

**California Society of CPAs**  
**Accounting Principles and Auditing Standard Committee**  
**Armanino LLP – Virtual Meeting**  
**August 1, 2019**

1. Introductions
2. Appointment of Minutes Secretary - Stacie Kowalczyk
3. Approval of Prior Meeting Minutes
  - a. Paul will send some spelling issues to Vinit
  - b. Motion to approve, Matt – 2<sup>nd</sup>, all approved
4. EITF (Stu Harden)
  - a. EITF met 6/13/19 – 3 topics
  - b. Exposure Draft on 18A – Assumed liability in revenue contract topic 805 accounting – liability assumed would be performance obligation under 606. Measurement issues – APAS comment was that measurement issues needed to be addressed. EITF delayed effective date of 18A.
  - c. 19A – Topics 321 and 323 Clarifying the Interactions between the two Topic sessions – Exposure draft came out 7/30/2019. Comment due date of 8/29.
    - i. Topic 321 – consolidation or equity method – if security doesn't have ready market can use cost less impairment. If there is an observable transaction for similar or like security, then investment would be marked to that security value. Also, could work the opposite way. What happens if reporting entities are using this to manipulate financial performance through this standard.
      1. Question of observable transaction comes up in narrow scope. Would restate your investment and then account for this after as equity method. Other option is to leave current shares as is and then additional shares would be accounted for separately.
      2. Definition of an orderly transaction
      3. Stu asked for show of hands for those that are comfortable with exposure draft either gain or loss of influence is an observable transaction under 321 that should mark you stocks to FV – most members support Yes - 13 – No – 6
      4. Response – to include some dissenting opinions in the comment letter and further research should be given to broader situations under 321 where potential manipulation of earnings may be an issue. Ask FASB to add guidance and clarity on how manipulation could be avoided. What is constituting an orderly transaction. Stu to draft comment letter and circulate it to the full committee for further comment.
    - ii. Topic 323 - Other question is forward contracts and purchase options upon settlement would put you into topic 323 (equity method) and how to account for transactions. Recommendation to use 323 to value and not 321. Will be part of draft comment for circulation by Stu noted above.

- d. 19B – Educational session by FASB staff – contract mods of licenses of intellectual property. Contract extensions and when licenses are revoked. Still an item on their agenda. Expect that will be discussed again at next meeting.
- 5. FASB – Aleks Zabreyko (FASB ITC) – Intangible Assets and Subsequent Accounting for Goodwill
  - a. FASB wants additional commentary on whether to change subsequent accounting for Goodwill – FASB has been considering whether to change due to cost/benefit considerations
  - b. Comment period is through October 7, 2019 – do we want to comment and if, so we should setup a separate sub-committee to address it. – Consensus is to provide a comment letter on this topic.
    - i. Aleks will head sub-committee – send an email to Aleks if you are interested in joining sub-committee
      - 1. Brianne
      - 2. Matt
      - 3. Gary
      - 4. Stacie
      - 5. Howard
      - 6. Stu
      - 7. John Lacey
      - 8. Paul P
    - ii. Options on table (think about what would be useful to users of financial statements in different industries, settings)
      - 1. Immediate write off is not an option – constituents and users said this is not helpful to them
      - 2. Go back to amortization methodology
      - 3. Impairment only
      - 4. Amortization with impairment if some sort of triggering event happens
- 6. Break 10:32 to 10:50
- 7. IAASB (Howard Sibelman) – Audits of less complex entities
  - a. Comments due 9/12 – do we want to comment? Anyone can go online and answer a survey set of questions about what way to go on this.
    - i. Howard will lead a sub-committee to address and respond with a comment letter. Howard would like to get comments by 8/15. Subcommittee volunteers are:
      - 1. Stu
      - 2. Tom
      - 3. Paul
  - b. Some countries may be looking for an alternative to the IAASB to audit less complex entities considering 2-3 different approaches
    - i. Developing new set of audit standards for these entities – proposal solicits input on this
- 8. FASB Technical Agenda – (Frank O’ Brien)
  - a. Technical Agenda overview as of 7/17/2019 included in Agenda – Frank only reviewed the ones below as being more significant

- b. Distinguishing liabilities from equity (including convertible debt) – ED issued 7/31/2019 – comments due in October 2019 –
    - i. Derivatives – simplification for contracts with entities own equity
    - ii. Convertible instruments – single liability at amortized cost
  - c. Share based consideration payable to a customer – 2018-07 – accounted for under 606 w/no measurement guidance. Board proposal for them to be measured under 718. Still in re-deliberation
  - d. Credit losses, hedging and leases effective date – public and non-public entities having a hard time with implementation timeline. Proposal is to have buckets – 1<sup>st</sup> bucket is SEC filers excluding smaller reporters (same implementation as current) – 2<sup>nd</sup> bucket would include the smaller filers, non-public entities, EBP and NFP and would have 3-year effective date deferral from large public bucket.
  - e. Insurance effective date – 2018-12 request to defer effective date. Board will give publics one additional year and everyone else would have another 1 year beyond that
  - f. PCC – practical expedient to measure grant date FV of equity classified share awards – preferred/best practice is to use 409A. What about companies that don't have a 409A. Some support for using intrinsic value – still in initial deliberations
  - g. Reference rate reform –
  - h. BS classification of debt – proposal was to have long-term financing/lines to be disregarded for classification purposes. we favored current standard. Board drafting revised ED
  - i. Frank will be stepping down as sub-chair and Matt and Aleks will be taking reigns on the accounting sub-chair. Mark and committee acknowledged time and effort put in by Frank on this committee over past 20 years.
9. State & Local Matters – Paul Peterson
- a. State Assembly Bill 1181 to address perceived abuse of accounting standards by nonprofits that accept donated pharmaceuticals by reporting them at inflated values. Results in excessive Management & General and Fundraising to make them look better.
  - b. Paul sat in on meeting with FASB, CALCPA, AG's office and reps from various assembly member offices. Goal was for FASB to convince to put bill on hold. Accounting would only be related to CA nonprofits. Proposed valuation methodologies are in conflict with GAAP on these matters
  - c. FASB announced they will put it on agenda and fast track it to look at issue including better disclosures to create transparency even if no measurement changes come about.
    - i. State did not commit to put bill on hold while FASB works through.
  - d. Audit opinion if bill goes through to qualification because of GAAP departure. + two different audiences as a result of bill.
  - e. Situation continues to be monitored – last update was 7/22. Another meeting is suggested. Nancy Rix may go to next meeting or another rep from the committee
  - f. Jeremy – bill is with ways and means committee and it is not on hold. May go back to bills sponsor to see if it can be put on hold
10. Communications Update (Mark Wille)
- a. A&A conference (October 24-25) conference planning is moving along – 90% of speakers are filled

- b. October 2019 magazine –
  - i. Mark will prepare article on leasing. Draft will be done by 8/10 with draft for editors.
  - ii. Gary was going to do article about new audit report.
  - iii. Need an ERISA rules article – Tom will volunteer to author.
  - iv. Independence article – Mark volunteered to write short article
- c. Cybersecurity/data privacy – discussion of formation of a committee
- d. Committee recruiting efforts
  - i. Need qualified members – Nancy having a hard time getting coverage for responses that are needed. One option is to cut back on what we respond to but otherwise we need to step up recruiting effort for committee
  - ii. Matt to lead an initial strategy meeting for recruitment – Doug and John and Nancy to be involved in that committee
  - iii. Other comments
    - 1. Hard time pulling people together
    - 2. Do virtual meetings still work or do the in-person meetings work better
    - 3. Preparation and readiness for meetings
    - 4. Vinit – potential glitch with application system last year – go back and pull the 15-20 applications from last year to look at. Paul P. has a guest recommendation he will put forward
    - 5. Nancy will provide some feedback from NY AP&AS committee at next meeting to see if there are any best practices that we can glean from.
    - 6. CalCPA has list of firms that routinely work commit to work with CalCPA – so reach out to those firms too.

11. Lunch 11:55 to 1pm

12. Michael Glynn & Denny Ard w FASB joined meeting remotely to lead discussion on ARSC exposure draft that is out (issued June 2019) – comments due on 9/20/2019 – Tom, Paul and Howard volunteered to help respond
- a. Affects financials ending on or after 6/30/2021 and early adoption would be permitted
  - b. Point is to merge our standards with international standards
  - c. Find guidance when engaged to perform review under ARC and another set of standards (like an American subsidiary of a foreign company)
  - d. Committee wants to bring additional international requirements into SSARS – therefore primary concern was to align SSARS with international literature.
    - i. Materiality – same concept in audit and review
      - 1. International standard says CPA has to explicitly consider materiality which was different than AICPA SSARS. Therefore, this has been made explicit in the exposure draft issued in June 2019.
    - ii. Adverse review conclusion – allowed by international standards, this has been prohibited by SSARS. Reason was because it was same as audit and in conflict because we didn't perform audit. International rules you can't walk away from engagement which was why adverse opinion was allowed. If we are ok with an adverse on a review on SSARS is it also ok in other standards like the attestation standards.

- iii. Questions for Mike and Denny on
  - 1. Tom (SR) – Do the proposed changes require us to perform risk assessment on a review. Mike said no not required to have formal risk assessment. “Risk awareness process” is used in proposal not risk assessment process
  - 2. Mark Willie – changing name of review to limited assurance engagement was this thought about? – ended up being too much and create work in too many areas that won’t get done so will probably not get changed. We would have an AICPA limited assurance engagement where PCAOB and IAASB would not change it. Change would provide ability to issue adverse opinion but not a requirement. Would be an adverse conclusion but not an adverse opinion.
  - 3. Joe Bunker – would the risk awareness process be something that CPA’s can get hanged on if have to go to court over work. New review report anticipated to help with this. Mike doesn’t believe that there is risk. Spoken with AICPA insurance carriers and others who might give an opinion on that.
  - 4. Nancy – is there language in ED saying wah the difference between and adverse conclusion and adverse opinion are?
- e. Preparation engagement discussion on questions from APAS committee – when to apply ARC Section 70
  - i. SSARS 1 – compilation exists anytime you prepare and present financials to client. Automated environments and change.
  - ii. ARC section 70 – when hired to prepare financials in today’s environment more important to have discussion with client on what exactly you are doing. If QuickBooks or other system preparing financials, then this is not a preparation engagement. Just always have to be careful when providing financials. Questions about if you are providing a tax return but slipping a FS into it is this a preparation especially if your engagement letter says you are not preparing financials.
    - 1. Lots of scenarios were discussed including 1.) what happens if you do everything but print? 2.) closing books but not printing? 3.) preparing tax return and FS prep is a bi-product?
    - 2. Goes back to what is in engagement letter
  - iii. Nancy asked if we are the only state society with questions and confusion – Mike said he was surprised at our questions. He is saying other state societies have gotten their arms around it more.

### 13. AICPA Update – Nancy Rix

- a. ASB co committee chairs Gail Anikouchine and Gary Krause
- b. Running short on meeting comment periods on ED’s on Audit Evidence (Nancy leading group) and Audit Materiality (Gail leading group) – email Nancy or Gail for help
- c. ED on Materiality (Gail) – case history of materiality; do we want to change materiality to that of the judicial system and other US standard setters and regulators (reasonable expectation instead of substantial likelihood) – there are two questions in the ED to

respond to 1.) whether or not we believe the amended change to materiality is consistent with judicial systems and 2.) need to provide views about whether proposed amendments will change how we determine materiality in an audit or attestation engagement and how the result would affect our engagements.

- i. Vote on question about whether we change the definition to align with others – Yes – majority
          - ii. Vote on 2<sup>nd</sup> question – we don't think it would change how we approach determining materiality for the most part.
    - d. Audit Evidence ED – comment deadline is 9/18 – Send any more comments that you have on draft to Nancy. There are 15 questions. – confirming US standards to what is in IAASB – centers around AI and Data Analytics. Nancy will submit draft responses for additional comments or questions
      - i. Enhancing evidence in audit – make definition more robust, substantial and useable, word change to persuasiveness and sufficiency (this definition has changed too from a measure of quantity to a measure of attributes and factors) – adding more guidance onto sources (like auditing digitizing evidence). More focus on how we validate and document reliability of evidence. Less and less on quantity of information in the proposal. Gail believes that words should change since they are changing definitions of old words. Standard seems a little rough otherwise.
      - ii. Explaining and providing examples
      - iii. Weave in data analytics into audit process
      - iv. Enhanced professional skepticism
14. AICPA PEEC – Staff Augmentation Issue; we were asked by the CalCPA legislative group as to whether we wanted to provide comments to CBA on this issue
  - a. Background – PEEC issued ED last year and whether something should be codified around staff augmentation lack of safeguards on appearance of independence
  - b. Historically this committee has not been involved in independence issues – Nancy does not think that we should respond, and she doesn't think CBA is not waiting for our response and did not ask us to respond.
  - c. Vote – unanimous no one on this committee wants to provide comments.
15. Chapter chair updates – Doug DeBoer
  - a. Doug reached out to chapter chairs to attend this meeting with not a lot of response
  - b. Doug will send a recap to chapter chairs after this meeting
16. Miscellaneous
  - a. CPA evolution project website – [evolutionofcpa.org](http://evolutionofcpa.org) – this will change licensure path. Could propose two different types of CPA exams – one more accounting one more technology. John raised question as to whether we want this committee to get involved and weigh in on this exposure draft?
17. Next Meeting – 11/7 – in person meeting at the Westin LAX
18. Adjourned meeting at 3:20pm