PCAOB
Public Company Accounting Oversight Board

1666 K Street, NW
Washington, D.C. 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

# STANDING ADVISORY GROUP MEETING

## PANEL PRESENTATION – FASB/IASB PROJECTS AND POTENTIAL IMPACT ON AUDITORS

**JULY 15, 2010**

### Introduction

At the July 2010 meeting of the Standing Advisory Group ("SAG"), a panel will discuss projects of the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") and the potential impact on auditors. A FASB Board member will provide an overview of the FASB/IASB projects and an auditor and an issuer will provide observations on the potential impact to auditors. The discussion is intended to help inform the staff of the SAG's views on auditing challenges and the potential need for new or revised auditing standards or staff guidance in response to the potential upcoming changes to U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS"). The discussion is not meant to debate the proposed accounting. This briefing paper includes a list of some of the significant projects to serve as a background for the discussion, an example of how the proposed accounting changes may challenge auditors, and SAG discussion topics.

### Background

Since 2002, the FASB and the IASB have been working on projects to converge their respective accounting standards. The March 31, 2010 IASB and FASB Commitment to Memorandum of Understanding Quarterly Progress Report ("Progress Report") indicates that the IASB and the FASB had achieved "substantially all of the milestone targets for the first quarter of 2010."[1/] The FASB and the IASB recently reconsidered the timing of upcoming exposure drafts scheduled for publication in 2010

[1/] The *IASB and FASB Commitment to Memorandum of Understanding Quarterly Progress Report* (March 31, 2010) is available at: http://www.fasb.org/jsp/FASB/Document_C/DocumentPage&cid=1176156792380.

This paper was developed by the staff of the Office of the Chief Auditor as of July 1, 2010 to foster discussion among the members of the Standing Advisory Group. It is not a statement of the Board; nor does it necessarily reflect the views of the Board or staff.

given the significance of the projects and the bandwidth of commenters to review and provide comments on the exposure drafts. Examples of significant projects are as follows:

**FASB and IASB Joint Projects**

- Financial Statement Presentation – *Organisation and Presentation of Information in the Financial Statements*
- Financial Instruments with Characteristics of Equity
- Revenue Recognition
- Leases
- Insurance Contracts

**FASB Projects**

- Financial Instruments
- Consolidation
- Fair Value Measurement

**IASB Projects**

- Consolidation: *Disclosures About Unconsolidated SPEs/Structured Entities (IFRS)*
- Financial Instruments – *Classification and Measurement: Financial Liabilities*
- Financial Instruments – *Hedge Accounting*

While auditors and preparers of financial statements are accustomed to implementing new accounting standards, the volume and nature of the proposed changes in these projects may pose unique challenges.

**Example – Financial Instruments**

One of the exposure drafts discussed in the Progress Report is the FASB's Proposed Accounting Standards Update, *Accounting for Financial Instruments and*

*Revisions to the Accounting for Derivative Instruments and Hedging Activities* ("Financial Instruments Project"), which was issued for a 90-day comment period on May 26, 2010. This proposal would affect financial institutions and all other entities that have financial instruments. The exposure draft notes that the "main objective in developing this proposal is to provide financial statement users with a more timely and representative depiction of an entity's involvement in financial instruments, while reducing the complexity in accounting for those instruments."[2/] Several key proposed changes to existing GAAP requirements in the Financial Instruments Project include:[3/]

- More loans would be accounted for at fair value.
- Hedge accounting would change and would require more qualitative than quantitative-based assessments and hedge relationships would need to be "reasonably effective" rather than "highly effective."
- Financial instruments would no longer be classified based on an entity's intent for an individual instrument, but will be classified based on the entity's business strategy for managing its financial instruments.
- Core deposit liabilities would be measured using a current value method and also subject to re-measurement.

If the proposed standard is adopted in its current form, there would be significant changes from the current accounting requirements. Auditors would need to train audit staff and potentially develop new internal guidance along with ensuring that engagements are adequately staffed and that specialists are involved as needed. Audit firms would also need to ensure different audit teams are reaching consistent conclusions on the accounting.

**Discussion Topics**

The staff is seeking the SAG's view on what challenges may result for auditors as a result of the proposed changes in accounting. In particular, the staff is interested in the SAG's view on –

---

2/ FASB Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. p. 1.

3/ Ibid, pp. 3-4.

- Potential challenges for auditors in auditing under the new accounting standards (i.e. changes in firm methodology, training of personnel, consistent application of accounting standards)

- Possible need for additional PCAOB guidance or updates to PCAOB auditing and related professional practice standards

* * *

The PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.