

Minutes of the CalCPA Accounting Principles and Auditing Standards State Committee Meeting:

Date: August 13, 2020

Location: Virtual meeting

Start Time: 9:00 am

Meeting called to order by Committee Chair, Nancy Rix

1. Introductions
2. Appointment of morning minutes secretary, Sue Hudgens
3. Minutes presented for approval:
 - Motion to approve made by Nancy Rix
 - Motion seconded
 - Motion passes

AICPA/ASB presentation by Bob Dohrer, AICPA

1. Identifying and Assessing the Risks of Material Misstatement Exposure Draft, ISA 315 - ASB version.
 - This was recently voted to be exposed. The Exposure Draft will be issued soon, and feedback will be requested to be received within 90 days of the date of the Exposure Draft. That 90 days will end prior to busy season.
 - The proposed effective date of the standard is the period beginning on or after 12/15/23 - calendar year 2023.
2. Communications with a predecessor auditor regarding non-compliance with laws and regulations.
 - Exposure Draft not yet issued.
 - This is expected to be an amendment to AU-C 210.
3. Group audits – IAASB ED-600 was issued 4/20/20.
 - The ASB is waiting for IAASB to determine its position prior to the AICPA issuing an Exposure Draft.
4. Update on US convergence with IAASB with respect to the Quality Management standards - "Convergence Project."
 - The effective date for the international standard is intended to be 12/15/22.
 - The ASB expects to issue an Exposure Draft in the latter part of 2021.
 - The effective date for the AICPA is intended to be effective 2023 or later.
5. Discussed auditing standards considering conditions related to the pandemic.
 - He discussed the need to adhere to audit standards. Conclusion was that the audit standards held up well in these new circumstances.

Accounting Standards Board update – Gary Krausz

1. Gary reported there are no new items, so therefore no update is needed.

FASB update – Matt Lombardi

Matt began reviewing an Exposure Draft on the Conceptual Framework for Financial Reporting Chapter 4 – Elements of Financial Statements

1. There are 11 questions for which the FASB is seeking a response. The deadline for this response is 11/13/20.
2. Matt would like to form a group to discuss our answers to these questions.

Break for lunch at 12:00 pm.

FASB and EITF topics continued from morning session

Matt Lombardi continued the discussion on Concepts Statement No. 8

Assets discussion continued:

- Should control be kept in definition
- Internally developed intangible asset—added language—judgement state something out to be exchanged for value
- Any concern with definition change?
- The intent is to clarify based on new standard setting.

Discussion with multiple members included comments:

- that the language is stilted, it's not helpful and don't like it
- It's refreshing for FASB to be simplifying language.
- The concept statement is written for the standard setters.
- Question raised about how do deferred tax assets fit under definition.
- The SEC quotes concepts statements on occasion so it's not just for standard setters.

Liabilities:

- Changes in definition are in a similar manner to assets—a liability is a present obligation of an entity to transfer an economic benefit.”
- Background and helpful language that was in CON 6 has been removed.
- Time or business risk—stand ready obligation (exist as of FS date)
- Contingent liability language remains but background information removed

Element:

- Definition-significant changes

Equity or Net Assets:

- Changed from 3 classes of net assets to 2 for NFP, consistent with ASU.
- Unrestricted description was overly broad so now it is Net Assets with donor restrictions and Net Assets without donor restrictions
- There was a dissenting view from Ms. Botosan-recommendation to redefine equity and net assets with underlying concept of residual claim
- Assets-Liabilities=Equity—conforming concepts to standard

Discussion with multiple members included comments:

- There will be an impact in the future about liabilities in new standards going forward—concerns with off balance sheet liabilities. Definitions should be consistent such as revenue recognition which includes definition for contract assets and contract liabilities.

- A question if these changes have an impact on mezzanine level—No per Matt.
- There doesn't seem to be a distinction between liabilities and commitments. Whether recognized but not measured wouldn't change how we recognize commitments. CON 8 does not deal with measurement issues.
- Obligations as a liability is grayer—matter of contract. Language reduced, requires great care. Helpful language removed.
- A question was raised “why would an operating lease have different treatment than an employment contract?” If property gone, no lease payment
- What about PO? Matt PO binding fall under deferred obligation.

Investment by owners and Distributions by owners:

- Generally the same definition. Concern around term owners not clear in proposed standard

Comprehensive income

- Retaining existing definition. Ms. Botoswan dissent on this topic also.

Revenue

- Removing “entity ongoing major or central operations”
- Decision at presentation level
- Removed background on operating vs. non-operating.

Discussion:

- This seems to be the opposite of how they should be thinking about it—core value increasing latitude revenue vs. gain is counter intuitive.
- Removed helpful language
- E92 underlying language

Expense:

- Same removal
- Gains/losses-does removal of language help differentiate.
- E89-confusing language-prescriptive

CON 6 had extensive Appendix A that is not present in CON 8

Matt asked for people for sub-committee to address CON 8.

EITF-Aleks Zabreyko

- Last couple of days ASU 2020-06 final conclusions reached in June. Last FASB standard under Golden as chair of FASB
- Simplification of instruments-warrants equity vs. liabilities—debate
 - Final document is good balance of original position with feedback incorporated.
 - Effective public entities 2022, private 2024, early adoption allowed—2021 first year for early adoption.
 - Convertible debt today has 5 models, which is being simplified to 3
 - This will result in more convertible instruments being reported as a single liability or equity with no bifurcation.
- Tentative FASB decisions with Jones as new Chair
 - Simplification-lease standard application
 - Leases with payment variable (practical challenge)-sales type—cannot recognize revenue because variable payments'
 - Fix by treatment as operating lease by lessor
- Discussion—question on if lessee can have same treatment?

- Re-measurement of lease payment based on index (lessee)—measure initially expense in future as it happens—lessee option (election) to re-measure whenever index rate changes.
- Reduction of scope in lease contract—e. g. reduce lease from 5 floors to 4 floors, if economics did not change substantially not a modification.
- Accounting for franchisors-go away from revenue specific but now franchisors practical expedient is industry specific.
- Joint ventures diversity—carryover basis or fair value. Tentative fair value
- EITF has had no meetings but one is schedule for 9/3/20
 - Software license modifications—next step working group
 - Equity class warrant modification-what to do with underwriter lock up (6 month lock up) – is lock up specific to shares or holder of shares?
 - EITF Agenda request from Big 4-vendor financial, revenue factoring e. g. 365 day payment terms, pay now cash now from bank at discount—AP or debt, cash flow operating vs. financing vs noncash. Practice diverse and evolving. Disclosure.
 - This practice has been around since 2003-04—SEC if AP not existing still AP or BS, if AP is existing debt on BS.
 - KPMG agenda request on pushdown of parent basis in common control transaction.

Matt discussed Gifts in Kind

- Board met in June
- FASB finalized vote to issue, retain scope nonfinancial asset recognition by NFP, separate line item, non-financial disaggregated by category, monetize vs. using
- Disclosure includes description of valuation technique, principle market for value if market NFP prohibited from selling
- Presentation and disclosure—beginning after 6/15/21 with retrospective application. Next step section—not planning to explore measurement, nothing else from California AG
- Per Anthony P CalCPA government affairs interfacing with AG, embed guidance in audit guide, talking to AICPA.

PEEC Dave Wilson

- Lewis Sharpstone is a member of PEEC and provided notes to Dave.
- Not a lot of actionable items
- ASB & PEEC working with international
- Staff augmentation—NASBA not happy, revised, new ED—can comment again.
- Task force inducements-audit client gets auditor to donate to NFP e. g. biggest audit client will donate (buy table(s)), impact on independence.
- Ethics-self-interest when audit fees negotiated (how can you be independent when client pays fees—identify threat and implement safeguards (Andy Mintzer heading this up)

Discussion

- Big 4 100% listed companies—in the past proposal Big 4 should divest themselves of audit practice. In UK agreement with Big 4 definitive action to change structure of firms with greater separation of Audit/Non-audit (proposed April 2019)—announcement not comment thing-is committee interested?
- AICPA is opposed for US –this was due to large UK audit failure that firm performed consulting and audit. Propose dual auditors-2 firms sign off. Greater share of public pie to firms below big 4.
- Brianna may have most insight on this but not available for meeting today.
- There is group that essentially wants to put themselves in place to take over board of IFAC-look at. Have Lewis address. Get Andy in November for meeting. This document was added late to the packet.

Communications-Mark Wille

- Articles

- Article related to COVID-August magazine Howard Sibelman and Mark Wille wrote article
- Jillian Phan-documentation and procedures when you can't visit office.
- Charles Hall-PPP loan forgiveness
- Stacie Kowalczyk and Nancy Rix-Gifts in Kind-government loan accounting
- Usually articles from AP&AS committee in October but need was there to include sooner.
- A&A conference in October (taken over by Education Foundation with AP&AS helping)

Chapters Update-Doug DeBoer

- Good to see chapter chairs at meeting
- Not much going on at chapter level with COVID.
- Chapters need topics such as accounting for COVID 19 impact, revenue recognition, leases
- State committee can help chapter chairs by providing speakers, materials, ideas for chapter events
- Nancy commented what a good job Doug is doing.

Other Committee Matters

- Nancy offered "open mic" to Anthony Pugliese for anything he would like to discuss/tell the committee.
 - Strategic plan underway
 - Good year 45,206 members
 - Big 4-Deloitte-100% membership
 - Increase in foundation revenue \$500k
 - Hit budget as did Society
 - Chapters and state committees—most valuable asset
 - Technical committees-Lewis wants NFP committee
 - State committees need to "prime the pump" with new membership
 - Operationally CLACPA needs new website, overhaul IT infrastructure—early October (Sales Force combined with INTACT underpin)
 - Comment from member--Enrollment in accounting programs up, CPA exam down, pipeline issues
 - Career issues get highlighted junior/senior year of high school
 - Need to instill positive reinforcement of profession
 - CPA ambassadors needed—program being developed—match student with person
 - 14 chapter president calls-unanimously pipeline consistent issue, strategy of Society matches chapters
- Frank brought up project for committee from Jeremy Dillard—does committee want to respond? Frank wants to work on project-identify problem (little GAAP needed)-develop comprehensive framework—does it start with SMES, IFRS for SMEs, from scratch. A framework is needed that smaller companies could follow and not be hopelessly complex.
 - AICPA SMEs not that bad
 - Possibly form task force
- PCC-no formal subcommittee, historically through FASB and/or EITF
 - PCC slow so it seems fine through FASB sub committee
 - PCC performance lacking, constrained by FASB and FAF, needs to be reconstituted
- Thank Vinit and Joe for recruiting 6 new members.
- Nancy rolling off as chair of committee—3 meetings to go. Wants to volunteer to start sub-committee for governance to help Paul, next chair, keep members engaged
 - Wants to approve basic membership e. g. attend 3-4 annual meetings and actively contribute
 - Be prepared and participate during meetings.
 - Actively contribute to the efforts of at least one sub-committee
 - Discussion with members—what does actively participate mean, article writing, ED letters can be tracked, it's hard to get people to join—will requirements make it harder.

- Formalize one page term sheet with options for participation; code of conduct; renew each year.
 - One member said when he joined the chair asked him to do something. Sometimes being asked helps with participation.
- Nancy will set up call with new members to go over mission of committee
- Committee chairs asked to be on focus group for CalCPA—any comments to pass along
 - More in-person meetings (a lot to be said for in person meetings, more productive, more discussion)
 - Return to Oakland/LAX locations when we can
- Is there a board liaison for the committee? Vinit to invite to next meeting.
- No shortage of huge issues
 - Frank's initiative
 - Ethics international level
 - ASB
- November meeting will be virtual-1-2 guests again.

Meeting adjourned 3:02 p. m.