

California State Accounting Principles and Auditing Standard Committee

November 7, 2019 - 9:00 am
Westin Hotel, Los Angeles Airport

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 Don Pfluger
 - Motion seconded by Tom Parry
 - Motion passes

FASB Technical Agenda (Frank O'Brien)

1. Codification improvements (formerly called technical corrections).
2. Minor changes to hedge accounting, expect exposure draft Q4 2019.
3. Share based consideration payable to a customer – our committee thought the entity should follow the stock compensation model. The Board agreed.
4. Consolidation reorganization and targeted improvements – objective is to reorganize the guidance on consolidation.
5. Credit losses, hedges, leases – consider effective dates for private companies and others.
The proposal divides entities into two “buckets”
 - a. SEC filers excluding smaller reporting companies
 - b. All others#2 effective date will be effective two years after #1 effective date
6. Improving accounting for asset acquisitions and business combinations
 - a. Practical expedient to measure grant-date fair Value of Equity-Classified Share-Based Awards.
7. Reference rate reform.
 - a. Simplification to accounting for income taxes

Accounting Standards Update - Debt Classification (Frank O'Brien)

Frank says that the proposal includes the following which are changes from what was issued in 2017:

1. Proposal to preclude the use of unused long-term financing arrangements.
2. Proposal considers the use of grace periods if it is probable that it would be fixed by the end of the grace period.

Frank reviewed our draft response letter to the debt reclassification exposure draft:

1. We agree with the waivers.
2. Frank added a paragraph pointing out inconsistency between obtaining a waiver so that debt can stay long-term vs. refinancing so that debt can stay long-term.

Nancy expressed appreciation for Frank's letter, its content, and the way it is written and supported. Frank asked for comments on the draft of the response letter and Nancy asked for any disagreements with the letter. No concerns were expressed.

EITF Update (Frank O'Brien)

Aleks Zabreyko will be joining the EITF. Our congratulations to him.

Topics being met about today by the EITF:

1. 19a Financial Instruments. We commented in September. Nothing new to report.
2. 19b Revenue Recognition re licenses and intellectual property. Concerns software licenses – granting additional terms outside of original license, and issues regarding hosting arrangements.

EITF will also be addressing Warrant obligations – freestanding call options.

PCAOB Update (Paul Peterson)

Not many standard setting updates on which to comment.

1. Still analyzing comments on use of other auditors.
2. Going concern standard still being analyzed.

There was recent PCAOB unrest due to a whistle-blower article in the Wall Street Journal. There are some research projects at the PCAOB.

AICPA update (Gary Krausz)

Overall there is convergence to international auditing standards. Most conforming changes are moving close to what the ISA has already adopted. ISA adopts, the PCAOB adopts, then it goes to the AICPA.

1. *Proposed SAS for Auditing Accounting Estimates and Related Disclosures*
 - There is an exposure draft asking for comments. AU-C 540
 - If approved, it will be effective for periods ending after 12/15/2022
 - a. Is there an issue with writing a standard that is framework neutral that would be unclear in its application to GAAP? The committee said “no.”
 - b. There is crossover into risk assessment in auditing estimates. Are the paragraphs explaining the crossover effective? The committee says “yes.”
 - c. The proposed standard is intended to be scalable for small to large customers by doing a risk assessment and then tailoring the procedures to that assessment. There are to be separate assessments for inherent and control risk. Do you supporting moving duplicative guidance from AU-C 501 to AU-C 540. Committee says “yes.”
 - d. Effective date – is more time required? Committee says “no.”

Committee will send a response with the above answers to the exposure draft questions.

2. *Proposed Amendments to the Description of the Concept of Materiality*
 - Proposed standard conforms to the U.S. judicial standards’ definition and other standard setters’ definitions. The ASB is evaluating the responses it received.
3. *Proposed Standard Regarding Audit Evidence*
 - Proposed standard addresses the evolving nature of business and audit services - regarding audit evidence accuracy, completeness and reliability, and professional judgement. The ASB is evaluating the responses it received.
4. *Identifying and Assessing the Risk of Material Misstatement*
 - The ASB is discussing preliminary issues identified by its Task Force while monitoring the International Auditing and Assurance Standards Board (IAASB) ISA 315 project.

Break for lunch at 12:00 pm

Committee Housekeeping and Outreach – Frank O'Brien/Nancy Rix

Meeting to call to order at 1:00 PM.

Frank led a discussion regarding possible communicating with other state AP&AS committees. Frank also discussed an email received from John Levy re his preference on what standards to follow. Frank discussed the difficulty of implementing the standards for smaller practitioners, both FASB and IASB. Frank weighed up the options on what standards to use in the US. State societies could put pressure on the regulators etc. to push to get US to accept the IASB as the acceptable standards.

Nancy chimed in on the email that was received from John. It was noted that the private companies most likely will not support international standards. Howard mentioned that the US created the international standards setting board. A general discussion ensued about the use of IFRS in the US, the pros and cons. Howard mentioned that the majority of the world is using IFRS SME and it could be used in the US. Mark suggested that FASB accepts IFRS for SMEs for certain businesses, by maybe having the committee going through NASBA to influence the decision makers.

Nancy asked for consensus for moving forward with Frank's suggestion regarding moving to a difference framework. Option one (extreme) getting rid of FASB, by lobbying, getting together with other state societies: For: 7, against 9. Option two letter to FAF re failure of the PCC and suggesting a different option: For: Everybody, against: None

New York discussion:

Nancy have had some discussion with the New York society to see how they operate. Our group has some problems. One major problem is the attendance from the current members and getting new members to the group. Recruiting: a sub committee was formed, but not much traction. A few comment letters didn't go out as the submission dead-line was too short. There will be potential problems with the CalCPA budgets in the future. Maybe cutting down the number of in-person meetings will be required. Nancy is suggesting that the group push back on the budget issue, secondly, we could move the meetings to the CalCPA meeting rooms in Burlingame, third thing is limiting the virtual meeting to two offices, fourth having a virtual meetings re specific proposals. Howard suggest cutting the two-day meeting to one day, and then spread the second day to another day throughout the year.

Nancy is considering dropping at-large members if they are not attending, but it is up to the group to decide on how to go forward. Howard is suggesting that the chapter chair's has no right to be on the committee unless they participate etc.

Nancy is considering more two-hour meetings for specific comment letters, for a smaller group, that is interested in that topic. Mark is suggesting that Nancy have regular follow up with the subject matter chairs to see how their projects are moving forward.

Education – Mark Dauberman:

Mark is looking for suggestions for courses that could be put on by the foundation that would interest the members/attendees at CPE. Mark discussed nano learning, maybe use the nano learning to gain interest in the longer CPE programs.

Chapter Chairs – Doug

Will write-up a meeting summary and distribute to chapters.

Communications - Nancy Rix / Mark Wille

4 articles for October 2020 magazine, audit report, new ERISA rules, revenue recognition, first step of credit losses. Mark will hold of on credit losses article for now.

Meeting adjourned at 2:50 PM.