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*

On May 3, 2016, the FASB issued ASU No. 2016-11, *Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16*[1] *Pursuant to Staff Announcements at the March 3, 2016, EITF Meeting.* The SEC staff indicated, that upon adoption of ASU 2014-09, the SEC Staff Observer comments that are currently codified in Topic 605, *Revenue Recognition* and Topic 932, *Extractive Activities—Oil and Gas of the FASB Accounting Standards Codification* should not be relied upon. Specifically, the SEC Staff Observer comments related to the following:

- Revenue and Expense Recognition for Freight Services in Process (codified in ASC 605-20-S99-2; formerly EITF 91-9)
- Accounting for Shipping and Handling Fees and Costs (codified in ASC 605-45-S99-1; formerly EITF 00-10)
- Accounting for Consideration Given by a Vendor to a Customer (including Reseller of the Vendor's Products) (codified in ASC 605-50-S99-1, formerly EITF 01-9)
- Accounting for Gas-Balancing Arrangements (that is, use of the "entitlements method") (codified in ASC 932-10-S99-5; formerly EITF 90-22)
- SEC Staff Announcement, "Determining the Nature of a Host Contract Related to a Hybrid Instrument Issued in the Form of a Share Under Topic 815," which is codified in FASB ASC Topic 815, Derivatives and Hedging. The rescinded guidance is effective on adoption of FASB

ASU No. 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or Equity.

Effective Date and Transition Requirements:
Amendments to Subtopic 605 and Subtopic 932: coincide with the effective date of ASU 2014-09.

Amendments to Paragraph 815-10-S99-3 are rescinded to coincide with the effective date of ASU 2014-16.

Financial Instruments - Overall (ASU 2016-01)

FASB issued a new standard designed to improve the recognition and measurement of financial instruments through targeted changes to existing GAAP. Public and private companies, not-for-profits, and employee benefit plans that hold financial assets or owe financial liabilities are affected by the standard.

The new guidance is contained in Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The standard:

- Requires equity investments (except those that are accounted for under the equity method of accounting or result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.
- Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.
- Eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities.
- Eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value required to be disclosed for financial instruments measured at amortized cost on the balance sheet.
- Requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

FASB also is continuing to work on a standard on the impairment of financial instruments.

The recognition and measurement standard will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The standard takes effect for private companies, not-for-profits, and employee benefit plans for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019.

PROPOSED STANDARDS (ASUs)

No. 2016-260 - *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control*

On June 23, 2016, the FASB issued a proposed Accounting Standards Update – *Consolidation: Interests Held Through Related Parties That Are Under Common Control*.

The Board issued this proposed Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a VIE would treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE.

Effective Date

Entities that already have adopted the amendments in ASU 2015-02 would be able to apply the amendments in this proposed update using either (1) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or (2) a retrospective approach. Entities that have not yet adopted the amendments in ASU 2015-02 would apply the same transition method elected for the application of ASU 2015-02.

The Board will determine the effective date and whether the proposed amendments may be applied before that date after they consider stakeholders' feedback on the proposed amendments.

See **Exposure Draft Comment period deadline was July 25, 2016**

No. 2016-250 - *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*

On May 28, 2014, the Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in that Update require that an entity apply the guidance from Topic 606 on the existence of a contract, transfer of control, and measurement to the accounting for transfers of nonfinancial assets that are not an output of the entity's ordinary activities. The Board added that guidance, which was codified in Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets, to address the absence of general accounting guidance on transfers of nonfinancial assets in nonrevenue transactions. Additionally, that guidance replaced the industry and transaction-specific guidance in Subtopic 360-20, Property, Plant, and Equipment—Real Estate Sales.

Because of the amendments in ASU 2014-09, the primary asset derecognition models in GAAP for transactions that are not with customers would include:

1. Subtopic 610-20 on the derecognition of nonfinancial assets and in substance nonfinancial assets
2. Subtopic 810-10, Consolidation—Overall, on the derecognition of businesses and nonprofit activities (unless the business is an in substance nonfinancial asset)
3. Topic 845, Nonmonetary Transactions, on certain nonmonetary transactions including the exchange of a nonfinancial asset for a non-controlling ownership interest in another entity

4. Topic 860, Transfers and Servicing, on transfers of financial assets

Effective Date and Transition Requirements:

The amendments in this proposed Update would be effective at the same time as the amendments in Update 2014-09. That is, a public business entity, a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the SEC would apply the proposed amendments in annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities would apply the proposed amendments in annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

See **Exposure Draft,** **Accounting Today**

2016-240 - *Technical Corrections and Improvements to Update 2014-09, Revenue from Contracts with Customers (Topic 606)*

On May 18, 2016, the FASB issued a proposed ASU - Technical Corrections and Improvements to Update 2014-09, Revenue from Contracts with Customers (Topic 606).

The amendments in this proposed Update include:

1. The Codification's online feedback mechanism
2. Submissions to the FASB-IASB Transition Resource Group for Revenue Recognition (TRG)
3. Stakeholders' technical inquiries.

Areas for Correction or Improvement include:

- Preproduction Costs Related to Long-Term Supply Arrangements
- Contract Costs—Impairment Testing
- Contract Costs—Interaction of Impairment Testing with Guidance in Other Topics
- Provisions for Losses on Construction-Type and Production-Type Contracts
- Scope of Topic 606
- Disclosure of Remaining Performance Obligations
- Contract Modifications Example
- Fixed-Odds Wagering Contracts in the Casino Industry
- Cost Capitalization for Advisors to Private and Public Funds

Effective Date and Transition Requirements:

The amendments in this proposed ASU would affect the guidance in ASU 2014-09, which is not yet effective. The effective date and transition requirements for the proposed amendments would be the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by

Update 2014-09). Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year.
See **Exposure Draft**

2016-230 - *Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*
On May 12, 2016, the FASB issued a proposed ASU—Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment.

The amendments, which allow private companies an alternative accounting treatment for subsequently measuring goodwill, were needed because of concerns from private companies and their stakeholders about the cost and complexity of the current goodwill impairment test. The Board subsequently separated the project into two phases. The objective of Phase 1 of the project, which resulted in this proposed update, is to simplify how an entity is required to test goodwill for impairment by removing Step 2 from the goodwill impairment test. In the future phase of the project, the Board expects to consider whether to make additional changes to the subsequent accounting for goodwill, including consideration of permitting or requiring amortization of goodwill and/or further changes to the impairment testing methodology.

Effective Date and Transition Requirements:
The proposed amendments to eliminate Step 2 from the current goodwill impairment test would be applied on a prospective basis. An entity would be required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure would be provided in the first annual period after the entity's adoption date and in the interim periods within the first annual period. The effective date, as well as whether early adoption would be permitted for the one-step impairment test, will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update.
See **Exposure Draft**, **Accounting Today** **(5/13/16)**

2016-EITF-16A - *Proposed ASU - Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*
On April 28, 2016, the FASB issued for public comment a proposed ASU – Statement of Cash Flows: Restricted Cash.

Stakeholders have indicated that diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. The amendments in this proposed Update would require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents would be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

Effective Date and Transition Requirements:
The amendments in this proposed Update would be applied retrospectively to all periods presented. The effective date and the ability to early adopt will be determined after the Task Force considers stakeholder feedback on this proposed Update.

[Topic 230 - Restricted Cash](#) Comment Deadline was June 27, 2016

No. 2016-220 - *Technical Corrections and Improvements*
On April 21, 2016, the FASB issued a proposed ASU—*Technical Corrections and Improvements*. This annual project will facilitate Accounting Standards Codification updates for technical corrections, clarifications, minor improvements, and should eliminate the need for periodic agenda requests for narrow and incremental items. Most of the amendments in this proposed Update would not require transition guidance and would be effective upon issuance of the guidance in the final Update.

Technical Corrections and Improvements Comment deadline was July 5, 2016

FASB PROJECTS/ACTIVITY/UPDATES

STAY CONNECTED TO FASB

- **AS PROJECTS/MEETINGS OCCUR** - FASB Projects
- FASBs "plain-English" quarterly e-newsletter - FASB Outlook
- Exposure Drafts & Public Comment Documents - Exposure Drafts & Public Comment Documents
- **Action Alert Service:**
  - Tentative Board decisions
  - Notice of open meetings
  - Recently issued documents
  - Webcast Series

To sign up for Alert Service, use this link: Action Alert Service

Revenue Recognition & the Joint Transition Resource Group for Revenue Recognition
The Joint Transition Resource Group ("TRG") for Revenue Recognition of the IASB and the FASB was created to keep the IASB and FASB informed on interpretive issues occurring during implementation of the converged revenue recognition standard and to assist in determining what action may be needed to resolve diversity in practice.

The TRG for Revenue Recognition met on April 18, 2016, to discuss possible implementation issues related to the following:

1. Incentive-based Capital Allocations
2. Contract Asset Treatment in Contract Modifications
3. Scoping Considerations for Financial Institutions
4. Evaluating How Control Transfers Over Time

5. Class of Customer

Conclusions reached at this meeting will be included in our next newsletter.

For additional information on the Revenue Recognition project, refer to the FASB Revenue Recognition Project Update page

For an update on the IASB's views, refer to the IASB project page (IASB Work Plan) and the Mazars Beyond the GAAP **publication.**

Financial Instruments and Hedging

Transition Resource Group for Credit Losses

The FASB formed a Transition Resource Group for Credit Losses to ensure that the measurement guidance of the expected credit loss portion of the upcoming standard (Subtopic 326-20) clearly communicates the Board's decisions. On April 1, 2016, the FASB announced its members and held its first meeting. The Webcast of the meeting is available for replay, and the meeting Handout is available for download, for 90 days post the meeting.

FINANCIAL ACCOUNTING FOUNDATION (FAF)

[The organization that oversees the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB)]

FAF Issues 2015 Annual Report: "Serving the Financial Statement User"

On May 19, 2016, the Financial Accounting Foundation (FAF) posted its 2015 Annual Report on the FAF website. With the theme of "Serving the Financial Statement User," the annual report focuses on how the FAF, the FASB, and the GASB serve the capital markets through their specific roles in the standard-setting process. This process is aimed at developing standards that provide investors, lenders, and other financial statement users with information to make sound decisions about capital and other resource allocation.

The annual report features profiles of 16 financial statement users who share, in their words, why high-quality accounting standards are important to their work. Those profiled include institutional and retail investors, municipal analysts, and data aggregators who use the U.S. GAAP Financial Reporting Taxonomy.

FAF Releases Updated Print Editions of FASB and GASB Accounting Standards Codifications

On May 9, 2016, The FAF has released updated print editions of the Financial Accounting Standards Board's FASB Accounting Standards Codification and the GASB Codification of Governmental Accounting and Financial Reporting Standards.

AICPA

The AICPA's Financial Reporting Executive Committee (FinREC) has issued several working drafts of accounting issues related to the implementation of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and is requesting your feedback. The working drafts sought comment on industry-specific considerations and illustrative examples for entities implementing FASB Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

The AICPA has established 16 industry task forces that are developing industry-specific implementation issues. When the process is complete, the AICPA will include helpful hints and illustrative examples in a new revenue recognition guide which is currently in development. The guide will provide non-authoritative guidance on how to implement the new standard.

The AICPA sought comment on the following industries:

◆ **Aerospace and Defense**	◆ **Airlines**	◆ **Broker-Dealer**
◆ **Engineering & Construction Contractors**	◆ **Gaming**	◆ **Health Care**
◆ **Asset Management**	◆ **Not-for-Profit**	◆ **Software**

For more resources, go to the AICPA's Revenue Recognition Webpage, **AICPA Accounting and Auditing Resource Centers**

AICPA ISSUES PROPOSAL RELATED TO AUDIT DATA STANDARDS
AFFECTS: AUDITORS

Summary: on May 16, 2016, the AICPA issued an exposure draft of a proposed audit data standard that recommends a standard format for fields and files related to the inventory subledger frequently requested by internal and external auditors. The proposed subledger standard would "accommodate basic analysis of the inventory process [and] facilitate analysis performed as part of an audit, as well as analysis that might be performed by company staff and internal audit in order to improve internal processes."
Exposure Draft; Comment period ended August 15, 2016

AICPA Proposes Hosting Services Interpretation

On May 16, 2016, the PEEC of the AICPA issued an Exposure Draft requesting comment on an independence interpretation that provides guidance to members on the provision of hosting services to clients (e.g., acting as a business continuity or disaster recovery provider, hosting the client's financial system or website on firm servers, or keeping the client's data or records for safekeeping). The interpretation indicates that "When a *member* is engaged to provide services

that involve the *member* having custody or control of data or records that the *attest client* uses to conduct its operations (hosting services) the self-review and management participation *threats* to the *member's* compliance with the [AICPA's independence rule] would not be at an *acceptable level*, and could not be reduced to an acceptable level by the application of *safeguards*, and *independence* would be *impaired*."
Comment Period ended July 18, 2016

AICPA Clarifies and Recodifies Attestation Standards

Affects: Auditors that perform and report on examination, review, and agreed-upon procedures for engagements covered under Attestation Standards.

Summary: In April 2016, the ASB of the AICPA issued SSAE 18, Attestation Standards: Clarification and Recodification, marking the completion of the AICPA's project to redraft its attestation standards in a manner consistent with its clarity drafting conventions. As part of the redrafting process, the current "AT" sections have been re-codified as "AT-C" to indicate that they have been clarified and to distinguish them from superseded sections. Improvements to the new sections include:

- Creating an objective for each AT-C section
- Incorporating a definitions section into each AT-C section as appropriate
- Differentiating "requirements from application and other explanatory material"
- Using an "A- prefix" to number "application and other explanatory material paragraphs and presenting them in a separate section that follows the requirements section"

Effective Date

These standards apply to practitioners' examination reports on compliance with specified requirements and for practitioners' agreed-upon procedures reports related to compliance or internal control over compliance with specified requirements dated on or after May 1, 2017.

REGULATORY AND COMPLIANCE

SEC

FINAL RULES

Asset-Backed Securities Disclosure and Registration

On June 16, 2016, the SEC adopted Asset-Backed Securities Disclosure and Registration. This update makes technical corrections to rules that were published in the Federal Register on September 24, 2014 (79 FR 57184). The Commission adopted revisions to Regulation AB and other rules governing the offering process, disclosure, and reporting for asset-backed securities. These technical amendments are being published to restore rule text that was inadvertently changed, revise outdated cross-references, and make other technical corrections.

Trade Acknowledgment and Verification of Security-Based Swap Transactions

June 8, 2016, the SEC adopted Rules 15F(i)(1) and 15F(i)(2) under the Securities Exchange Act of 1934 requiring security-based swap dealers and major security-based swap ("SBS") participants to provide trade acknowledgments and to verify them in security-based swap transactions.

Section 15(i)(1) of the Exchange Act provides that registered SBS Entities shall conform with such standards as prescribed by the Commission that relates to the timely and accurate confirmation, processing, netting, documentation, and valuation of all security-based swaps. Section 15(i)(2) requires the Commission to adopt rules governing documentation standards for SBS Entities.

Under the new rules, SBS entities must provide a trade acknowledgment that contains all of the terms of the transaction. Specifically, the rules require an SBS entity to:

- Provide a trade acknowledgment electronically to its transaction counterparty promptly, and no later than the end of the first business day following the day of execution
- Promptly verify or dispute with its counterparty the terms of a trade acknowledgment it receives
- Have written policies and procedures in place that are reasonably designed to obtain verification of the terms outlined in any trade acknowledgment that it provides

See Final Rules, Press Release

SEC Adopts Business Conduct Standards for Security-Based Swap Dealers and Major Security-Based Swap Participants

On April 13, 2016, the SEC voted to adopt final rules implementing a comprehensive set of business conduct standards and chief compliance officer requirements for security-based swap dealers and major security-based swap participants (security-based swap entities).

The final rules are adopted under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which authorizes the Commission to implement a framework for regulating the over-the-counter security-based swap markets.

The final rules require security-based swap entities to comply with a range of provisions designed to enhance transparency, facilitate informed customer decision-making, and heighten standards of professional conduct.

See Press Release Release No. 34-77617 Effective Date: July 12, 2016

SEC Adopts Amendments to Implement JOBS Act and FAST Act Changes for Exchange Act Registration Requirements

On May 3, 2016, the SEC approved amendments to revise the rules related to the thresholds for registration, termination of registration, and suspension of reporting under Section 12(g) of the Securities Exchange Act of 1934. These amendments implement provisions of the Jumpstart Our Business Startups Act (JOBS Act) and the Fixing America's Surface Transportation Act (FAST Act).

To implement the JOBS Act, the Commission proposed amendments to Exchange Act Rules 12g-1 through 4 and 12h-3 to reflect the new thresholds. The Commission also proposed to establish thresholds for savings and loan holding companies consistent with those for bank holding companies. Additionally, the Commission proposed to revise the definition of "held of record" in Exchange Act Rule 12g5-1.

Subsequent to the Commission's proposed amendments, the FAST Act revised the thresholds for savings and loan holding companies and the statutory changes were effective upon enactment of the Act.
See Press Release Release No. 33-10075

SEC Proposed Rules

Adviser Business Continuity and Transition Plans

On June 28, 2016, the SEC proposed a new rule requiring registered investment advisers to adopt and implement written business continuity and transition plans. The proposed rule is designed to ensure that investment advisers have plans in place to address operational and other risks related to a significant disruption in the adviser's operations in order to minimize harm to both clients and investors.

The proposed rule requires an adviser's plan to be based upon the particular risks associated with the adviser's operations and include policies and procedures addressing the following specified components: the maintenance of systems and protection of data; pre-arranged alternative physical locations; communication plans; a review of third-party service providers; and a plan of transition in the event the adviser is winding down or is unable to continue providing advisory services. Plans would be required to address all elements that are critical to minimizing and preparing for material service disruptions, but would permit advisers to tailor the detail of their plans based upon the complexity of their business operations and the risks attendant to their particular business models and activities.
See Release No. IA-4439, Press Release Comment period deadline was September 6, 2016

Amendments proposed to "Smaller Reporting Company" Definition

On June 27, 2016, the SEC voted to propose amendments to the definition of "smaller reporting company" to promote capital formation and reduce compliance costs for smaller registrants, while maintaining investor protections. The proposal expands the number of registrants that qualify as smaller reporting companies, thus qualifying them for certain existing scaled disclosures provided in Regulation S-K and Regulation S-X. Registrants with less than $250 million in public float would qualify to provide scaled disclosures as a smaller reporting company, as compared to the $75 million threshold under the current definition. Additionally, for registrants with zero public float, they would be permitted to provide scaled disclosures if their revenues were below $100 million in the previous year, as compared to the current threshold of less than $50 million in annual revenues.
See Release No. 33-10107 Press Release Comment period deadline was August 30, 2016

SEC Interim Final Rules

SEC Adopts Amendment to Form 10-K Implementing FAST Act Provision

On June 1, 2016, the SEC announced it had approved an interim final rule that allows Form 10-K filers to provide a summary of business and financial information contained in the annual report. The rule implements a provision of the Fixing America's Surface Transportation (FAST) Act.

The interim final rule provides filers with flexibility in preparing the summary and those opting to provide it must include hyperlinks to the related, more detailed disclosure in the Form 10-K. It also requests comment on whether the rule should include specific requirements or guidance for the form and content of the summary and whether the rules should be expanded to include other annual reporting forms.

See Press Release Release 34-77969

SEC Concept Releases

SEC Solicits Public Comment on Business and Financial Disclosure Requirements in Regulation S-K

On April 13, 2016, the SEC voted to publish a concept release discussing and seeking public comment on modernizing certain business and financial disclosure requirements in Regulation S-K. The Commission is interested in receiving input on whether the disclosure requirements continue to elicit the information that investors need for investment and voting decisions and how registrants can most effectively present the information. The Commission is also seeking comment on the costs and benefits of the disclosure requirements for companies and investors.

The request for comment is part of the Disclosure Effectiveness Initiative, which is a broad-based staff review of the requirement.

See Press Release**,** Concept Release

SEC Updates/Other

On May 17, 2016, the SEC issued eight Compliance & Disclosure Interpretations (C&DI) comprising the Division's interpretations of the rules and regulations on the use of non-GAAP financial measures.

The eight C&DI cover the following topics: crowdfunding exemption and requirements, disclosure requirements, advertising, and promoter compensation.

Agencies Invite Comment on Proposed Rule to Prohibit Incentive-Based Pay that Encourages Inappropriate Risk-Taking in Financial Institutions

On May 16, 2016, six federal agencies invited public comment on a proposed rule to prohibit incentive-based compensation arrangements that encourage inappropriate risks at covered financial institutions. The deadline for comments on the proposed rule, which was submitted for publication in the Federal Register, was July 22, 2016.

The proposed rules apply to covered financial institutions with total assets of $1 billion or more. The requirements are based on total assets, and covered institutions would be divided into three categories including:

1. Level 1: institutions with assets of $250 billion and above;
2. Level 2: institutions with assets of $50 billion to $250 billion; and
3. Level 3: institutions with assets of $1 billion to $50 billion.

See **Press Release**, **Proposed Rule**

Incentive-based Compensation Arrangements

On May 6, 2016, The SEC announced they are seeking comments on the proposed rule published by Agencies in the Federal Register on April 14, 2011, and to implement section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Section 956 generally requires Agencies to jointly issue regulations or guidelines: (1) prohibiting incentive-based payment arrangements that the Agencies determine encourage inappropriate risks by certain financial institutions by providing excessive compensation, or that could lead to material financial loss; and (2) requiring those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate Federal regulator.

Comments were due July 22, 2016; See **Proposal**

PCAOB

Proposed Rules

PCAOB Re-proposes Standard to Enhance the Auditor's Report for Investors with Refined Requirements for Critical Audit Matters

On May 11, 2016, The PCAOB re-proposed for public comment the auditor reporting standard to enhance the auditor's report to make it more informative for investors by requiring auditors to provide information on critical audit matters.

The revised proposal retains the pass/fail model in the existing auditor's report, but provides additional information in the report, such as the communication of critical audit matters arising from the audit and new elements related to auditor independence and auditor tenure.

The re-proposed requirements include:

- Limiting the source of potential critical audit matters to matters communicated or required to be communicated to the audit committee
- Adding a materiality component to the definition of a critical audit matter
- Narrowing the definition to only those matters that involved especially challenging, subjective, or complex auditor judgment
- Revising the related documentation requirement
- Expanding the communication requirement to require the auditor to describe how the critical audit matter was addressed in the audit

See **Press Release** Docket Matter No. 034

PCAOB Proposes to Strengthen Requirements for Auditor Supervision of Other Auditors

On April 12, 2016, the PCAOB issued a proposal to strengthen existing requirements and impose a uniform approach to a lead auditor's supervision of other auditors.

In many audits, particularly that of large, multinational companies, important audit work is performed by accounting firms or individual accountants outside the audit firm. The proposal addresses the lead auditor's responsibilities in overseeing other auditors.
See **Press Release, Proposal Release – Docket No. 042**

PCAOB Conducting Post-Implementation Review of AS No. 7, *Engagement Quality Review Standard*
On April 6, 2016, the PCAOB released a request for public comment from the PCAOB's Center for Economic Analysis that will inform the first post-implementation review of the overall effect of previously adopted PCAOB rules and standards.

The goal of the program is to evaluate whether adopted rules and standards are accomplishing their intended purposes, and identify any unintended consequences, as well as gauge the overall effects of the rules or standards. **Comment period deadline was** July 5, 2016.
See **Press Release**, **Request for comment on Review of AS No.7 Post-Implementation Review** **Refer to Center for Economic Analysis page and Quick Links on sidebar** for more information.

PCAOB OTHER

PCAOB Issues Staff Guidance for Firms Filing the New Form AP, Disclosing Engagement Partner Names and Other Firms Participating in Public Company Audits
On June 28, 2016, the PCAOB issued staff guidance for firms filing the new Form AP. Audit firms are now required to file to comply with rules that the PCAOB finalized last December, and the SEC approved last month (see SEC Approves PCAOB Rules on Disclosing Engagement Partner Names). Audit firms are now required to use the form to disclose the names of engagement partners for all public company audits issued on or after Jan. 31, 2017, along with information about other audit firms that participated in audits issued on or after June 30, 2017.
See Press Release, Accounting Today 6/28/16

PCAOB Sanctions Five Firms and Seven Individuals for Audit Failures, Violations of Engagement Quality Review Rules, or Noncooperation with an Investigation
On June 15, 2016, the PCAOB announced sanctions in settled disciplinary orders against five audit firms and seven individuals for audit failures, violations of engagement quality review (EQR) rules, or for noncooperation with a Board investigation.

According to the orders, some of the firms permitted companies to issue their audit reports without obtaining approval from engagement quality reviewers. In some instances, firms had multiple violations of the EQR standard and failed to obtain sufficient appropriate audit evidence to support their audit opinions. One firm and an associated individual violated the provision of the EQR standard that requires an engagement quality reviewer from the same firm to be a partner or in an equivalent position. Another firm violated the Securities Exchange Act of 1934 by knowingly failing to resign or to report that a company it audited had filed incorrect financial statements.

In another matter that did not involve engagement quality reviews, a firm and three associated individuals failed to cooperate with a Board investigation by refusing to provide sworn testimony or documents.
See Press Release

PCAOB Publishes Staff Audit Practice Alert No. 14 on Improper Alteration of Audit Documentation
On April 21, 2016, staff of the PCAOB published a Staff Audit Practice Alert No. 14 reflecting their concerns about auditors improperly altering audit documentation in connection with a PCAOB inspection or investigation.

In the past several years, the Board has sanctioned firms and individuals for improperly deleting, adding, or altering documentation in connection with an inspection or investigation. The sanctions in those cases have included revoking firms' registrations and barring individuals from auditing for registered firms. PCAOB staff has recently seen evidence that such misconduct is continuing to occur.
See Press Release**,** Enforcement Spotlight: Improper Alteration of Audit Documentation

PCAOB Releases Staff Inspection Brief Previewing 2015 Inspection Findings
On April 19, 2016, the staff of the PCAOB published an inspection brief that previews the results of 2015 inspections.

Preliminary inspection results of annually inspected firms indicate the overall number of audit deficiencies identified in 2015 decreased compared to the results from 2014. Audit firms are inspected annually if the firm provides audit reports for more than 100 issuers. In 2015, ten firms met that threshold.
Areas that showed improved audit quality may have been a result of firms' better monitoring of audit work performed, among other things.
See Press Release

PCAOB Releases Staff Inspection Brief Offering a Preview of Observations from 2015 Inspections of Auditors of Broker-Dealers
On April 19, 2016, the staff of PCAOB published an inspection brief that previews the results of 2015 inspections of broker and dealer auditors.

PCAOB inspectors focused on and identified deficiencies in the following areas in 2015:

- Auditor independence
- Financial statement audit procedures
- Audit procedures on the supplemental schedules to the financial statements
- The examination of compliance reports and the review of exemption reports under newly applicable PCAOB standards
- The engagement quality review

See Press Release

CAQ

CAQ SEC REGULATIONS COMMITTEE RELEASES HIGHLIGHTS OF MARCH 21, 2016,

JOINT MEETING WITH SEC STAFF

AFFECTS: SEC REGISTRANTS.

SUMMARY: ON MAY 20, 2016, THE CAQ POSTED TO ITS WEBSITE HIGHLIGHTS OF THE MARCH 21, 2016, CAQ SEC REGULATIONS COMMITTEE JOINT MEETING WITH THE SEC STAFF. TOPICS DISCUSSED AT THE MEETING INCLUDE:

CURRENT FINANCIAL REPORTING MATTERS:

- Transition questions related to the FASB's new leases standard (ASU 2016-02).
- The lack of availability of fast act initial filing accommodations to registrants other than emerging growth companies (EGC) and sec forms other than Forms S-1 and F-1.
- Confirmation that the guidance on conflict minerals rules in the SEC staff's April 29, 2014, public statement is still current.
- Updates to the SEC's FRM, particularly the changes to paragraph 11100.2 on the presentation of supplementary quarterly financial data required by Regulation S-K, Item 302, in EGC filings.
- Status of disclosure effectiveness initiatives related to Regulation S-X and Regulation S-K.
- Recent SEC staff remarks on non-GAAP measures.
- Providing supplemental pro forma information in MD&A when a registrant adopts new revenue guidance in ASC 606 on a modified retrospective basis.

CURRENT PRACTICE ISSUE:
The application of the general instructions applicable to EGCs for Form S-1 or Form F-1 with respect to pro forma financial information for a fiscal year that a registrant reasonably believes will not be included in a registration statement at the time of a contemplated offering.

Questions on Non-GAAP Measures: A Tool for Audit Committees
Presentation of measures that do not conform to US GAAP outside of the audited financial statements has increased in recent years. Non-GAAP measures can be useful to enhance understanding of a company and its performance by analysts and investors, but care must be taken to foster compliance with SEC regulations and guidance. The SEC has established regulations specific to the presentation of non-GAAP measures in SEC filings and other company communications to investors, such as earnings releases. In May 2016, the SEC staff updated its compliance and disclosure interpretations on these regulations.
See "Questions on Non-GAAP Measures: A Tool for Audit Committees"

CAQ: A Good Recruitment Tool
On June 21, 2016, The CAQ published on its website, "5 Reasons to Consider a Career in Public Company Auditing." It is worth a read to support your firm's recruitment efforts.
See "5 Reasons to Consider a Career in Public Company Auditing"

INTERNATIONAL

IOSCO Publishes Report on Audit Committee Oversight of Auditors' Affects:On May 31, 2016, IOSCO published a report that "summarizes the results of an IOSCO survey of its members regarding existing legal, regulatory and other requirements related to the oversight by audit committees of the auditor and the audit process of domestic publicly-listed entities." The objective of the report is to attempt to identify "audit committee practices that could improve audit quality at publicly listed entities." Other Resources: For more information, see the press release on IOSCO's website.

IFRS

The IFRS Foundation has published its 2015 annual report

On May 19, 2016, the IFRS published the 2015 annual report.

IFRS strategic priorities 2016 and beyond:

- Develop a single set of high-quality, globally enforcement accounting standards
- Pursue global adoption of IFRS Standards
- Support consistent application and implementation of IFRS Standards
- Ensure confirmed independence, stability and accountability of IFRS Foundation

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

Please refer to the **Mazars "Beyond the GAAP" Newsletter** for more information. **Edition No. 100 – May 2016**, as well as the French version **DOCTR' in Newsletter No.121, May 2016.**

This Edition's **"IFRS Highlights"** covers the following topics:

- Limiting the impact of the different effective dates of IFRS 9 and IFRS 4: the IASB concludes its deliberations and authorizes exemptions for the accounts of equity-accounted insurance entities
- A French appointee to the IFRS Interpretations Committee (formerly IFRIC)
- The IASB starts to put its research program in order
- IFRS Foundation and IOSCO strengthen cooperation in the development and implementation of IFRS Standards

This Edition's **"European Highlights"** covers the following topics:

- EFRAG set to appoint a French president?
- ECON publishes its report evaluating IFRS and the activities of the IFRS Foundation and EFRAG

Please refer to the **Mazars "Beyond the GAAP" Newsletter** for more information. **Edition No. 99 – April 2016**, as well as the French version **DOCTR' in Newsletter No.120, April 2016.**

This Edition's **"IFRS Highlights"** covers the following topics:

- Limiting the impact of the different effective dates of IFRS 9 and IFRS 4: the IASB amends the insurance 'predominance ratio' calculation for eligibility for the deferral approach
- American TRG discusses methods for measuring progress

This Edition's **"European Highlights"** covers the following topics:

- IFRS 15 endorsement on the right track

This Edition's "A Closer Look" article features the following topics:

- Identification of performance obligations
- The agent/principal distinction
- Licenses of intellectual property
- Additional practical expedients for transitional arrangements
- Other areas where the IASB has decided not amend IFRS 15, unlike the FASB

Please refer to the Mazars "Beyond the GAAP" Newsletter for more information. Edition No. 98-March 2016, as well as the French version DOCTR' in Newsletter No.116, March 2016.

This Edition's **"IFRS Highlights"** covers the following topics:

- Limiting the consequences of the different effective dates of IFRS 9 and future IFRS 4: IASB confirms main principles of exposure draft
- IFRS IC clarifies accounting treatment of prepaid cards
- No decision from IFRS IC on the accounting treatment of variable payments to be made for the purchase of assets
- Use of IFRS as % of GDP is limited by two large jurisdictions that do not permit its use

International Federation of Accountants (IFAC)

Representatives From Over 30 Countries Discuss Public Financial Management for Economic Prosperity in Asia at the Confederation of Asian and Pacific Accountants (CAPA) and World Bank Forum

On May 18, 2016, senior representatives from governments, Supreme Audit Institutions, and professional accountancy organizations representing virtually every country and jurisdiction in Asia gathered in Malaysia to discuss how improved public financial management can promote better public services, accountability, and transparency to support poverty reduction and economic growth.

Two key papers were highlighted at the forum:

Attracting and Retaining Finance Personnel in the Public Sector—a solutions-oriented approach developed by CAPA to help jurisdictions embrace the challenge of identifying, attracting, and retaining professional accountants and other key financial personnel to the public sector.

Unravelling the Secrets of Successful Public Financial Management Reforms: Is There a Role for Professional Accountancy Organizations? — A forthcoming knowledge product of the World Bank, this retrospective study analyzes country cases of successful PFM reforms across two regions of the Bank: South Asia Region and East Asia and the Pacific.

Public Sector Transparency and Accountability Vital to Caribbean Economic Growth

On April 12, 2016, leaders from the public sector and professional accountancy organizations from throughout the Caribbean are meeting in Nassau to revitalize efforts to improve public sector financial management and support the region's economic growth.

The International Ethics Standards Board for Accountants (IESBA)

IESBA Releases 2015 Annual Report, Elevating Global Ethics

The **2015 IESBA Annual Report** summarized the International Ethics Standards Board for Accountants (IESBA)'s achievements, project developments, and operating context in 2015.

In 2015, the IESBA achieved a high level of outputs on standard setting and making progress on its Work Plan projects. The IESBA also continued to pursue an extensive stakeholder outreach program, sought closer coordination and cooperation with the IAASB, and dedicated attention to emerging issues of international relevance. Highlights include:

- Issuing a final pronouncement on the topic of non-assurance services;
- Approving four Exposure Drafts (EDs) on the topics of non-compliance with laws and regulations (NOCLAR), the structure of the Code, safeguards, and long association;
- Agreeing revisions to the Code under Phase 1 of the Part C project, pending restructuring of the revised provisions;
- Establishing a working group to undertake fact-finding regarding certain fee-related matters, and providing input to finalize a staff publication on fees; and
- Joining a tripartite working group with the IAASB and the IAESB to explore whether there may be opportunities for enhancements in the respective boards' standards on the topic of professional skepticism in response to feedback from regulatory and other stakeholders.

The International Auditing and Assurance Standards Board (IAASB) of IFAC

IAASB Finalizes Changes for Engagements to Report on Summary Financial Statements

On March 24, 2016, the IAASB has released ISA 810 (Revised), Engagements to Report on Summary Financial Statements, which deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with International Standards on Auditing (ISAs) by that same auditor.

The limited amendments to ISA 810 (Revised) leverage the additional transparency in the auditor's report on the audited financial statements resulting from the IAASB's new and revised Auditor Reporting standards issued in January 2015, in particular, ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and new ISA 701,*Communicating Key Audit Matters in the Independent Auditor's Report*.

IAASB Highlights How Expected Credit Loss Models Will Affect Auditors; Signals Broader Efforts to Strengthen Auditor Efforts on Accounting Estimates

On March 2, 2016, the IAASB released a publication highlighting the audit issues arising from the shift to Expected Credit Loss (ECL) models when accounting for loan losses. ECL models are now required, or will soon be required, by some financial reporting frameworks, including IFRS 9, *Financial Instruments,* which will go into effect beginning January 1, 2018.

IAASB Finalizes Changes for Auditor Reporting on Special Purpose Financial Statements

On January 7, 2016, the IAASB released ISA™ 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and *ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*.

Reporting on special purpose financial statements is linked to the IAASB's new and revised Auditor Reporting standards issued in January 2015, in particular, ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and new ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. The amendments to ISA 800 and ISA 805 are limited to auditor reporting and are not intended to substantively change the underlying premise of these engagements in accordance with the extant ISAs.

BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

Guidance on cyber resilience for financial market infrastructures

On June 29, 2016, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published the Guidance on cyber resilience for financial market infrastructures ("Cyber Guidance"). This builds on an earlier version of the report that underwent a three-month public consultation.

The safe and efficient operation of financial market infrastructures (FMIs), are essential to maintaining and promoting financial stability and economic growth. The Cyber Guidance aims to add momentum and instill international consistency in the industry's ongoing efforts to enhance its cyber resilience. This includes the ability of FMIs to pre-empt cyber-attacks, respond rapidly and effectively to them, and achieve faster and safer target recovery objectives if the attacks succeed. In addition, the Cyber Guidance provides authorities with a set of internationally agreed guidelines to support consistent and effective oversight and supervision of FMIs in the area of cyber risk.

At its core, the Cyber Guidance requires FMIs to instill a culture of cyber risk awareness and to demonstrate ongoing re-evaluation and improvement of their cyber resilience posture at every level within the organization. Furthermore, while the guidance is directly aimed at FMIs, it is important for them to take on an active role in reaching out to their participants and other relevant stakeholders to promote understanding and support of resilience objectives and their implementation. Effective solutions may require collaboration between FMIs and their stakeholders as they seek to strengthen their own cyber resilience.
Link: **Guidance on cyber resilience for financial market infrastructures**

Implementation monitoring of the PFMI: Third update to Level 1 assessment report
On June 28, 2016, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published the third update to the Level 1 assessments of implementation monitoring of the Principles for financial market infrastructures (PFMI).
Level 1 assessments are based on self-assessments by individual jurisdictions on how they have adopted, within their regulatory and oversight frameworks, the PFMI's 24 Principles for FMIs and four of the five Responsibilities for authorities.

The result shows that further progress has been made among those participating jurisdictions that had not completed their implementation measures at the time of the previous update in 2015. In particular, 19 of the 28 jurisdictions have now completed their implementation measures for all FMI types (15 jurisdictions in the previous update). The next update of the Level 1 assessment will be conducted in 2017.
Link: **Press Release**

The Collateral Trap
On June 1, 2016, BIS made a distinction between “outside” collateral and “inside” collateral. The use of inside assets, such as loans, creates a "collateral pyramid," in that cash flows from one loan can be pledged to secure another. Through collateral pyramids, the financial sector creates safe assets, but at the cost of exposing the economy to systemic panics. Outside collateral, such as treasuries, serves as foundation of, and stabilizes, the pyramid. There is a threshold for the volume of treasuries, below which investors panic, the pyramid collapses, and there are not enough safe assets to support wholesale market activity— a situation that is called "collateral trap".

Standards for interest rate risk in the banking book issued by the Basel Committee
On April 21, 2016, BCBS issued standards for Interest Rate Risk in the Banking Book (IRRBB). The standards revise the Committee's 2004 *Principles for the management and supervision of interest rate risk*, which set out supervisory expectations for banks' identification, measurement, monitoring and control of IRRBB as well as its supervision.

The key enhancements to the 2004 Principles include:

- **More extensive guidance on the expectations for a bank's IRRBB management process**
- **Enhanced disclosure requirements**
- **An updated standardized framework**
- **A stricter threshold for identifying outlier banks**

See Press Release

Second report on risk-weighted assets in the banking book published by the Basel Committee
On April 1, 2016, the BCBS published a second report on risk-weighted assets (RWAs) in the banking book, as part of its Regulatory Consistency Assessment Programme (RCAP) to ensure full and effective implementation of the Basel III framework.
See Press Release

COSO

COSO Updates Enterprise Risk Management Framework
On June 14, 2016, COSO has unveiled a proposed update to its 2004 enterprise risk management framework. The updated framework, COSO Enterprise Risk Management – Aligning Risk with Strategy and Performance, addresses the need for an improved approach to managing risk as a way to help create, preserve, sustain and realize value.

COSO has expanded its website, www.COSO.org, with a section on the framework update that includes the proposed framework, survey and comment tools, and FAQs about the project, details of the most significant updates and how to respond to the survey. The site also includes a video that features four members of the Advisory Council addressing the ERM update process and the importance of obtaining input from a variety of risk professionals about the proposed changes.

FDIC

Agencies Announce Determinations and Provide Feedback on Resolution Plans of Eight Systemically Important, Domestic Banking Institutions
On April 13, 2016, the FDIC and the Federal Reserve Board jointly announced determinations and provided firm-specific feedback on the 2015 resolution plans of eight systemically important, domestic banking institutions.

The agencies have jointly determined that each of the 2015 resolution plans of Bank of America, Bank of New York Mellon, JP Morgan Chase, State Street, and Wells Fargo was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, the statutory standard established in the Dodd-Frank Wall Street Reform and Consumer Protection Act. The agencies have issued joint notices of deficiencies to these five firms detailing the deficiencies in their plans and the actions the firms must take to address them. Each firm must remediate its deficiencies by October 1, 2016. If a firm has not done so, it may be subject to requirements that are more stringent.

The agencies jointly identified weaknesses in the 2015 resolution plans of Goldman Sachs and Morgan Stanley that the firms must address but did not make joint determinations regarding the plans and their deficiencies. The FDIC determined that the plan submitted by Goldman Sachs was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, and identified deficiencies. The Federal Reserve Board identified a deficiency in Morgan Stanley's plan and found that the plan was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

The deadline for the next full plan submission for all eight domestic, systemically important financial institutions is July 1, 2017. The agencies will evaluate all eight of the full plans submitted in 2017 under the statutory standard.

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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.