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Additional AICPA Relief Due to COVID-19 Challenges

PEEC

On May 5, the AICPA's Professional Ethics Executive Committee (PEEC) postponed the effective dates for three ethics interpretations in the AICPA Code of Professional Conduct for one year. PEEC made this decision to provide accountants and their clients help during COVID-19, recognizing it would be more difficult for them to implement these interpretations in the current environment. The following are the three interpretations:

- *Information Systems Services* (formerly *Information Systems Design, Implementation, or Integration*) (ET 1295.145) is now effective January 1, 2022, with early implementation permitted.
- *State and Local Government Client Affiliates* (formerly *Entities Included in State and Local Government Financial Statements*) (ET 1224.020) is now effective for years beginning after December 15, 2021.
- *Leases* (ET 1.260.040) is now effective for fiscal years beginning after December 15, 2020, with early implementation permitted.

Peer Review

To provide relief to firms being adversely impacted themselves or that are helping clients affected by the coronavirus pandemic, on May 7, the AICPA Peer Review Board (Board) voted to grant CPA firms automatic six-month extensions for their peer reviews, corrective actions, and implementation plans that were originally due between January 1 and September 30, 2020. Firms aren't required to use the extended dates and may choose to have their peer reviews performed as soon as they and their reviewer are ready. The Board provided several clarifying examples in their May 5 meeting notes about how due dates will change under the extension.

The extensions will be granted automatically through the AICPA Peer Review Program's system, PRIMA, and firms will be sent letters. In addition, firms will be reminded in those letters that they must inform their state boards of accountancy about their extensions and get their approval. For firms that are granted permission, the extension letters and new

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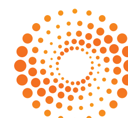

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peer review due dates will be uploaded into the Facilitated State Board Access system.

The Board and the staff of the AICPA Peer Review Program have advised that they will consider whether to provide additional automatic extensions for firms that have due dates after September 30, 2020, as they continue to monitor the effects of the pandemic through the summer.

FAQs on Hosting Services

The *Independence Rule* of the AICPA Code of Professional Conduct includes an Interpretation under section ET 1.295.143, *Hosting Services*. ET 1.295.143.01 states that hosting services are nonattest services that involve a member accepting responsibility for acting as the sole host of a financial or non-financial information system of an attest client, taking custody of or storing an attest client's data or records so that they are only available to the attest client from the member and the attest client's data or records are otherwise incomplete, and providing electronic security or back-up services for an attest client's data or records. Previous editions of this newsletter have discussed ET 1.295.143 and noted that accountants providing hosting services for an attest client that involve the accountant's taking responsibilities involving maintaining internal control over the client's data or records result in the accountant acting as management, which would impair independence.

Following are some questions likely to arise when accountants apply the requirements of ET 1.295.143.

Q: If a member uses a third-party subscription clearinghouse to issue attest reports, is the clearinghouse considered the member's portal?

A: The clearinghouse would not be considered the member's portal as long as **all** the following conditions are met: (1) the platform is a repository set up to facilitate exchange of documents between users; (2) the platform is hosted, run, and controlled completely by a third-party vendor that is not the member; and (3) the member, attest client, and all other subscription clearinghouse members have their own user agreements with the vendor.

Q: The Interpretation indicates members should terminate an attest client's access to data in the portal within a reasonable time after the engagement's conclusion to avoid providing hosting services. What is considered a reasonable period of time?

A: Professional judgement should be used to determine what a reasonable period of time should be for specific data and records. It should be a limited duration and allow a sufficient, but not extensive, amount of time for clients to remove the information from the portal without causing undue hardship to the member or client. A period of time consistent with the member's documentation retention policy or a statute of limitations that continues for multiple years would be considered extensive and not limited in duration. For some situations, a reasonable period of time may be relatively brief, such as 60 days, while in others it may be closer to a year to avoid undue hardship for the member and client.

Q: If a member returns an attest client's original data or records used to perform a nonattest service but retains a copy as documentation to support the member's work, would the member be providing hosting services if they subsequently comply with the client's request to provide another copy of its data or records?

A: ET 1.295.143 allows a member to retain copies of an attest client's original records as documentation to support the member's work. Occasional client requests for original data or records would not indicate the member is providing hosting services. However, members should be alert for situations in which clients repeatedly request copies of data or records. In such situations, the member should evaluate whether a de facto relationship exists and consider its impact on independence.

Practical Consideration:

Additional hosting services FAQs can be found on the AICPA's website at: **www.aicpa.org/content/dam/aicpa/interestareas/professionalethics/resources/tools/downloadabledocuments/nonattestservicesfaqs.pdf**

Differences Between IFRS and GAAP

In the U.S., generally accepted accounting principles (GAAP), which are established by the Financial Accounting Standards Board (FASB), form the set of accounting standards widely accepted for preparing financial statements. International companies follow International Financial Reporting Standards (IFRS), which are standards developed by the International Accounting Standards Board (IASB).

FASB and IASB have had convergence projects over the years that have attempted to minimize differences between the two sets of standards. Recent GAAP accounting standard updates have moved from a rules-based approach to be more principles-based, consistent with how IFRS standards are written, and there are many other similarities. However, a number of differences remain. Following are highlights of a few of the significant differences.

Revenue Recognition

In 2014, both Boards issued final standards on revenue that include a single model that supersedes most prior guidance. These standards are generally converged. But there are a number of differences, including the following. The Step 1 probable collectability threshold for a contract to qualify for revenue recognition is the same, but the definitions of *probable* are different. IFRS interprets probable as *more likely than not*, over 50 percent, while GAAP interprets it as *likely to occur*, generally 75–80 percent.

There are also differences in licensing revenue recognition. IFRS determines whether the license is a right to use or a right to access based on the seller's promise to the customer, but GAAP makes the determination based on the classification of the licensed intellectual property as either functional or symbolic. GAAP permits accounting policy elections for certain shipping and handling activities and presentation of sales and other taxes that permit these costs to be accounted for separately from the revenue transactions. IFRS doesn't provide such elections and calls for considering whether shipping and handling is a separate performance obligation and whether taxes are included in the transaction price.

Leases

Both Boards issued new lease standards in 2016, ASC 842 and IFRS 16, that were intended to be converged and share a common framework that brought lessees' leased assets and liabilities on balance sheets. There are a number of differences, especially relating to subsequent measurement.

For lessees, GAAP has two models for leases—operating and financing—that determine how expenses are recognized, but under IFRS all leases are treated as finance leases. Under GAAP, finance lease right-of-use (ROU) assets are amortized straight-line, and interest on the lease liability and amortization of the ROU asset are presented separately in the income statement; operating lease interest and amortization are presented as a single line. Under IFRS, ROU assets are amortized straight-line, and interest and amortization are presented separately in the income statement.

For lessors under GAAP, leases are classified at the commencement date as sales-type, direct financing, or operating, while under IFRS they are classified at inception as either finance or operating leases.

IFRS allows low-valued assets to be excluded from capitalization, but GAAP doesn't have a de minimis exception. IFRS includes leases of certain types of intangible assets in its scope, but GAAP excludes all leases of intangible assets from its scope. There are also differences in determining the lessee's incremental borrowing rate, accounting for modifications, and quantitative and qualitative disclosures.

Derivatives and Hedging

Both standards distinguish between cash flow hedges and fair value hedges and call for derivatives to be accounted for at fair value. But because the GAAP definition of *derivative* is narrower, more instruments may qualify under IFRS. There are many differences between IFRS and GAAP in the detailed requirements to qualify for and apply hedge accounting.

Business Combinations

There are differences between the IFRS and GAAP definitions of a *business*. IFRS doesn't permit recognition of contingent assets, but GAAP calls for recognition at fair value at the acquisition date. There are differences in the initial and subsequent recognition of contingent liabilities. GAAP provides for acquired entities to apply pushdown accounting in their separate financial statements, but there is no IFRS guidance on pushdown. Measurement period adjustments under IFRS are recognized on a retrospective basis, but under GAAP the adjustments are recognized in the reporting period when determined.

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Financial Assets

Measurement and disclosure of fair value are generally converged between GAAP and IFRS. But there are a number of differences in accounting, including inception gains and losses, demand features, and election of the fair value option.

Nonfinancial Assets

GAAP doesn't permit revaluation of inventories, property and equipment, and intangible assets to fair value, which IFRS permits if fair value can be reliably measured.

IFRS doesn't allow the LIFO method for valuing inventories. While both GAAP and IFRS allow inventories to be written down to market value, only IFRS permits write-downs to be reversed if market value increases later. GAAP prohibits reversals of asset impairment losses, but IFRS allows reversals for all assets except goodwill. There are different capitalization rules for internal development costs to create intangible assets.

GAAP requires long-lived assets to be recorded at historical cost and depreciated over their useful lives. IFRS permits assets to be revalued up or down from historical cost to market value and requires separate depreciation of asset components with different useful lives. There are differences in capitalization of interest on PP&E, including costs that qualify and the length of time interest can be capitalized.

Financial Liabilities

There are differences in accounting for modifications or exchanges of financial liabilities. There are also different models for distinguishing liabilities from equity, with IFRS focused on the substance of the contractual agreement rather than its legal form. Under GAAP, the accounting model for classification of the instrument depends on the fact pattern. For example, redeemable equity securities under IFRS are generally classified as liabilities, but under GAAP they are only liabilities if the obligation to transfer assets is unconditional.

Other Differences

Differences also exist for other liabilities, share-based payments, employee benefits, income taxes, consolidation, financial statement presentation, disclosures, and more. Accountants are encouraged to refer to the accounting standards for more detailed guidance about these and other differences.