University of Mississippi

eGrove

Industry Guides (AAGs), Risk Alerts, and Checklists

American Institute of Certified Public Accountants (AICPA) Historical Collection

2013

Employee benefit plans industry developments - 2013; Audit risk alerts

American Institute of Certified Public Accountants (AICPA)

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_indev

Part of the Accounting Commons

Employee
Benefit Plans
Industry Developments

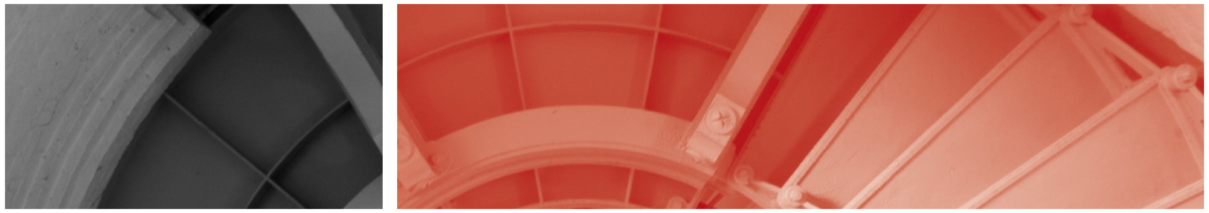
ISBN 978-1-93735-233-2

9 781937 352332

ARAEBP13P

AICPA American Institute of CPAs®

aicpa.org | cpa2biz.com



AUDIT RISK ALERT

Employee Benefit Plans Industry Developments

2013

AICPA®

STRENGTHENING AUDIT INTEGRITY
SAFEGUARDING FINANCIAL REPORTING

ARA-EBP_Cover.indd 1 4/12/13 5:37 PM

AUDIT RISK ALERT

Employee Benefit Plans Industry Developments

2013

12849-359

AICPA®

Strengthening Audit Integrity
Safeguarding Financial Reporting

Copyright © 2013 by
American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please e-mail copyright@aicpa.org with your request. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.

1 2 3 4 5 6 7 8 9 0 AAP 1 9 8 7 6 5 4 3

ISBN 978-1-93735-233-2

Notice to Readers

This Audit Risk Alert (alert) replaces *Employee Benefit Plans Industry Developments—2012*.

This alert is intended to provide auditors of financial statements of employee benefit plans with an overview of recent economic, industry, regulatory, and professional developments that may affect the audits and other engagements they perform. It also can be used by plan management and plan sponsors to address areas of audit and accounting concern.

This publication is an *other auditing publication*, as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*). Other auditing publications have no authoritative status; however, they may help the auditor understand and apply generally accepted auditing standards.

In applying the auditing guidance included in an other auditing publication, the auditor should, using professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

Recognition

2013 Employee Benefit Plan Audit Risk Alert Task Force

Diane M. Walker, *Task Force Chair*
Theresa Kluk Banka
Sandra L. Carrier
Daniel Fox
Judith K. Goldberg
Josie Hammond
Marilee P. Lau
Rebecca J. Miller
Deborah L. Smith
Wendy Y. Terry
Beth A. Thompson
Diane M. Wasser
Michele M. Weldon

The AICPA gratefully acknowledges those members of the Auditing Standards Board, the AICPA Technical Issues Committee, and the AICPA Employee Benefit Plans Audit Risk Alert Task Force, who helped identify the interest areas for inclusion in this alert. The AICPA also gratefully acknowledges the contributions of the Office of the Chief Accountant, the Employee Benefits Security Administration, and the U.S. Department of Labor.

AICPA Staff

Diana G. Krupica
Technical Manager
Accounting and Auditing Publications

Linda C. Delahanty
Senior Technical Manager
Audit and Attest Standards

Feedback

The Audit Risk Alert *Employee Benefit Plans Industry Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's alert, please feel free to share them with us. Any other comments you have about the alert also would be appreciated. You may e-mail these comments to A&APublications@aicpa.org.

TABLE OF CONTENTS

Paragraph

Employee Benefit Plans Industry Developments—2013 .01-.245
How This Alert Helps You .01-.03
Economic and Industry Developments .04-.09
The Current Economy .04-.09
Legislative and Regulatory Developments .10-.43
American Taxpayer Relief Act—Roth 401(k) Accounts .10
Fee Disclosure Regulations—408(b)(2)—Effective July 1, 2012 .11-.23
Litigation and the Effect on Employee Benefit Plans .24-.26
The Dodd-Frank Wall Street Reform and Consumer Protection Act .27-.28
The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 .29-.43
Hot Topics .44-.92
Auditing Standards Board's Clarity Project .44-.48
Reconsideration of Effective Control for Repurchase Agreements .49-.52
Fair Value Measurement .53-.92
Defined Benefit Pension Plans .93-.118
Moving Ahead for Progress in the 21st Century Act .93-.99
De-Risking of Defined Benefit Pension Plans .100-.103
Interest Rate Used to Discount Future Benefit Payments for Actuarial Valuation .104-.108
ASU No. 2011-09 .109-.111
Maintaining Pertinent Records .112-.118
Other Accounting Issues and Developments .119-.141
Compliance and IRS Relief Related to Natural Disasters .119-.129
Uncashed Checks .130-.133
Plan Design Considerations .134-.138
403(b) Plan Recognition of Previously Excluded Contracts .139-.141
Other Auditing Issues and Developments .142-.155
System-Generated Data or Reports That Support Important Controls .142-.147
Use of Service Organization Control Reports .148-.151
PCAOB Activity .152-.155
Recent Pronouncements .156-.166
Recent Auditing and Attestation Pronouncements and Related Guidance -.157
Recent Accounting Standards Updates .158
Recently Issued Technical Questions and Answers .159-.166

Paragraph

Employee Benefit Plans Industry Developments—2013—continued

Regulatory Developments—DOL .... .167-.184
DOL Advisory Opinions on Open Multiple Employer Plans .... .167-.168
DOL Proposes Rule to Help Retirees and Workers of Bankrupt Companies Get Retirement Money Sooner .... .169-.171
DOL Issues Field Assistance Bulletin to Provide Guidance on Retirement Plan Fee Disclosure Rules .... .172-.175
DOL Office of Inspector General Issues Audit Report on EBSA's Efforts to Improve Audit Quality .... .176-.178
DOL Audit Quality Inspection Efforts .... .179-.181
Pension Protection Act Amendments .... .182
2012 Form 5500 Annual Report .... .183-.184
Regulatory Developments—IRS .... .185-.189
Revised Employee Plans Compliance Resolution System .... .185
Determination Letter Program Changes .... .186
Required Plan Amendments for 2012 Plan Year .... .187
Changes in Compensation Limits .... .188
Suspension of Letter Forwarding Program for Missing Participants or Beneficiaries .... .189
Employee Benefit Plans Guide Overhaul Status .... .190
AICPA Industry Expert Panel—Employee Benefit Plans .... .191-.192
Recent AICPA Independence and Ethics Developments .... .193-.198
Professional Ethics Executive Committee .... .195-.197
PCAOB .... .198
On the Horizon .... .199-.222
Auditing and Attestation Pipeline .... .201-.205
Accounting Pipeline .... .206-.224
Employee Benefit Plan Resources .... .225-.244
AICPA Employee Benefit Plan Audit Quality Center .... .226-.227
Publications .... .228
Continuing Professional Education .... .229-.231
Webcasts .... .232
Member Service Center .... .233
Hotlines .... .234-.235
AICPA Online Professional Library: Accounting and Auditing Literature .... .236
Codified Clarity Standards .... .237-.239
Financial Reporting Center of AICPA.org .... .240-.242
Industry Conferences .... .243-.244
Appendix—Additional Internet Resources .... .245

How This Alert Helps You

.01 This Audit Risk Alert (alert) helps you plan and perform your employee benefit plan audits and also can be used by plan management and plan sponsors to address audit and accounting concerns. It also provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which clients operate. This alert is an important tool to help you identify the significant risks that may result in the material misstatement of financial statements and delivers information about emerging practice issues and current accounting, auditing, reporting, and regulatory developments. For developing issues that may have a significant effect on the employee benefit plan industry in the near future, the "On the Horizon" section provides information on these topics, including guidance that either has been issued but is not yet effective or is in a development stage.

.02 It is essential that the auditor understand the meaning of audit risk and the interaction of audit risk with the objective of obtaining sufficient appropriate audit evidence. Auditors obtain audit evidence to draw reasonable conclusions on which to base their opinion by performing the following:

- Risk assessment procedures
- Further audit procedures that comprise
  - — tests of controls, when required by generally accepted auditing standards (GAAS) or when the auditor has chosen to do so
  - — substantive procedures that include tests of details and substantive analytical procedures

.03 The auditor should develop an audit plan that includes, among other things, the nature and extent of planned risk assessment procedures, as determined under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*). AU-C section 315 defines *risk assessment procedures* as the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels. As part of obtaining the required understanding of the entity and its environment, paragraph .12 of AU-C section 315 states that the auditor should obtain an understanding of the industry, regulatory, and other external factors, including the applicable financial reporting framework, relevant to the entity. This alert assists the auditor with this aspect of the risk assessment procedures and further expands the auditor's understanding of other important considerations relevant to the audit.

Economic and Industry Developments

The Current Economy

.04 Toward the end of 2011 and into 2012, the U.S. economy continued to struggle. In an unprecedented move, Standard & Poor's (S&P) downgraded long-term U.S. federal debt from AAA to AA+ during early August 2011. In the beginning of 2012, S&P also downgraded the credit rating of nine European countries, including France and Italy. For plans whose investment portfolios are substantially invested in certain European countries or U.S. treasuries, these downgrades may affect the liquidity or valuation of their portfolios.

.05 After a few years of slow, positive growth, the U.S. economy is showing signs of recovery. Although consumers continued to spend less at the beginning of 2012, manufacturing remained flat and job growth continued to decline; by the end of 2012, there were improvements in most of these areas. As of the end of the first quarter of 2013, both the S&P 500 and the Dow Jones Industrial Average were above their highest points since before the recession started in December 2007.

.06 The Board of Governors of the Federal Reserve System (Federal Reserve) decreased the target for the federal funds rate by more than 5.0 percentage points, from its high of 5.25 percent prior to the financial crisis to less than 0.25 percent, where it remained through December 2012. The Federal Reserve described the current economic recovery in its December 12, 2012, press release as follows:

- Economic activity and employment have continued to expand at a moderate pace.
- Although declining since the summer, the unemployment rate remains elevated.
- Household spending has continued to advance.
- The housing sector has shown further signs of improvement.

Help Desk: For additional information on the overall economic conditions, see the Audit Risk Alert *General Accounting and Auditing Developments—2012/2013*.

Employee Benefit Plan Considerations

.07 Economic conditions and regulatory actions may create additional risks of material misstatement that did not previously exist or did not have a material effect on the audit of the plan in prior years. Additionally, the auditor may need to modify his or her audit approach from prior years due to changes in the operations and structure of an employee benefit plan.

.08 The following is a list of challenges that may affect a plan, plan participants or a plan sponsor, or combination thereof in light of the current economic environment and may create potential audit risks:

- Continued uncertainty over pension reform (Pension Protection Act of 2006 [PPA])
- Continued uncertainty over health care reform
- Decline in liquidity in certain financial markets
- Volatility in certain financial markets
- Defined benefit plans still facing sizable funding obligations
- Statutory change in interest rates for lump sum defined benefit plan payments as a result of the PPA

- A focus on plan expenses as employers comply with new Department of Labor (DOL) disclosure rules

.09 The following is a list of certain trends noted in the employee benefit plan industry to consider in planning for audits this year:

- Plan design changes and amendments, such as offering hybrid plans that have features of both defined benefit and defined contribution retirement plans
- Changes in employer contributions, such as eliminating the employer match; changes in formulas to reduce the benefit, such as switching to annual contributions versus each pay period; or more recently, reinstating the employer matching contribution
- More defined benefit pension plans on "maintenance mode" as many have been frozen in recent years awaiting favorable annuity rates for termination
- De-risking of defined benefit pension plans to reduce or eliminate a company's pension benefit obligations resulting in a reduction in future volatility of cash flows and financial statement effect to the plan sponsor (see the "De-Risking of Defined Benefit Pension Plans" section), strategies for which include plan sponsors
    - — offering retirees or vested terminated participants a lump sum payout
    - — transferring portions of benefit obligations to insurance carriers in the form of an annuity
- The effect of Moving Ahead for Progress in the 21st Century Act (MAP-21)[1] on plan funding calculations (see the "Moving Ahead for Progress in the 21st Century Act" section of this alert)
- New ways to meet defined benefit funding requirements, such as through contributions of employer stock in lieu of cash
- Going concern and liquidity issues particularly for underfunded defined benefit plans
- Defined contribution retirement plan investment changes, including
    - — continued growth of life cycle or target date funds as an investment option,
    - — changes in stable value investment options, and
    - — addition of a separately managed investment account (an account holding an array of investments managed by an investment adviser) as an investment option
- Addition of investments that increase diversification (such as hedge funds and limited partnerships) or protect against increases in inflation (such as treasury inflation protected securities [TIPS], commodities, and real estate investment trusts [REITS])
- Fair value measurement challenges for certain types of investments

[1] The Moving Ahead for Progress in the 21st Century Act (MAP-21) signed into law on July 6, 2012, addresses, among other things, pension plan funding stabilization.

- Liability driven investment strategies for defined benefit plans to control cash and expense volatility
- Plan assets decreasing (leakage) as a result of an increase in participant loans, hardships, and other withdrawals
- Employees or participants working past retirement age and continuing to remain in the plan, resulting in additional operational burdens such as automatic notifications
- Potentially erroneous or fraudulent internal and external activity due to decreased staffing or other economic pressures

Legislative and Regulatory Developments

American Taxpayer Relief Act—Roth 401(k) Accounts

.10 On January 1, 2013, Congress passed the American Taxpayer Relief Act. Most provisions of the act do not directly affect employee benefit plans. However, the act allows more individuals to elect to convert traditional 401(k) accounts to Roth 401(k) accounts. Since 2010, Roth 401(k) conversions have been allowed for participants with distributable funds (generally individuals who are 59 $^1/_2$ and older). Under the act, effective January 1, 2013, a Roth conversion is available to anyone with a traditional 401(k) participating in a plan that offers a Roth option and allows conversion. Plan amendments may need to be adopted to reflect the provisions of the act.

Help Desk: For more information, see the full text of the American Taxpayer Relief Act at www.gpo.gov/fdsys/pkg/BILLS-112hr8eas/pdf/BILLS-112hr8eas.pdf.

Fee Disclosure Regulations—408(b)(2)—Effective July 1, 2012

.11 The DOL's Employee Benefits Security Administration (EBSA) issued final regulations under Employee Retirement Income Security Act of 1974 (ERISA) Section 408(b)(2) to enhance disclosures to fiduciaries of retirement plans to assist these fiduciaries in determining the reasonableness and sources of compensation paid to certain plan service providers. These disclosures should not be confused with the other fee disclosure that is required to be made to participants with investment direction privileges over their accounts (such as ERISA Section 404).

.12 This rule applies to covered service providers. Generally, these are plan service providers that expect to receive $1,000 or more in compensation and that provide certain fiduciary or registered investment advisory services, make available plan investment options in connection with brokerage or recordkeeping services, or otherwise receive indirect compensation for providing certain services to the plan. Disclosure of this compensation information is necessary to satisfy the reasonableness standard of the prohibited transaction exemption.

.13 This requirement became effective as of July 1, 2012, for both existing and new contracts or arrangements. Plan fiduciaries and covered service providers not in compliance as of July 1, 2012, are in violation of ERISA's prohibited transaction rules and may be subject to the associated reporting, correction requirements, and penalties. To assist in understanding which plans are subject to these rules, which service providers must provide such information, and the consequences of a failure to provide this information, see the DOL's Fact Sheet on this topic at www.dol.gov/ebsa/newsroom/fs408b2finalreg.html.

Audit Implications of Fee Disclosure Regulations

.14 As previously described, an auditor may want to take into account these new regulations when considering laws and regulations during the plan audit. Fee arrangements with parties in interest that do not satisfy the new rule could constitute prohibited transactions.

.15 AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* (AICPA, *Professional Standards*), addresses the auditor's responsibility to consider laws and regulations in an audit of financial statements. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the plan's operations are conducted in accordance with the provisions of laws and regulations (as well as the fee regulations previously noted), including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the plan's financial statements. In accordance with paragraph .05 of AU-C section 250, the auditor is responsible for obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error. In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. For employee benefit plans, noncompliance with laws and regulations would include party in interest transactions that may be prohibited by ERISA.

.16 An auditor may gain an understanding of the fees paid by the plan through inquiry or review of applicable plan documentation and design audit procedures, taking into account the audit considerations described in the "Plan Expenses" section of chapter 5, "Defined Contribution Retirement Plans (paragraphs 5.180–.183);" chapter 6, "Defined Benefit Pension Plans" (paragraphs 6.169–.172); and chapter 7, "Health and Welfare Benefit Plans" (paragraphs 7.201–.204), of the AICPA Audit and Accounting Guide *Employee Benefit Plans*, dated January 1, 2013 (guide). In addition, it is important for the auditor to consider the recommended disclosures for plan expenses as described in the "Financial Statement Disclosures" sections of chapters 5–7 of the guide.

.17 In accordance with paragraph .17 of AU-C section 250, if the auditor becomes aware of information concerning an instance of noncompliance or suspected noncompliance with laws and regulations (for example, a possible prohibited party in interest transaction as a result of not complying with the regulations noted previously), the auditor should obtain an understanding of the nature of the act and the circumstances in which it occurred and further information to evaluate the possible effect on the financial statements.

.18 If the auditor suspects noncompliance may exist, the auditor should discuss the matter with management (at a level above those involved with the suspected noncompliance, if possible) and, when appropriate, those charged with governance. In accordance with paragraph .18 of AU-C section 250, if management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's professional judgment, the effect of the suspected noncompliance may be material to the financial statements, the auditor should consider the need to obtain legal advice. For additional explanatory information, refer to paragraphs .A22–.A23 of AU-C section 250.

.19 Guidance on related party and party in interest transactions, including considerations of laws and regulations and prohibited transactions, can be found in chapter 2, "Planning and General Auditing Considerations," of the guide. Included in chapter 2 are suggested procedures for identifying party in interest relationships as well as testing transactions. Additionally, guidance is provided about when the auditor determines that a prohibited transaction has occurred. See chapter 9, "Tax Plan Status," of the guide for additional information.

.20 Generally, plan management faced with prohibited transactions should consult with its ERISA counsel or other specialists to determine the appropriate course of action.

Expense Reimbursement Arrangements

.21 The focus on indirect compensation paid to service providers has drawn attention to the accounts created to capture excess revenue sharing (for example, Plan Expense Reimbursement Accounts [PERAs] and ERISA Spending Accounts or ERISA Accounts). These are increasingly more common in defined contribution retirement plans.

.22 The structure of the agreement for revenue sharing amounts in excess of recordkeeping or other administrative charges is the key consideration in determining the appropriate financial reporting. For example, in a defined contribution retirement plan, revenue sharing amounts may be deposited into the plan and held in an unallocated account from which other plan expenses can be paid, with any amounts remaining at year end being allocated to participants. Another approach is where a service provider creates a credit in its books and records from which the plan sponsor, or some other fiduciary, can authorize disbursements to pay plan expenses. Although the service provider offering revenue sharing amounts serves more than one plan, for the same plan sponsor, additional issues arise about whether the revenue sharing amounts are being used for the benefit of the proper plan.

.23 It may be difficult to understand the nature of these arrangements and to determine whether or not these accounts represent plan assets. These accounts may not be apparent on the service provider reports or the plan's financial statements. In addition, historically, these accounts may not have been accounted for or appropriately administered consistent with the applicable laws and regulations. Auditors may determine that additional inquiries with management, their ERISA counsel or other specialists, and the service providers may assist in understanding these arrangements. This understanding can be used in assessing the appropriateness of the plan's accounting and reporting of these arrangements, including whether unused balances at year end constitute plan assets. In addition, review of service provider agreements may contribute to the understanding of these types of arrangements.

Litigation and the Effect on Employee Benefit Plans

.24 It is important for auditors to be aware that proceeds from litigation or settlements may be difficult to identify and may not be properly reported in the financial statements. In addition, these transactions may not be readily apparent when reviewing the trustee or custodian statements because they may be combined with other transactions and not separately identified. Typically, this other income is not significant to the plan. However, given the increase in securities related litigation from the economic downturn, these amounts have become more significant in recent years. If these proceeds are deposited into the plan sponsors account instead of directly into the plan, this may result in a prohibited transaction. It is important for the applicable prohibited transactions rules and regulations (see the "Consideration of Laws and Regulations and Prohibited Transactions" section in chapter 2 of the guide) to be considered by the plan auditor.

.25 Some current employee benefit plan cases involved fees charged to plans (for example, institutional classes of mutual funds that were being inappropriately charged higher fees) and the Madoff settlements.

.26 In addition, the DOL has also engaged in enforcement activity that resulted in a number of litigation settlements. The plan auditor may want to make inquiries of the plan sponsor about whether they have been notified about potential settlements as these settlements may have an effect on the plan's financial statements. For additional information, view the news releases section on the DOL website at www.dol.gov/opa/media/press/opa/.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

.27 The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law by the President on July 21, 2010. It aims to promote U.S. financial stability by improving accountability and transparency in the financial system, putting an end to the notion of "too big to fail," protecting American taxpayers by ending bailouts, and protecting consumers from abusive financial services practices. Currently, the complete effects of this act on employee benefit plans are not known. Regulators have considerable work to complete in finalizing the rules mandated by the Dodd-Frank Act.

.28 The effect of the Dodd-Frank Act reforms on capital markets and credit availability is difficult to predict. The reforms are expected to be widespread, and it may take years to evaluate their effect. Although strengthening transparency is an appropriate response to the recent economic recession, it is yet to be seen how these substantial regulatory changes will affect the financial system and economic recovery.

Help Desk: Further information concerning the Dodd-Frank Act can be found at www.sec.gov/spotlight/dodd-frank.shtml.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010

.29 In March 2010, the president signed into law a sweeping overhaul of the health care system that affects individuals, insurance companies, health care providers, and employers. The three primary goals of the reform are to expand coverage to those without health insurance, reform the delivery system of benefits to improve quality, and decrease the costs of providing health care.

.30 On June 28, 2012, the U.S. Supreme Court upheld as constitutional, the Patient Protection and Affordable Care Act (Affordable Care Act), except for the portion relating to expanded Medicaid. The Affordable Care Act requires the majority of U.S. citizens and legal residents to maintain minimum health coverage or risk paying a penalty in the form of a tax. Certain individuals will be exempt from the penalty, such as those not required to file income tax returns.

.31 Although many of the provisions of the Affordable Care Act took effect when it was signed into law in 2010, the bulk of the major provisions will phase in by January 2014, and any remaining provisions will be phased in by 2018. In addition to many new tax rules to help offset the overall cost of the reform, the new laws contain many changes for employers to consider that may affect plan operations, internal controls, and financial reporting. Some examples of these changes are included in the subsequent sections.

Patient-Centered Outcomes Research Fees

.32 Health care reform created a new nonprofit corporation, the Patient-Centered Outcomes Research (PCOR) Institute. It will be funded, in part, by fees (sometimes referred to as PCOR fees) paid by certain health insurers and applicable sponsors of self-insured health plans. The fees are effective for only 7 years (for calendar year policies or plans the fee is applicable for policy or plan years 2012-2018). The fee for a plan with a 2012 calendar year end is $1 per covered life; a covered life includes any employee, covered spouses, and covered children in the plan. For 2013 it is $2 per covered life. Thereafter, the fee will be indexed based on increases in the projected per capita amount of national health expenditures.

Help Desk: There are various ways in which the covered life may be calculated, one of which is using data reported on the Form 5500. However, this method is only available if the Form 5500 is filed without extension on or before July 31, 2013. In such instances the plan sponsor needs to carefully coordinate delivery expectations with their auditor and the Form 5500 preparer.

Insurance Exchanges

.33 Individuals will have a number of options including insurance exchanges and employer-sponsored plans from which to choose in order to acquire the minimum insurance coverage required by health care reform. The Affordable Care Act sets up insurance exchanges in each state that wants to establish an exchange, as well as an exchange established by the federal government; these exchanges are known as Affordable Insurance Exchanges (exchanges).[2] States are expected to establish exchanges, which can be a government agency or a nonprofit organization, with the federal government stepping in if a state does not set them up. States can create multiple exchanges as long as only one

[2] Exchanges are new entities and are being set up to create a more organized and competitive market for buying health insurance. They will offer a choice of different health plans, certifying plans that participate and providing information to help consumers better understand their options. All exchanges must be fully certified and operational by January 1, 2014. Initially the exchanges will serve primarily individuals buying insurance on their own and small businesses with up to 100 employees; however, states can choose to include larger employers in the future.

serves each geographic area and can work together to form regional multistate exchanges.

.34 *Individual coverage mandate.* Tax credits or a reduction in out-of-pocket costs will be offered to individuals who purchase coverage through an exchange if the taxpayer's income is below a certain level and (1) their employer does not offer health care benefits coverage or (2) the taxpayer's employer offers coverage but the coverage is not affordable or does not provide minimal value.[3] If an employee does not take employer coverage and qualifies for the tax credit or the reduction in out-of-pocket costs, the employer will be subjected to a penalty.

.35 *Employer mandate to offer coverage*. Beginning in 2014, "applicable large employers" may be subject to a nondeductible excise tax if one or more full time employees (those employees who work on average at least 30 hours per week) receive a tax credit and the employer either (1) fails to offer minimum essential coverage to 95 percent of all full-time employees or (2) offers minimum essential coverage to full-time employees, but the coverage is either (*a*) unaffordable or (*b*) does not meet the minimum value requirement. The taxes are assessed on a monthly basis. The tax under the first scenario equates to an annual amount of $2,000 per the total number of full-time employees, minus the first 30 full-time employees. It is important to note that it takes only one full-time employee qualifying for the premium tax credit or cost reduction to trigger the excise tax with respect to all full-time employees. The tax under the second scenario equates to an annual amount of $3,000 per full-time employee who receives a premium tax credit or cost reduction. Thus, the potential tax is generally much higher under the first scenario than under the second scenario. IRS Notice 2012-58 and proposed regulations provide guidance on how to apply the mandate to certain groups of employees (for example, new employees, ongoing employees, new variable hour employees, or new seasonal employees, as well as potentially to independent contractors). For more information see www.irs.gov/pub/irs-drop/n-12-58.pdf and www.irs.gov/pub/newsroom/reg-138006-12.pdf.

Transitional Reinsurance Fees

.36 Beginning in 2014, a transitional reinsurance fee will be assessed to assist insurers to partially offset high-cost enrollees in and outside of the new exchanges. The total fees to be paid by all employer-sponsored group health plans are only applicable for a three-year period: 2014 is $12 billion, 2015 is $8 billion, and 2016 is $5 billion. The cost per covered life is unknown; however, the Department of Health and Human Services has proposed that the first-year fee be $63 per covered life in a plan. States have the right to charge additional fees to insured individual, small group, and large group plans. If the plan is an insured plan, the fee will be paid by the insurer; if it is a self-insured plan, it will be paid by the plan administrator. In both cases, the employer will likely bear the ultimate cost of the fee, either directly or by it being incorporated through the premium or premium equivalent process.

[3] A plan meets the minimum value test if it pays at least 60 percent of the total allowed costs of the benefits provided under the plan. The IRS has issued Notice 2012-31 requesting comments on several methods to determine minimum value. See www.irs.gov/pub/irs-drop/n-12-31.pdf for more information.

Cadillac Tax

.37 The Affordable Care Act imposes an excise tax on high-value health plans (often referred to as "Cadillac" plans). Although this tax burden (Cadillac tax) lies primarily on health care insurance issuers, the tax is expected to affect many employers through increases in premiums, fees, or both charged by insurance companies. The tax is determined by an employer and paid by the insurer, if insured, or paid by the plan sponsor if self-funded. Ultimately, the plan sponsor will be responsible for the tax unless it is passed along to the employee. The Cadillac tax applies generally to coverage under a group health plan excluding standalone vision and dental programs and those programs paid exclusively with after-tax dollars by the employee. The Cadillac tax takes effect in 2018.

Retiree Prescription Drug Benefits

.38 Recent guidance issued by the Center for Medicare and Medicaid Services (CMS) coupled with certain provisions of health care reform have created savings opportunities for employers that provide prescription drug benefits to their Medicare-eligible retirees. There are two employer Medicare Part D reimbursement options for retiree prescriptions drug benefits: Retiree Drug Subsidy (RDS) and the recently developed Employer Group Waiver Plan (EGWP). Some employers have also been restructuring their prescription drug benefits programs to an EGWP with a wraparound secondary plan. The benefits of an EGWP program include significant annual expected savings (below levels under the RDS program), removal of certain administrative burdens, improved cash flow, and the transfer of the risk of administering a RDS program.

Help Desk: The following websites may be helpful to readers by providing more information, including the new requirements for health care benefit plans, along with their respective effective dates:

AICPA's health care reform website
www.aicpa.org/Research/HCR/Pages/Health-Care-Reform

HealthCare.gov's Affordable Care Act website
www.healthcare.gov/law/about/order/byyear.html

Kaiser Family Foundation's summary of health care reform
www.kff.org/healthreform/upload/8061.pdf

DOL frequently asked questions about Affordable Care Act Implementation Part XII
www.dol.gov/ebsa/faqs/faq-aca12.html

Medical Loss Ratio Rebates

.39 As noted in DOL Technical Release 2011-04, Section 2718 of the Public Health Service Act (PHSA), as added by the Affordable Care Act, requires that health insurers publicly report on major categories of spending of policyholder premium dollars, such as clinical services provided to enrollees and activities that will improve health care quality. The law also established medical loss ratio (MLR) standards. Insurers are required to provide rebates to enrollees when their spending for the benefit of policyholders on reimbursement for clinical services and health care quality improving activities, in relation to the premiums charged as adjusted for taxes, is less than the MLR standards established by the statute. Rebates are based upon aggregated market data in each state, not upon a particular group health plan's experience.

.40 Beginning in June 2012, insurers were required to report 2011 data concerning MLR to each state in which they do business. In August 2012, insurers that did not meet the MLR standards for the 2011 policies were required to provide a rebate to their enrollees. Instructions and fact sheets regarding how the rebate is calculated can be found on the CMS website at http://cciio.cms.gov/.

.41 Distributions paid by health insurance issuers to their policy holders (including employee benefit plans) can take a variety of different forms (for example, refunds, dividends, demutualization payments, rebates, and excess surplus distributions). Rebate payments made in connection with group health plans covered by ERISA and pursuant to Section 2718 of the PHSA may constitute plan assets. If so, the policyholder would be required to comply with ERISA's fiduciary provisions in the handling of rebates it receives. Readers should refer to DOL Technical Release 2011-04 (www.dol.gov/ebsa/newsroom/tr11-04.html) for further information. Frequently asked questions relating to potential tax consequences of the rebate can be found at the IRS website by searching the term *medical loss ratio* at the following site: www.irs.gov/newsroom/article/0,,id=256167,00.html.

.42 Plan sponsors may not be familiar with the DOL's Technical Release that gives guidance on whether medical loss rebates constitute plan assets. Identification of these rebates may not be evident from the trustee or custodial investment reports. It is important for auditors to take care to identify those plans that have received medical loss rebates from their contracts with insurance companies and determine if plan management has properly reported the rebate as plan assets when applicable. For additional information on the reporting of other receivables (for example, refunds, rebates, and subsidies), see the "Other Receivables" section (paragraphs 7.181–.183) in chapter 7 of the guide.

.43 *Penalty for noncompliance*. In addition to other fees, taxes, and penalties, a $100 per affected individual noncompliance penalty is imposed for every day in which an employer is not in compliance with the law. This penalty is not applicable to organizations which employ fewer than 50 employees in the preceding calendar year. If an employer demonstrates reasonable cause, the penalty may be limited to the lesser of (1) $500,000 or (2) 10 percent of the amount the employer spent on health care benefits in the prior year. An employer can reduce its penalty to 0 if it can demonstrate to the IRS that either (1) the employer would not have known about the failure, even after exercising reasonable diligence, or (2) the failure is due to reasonable cause and the employer corrects the failure within 30 days of discovering the failure.

Help Desk: It is important for plan auditors to have discussions with their clients during the audit planning as any one of these health care reform changes may have an effect on the plan's net assets, obligations or changes therein, and related disclosures.

Hot Topics

Auditing Standards Board's Clarity Project

.44 With the issuance of Statement of Auditing Standards (SAS) Nos. 122–127 (AICPA, *Professional Standards*), the Auditing Standards Board (ASB) has redrafted all but one[4] of the AU sections in AICPA *Professional Standards*. In *Professional Standards*, the clarified SASs have been codified using AU-C section numbers instead of AU section numbers. AU-C is a temporary identifier to avoid confusion with references to existing AU sections, which will remain in *Professional Standards* through 2013. The AU-C identifier will revert to AU in 2014, by which time substantially all engagements for which the extant standards were still effective are expected to be completed. The AU-C sections now reflect the ASB's established clarity drafting conventions designed to make the standards easier to read, understand, and apply. Among other improvements, GAAS now specifies more clearly the objectives of the auditor and the requirements with which the auditor has to comply when conducting an audit in accordance with GAAS.

.45 As the ASB redrafted the standards for clarity, it also converged the standards with the International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB). Although the purpose of redrafting the auditing standards was for clarity and convergence and not to create additional requirements, auditors will need to make some adjustments to their practices as a result of this project. The AICPA has developed a learning and implementation plan to help auditors prepare for the transition. This tool can be found in the "Clarified Auditing Standards Toolkit" at www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/PracticeManagement/PRDOVR~PC-PPM1303/PC-PPM1303.jsp.

.46 SAS Nos. 122–127 are effective for audits of financial statements for periods ending on or after December 15, 2012. Thus, the clarified standards are effective for calendar year 2012 audits. SAS Nos. 122–127 affect engagements at all phases; therefore, auditors will need to begin to consider the effects of the clarified standards on procedures when preparing for calendar year 2012 audits. The clarified standards require documentation and procedures that your firm may or may not have performed before and may have differing effects on your audits depending on your existing methodology and audit processes.

.47 The AICPA's Financial Reporting Center includes a "Summary of Differences Between Clarified SASs and Existing SASs" (www.aicpa.org/InterestAreas/FRC/AuditAttest/DownloadableDocuments/Clarity/Clarity_SAS_Summary_of_Differences.pdf) that lists the clarified SASs in AU-C section order and summarizes the changes from the extant AU section.

.48 Although this list is not intended to be all inclusive, the following are examples of how certain clarified standards may affect employee benefit plan audits due to the difference between the extant and the clarified standards:

- Engagement letters may need to be revised to conform to the requirements of the clarified standards. See AU-C section 210,

[4] The final clarified auditing standard to be released as part of the Clarity Project is *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*. See the "On the Horizon" section for more information.

Terms of Engagement (AICPA, *Professional Standards*), for specific requirements relating to the agreement on audit engagement terms. The guide includes an illustrative engagement letter for employee benefit plans.

- AU-C section 250 states that the auditor should perform audit procedures that may identify instances of noncompliance with other laws and regulations that may have a material effect on the financial statements (paragraph .14 of AU-C section 250). However, the auditor is not responsible for preventing noncompliance and cannot be expected to detect noncompliance with all laws and regulations. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity's financial statements. Other laws or regulations are to be complied with by management, or set the provisions under which the entity is allowed to conduct its business, but do not have a direct effect on the entity's financial statements. The auditor is required to inspect correspondence, if any, with the relevant licensing of regulatory authorities to identify instances of noncompliance with other laws and regulations that may have a material effect on the financial statements and make inquiries of management and, when appropriate, those charged with governance about whether the entity is in compliance with such laws and regulations. The previous standards did not require the auditor to perform procedures to identify such instances of noncompliance unless specific information concerning possible illegal acts came to the auditor's attention.
- AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*), adds two new requirements for communication of internal control related matters: (1) communicate to management at an appropriate level of responsibility, on a timely basis, in writing or orally, other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention and (2) include in the auditor's written communication of significant deficiencies and material weaknesses an explanation of the potential effects of the significant deficiencies and material weaknesses identified. Additionally, AU-C section 265 makes explicit the following:
    - — Requirements to determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control (see paragraph .08 of AU-C section 265)
    - — When the auditor issues a written communication stating that no material weaknesses were identified during the audit, include specific matters in this optional, written communication that are similar to those in the written communication of significant deficiencies and material weaknesses (see paragraph .15 of AU-C section 265)
- When the auditor is using a SOC 1^{SM} (service organization control 1) report, the guidance in AU-C section 402, *Audit Considerations*

Relating to an Entity Using a Service Organization (AICPA, *Professional Standards*), is applicable. A user auditor should inquire of management of the user entity about whether the service organization has reported to the user entity, or whether the user entity is otherwise aware of, any fraud, noncompliance with laws and regulations, or uncorrected misstatements affecting the financial statements of the user entity (paragraph .19 of AU-C section 402). If so, the user auditor should evaluate how such matters affect the nature, timing, and extent of the user auditor's further audit procedures. Additionally, in determining the sufficiency and appropriateness of the audit evidence provided by a service auditor's report, the user auditor should be satisfied regarding the service auditor's professional competence and independence from the service organization, and the adequacy of the standards under which the service auditor's report was issued. See the "Use of Service Organization Control Reports" section.

- When information to be used as audit evidence has been prepared using the work of a management's specialist such as an actuary, the auditor should refer to AU-C section 500, *Audit Evidence* (AICPA, *Professional Standards*), for the requirements to test the reliability of information produced by the management's specialist.[5]
- AU-C section 550, *Related Parties* (AICPA, *Professional Standards*), shifts the focus of the audit from simply auditing the related party disclosure in the financial statements to considering related party transactions from the beginning of the engagement during the risk assessment phase of the audit, regardless of which financial reporting framework is used. AU-C section 550 is framework neutral encompassing financial reporting frameworks in addition to U.S. GAAP,[6] such as International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB), as well as special purpose frameworks described in AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, *Professional Standards*). The objectives, requirements, and definitions in AU-C section 550 apply irrespective of whether the applicable financial reporting framework establishes requirements for related party disclosures.
- Management representation letters may need to be revised to conform to the requirements of AU-C section 580, *Written Representations* (AICPA, *Professional Standards*), as well as various other AU-C sections containing requirements for written representations. Auditors may refer to exhibit A, "Illustrative Representation Letter," of AU-C section 580 for an illustrative representation letter and exhibit D, "List of AU-C Sections Containing

[5] For information on an auditor's specialist, see AU-C section 620, *Using the Work of an Auditor's Specialist* (AICPA, *Professional Standards*), which addresses the auditor's responsibilities relating to the work of an individual or organization possessing expertise in a field other than accounting or auditing when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

[6] In this alert, *U.S. GAAP* means accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board (FASB).

Requirements for Written Representations," of AU-C section 580 for a list of other AU-C sections containing subject matter-specific requirements for written representations. Exhibit B, "Illustrative Specific Written Representations," of AU-C section 580 provides a list of additional representations that may be appropriate in certain situations. This list is not intended to be all inclusive. The existence of a condition listed does not mean that the representation is required; professional judgment is necessary to determine when corroborative audit evidence in the form of a specific written representation is necessary. The guide includes an illustrative representation letter for benefit plans.

- AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), requires the use of headings throughout the auditor's report to clearly distinguish each section of the report. It also requires a description of management's responsibility for the preparation and fair presentation of the financial statements in more detail than what was required in the previous standards. The description includes an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, and that this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The clarified standards also introduce the terms *emphasis-of-matter* and *other-matter paragraphs* in AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (AICPA, *Professional Standards*). The effects of the clarified reporting standards will result in changes to all audit reports that are to be filed with the DOL, in accordance with GAAS, for audits of financial statements for periods ending on or after December 15, 2012. The guide includes illustrative auditor's reports for both full scope and limited scope audits.

Help Desk: Throughout 2012, auditors were encouraged to prepare for the transition to the clarified standards, which are effective for calendar year 2012 audits. For example, new requirements may involve planning discussions with clients, some may affect audit testing, and some require changes to the report. If a firm develops and maintains its own proprietary audit methodologies, then the firm needs to update those methodologies prior to performing audits. If a firm relies on commercially provided audit methodologies, the firm still needs to understand the underlying standards and requirements to ensure the firm uses the methodology to complete audits as effectively and efficiently as possible while remaining compliant with the standards.

Reconsideration of Effective Control for Repurchase Agreements

.49 Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration on Effective Control for Repurchase Agreements*, was issued in April 2011.

The amendments in this ASU remove the following from the assessment of effective control:

1. The criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee
2. The collateral maintenance implementation guidance related to the criterion

.50 The remaining criteria applicable to the assessment of effective control and secured borrowing accounting remain unchanged. These amendments are effective for the first interim or annual period beginning after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date.

.51 The amendments from this ASU may affect the accounting for certain transactions beyond repurchase agreements, such as other transfers of financial assets with forward agreements to repurchase the assets. Under the revised criteria in this ASU, certain transactions that were previously accounted for as sales transactions would now be accounted for as secured borrowings (or financing) transactions.

.52 For example, certain employee benefit plans, such as defined benefit pension plans whose investments are held in master trusts, sometimes engage in these types of transactions. However, it may not be readily identifiable from review of trustee or custodian reports that a plan engages in such transactions and whether they are properly reported. Review of investment documentation and inquiries with the investment adviser, trustee, custodian, or others familiar with the plan's investments may prove beneficial in determining if the plan entered into these types of transactions. Preparers and auditors may need to reassess repurchase arrangements and other transactions, including dollar roll transactions and the proper accounting and reporting under this ASU. (Refer to the AICPA Audit and Accounting Guide *Investment Companies* for further discussion on repurchase and dollar roll arrangements and this ASU.)

> **Help Desk**: The ASU removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The ASU makes the level of cash collateral received by the transferor in a repurchase or other similar agreement irrelevant in determining if it should be accounted for as a sale. As a result, more agreements will be accounted for as a financing transaction. For a summary of this ASU, see the April 29, 2011, FASB article "In Focus" at www.fasb.org/cs/ContentServer?site=FASB&c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176158510018.

Fair Value Measurement

ASU No. 2011-04

.53 In May 2011, FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and*

Disclosure Requirements in U.S. GAAP and IFRSs, to converge the guidance in U.S. generally accepted accounting principles (GAAP) and IFRS on fair value measurements and disclosures.

.54 The amendments that clarify several aspects of the guidance in FASB *Accounting Standards Codification* (ASC) 820 include the following:

- Application of the highest and best use and valuation premise concepts
- Measurement of fair value of an instrument classified in a reporting entity's shareholders' equity

.55 The amendments that change a particular principle of the requirement for measuring fair value or disclosing information include the following:

- Fair value measurement of financial instruments that are managed within a portfolio
- Incorporation of certain premiums and discounts in fair value measurements
- Enhanced disclosures for fair value measurements

.56 The new disclosure requirements should be applied prospectively. If practicable in the period of adoption, entities should disclose changes in valuation techniques and related inputs resulting from application of the amendments and quantify the total effect.

Effective Date

.57 ASU No. 2011-04 has an effective date for interim and annual periods beginning after December 15, 2011, for public entities. Thus, the guidance is effective during the first quarter of 2012 for entities with calendar year-ends. The requirement also applies for any interim period beginning after December 15, 2011, for entities with fiscal year-ends.

.58 For *nonpublic entities*,[7] as defined by FASB ASC 820, the guidance in ASU No. 2011-04 is effective for annual periods beginning after December 15, 2011. Nonpublic entities are permitted to early adopt for any interim period beginning after December 15, 2011.

ASU No. 2013-03

.59 In February 2013, FASB issued ASU No. 2013-03, *Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*. The main objective of this ASU is to clarify the scope and applicability to nonpublic entities of a particular disclosure that resulted from the issuance of ASU No. 2011-04. The amendments clarify that the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (level 1, 2, or 3) for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed does not apply to nonpublic entities. ASU No. 2013-03 is effective upon issuance.

[7] See the "On the Horizon" section for the FASB project *Definition of a Nonpublic Entity*.

Disclosure of Significant Unobservable Inputs

.60 The amendments in ASU No. 2011-04, codified in FASB ASC 820, now require quantitative disclosures of and about the significant unobservable inputs for level 3 measurements for financial instruments measured both on a recurring and a nonrecurring basis.

.61 Consistent with the disclosures in FASB ASC 820, companies are required to present this information separately for each class of asset or liability based on the nature, characteristics, and risks of the level 3 measurements. However, no new guidance on how to define an asset class for the purposes of disaggregation was introduced in ASU No. 2011-04. Questions have arisen regarding the disaggregation of investments for the level 3 input table and whether the groupings should be consistent with those used for the leveling hierarchy tables. Whether the leveling hierarchy disclosure and the table of significant unobservable level 3 inputs table needs to be consistent is currently considered a matter of judgment. The disaggregation will depend on the nature and risks of the instrument. In addition, when preparing the table, ranges of quantitative data are often very broad. This could potentially raise questions about whether the level of disaggregation is appropriate.

.62 For fair value measurements categorized within level 3 of the fair value hierarchy, ASU No. 2011-04 indicates that a reporting entity is not required to create quantitative information (for example, an implied market multiple or future cash flows) to comply with the disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). *However*, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity (See "Pending Content" in FASB ASC 820-10-50-2bbb). See examples of disclosures that incorporate the requirements of ASU No. 2011-04 in appendix C, "Illustrations of Financial Statements: Defined Contribution Retirement Plans," of the guide.

.63 As indicated in the ASU No. 2011-04 basis for conclusions section, FASB has also concluded that the quantitative disclosures about fair value of those assets and liabilities that are subject to the practical expedient would not be meaningful because the determination of the level in the hierarchy is made on the basis of the reporting entity's ability to redeem its investments, rather than on the basis of whether the inputs used in the measurement are observable or unobservable.

.64 Certain third parties may provide fair value measurements to plan sponsors without transparency to the fair value methodologies (for example, investments with insurance companies or fixed income securities where the third-party providers are not willing to divulge the inputs). In these instances, plan sponsors need to understand the methodologies and determine whether they are in accordance with the requirements of ASU No. 2011-04 prior to taking advantage of the third-party pricing exception previously described.

Help Desk: When providing this disclosure, a plan cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and reasonably available to the plan. Plan sponsors will need to attempt to obtain the quantitative information about the unobservable inputs. If there was an adjustment to the price in a prior transaction or third-party pricing information that is significant to the fair value measurement in its entirety, that adjustment would be an unobservable input about which the reporting entity would disclose quantitative information, even if the reporting entity does not disclose the unobservable information used when pricing the prior transaction or developing the third-party pricing information.

The Public Company Accounting Oversight Board (PCAOB), SEC, IRS, and DOL continue to focus on management taking responsibility for third-party valuation information. If management is unable to obtain the information underlying the price, this may call into question management's measurement of that investment, not just this particular disclosure.

.65 Depending upon the nature of the investments, compliance with this new disclosure requirement may present some technical complexities and require in depth communication with the client.

Help Desk: See appendixes C, "Illustrations of Financial Statements: Defined Contribution Retirement Plans;" D, "Illustrations of Financial Statements: Defined Benefit Pension Plans;" and E, "Illustration of Financial Statements: Health and Welfare Benefit Plans," in the guide for illustrative disclosures that incorporate ASU No. 2011-04.

Valuation Processes

.66 Public and nonpublic entities are also required to describe the valuation processes they have in place for all level 3 measurements. This ASU (as codified in FASB ASC 820-10-55-105) provides the following examples of information entities might provide to comply with this disclosure requirement:

- A description of the group responsible for valuation policies and procedures, to whom the group reports, and the types of internal reporting procedures in place
- A description of the frequency and methods for testing procedures used to evaluate pricing models
- A description of the process for analyzing changes in fair value measurements from period to period
- A description of the methods used to evaluate pricing information provided by third-party brokers or pricing services
- A description of the methods used to develop and substantiate the unobservable inputs used in a fair value measurement

Level 3 Sensitivity and Interrelationship Narrative Descriptions

.67 ASU No. 2011-04 also expands the disclosures about fair value measurements by requiring a qualitative discussion about the sensitivity of the fair value measurement to changes in significant unobservable inputs and a description of the interrelationships between those unobservable inputs, if any, for recurring, fair value measurements categorized within level 3 of the fair value hierarchy. This disclosure is not required for *nonpublic entities* as defined in FASB ASC 820, nor for investments that are valued using net asset value (NAV) as a practical expedient.

.68 FASB and the IASB concluded that such information would provide users of financial statements with information about how the selection of unobservable inputs affects the valuation of a particular class of assets or liabilities. The boards expect that the narrative description will focus on the unobservable inputs for which quantitative information is disclosed because those are the unobservable inputs that the entity has determined are most significant to the fair value measurement.

.69 The interpretation of this requirement and the nature of the narrative description may vary between benefit plans. Some entities may provide a simpler directional sensitivity analysis whereby the relation of the inputs included in the presentation required by "Pending Content" in FASB ASC 820-10-55-103 is discussed. Thus, the level of detail in the narrative description may depend on the nature and complexity of the valuation.

Required Disclosure of Transfers Between Level 1 and Level 2

.70 Disclosure of significant transfers between level 1 and level 2 for assets and liabilities measured at fair value on a recurring basis was previously required by FASB ASC 820-10-50-2bb for all entities. ASU No. 2011-04 amended the requirement to require public entities to disclose all transfers between level 1 and level 2 of the fair value hierarchy. Upon the adoption of ASU No. 2011-04, nonpublic entities are no longer required to disclose any information on transfers between level 1 and level 2 of the fair value hierarchy.

Help Desk: In determining the extent to which transfers must be disclosed under the revised standard, some entities may consider using qualitative and quantitative materiality thresholds whereas others may consider disclosing all transfers regardless of materiality.

Employee Benefit Plan Considerations

.71 The valuation and reporting of investments in accordance with GAAP is the responsibility of plan management. Because plan sponsors commonly use outside service providers to assist in the valuation of investments, they may not have full insight into the mechanics of the process. However, plan sponsors need to have sufficient information to evaluate and independently challenge the valuations they receive and to determine if they are sufficient to meet their reporting responsibilities in accordance with GAAP.

.72 Some plan sponsors lack expertise over valuation of investments and will look to their service providers to assist in the process. Service providers frequently offer different levels of services, and plan sponsors need to understand the level of information they are receiving from their service providers and determine if it will be adequate to meet their reporting responsibilities. However, plan management can delegate but not abdicate their valuation and reporting responsibilities.

.73 Preparing to meet the requirements of ASU No. 2011-04 will require coordination among plan management, custodians, investment advisers, appraisers, brokers, and auditors. Auditors are encouraged to discuss the requirements of ASU No. 2011-04 with their clients early in the audit planning process, including recommending that the plan sponsor have timely discussions with their service providers to help determine whether the information needed will be available in time for filing deadlines.

.74 Regardless of the scope of the audit (full scope or limited scope), the significance of the effect of ASU No. 2011-04 on the financial reporting for an employee benefit plan will depend on the types of investments held by the plan. The objective for these new disclosures is to provide users of the financial statements an understanding about how fair value is determined and what effect the measurements have on the financial statements. Auditors will need to evaluate whether the disclosures are in accordance with GAAP and determine the reporting implications if such disclosures are incomplete or inadequate.

Help Desk: When performing a full-scope audit, if the auditor concludes that the plan has not properly disclosed information required by ASU No. 2011-04 and that information is material to the financial statements, the auditor may need to make modifications to his or her opinion on the financial statements (in accordance with AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* [AICPA, *Professional Standards*]) and supplemental schedules (in accordance with AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* [AICPA, *Professional Standards*]).

See the "Limited-Scope Auditing Procedures" section in chapter 8, "Investments," of the guide for information about when the auditor is engaged to perform a limited scope audit and the auditor becomes aware that plan management does not have adequate procedures to properly value certain investments as of year-end.

.75 The following paragraphs provide a few examples of investments where implementation challenges may occur.

.76 *Employer securities*. Employee stock ownership plans (ESOPs) and other eligible individual account plans are permitted to hold up to 100 percent of plan assets in qualifying employer securities. Some ESOPs are sponsored by private companies and the employer securities held by the plan are nonpublicly traded and classified as level 3 for purposes of GAAP (FASB ASC 820). Thus, such plans will be confronted by the expanded disclosure requirements of ASU No. 2011-04.

.77 Valuing employer securities held by an ESOP can be complex as various factors are considered in the valuation, several valuation approaches are commonly used, and other features specific to the ESOP require special attention when determining the fair value of ESOP owned shares of privately held companies. (For further discussion on ESOP investments, see paragraphs 5.187–.188 in the guide.)

.78 Identifying the significant unobservable inputs to disclose might be challenging for some plan sponsors. In addition, some plan sponsors are concerned that some of the new disclosures involve confidential information that they would rather not have available to the general public through the DOL's EFAST2 database.

.79 Auditors may want to bring to the attention of the sponsor that one of the DOL's key enforcement initiatives relates to the measurement of fair value of employer securities. For more information on this enforcement initiative, see www.dol.gov/ebsa/erisa_enforcement.html.

Help Desk: On April 10, 2013, FASB decided to add a project to their agenda in order to expose for public comment a proposal to indefinitely defer the requirements that a nonpublic employee benefit plan disclose the quantitative fair value information required by paragraph 820-10-50-2(bbb) for investments in private company equity securities of the plan sponsor, regardless of what other private company equity securities are held by the nonpublic employee benefit plan, and to provide a comment period extending through May 31, 2013. Be alert to further developments related to this project.

.80 *Insurance products*. Insurance entities offer a wide variety of different products for employee benefit plans to invest in, including products supported by the general account of the insurance company and separate account products. Products issued by an insurance entity are typically established pursuant to a contract. Contracts that appear to be similar can have very different terms, including different restrictions of the funds among various parts of the contract or the ability to terminate or renew the contract.

.81 Identifying the nature of arrangements with insurance entities can often be challenging. For example, many insurance company general account investment products are commonly classified as level 3 investments, and understanding how the fair value of these investments are determined can be equally challenging. Although the valuation of plan investments and related GAAP disclosures is plan management's responsibility, plan management often relies on its insurance entity to assist in the process. However, some insurance entities will assert that the fair value of certain products approximates their contract value, with limited transparency to data to support that assertion.

.82 The valuation of investment contracts with insurance entities drew a fair amount of attention when FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*, was issued (now codified in FASB ASC 962-325-35). The issuance of ASU No. 2011-04 has raised some similar issues to that which plan sponsors faced when implementing Statement of Position 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, including providing a description of the valuation process and quantifying the significant unobservable inputs in order to meet the new disclosure requirements. Plan sponsors will want to discuss with their insurance entity what assistance they will be able to provide in the mechanics of the valuation. In certain instances, plan management may find it necessary to engage a separate valuation expert.

.83 *Real estate*. For plans with direct real estate holdings, plan management and auditors will need to understand the appraisal assumptions and valuation methods. As with valuations of employer securities in privately held companies, when an appraisal is used it will be important to identify the applicable and appropriate amount of quantitative information to disclose.

.84 *Partnership interests*. It is not uncommon for a plan to invest in partnerships. In many cases, the value of a partnership interest may be determined using NAV as a practical expedient (see paragraphs 59–62 of FASB

ASC 820-10-35 for additional guidance). In other cases, the value of a partnership interest will be derived from the value of the underlying investments of the partnership, and NAV will not be used as the practical expedient. The illustrative examples regarding interests in "Direct Venture Capital Interests" included in "Pending Content" in FASB ASC 820-10-55-103 may be useful with respect to the disclosures for a plan investing in a partnership which holds material level 3 investments.

.85 *Other*. Plans commonly invest in other level 3 investments such as certain fixed income securities, total return swaps, and credit default swaps. Regardless of the type of level 3 securities, the same considerations apply as those previously noted.

Help Desk: For additional information when auditing investments, the AICPA has issued the Audit Guide *Special Considerations in Auditing Financial Instruments*. This guide replaces the previous Audit Guide *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* to encompass a broader scope. It provides CPAs with crucial background information and a discussion of audit considerations relating to financial instruments. Entities of all sizes may be subject to risks of material misstatement when using financial instruments. This guide provides practical assistance to auditors for developing their training programs and internal guidance that is useful in gaining an in-depth understanding of financial instruments. Detailed implementation guidance is provided for assessing and responding to the risk of material misstatement related to financial instruments as well as guidance on reporting considerations. The implementation guidance in this guide is supplemented with a series of case studies to help the reader understand and apply the concepts.

ASU No. 2012-04

.86 ASU No. 2012-04, *Technical Corrections and Improvements*, issued in October 2012, contains amendments of a wide range of topics in FASB ASC, including FASB ASC 960, "Plan Accounting—Defined Benefit Pension Plans;" 962, "Plan Accounting—Defined Contribution Pension Plans;" and 965, "Plan Accounting—Health and Welfare Benefit Plans." These amendments are presented in two sections: "Technical Corrections and Improvements" and "Conforming Amendments Related to Fair Value Measurements." ASU No. 2012-04 is effective upon issuance for those updates that do not have transition guidance.

Effective Upon Issuance

.87 Effective upon issuance means that the provisions of ASU No. 2012-04 that do not contain transition guidance relate to periods ending after October 1, 2012. All of the amendments specific to defined benefit pension plans (FASB ASC 960) are effective upon issuance.

.88 Some of the amendments to the plan accounting topics that were effective upon issuance include

- removal of the reference to loans to participants as an investment type in FASB ASC 965-325-45-2 (health and welfare benefit plans).

- noncash contributions in health and welfare plans should be reported at fair value less costs to sell, if significant, at the date of contribution.
- certain other wording changes.

The guide reflects those amendments that are effective upon issuance.

Amendments Subject to Transition Guidance

.89 For public entities, the amendments that are subject to transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities,[8] the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013.

.90 For those amendments subject to transition guidance, appendix G, "Guidance Updates," of the guide shows how the amendments within ASU No. 2012-04 will affect the guide once they become effective. The amendments to plan accounting topics considered more substantive as a result of this ASU include

- defined contribution retirement plans that are required to reduce the fair value of an investment by brokerage commissions and other costs normally incurred in a sale if those commissions and costs are significant (FASB ASC 962-325-35-1A).
- health and welfare benefit plans that are required to reflect all investments at fair value, less costs to sell, if those commissions and costs are significant.

Help Desk: For additional information, see the full text of this ASU on FASB's website at www.fasb.org.

Third-Party Pricing Services

.91 As confirmed in remarks by a staff member of the SEC's Office of the Chief Accountant,[9] third-party pricing services can often be used by management of public companies to obtain information to assist management with their responsibilities for estimating and disclosing the fair value of financial instruments in their financial statements. The SEC staff reminded management of its obligations, including when it uses third-party pricing service information to (*a*) comply with GAAP, including disclosure requirements; (*b*) maintain appropriate internal controls to prevent or detect material misstatements; and (*c*) assess internal control over financial reporting. Although the SEC regulates audits of public entities, its findings have broad applicability to audits of all entities performed under GAAS. Each of the points is discussed in further detail in the SEC staff member's speech, which can be accessed from the Commission Speeches and Public Statements Archive 2011 page at www.sec.gov.

[8] See the "On the Horizon" section for the FASB project *Definition of a Nonpublic Entity*.

[9] The remarks of the staff member of the SEC's Office of Chief Accountants occurred during the staff member's speech at the AICPA National Conference on SEC and PCAOB Developments in December 2011.

PCAOB Pricing Sources Task Force

.92 In March 2011, the PCAOB formed the Pricing Sources Task Force. The group focuses on auditing the fair value of financial instruments that are not actively traded and the use of third-party pricing sources. The task force assists the PCAOB's Office of the Chief Auditor to gain insight into current issues related to auditing the fair value of financial instruments, which may result in the development of new standards or guidance. The task force comprises several members of the Standing Advisory Group, as well as other investors, preparers, and auditors, and representatives from pricing services and brokers. Although the PCAOB regulates audits of public entities, its findings have broad applicability to audits of all entities performed under GAAS. Readers should be alert to developments and are encouraged to visit the Pricing Sources Task Force website at www.pcaob.org.

Defined Benefit Pension Plans

Moving Ahead for Progress in the 21st Century Act

.93 MAP-21, signed into law on July 6, 2012, addresses, among other things, pension plan funding stabilization. Familiarization with MAP-21 will assist auditors in understanding its effect on minimum required contributions of ERISA single-employer defined benefit plans and increases to pension benefit guaranty corporation (PBGC) premiums, as well as setting analytical expectations. When reviewing changes in contributions and PBGC premiums from the prior year, fluctuations may occur as a result of MAP-21, in the form of reductions to minimum required contributions and increases in PBGC premiums.

.94 MAP-21 addresses interest rates used for funding and *should not be confused* with rates related to actuarial assumptions used by defined benefit plans in calculating the present value of accumulated plan benefits in accordance with FASB ASC 960 or the projected or accumulated benefits obligation under FASB ASC 715, *Compensation—Retirement Benefits*. Furthermore, MAP-21 does not affect the actual amounts a participant may receive from a pension plan whether in the form of a lifetime annuity or lump sum distribution.

.95 MAP-21 aims to stabilize rates used to calculate minimum required contributions with the use of adjusted segment rates to determine the present value of future benefits to be paid from an ERISA single-employer defined benefit pension plan and by constraining such rates to a corridor. Stabilization is sought to counter the effect of recently low rates that have been increasing contribution rates and increasing the value of employers' funding based liability for plans.

.96 Generally, segment rates were introduced along with the PPA. Section 430 of the Internal Revenue Code (IRC) specifies the minimum funding requirements that apply to single-employer plans. Specifically, Section 430(h)(2) specifies the interest rates that must be used to determine a plan's target normal cost[10] and funding target. IRC Section 430(h)(2) requires that plan sponsors

[10] In general, target normal cost means, for any plan year, the excess of the sum of (1) the present value of all benefits which are expected to accrue or to be earned under the plan during the plan year, plus (2) the amount of plan-related expenses expected to be paid from plan assets during the plan year, over the amount of mandatory employee contributions expected to be made during the plan year.

determine present value using 3 24-month average interest rates, or segment rates, each of which applies to cash flows during specified periods. With MAP-21, essentially a floor and ceiling are applied to these segment rates, based on a trailing 25-year average, thus designed to stabilize the rates used.

.97 As a result of this legislation, for 2012 plan sponsor tax purposes some plan sponsors recharacterized contributions by recording contributions paid in 2012 as 2011 contributions or reducing 2011 contributions for amounts in excess of the revised minimum funding requirements. The effect of recharacterizing contributions may have financial statement implications requiring careful consideration by audit teams, including consideration of minimum required contributions and realization of recorded contribution receivables. The guide, as well as FASB ASC 960-310-25-2, contains information on the accounting for contributions and contributions receivable, including the timing and existence of formal commitments or legal or contractual requirements, and reconciling contributions on the Form 5500, Schedule SB, to the plan's financial statements.

Help Desk: The amounts on the Form 5500, Schedule SB, may not match the Form 5500, Schedule H, or the plan's financial statements.

.98 As far as increased PBGC premiums, MAP-21 increases the flat rate premiums in 2013 and 2014, with indexing thereafter. The rate for variable-rate premiums also increases in 2014 and 2015, along with indexing; however, there is a per participant cap applicable to the variable premium calculation. Additionally, the variable premium may increase as a result of a lower funded status which occurs due to the lower minimum funding requirement under MAP-21.

.99 Another piece of MAP-21 involves IRC Section 420 transfers to 401(h) accounts. In practice, certain defined benefit plans provide a postretirement medical-benefit component in addition to the normal retirement benefits of the plan, pursuant to Section 401(h) of the IRC. Section 401(h) allows employers to fund a portion of their postretirement medical-benefit obligations related to their health and welfare benefit plans through a health benefit account, or 401(h) account, in their defined benefit pension plans, subject to certain restrictions and limitations. MAP-21 extends current law, under which employers were authorized until 2013 to transfer excess defined benefit plan assets to retiree health benefit accounts under certain circumstances, to allow for such limited transfer of excess pension assets to fund retiree health benefits through December 2021, and broadens the types of programs that can be funded.

Help Desk: For a more robust discussion on 401(h) accounts, see chapters 6–7 of the guide.

De-Risking of Defined Benefit Pension Plans

.100 Recent trends related to defined benefit pension plans include de-risking strategies. De-risking strategies include actions by plan sponsors designed to reduce or eliminate a company's pension benefit obligations resulting in a reduction in future volatility of cash contributions; future reduction in administrative expenses, including PBGC premiums; and financial statement effects. Certain liability driven strategies may include (*a*) a shift away from final average pay, (*b*) lump sum payments to terminated vested participants, (*c*) various types of annuity contracts (including buy-in and buy-out annuity contracts), or (*d*) lump sum settlements of retired participants.

.101 With a buy-in annuity contract, the plan invests in an annuity contract which will reimburse the plan for future benefit payments covered by the contract, and the plan remains responsible for administering and paying the benefits as well as paying PBGC premiums. Such a contract can cover all or a portion of the plan obligation; for example, it is often structured to cover retiree obligations only (known as a retiree buy-in annuity). The main benefits to the plan sponsor for doing this are that it completely immunizes the plan from interest rate and mortality risk while avoiding settlement accounting, the latter of which is important when the plan has a considerable amount of unrecognized actuarial losses, as the buy-in annuity contract remains a revocable plan asset.

.102 With a buy-out annuity contract, through the payment of a premium, the risk and responsibility for the payment of benefits, generally to retired participants, is transferred to an insurance entity through the purchase of individual annuity contracts for the affected participants, thus eliminating the plan and plan sponsor's pension benefit obligation. In this scenario however, participants no longer have PBGC protection as a full or partial plan settlement occurs (under FASB ASC 715). Under current market conditions, in most circumstances a plan settlement will trigger a large immediate recognition of previously unrecognized actuarial losses. This can have a significant financial statement effect under FASB ASC 715, and the changes under FASB ASC 960 will be centered on a significant reduction in the present value of vested and accumulated benefits.

.103 When planning and performing audits of defined benefit pension plans, consideration of de-risking strategies and their effect on the appropriate recording of insurance contracts for GAAP and DOL purposes may be warranted. In addition, a plan's implementation of de-risking strategies may affect the auditor's design of further audit procedures based upon

- plan amendments;
- the effect of changes to a plan's asset mix and the associated plan's expected return on assets; and
- consideration of limitations on distributions based on a plan's funded status.

Interest Rate Used to Discount Future Benefit Payments for Actuarial Valuation

.104 Several economic and demographic assumptions are used in actuarial valuations for defined benefit pension plans to determine the actuarial present value of accumulated plan benefits in accordance with the guidance in FASB ASC 960. One of the most significant economic assumptions is the interest rate used to discount future benefit payments (interest rate). FASB ASC 960 addresses two approaches that can be used to select the interest rate. FASB ASC 960-20-35-1 states that assumed rates of return should reflect the expected rates of return during the period for which payments of benefits is deferred and should be consistent with returns realistically achievable on the types of assets held by the plan and the plan's investment policy (referred to as the long term expected rate of return on plan assets). FASB ASC 960-20-30-1A states that in selecting certain assumptions to be used in determining the actuarial present value of accumulated plan benefits, an acceptable alternative to the long term expected rate of return on plan assets is to use those assumptions that are inherent in the estimated cost at the benefit information date to obtain a contract with an insurance entity to provide participants with their accumulated plan benefit (referred to as the settlement rate).

.105 The most commonly used approach under FASB ASC 960 is to reflect the long term expected rate of return on plan assets. This rate is generally stable from one year to the next. In accordance with FASB ASC 960-20-35-8, various factors, including the following, should be considered in estimating rates of return to be used in determining the actuarial present value of accumulated plan benefits:

- Rates of return expected from investments currently held or available in the marketplace
- Rates of return expected from the reinvestment of actual returns from those investments
- The investment policy of the plan, including the diversity of investments currently held and expected to be held in the future

.106 Many employers are changing the mix of the types of securities in which they have been historically invested. For employers that are changing their mix of assets, the actual history of returns is not as relevant as new expectations for the new mix of assets.

.107 The second approach (the settlement rate approach) that may be used to select the interest rate, and used to determine the present value of accumulated plan benefits under FASB ASC 960, is to select a rate that reflects an insurance entity's interest basis for determining annuity purchase rates as of the benefit information date. Because this is a "settlement type" of rate, it may be similar to (but not necessarily the same as) the FASB ASC 715 discount rate used for the financial statements of the plan sponsor. It should be noted that the most common approach to selecting a settlement type discount rate pursuant to FASB ASC 715 is by reference to corporate high-quality (AA or better) investment grade bonds whose payments streams can be used to approximate the cost of settling expected future cash flows from the plan. In practice, however, the cost of a contract with an insurance entity would likely consider more variable than the yields on high-quality fixed income securities, which are available to pay benefits to plan participants. An interest rate selected on a settlement type rate basis can be expected to change from year to year to reflect changes in the long term fixed income rate markets.

.108 If a plan has used one basis to select its discount rate and then changes to a different basis, a change in accounting principle may occur. For example, if the plan used a long term expected rate of return on assets in the prior year and then changes to a settlement type rate, then it may be appropriate to account for the change in rates as a change in accounting principle under FASB ASC 250, *Accounting Changes and Error Corrections*. In that case, the plan will need to determine that the new accounting principle is preferable to the prior accounting principle.

Help Desk: The actuary will need to use different rates for different purposes. For example, the rate to calculate funding requirements will differ from the rate used to estimate the accumulated plan benefits under FASB ASC 960. The discount rate used in accordance with FASB ASC 715 to measure the vested, accumulated, and projected benefit obligation may also be a different rate.

ASU No. 2011-09

.109 ASU No. 2011-09, *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan*, was issued in September 2011 and addresses concerns about the lack of transparency about an employer's participation in a multiemployer pension plan. Multiemployer plans are unique in that assets contributed by one employer may be used to pay participating benefits of another employer. If a participating employer fails to make its required contributions, the unfunded obligation may be borne by the other employers. In addition, an employer that stops participating in the plan is generally required to pay a withdrawal liability.

.110 The new guidance only affects disclosures and does not change the accounting for an employer's participation in a multiemployer pension plan, including the recognition of withdrawal liabilities (FASB ASC 715-80-35-2).

.111 In general, this ASU does not affect a benefit plan's financial statements, except when the multiemployer plan has employees who are covered by a multiemployer plan. In that circumstance, the new disclosure requirements will be required in the multiemployer benefit plan's financial statements.

Maintaining Pertinent Records

.112 As many defined benefit pension plans continue to age, plan sponsors and service providers are having continued significant data storage burdens given the volume of paper and electronic records associated with these plans. A number of plan sponsors have experienced difficulty in maintaining all pertinent participant data relating to census data and benefit payments. Often, plan sponsors do not maintain the proper detail supporting the deferred vested benefits (for example, eligibility records, individual census data, compensation records, and employee work history). Lapses in maintaining data can be caused for various reasons, such as

- following a general company record retention policy that is not consistent with what ERISA requires for certain information.
- the result of a corporate transaction (for example, plan merger, spinoff, or changes in sponsorship).
- a change in service providers (for example, actuaries or other third-party administrators).
- a natural disaster (for example, fire, or flood).
- the inadvertent destruction or disposal of records.

.113 Irrespective of the various document retention requirements under federal and individual state laws, two basic record retention provisions under ERISA exist:

1. Section 107 of ERISA requires anyone who must file a report (such as the Form 5500) or certify information under Title 1 of ERISA to maintain sufficient records to verify, explain, or clarify the information contained in such reports for not less than six years after the filing of the report.
2. Section 209 of ERISA requires every employer to maintain records necessary to determine benefits due or that may become due to each of its employees.

.114 As a result, plan sponsors should assume that records regarding plan benefits must be maintained indefinitely (either in their original paper form or electronically under certain conditions), or at least long enough such that they will never be needed to determine the eligibility for, or the amount of, a benefit. Failure to retain necessary documents, even if not specifically required to be kept by law, can result in very unfortunate consequences including significant costs and fees (for example, recreation of record or litigation defense). When there are insufficient records or when determining how long the client should retain records, auditors may recommend that the plan sponsor consult with ERISA counsel or other specialists.

.115 In accordance with paragraph .20 of AU-C section 700, when an auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report. Paragraph .A8 of AU-C section 705 states that the auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from the following:

a. Circumstances beyond the control of the entity

b. Circumstances relating to the nature or timing of the auditor's work

c. Limitations imposed by management

.116 The inability to test participant data or benefit payments may be considered a scope limitation. In these situations the auditor will need to determine whether the financial statements may be materially misstated and whether, in the auditor's professional judgment, the effects of the matter on the financial statements is pervasive in order to determine the effect on the auditor's report (for example, the effect on the reported actuarial present value of accumulated benefits, benefit payments, or the funded status of the plan).

.117 The missing participant data issue is exacerbated when a change in auditor occurs, especially for defined benefit pension plans. Often, the predecessor auditor has been auditing the participant data for years and is comfortable with the cumulative audit knowledge. However, if the participant data has not been adequately maintained, the successor auditor may have a scope limitation. Prior to accepting a new benefit plan engagement, auditors may need to take special care in determining if missing participant data is a risk.

.118 Paragraph .10 of AU-C section 705 states that the auditor should disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. For illustrative auditor's reports containing a disclaimer of opinion, see illustrations 5–6 of the exhibit, "Illustrations of Auditor's Reports With Modification to the Opinion," in AU-C section 705.

Other Accounting Issues and Developments

Compliance and IRS Relief Related to Natural Disasters

.119 Generally, there are no special rules for hardship distributions on account of hurricanes or other natural disasters. Occasionally, when a hurricane or other natural disaster is especially devastating, legislation is passed that provides for special plan distributions and loans that would otherwise not be available to plan participants.

.120 During 2012, the IRS provided such legislation (IRS Announcement 2012-44) for a need arising from Hurricane Sandy to an employee or former employee whose principal residence on October 26, 2012, was located in one of the counties identified as covered disaster areas. This legislation provides that a qualified employer plan will not be treated as failing to satisfy any requirement under the IRC or regulations merely because the plan makes a loan or a hardship distribution.

.121 The IRS is also relaxing procedural and administrative rules that normally apply to retirement plan loans and hardship distributions. As a result, eligible retirement plan participants will be able to access their money more quickly with minimal red tape. In addition, the six month ban on 401(k) and 403(b) contributions that normally affects employees who take hardship distributions will not apply.

.122 This broad based relief means that a retirement plan can allow a victim of Hurricane Sandy to take a hardship distribution or borrow up to the specified statutory limits from the victim's retirement plan. It also means that a person who lives outside the disaster area can take out a retirement plan loan or hardship distribution and use it to assist a son, daughter, parent, grandparent, or other dependent that lived or worked in the disaster area.

.123 Plans will also be allowed to make loans or hardship distributions before the plan is formally amended to provide for such features. In addition, the plan can ignore the limits that normally apply to hardship distributions, thus allowing them, for example, to be used for food and shelter.

.124 To qualify for the relief under this legislation, the hardship withdrawal must have occurred before February 1, 2013. For purposes of this announcement, *retirement plan* has the same meaning as *eligible retirement plan* under Section 402(c)(8)(B).

.125 Covered disaster areas are identified as federally declared disaster areas in the news releases issued by the IRS for victims of Hurricane Sandy, which are found at www.irs.gov/uac/Newsroom/Help-for-Victims-of-Hurricane-Sandy.

.126 The DOL also announced relief for plans and plan sponsors affected by Hurricane Sandy to assist with clarifying possible compliance issues due to the recent IRS assistance relief, inability to deposit employee contributions timely, blackout notice violations, and group health plan participant benefit claims. The relief provided under this announcement is in addition to the Form 5500 Annual Return/Report filing relief already provided by the IRS.

.127 Specifically, the DOL clarified that it will not treat any person as having violated the provisions of Title I of ERISA solely because they complied with the provisions of IRS Announcement 2012-44 regarding certain verification procedures that may be required under retirement plans with respect to plan loans to participants and beneficiaries, hardship distributions, and other pension benefit distributions as previously discussed. The following is a listing of some additional compliance relief as a result of this legislation:

- The DOL indicated it will not seek to enforce the provisions of Title I of ERISA with respect to a temporary delay in forwarding of participant loan repayments and deferrals to the plan.
- The IRS has informed the DOL that it will not seek to assess an excise tax with respect to a prohibited transaction under IRC Section 4975 resulting solely from such a temporary delay.
- The DOL announced relief from the 30 days advanced notice to participants and beneficiaries whose rights under the plan will be temporarily suspended, limited, or restricted by a blackout period.

.128 The DOL issued a reminder that its approach to enforcement emphasizes compliance assistance and includes grace periods and other relief, when appropriate, to provide reasonable accommodations to prevent the loss of benefits due to the failure of individuals to comply with preestablished timeframes.

.129 It is important for auditors to be aware of the permissible exceptions to the rules relating to loans and hardship withdrawals. Individuals or lineal relatives do need to have lived or worked in the covered disaster area at the time specified in the relief document and must have a documented hardship. Distributions must have been made to the participants by February 1, 2013. In planning and performing audit procedures related to loans and hardship withdrawals, auditors may encounter distributions made under these exceptions and will need to consider whether they have been handled correctly.

Help Desk: For additional information on notes receivable from participants (loans) and participant benefit distributions and withdrawals, see chapter 5 of the guide.

Uncashed Checks

.130 The DOL statistics show uncashed checks relating to employee benefit plans totaled over $15 million in 2011. This number will continue to increase given the trend toward employees holding multiple jobs during their careers, the increase in plans providing for automatic enrollment, and the fact that many plans automatically distribute amounts less than $1,000 without the participant requesting the distribution as provided under IRC Section 411(a)(11). ERISA and the DOL regulations do not specifically address uncashed checks for an ongoing plan. As a result, there continues to be significant discussion in the plan sponsor community about whether the uncashed checks constitute plan assets and to what extent fiduciary duties apply under the law. Uncashed checks are often material and go undetected until there is a significant plan change, such as a change in service provider or plan termination.

.131 It is important for plan administrators to have controls in place to identify and monitor uncashed checks so that they are handled in accordance with the plan document and established administrative procedures. These controls typically include periodically obtaining an uncashed check detail report from the financial institution and monitoring compliance with established administrative procedures to locate missing participants.

.132 In the context of a terminated plan, the DOL has issued a regulatory safe harbor for distributions in 29 U.S. *Code of Federal Regulations* (CFR) Section 2550 404a-3. To qualify for safe harbor protection, a fiduciary must provide notice, including a distribution election, to participants. If a notice is returned as undeliverable, a fiduciary must then take steps, consistent with its duty under ERISA Section 404(a)(1), to locate the participant to whom the notice was addressed before making a distribution. If a fiduciary is unsuccessful in locating the participant so that the notice can be furnished, such participant is deemed to have been furnished the notice and to have failed to make an election. A fiduciary may then proceed to make a distribution to an individual retirement account (IRA), in the name of the participant, meeting the conditions of the safe harbor, thereby eliminating the responsibility and costs associated with maintaining the participant's funds. In circumstances when a fiduciary could not or chose not to distribute to an IRA, the DOL has also provided guidance in Field Assistance Bulletin 2004-02 on distributions from terminated defined contribution retirement plans to bank accounts and escheatment to state unclaimed property funds; such distributions are not covered by the regulatory safe harbor. These methods of distribution are designed to permit a plan fiduciary to wind up the plan's affairs and to avoid the issue of uncashed checks.

.133 For the plan auditor, understanding the law, the plan's provisions, and the plan's established administrative procedures for uncashed checks is key in determining whether the plan appropriately reported the uncashed checks in the financial statements.

Plan Design Considerations

.134 There has been an increasing change in plan design as employers try to maximize participation and options for plan participants. Although employers are initiating the changes, the plan administrators are tasked with executing those changes for the plan participants. Frequent design changes in the past few years include designation of a Roth option, self-directed brokerage accounts, auto enrollment, auto escalating participant deferrals, and changes to or reinstatement of profit sharing and employer match timing and formulas. It is important for auditors to address plan design changes during the planning phase of the engagement with the plan sponsor to make sure the planned audit work adequately addresses assessed risks of material misstatement at the financial statement level and the nature, timing, and extent of further audit procedures to be performed, including the linkage of those procedures with the assessed risks at the relevant assertion level.

Automated Features

.135 Many defined contribution retirement plans have designated their third-party administrators to coordinate initial enrollment (for example, auto enrollment). It is important for the auditor to understand the nature of the enrollment procedures for different classes of employees such as part-time employees or rehires, in addition to identifying ineligible employees. Employees may also initiate other changes electronically such as changing deferral percentages, investment allocation, loan requests, and distribution requests. Because most of these transactions are automated, it is important for the nature, timing, and extent of audit procedures to be considered based on the control environment assessment.

Self-Directed Brokerage Accounts

.136 An increasing number of plans allow for self-directed brokerage accounts (sometimes referred to as a brokerage window or a self-directed option). This option allows for participants to purchase a wider variety of investments outside of the investment options of the plan. Most plan sponsors limit the investment options in the brokerage window to investments that are categorized as level 1 of the fair value hierarchy.

.137 During the planning phase of the engagement, it is important for the auditor to determine the custodian of the assets in the brokerage window. Often the transactions in the brokerage window are performed by a third-party custodian or brokerage firm and not covered under the SOC 1 report of the plan record-keeper. The auditor may need to determine if the transactions in the brokerage window are covered in the SOC 1 report of the record-keeper. If they are not covered, the auditor will need to obtain an understanding of the control environment for the transactions in the brokerage window by obtaining the SOC 1 report covering those transactions or by additional procedures and inquiry (see additional information on internal control in chapter 4, "Internal Control," of the guide).

.138 For limited scope audits it is important for the plan sponsor to determine if the assets held in the self-directed brokerage account are held by the qualifying institution on the certification prior to instructing the auditor to perform a limited scope audit. (See additional information on investment testing in chapter 8 of the guide.) If the self-directed brokerage accounts are not covered by a qualifying institution's certification, those investments should be subjected to the appropriate full-scope audit procedures.

403(b) Plan Recognition of Previously Excluded Contracts

.139 During the initial reporting year, in many cases, the financial records of a 403(b) plan did not include all contracts issued to plan participants with respect to plan activity. In issuing Field Assistance Bulletins (FABs) 2009-2 and 2010-1, the DOL recognized the practical necessity of excluding certain contracts from the scope of the annual report.

.140 In the years following the initial reporting of 403(b) plans, some plans have been able to recognize, into the financial records, some or all of those previously excluded contracts. This raises the issue of financial reporting for such contracts. Although the recognition of these previously excluded contracts might appear similar to plan mergers or rollovers, one major difference is the fact that in a plan merger or rollover, these funds were not originally plan assets of the reporting plan and, through a separate action, became plan assets of that reporting plan. With respect to excludable contracts under the FABs, the contracts were always plan assets, but were permitted to be excluded from the annual filings with the DOL. However, under GAAP there is no such permitted exclusion. If such contracts are to be recognized in a subsequent plan year, their inclusion may need to be considered as a restatement (see FASB ASC No. 250 for the recognition of previously excluded financial information, rather than as a transfer or rollover of funds that were not previously plan assets. The materiality of the event and how it was triggered (for example, by plan sponsor action or participant action) are among the considerations that will need to be evaluated in order to determine the appropriate presentation in the financial statements and related notes.

.141 In many cases, if the plan administrator had elected to exclude some contracts from the plan's financial statements, the auditor should have considered the effect of the exclusion on the completeness of the financial statement presentation and restrictions on the scope of the audit. The exclusion of a contract may have caused the auditor to issue a modified opinion due to the scope limitation. If the plan is able to recognize these previously excluded plan assets in subsequent years, it is important for the auditor to determine when and whether the auditor is able to remove any modification to the opinion that was previously the result of the excluded information, including determining that any remaining excluded contracts are not material as well as considering any other scope limitations that may continue to exist.

Other Auditing Issues and Developments

System-Generated Data or Reports That Support Important Controls

.142 System-generated reports that will be used during the audit are ordinarily identified by the audit team during planning. During that process, it is important for auditors to determine how they will validate that they are able to use the information provided in the reports in their audit procedures. Consistent with paragraph .09 of AU-C section 500, when using system-generated reports, the auditor is required to test the completeness and accuracy of those reports, which may include determining whether to involve specialists in that process.

.143 The PCAOB has increased its focus on testing system-generated data or reports that support important controls. In PCAOB Release No. 2012-006, the PCAOB notes that in an audit of internal control, at least some of the controls that might be selected for testing might use data or reports generated by the company's IT system. In these instances, the effectiveness of those controls depends partially on the completeness and accuracy of the system-generated information. As a result, when auditors select those controls for testing, they may need to also test either the controls over the system-generated data and reports or the completeness and accuracy of the data.

.144 Recent inspection activities by the PCAOB highlight that, in certain cases, firms that selected controls for testing failed to sufficiently test controls of the completeness and accuracy of the system-generated data or reports used in the operation of controls. They also noted instances in financial statement audits where auditors used system-generated data to perform substantive analytical procedures but didn't perform audit procedures to also test either the completeness and accuracy of the system-generated data or the controls over the completeness and accuracy of the data. For more information, see http://pcaobus.org/Inspections/Documents/12102012_Release_2012_06.pdf.

.145 Although the PCAOB regulates audits of public entities, its findings have broad applicability to audits of all entities performed under GAAS. When planning and conducting plan audits, auditors may consider these findings, as system-generated data and reports are commonly used in the audits of plans (for example, trustee or custodial reports, payroll reports, census data reports, claims reports, and other record keeping reports). The auditor is responsible for gaining an understanding of how the plan operates and how information from these systems is relevant to the financial statement assertions.

.146 Judgment is necessary when determining the extent of testing needed for a particular report. Auditors may want to consider the following when determining the extent of testing to be performed:

- The complexity of the report and systems(s) used to create it (as the complexity increases, so may the extent of testing)
- Whether IT general or activity level control deficiencies could affect the accuracy of the report
- Evidence that could be obtained from other audit procedures

.147 Payroll and demographic information is often electronic. Paper personnel files with compensation and demographic information may not exist at the plan sponsor. The plan sponsor may only be able to provide the auditor with screen shots and electronic reports. If this information is electronic, the auditor may need to consider the IT application used to generate this electronic information if it is used as audit evidence. It is important for the auditor to consider the extent of involvement of IT applications in the creation of data used as audit evidence in the performance of their audit procedures. When placing reliance on electronic audit evidence for tests of controls and substantive procedures, the auditor may establish a basis for reliance by

- determining the source of the audit evidence (which IT application produces the information).
- testing the clerical accuracy of audit evidence.
- performing tests of the electronic data to determine the completeness of the data flows to and from original source documents.

Use of Service Organization Control Reports

.148 AU–C section 402 addresses the user auditor's responsibility for obtaining sufficient appropriate audit evidence in an audit of the financial statements of a user entity that uses one or more service organizations. Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization* (AICPA, *Professional Standards*, AT sec. 801), addresses examination engagements undertaken by service auditors to report on controls at organizations that provide services to user entities (for example, bank trust departments, plan record-keepers, and payroll processing service organizations). When those controls are likely to be relevant to user entities' internal control over financial reporting, the report issued is referred to as a SOC 1 report.

Help Desk: See the AICPA Practice Aid *Using an SSAE No. 16 Service Auditor's Report (SOC 1 Report) in Audits of Employee Benefit Plans* for guidance for user auditors engaged to audit the financial statements of entities that use service organizations.

.149 Often the plan sponsor may not maintain independent accounting records when a service organization has been engaged to provide recordkeeping services. SOC 1 reports may assist the user auditor in obtaining an understanding of the nature and significance of services provided by the service organization and their effect on the plan's internal controls relevant to the audit. Additionally a type 2 SOC 1 report may provide audit evidence that controls at the service organization are operating effectively. When planning to use a type 1 or type 2 SOC 1 report in an employee benefit plan audit, AU-C section 402 contains requirements for evaluating the report and other procedures that may be performed to support the auditor's understanding about the design and implementation of controls at the service organization.

Help Desk: Because the trustee or custodian reports are often used as the basis for the plan's general ledger, it is important for the auditor to determine whether the type 2 SOC 1 report covers the completeness and accuracy of the reports and consider additional testing, as applicable to the specific facts and circumstances of the engagement. Even for a limited scope engagement permitted by 29 CFR 2520.103-8 of the DOL Rules and Regulations for Reporting and Disclosure under ERISA, when the auditor has no responsibility to obtain an understanding of the controls maintained by the certifying institution over assets held and investment transactions executed by the institution, there is often other information generated by the service organization that the auditor may use which is unrelated to investment transactions (for example, the general ledger, recordkeeping reports, participant data reports, contribution reports, or distribution reports), for which the type 2 SOC 1 report may provide evidence of the reliability, completeness, and accuracy.

Subservice Organization

.150 With the implementation of SSAE No. 16, the service auditor has the responsibility to identify subservice organizations used by the service entity and indicate the level of responsibility taken related to controls at the subservice organization. Under the *carve-out method* (as defined in SSAE No. 16) the controls of subservice organizations can be excluded (carved out) from the service organization's SOC 1 report. If services provided by a subservice organization are excluded from the SOC 1 report and those services are relevant to the audit of the plan's financial statements, the user auditor is required to apply the requirements of AU-C section 402 to the services provided by the subservice organization. It may be necessary to obtain and evaluate more than one SOC 1 report from a single service organization, as well as from relevant subservice organization(s). For example, trust department services and recordkeeping services may be in separate reports. In addition, relevant IT activities may be covered in a separate report.

Help Desk: If the user auditor obtains a type 2 SOC 1 report and intends to use the report to reduce the level of audit procedures performed, it is important for the user auditor to identify the key controls covered by the type 2 SOC 1 report. Some controls may not have been tested in areas relevant to the user auditor. In addition, some controls may be addressed by subservice organizations. It is important for the user auditor to be aware of significant

(continued)

areas that may be carved out and determine whether additional subservice type 2 SOC 1 reports are available. In addition, the user auditor may determine whether the additional reports address controls over the areas relevant to the user auditor's understanding or whether the user should develop alternative procedures to support the required understanding about the design and implementation of controls.

.151 See the "Auditing Standards Board's Clarity Project" section of this alert for more information on new requirements for AU-C section 402 related to the use of SOC 1 reports.

PCAOB Activity

.152 Plans that are required to file Form 11-K are deemed to be issuers and must submit to the SEC an audit performed in accordance with the auditing and related professional practice standards promulgated by the PCAOB. The PCAOB provides guidance on the auditor's report for an audit of an issuer when filing with the SEC. Recent PCAOB activity includes PCAOB Auditing Standard No. 16, *Communication with Audit Committees* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards), and PCAOB Staff Audit Practice Alert No. 10, *Maintaining and Applying Professional Skepticism in Audits* (AICPA, *PCAOB Standards and Related Rules*, sec. 400.10).

PCAOB Auditing Standard No. 16

.153 In August 2012, the PCAOB adopted Auditing Standard No. 16. This standard establishes requirements that are designed to improve the communication between auditors and the audit committee and requires that discussions are held about significant audit and financial statement matters.

.154 The standard supersedes the PCAOB's interim auditing standard AU section 310, *Appointment of the Independent Auditor*, and AU section 380, *Communication With Audit Committees*, and amends other PCAOB standards. The standard has been approved by the SEC and is effective for public company audits of fiscal periods beginning after December 15, 2012.

PCAOB Staff Audit Practice Alert No. 10

.155 In December 2012, the PCAOB issued Staff Audit Practice Alert No. 10. Although Practice Alert No. 10 is based on the PCAOB's observations from issuer audits, it offers useful reminders to all auditors in audits performed under PCAOB standards or GAAS. Practice Alert No. 10 discusses impediments to the application of professional skepticism, promoting professional skepticism via an appropriate system of quality control and the importance of supervision. Practice Alert No. 10 also provides examples of audit deficiencies, including the auditing of the fair value of investments, which the PCAOB believes resulted from a failure to appropriately apply professional skepticism. A full text of the alert can be found on the PCAOB's website at www.pcaob.org.

Recent Pronouncements

.156 AICPA auditing and attestation standards are applicable only to audits and attestation engagements of nonissuers. The PCAOB establishes auditing and attestation standards for audits of issuers. FASB establishes GAAP for both public and nonpublic entities. For information on pronouncements issued subsequent to the writing of this alert, please refer to the AICPA website at www.aicpa.org, the FASB website at www.fasb.org, and the PCAOB website at www.pcaob.org. You also may look for announcements of newly issued accounting standards in the CPA Letter Daily and the *Journal of Accountancy*.

Recent Auditing and Attestation Pronouncements and Related Guidance

.157 The following table presents a list of recently issued audit and attestation pronouncements and related guidance.

Recent Auditing and Attestation Pronouncements and Related Guidance	
Statement on Auditing Standards (SAS) No. 127, *Omnibus Statement on Auditing Standards—2013* Issue Date: January 2013	This SAS amends AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, *Professional Standards*). This statement includes amendments which address making reference to the audit of a component auditor when the component's financial statements are prepared using a different financial reporting framework, clarify and provide guidance when determining that a component auditor has performed an audit that meets the relevant requirements of generally accepted auditing standards (GAAS), clarify requirements for determining component materiality, and expand the definition of special purpose framework of accounting. This SAS is effective for audits of financial statements for periods ending on or after December 15, 2012.
SAS No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (Redrafted)* (AICPA, *Professional Standards*, AU-C sec. 570) Issue Date: July 2012	This SAS supersedes the requirements and guidance in SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (as amended) (AICPA, *Professional Standards*, AU sec. 341). SAS No. 126 does not change or expand SAS No. 59 (as amended) in any significant respect and is effective for audits of financial statements for periods ending on or after December 15, 2012.

Recent Accounting Standards Updates

.158 The following table presents, by codification area, a list of recently issued ASUs through the issuance of ASU No. 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. However, this table does not include ASUs that are SEC updates (such as ASU No. 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114,* Technical Amendments Pursuant to SEC Release No. 33-9250*, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)*) or ASUs that are technical corrections to various topics. FASB ASC does include SEC content to improve the usefulness of FASB ASC for public companies, but the content labeled as SEC staff guidance does not constitute rules or interpretations of the SEC nor does such guidance bear official SEC approval.

Help Desk: For a complete listing of ASUs, visit the FASB website at www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Recent Accounting Standards Updates	
Presentation Area of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC)	
Accounting Standards Update (ASU) No. 2013-02 (February 2013)	*Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*
ASU No. 2013-01 (January 2013)	*Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*
ASU No. 2012-05 (October 2012)	*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (a consensus of the FASB Emerging Issues Task Force)*
Assets Area of FASB ASC	
ASU No. 2012-02 (July 2012)	*Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*
Liabilities Area of FASB ASC	
ASU No. 2013-04 (February 2013)	*Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*

Recent Accounting Standards Updates	
Broad Transactions Area of FASB ASC	
ASU No. 2013-05 (March 2013)	*Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*
ASU No. 2013-03 (February 2013)	*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*
ASU No. 2012-06 (October 2012)	*Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force)*
Industry Area of FASB ASC	
ASU No. 2012-07 (October 2012)	*Entertainment—Films (Topic 926): Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2012-01 (July 2012)	*Health Care Entities (Topic 954): Continuing Care Retirement Communities—Refundable Advance Fees*

Recently Issued Technical Questions and Answers

.159 The AICPA publication *Technical Practice Aids* contains Technical Questions and Answers (TIS sections) that are based on selected practice matters identified by the staff of the AICPA's Technical Hotline and various other bodies within the AICPA. These TIS sections are nonauthoritative and have not been approved, disapproved, or otherwise acted upon by any senior technical committee of the AICPA. Recently issued questions and answers can be accessed at www.aicpa.org/InterestAreas/FRC/Pages/RecentlyIssuedTechnicalQuestionsandAnswers.

.160 The following TIS sections include two recently released technical questions and answers on group audits that relate to employee benefit plans.

TIS Section 8800.37, "Employee Benefit Plan Using Investee Results to Calculate Fair Value" (AICPA, Technical Practice Aids)

.161 *Inquiry*—Do the investments in an employee benefit plan that rely on the investee results to calculate fair value constitute components under AU-C section 600?

.162 *Reply*—No. Generally, the investments held by an employee benefit plan are required to be accounted for at fair value, with limited exceptions, and do not constitute a *component*, as defined under AU-C section 600; therefore, AU-C section 600 would not apply.

[Issue Date: February 2013.]

TIS Section 8800.38, "Using Net Asset Value to Calculate Fair Value" (AICPA, Technical Practice Aids)

.163 *Inquiry*—Paragraphs 59–62 of FASB ASC 820-10-35 permit a reporting entity to estimate the fair value of an investment using NAV per share of the investment (or its equivalent) if NAV is calculated in a manner consistent with the measurement principles of FASB ASC 946, *Financial Services—Investment Companies*, as of the reporting entity's measurement date. If an entity uses the NAV of an investment as a practical expedient to estimate the fair value of that investment, is that investment considered a component under AU-C section 600?

.164 *Reply*—No. Paragraph .A2 of AU-C section 600 states that an investment accounted for under the equity method constitutes a component for purposes of AU-C section 600. AU-C section 600 does not specifically identify what other, if any, types of investments may be considered components under the definition in that section.

.165 When an entity elects to use NAV as a practical expedient, paragraph .04 of AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items* (AICPA, *Professional Standards*), generally applies because it addresses situations when investments in securities are valued based on an investee's financial results, excluding investments accounted for using the equity method of accounting.

.166 Paragraph .04 of AU-C section 501 states that when investments in securities are valued based on an investee's financial results, excluding investments accounted for using the equity method of accounting, the auditor should obtain sufficient appropriate audit evidence in support of the investee's financial results, as follows:

- Obtain and read available financial statements of the investee and the accompanying audit report, if any, including determining whether the report of the other auditor is satisfactory for this purpose.
- If the investee's financial statements are not audited or if the audit report on such financial statements is not satisfactory to the auditor, apply or request that the investor entity arrange with the investee to have another auditor apply appropriate auditing procedures to such financial statements, considering the materiality of the investment in relation to the financial statements of the investor entity.

- If the carrying amount of the investment reflects factors that are not recognized in the investee's financial statements or fair values of assets that are materially different from the investee's carrying amounts, obtain sufficient appropriate audit evidence in support of such amounts.
- If the difference between the financial statement period of the entity and investee has or could have a material effect on the entity's financial statements, determine whether the entity's management has properly considered the lack of comparability, and determine the effect, if any, on the auditor's report.

[Issue Date: February 2013.]

Regulatory Developments—DOL

DOL Advisory Opinions on Open Multiple Employer Plans

.167 A multiple employer plan (MEP) is a pension plan maintained by more than one employer. The employers are generally not collectively bargained, and the plan is intended to allow participating employers, commonly in the same industry (closed MEP), to pool their assets for investment purposes and reduce the costs of plan administration. MEPs in which there is more than one unrelated employer and the employers have no common business or association between them are considered open MEPs. In May 2012, the DOL issued two advisory opinions related to open MEPs about whether these types of plans are viewed as a MEP or a series of single employer plans.

.168 Based on the determination by the DOL, each single employer plan within these open MEPs is individually subject to the DOL annual filing requirements and, when applicable, audit requirements. In situations in which plan sponsors are participating in or are considering participating in a MEP with unaffiliated employers, the plan sponsors may want to consult ERISA counsel or other advisers to discuss if it is appropriate for them or whether or not it constitutes an open or closed MEP. For additional information, please see the advisory opinion on the DOL website at www.dol.gov/ebsa/regs/aos/ao2012-04a.html and www.dol.gov/ebsa/regs/aos/ao2012-03a.html.

DOL Proposes Rule to Help Retirees and Workers of Bankrupt Companies Get Retirement Money Sooner

.169 On December 12, 2012, the DOL proposed a rule and related class exemption that will make it easier for Chapter 7 bankruptcy trustees to distribute assets from bankrupt companies' retirement plans. The proposal would allow such trustees to use EBSA's existing Abandoned Plan Program to terminate, wind up, and distribute benefits from such plans.

.170 The existing Abandoned Plan Program provides streamlined termination and distribution procedures for abandoned individual account plans, including 401(k) plans, under which benefits may be distributed in a manner that can substantially reduce fees charged to participants' accounts for, among other things, annual reporting, legal compliance, and other administrative services, including termination costs. By making this streamlined process available to Chapter 7 bankruptcy trustees, the time and resources required to wind up a bankrupt company's retirement plan can be significantly reduced. As a result, plan participants likely will see fewer administrative and termination fees charged to their accounts and may have access to their money sooner.

.171 Under amendments in 2005 to federal bankruptcy law, if a company in liquidation administered an individual account retirement plan, the company's Chapter 7 bankruptcy trustee must perform those functions. The Abandoned Plan Program, established in 2006, provides specific guidance on when a plan may be considered abandoned, who may make that determination, and exactly how to terminate the affairs of the plan and make benefit distributions. The program also limits potential fiduciary liability of financial institutions that step in to terminate and wind up plans that have been abandoned by their sponsors.

Help Desk: The proposed rule may be found at www.dol.gov/ebsa.

DOL Issues Field Assistance Bulletin to Provide Guidance on Retirement Plan Fee Disclosure Rules

.172 On July 30, 2012, the DOL published FAB No. 2012-02R, designed to help plan administrators and service providers comply with the requirements of new rules improving the transparency of fees and investment expenses in retirement plans.

.173 On October 20, 2010, the DOL published a final rule to help American workers manage the money they have contributed to their 401(k) accounts, or similar retirement plan accounts, by requiring the disclosure of information regarding the fees and expenses associated with their plans. This participant level disclosure rule, under Section 404(a) of ERISA, also requires that workers receive core investment information in a format that enables them to meaningfully compare their plan's investment options.

.174 A second and related fee transparency rule requires, in part, that certain covered service providers furnish specified information to plan administrators so that they in turn can comply with their disclosure obligations to participants. This second rule, published by the DOL on February 3, 2012, under Section 408(b)(2) of ERISA, requires disclosures to employers sponsoring pension and 401(k) plans about the administrative and investment costs associated with providing such plans to their workers.

.175 The guidance responds to frequently asked questions about these rules and is intended to assist covered service providers and plan administrators with implementation.

Help Desk: The Field Assistance Bulletins may be viewed at www.dol.gov/ebsa.

DOL Office of Inspector General Issues Audit Report on EBSA's Efforts to Improve Audit Quality

.176 During 2012, the DOL's Office of Inspector General (OIG) conducted an audit to determine if EBSA's oversight of ERISA audits had improved audit quality and increased participant protections. In September 2012, the OIG issued a report that concluded that protections have decreased over time for plan participants and beneficiaries.

.177 Notwithstanding significant efforts by EBSA to improve oversight and audit quality, the OIG pointed to several factors that continue to plague improvements in these areas. First, the OIG cited an increased use of the limited scope audit exception and a significant growth in assets covered by this type of engagement. The OIG also concluded that EBSA could have done more within the existing law to improve audit quality.

.178 In its report, the OIG made several recommendations to EBSA. First, it recommended that the agency continue to seek repeal of the limited scope audit and obtain authority over plan auditors. In the interim, the OIG also recommended that EBSA (1) use existing authority to clarify and strengthen limited scope audit regulations and evaluate the ERISA Advisory Council[11] recommendations, (2) make better use of available enforcement tools over independent qualified public accountants, (3) improve procedures in audit quality reviews, and (4) perform a reassessment of audit quality.

Help Desk: The OIG's report, accompanied by EBSA's response, may be viewed at www.oig.dol.gov.

DOL Audit Quality Inspection Efforts

.179 The DOL's Office of the Chief Accountant (OCA) continues to conduct a rigorous inspection program to assess and improve the quality of employee benefit plan audits. OCA employs a multitiered program to inspect employee benefit plan audits performed by firms of all sizes. Those firms with larger benefit plan practices (more than 100 audits) are reviewed at a firm level complemented with a review of a sample of audit working papers. For those firms with smaller practices, OCA generally reviews the working papers from a single engagement

.180 In selecting working papers for review, OCA includes those engagements that are generally more complex when the office has identified a higher incidence of deficient work. Such audits include health and welfare plans, defined benefit plans (both single and multiemployer), 403(b) plans, ESOPs, and plans with complex investment structures.

.181 In instances when OCA identifies egregious work, the office refers practitioners to the AICPA Professional Ethics Division or applicable state board of public accountancy. To date, OCA has made more than 700 such referrals.

Help Desk: For further information, please contact OCA at 202.693.8360.

[11] Section 512 of the Employee Retirement Income Security Act of 1974 (ERISA) provides for the establishment of an Advisory Council on Employee Welfare and Pension Benefit Plans, known as the ERISA Advisory Council. The duties of the council are to advise the secretary and submit recommendations regarding the secretary's functions under ERISA.

Pension Protection Act Amendments

.182 The DOL issued a final rule on October 25, 2011, which became effective December 27, 2011, that revised the PPA to make investment advice more accessible for those who have investments in 401(k) plans and IRAs. The revision now allows fiduciary advisers to receive compensation from investment vehicles they recommend if either (*a*) the investment advice they provide is based on a computer model certified as unbiased and as applying generally accepted investment theories, or (*b*) the adviser is compensated on a "level-fee" basis (that is, fees do not vary based on investments selected by the participant). The rule identifies circumstances when an annual audit needs to be performed in order for an adviser to meet the exemption. Areas to be covered in the audit include determining that

- any investment advice is based on generally accepted investment theories that take into account the historic risks and returns of different asset classes over defined periods of time;
- any investment advice takes into account investment management and other fees and expenses attendant to the recommended investments;
- any investment advice takes into account information relating to age, time horizons (for example, life expectancy or retirement age), risk tolerance, current investments in designated investment options, other assets or sources of income, and investment preferences of the participant or beneficiary; and
- no fiduciary adviser that provides investment advice receives from any party, directly or indirectly, any fee or other compensation (including commissions, salary, bonuses, awards, promotions, or other things of value) that varies depending on the basis of a participant or beneficiary's selection of a particular investment option.

With the release of these new requirements, concerns have been raised regarding measurability of the audit criteria as well as the form of the report to be used in performing such an audit.

Help Desk: For additional information on this final rule see https://webapps.dol.gov/federalregister/PdfDisplay.aspx?DocId=25414.

2012 Form 5500 Annual Report

.183 The DOL, IRS, and the PBGC have published the 2012 Form 5500, "Annual Return/Report of Employee Benefit Plan," and related instructions. Modifications to the Form 5500 and Form 5500-SF for plan year 2012 are described under "Changes to Note" in the 2012 instructions, and include the following:

- *Optional paid preparer information*. The Form 5500, Form 5500-SF, and instructions have been updated to include optional preparer's information. Filers may optionally enter the preparer's name and address. Although the preparer information is optional at this time, the IRS encourages filers to provide preparer information on the new lines.

- *Optional trust information*. The forms and instructions have been updated to include optional trust information in Schedule H and Schedule I. Filers may optionally enter the trust's name and trust EIN. Although this trust information is optional, the IRS encourages filers to provide such information on the new lines.
- Multiemployer actuarial information reporting has been clarified for changes in adjustable benefits and for amortization charges under the funding standard account statement for this plan year.
- The Schedule SB instructions have been updated to advise preparers that additional detail is requested for the prior year's excess contributions to be added to the prefunding balance. Single employer defined benefit pension plan filers are cautioned in the Schedule SB instructions that they must see IRS Notice 2012-61 for guidance on how to complete the 2012 Schedule SB in accordance with MAP-21 (see the "Moving Ahead for Progress in the 21st Century Act" section of this alert).

.184 The Form 5500 and Form 5500-SF must be electronically filed each year by employee benefit plans to satisfy annual reporting requirements under ERISA and the IRC. Under EFAST2, filers choose between using EFAST2 approved vendor software or the EFAST2 Web-based filing system (IFILE) to prepare and submit the Form 5500 or Form 5500-SF. Completed forms are submitted via the Internet to EFAST2 for processing.

Help Desk: Informational copies of the forms, schedules, and instructions are available online at www.efast.dol.gov. Filers may want to monitor the EFAST website for the availability of the official electronic versions for filing using EFAST-approved software or directly through the EFAST website. Assistance with the EFAST2 system is available at www.dol.gov/ebsa/form5500tips.html or by calling 1.866.463.3278.

Regulatory Developments—IRS

Revised Employee Plans Compliance Resolution System

.185 After many years of discussion about a revised and expanded correction program, Revenue Procedure 2013-12 was issued on December 31, 2012. The core attributes of correction remain the same as the prior versions of this program. Correction is aimed at putting all affected participants in the same place they would have been had the compliance error not occurred. The exceptions to this standard for minor violations remain the same, and the concept of a "lost deferral opportunity" that limits the correction for missed salary deferrals to 50 percent continues. However, there have been several significant changes which fall into four basic categories: processing, clarifications, 403(b) plan matters, and coordination of the program with statutory or regulatory changes since 2008. The following list merely highlights the changes from the prior program. For more detailed information, the full text of Revenue Procedures 2013-12 can be found at www.irs.gov/pub/irs-drop/rp-13-12.pdf. Further, the IRS has issued a summary of the changes, "Chart of Significant Changes to EPCRS," which can be found at www.irs.gov/pub/irs-tege/rp13_12_changes_chart.pdf.

- *Processing*. The IRS has formalized the application process under the voluntary compliance program (VCP). Effective for all applications files on or after April 1, 2013, such applications are to be made using new Forms 8950 and 8951. The simplified procedures previously covered in appendix F, such as missed required minimum distributions, have been included as separate schedules in appendix C of Form 8950 and Form 8951.

  Reduced fees or penalties are provided for certain nonamender or late amender fact patterns.

- *Clarifications*. A key clarification in the revised procedure is that, unless specific reference is made in a correction provision, trust earnings include both gains and losses. In the prior version, it was unclear whether a correction amount could be reduced for losses.

  Consistent with the final 401(k) regulations, the guidance stipulates that a forfeiture suspense account may not be used for any correction that is classified as a qualified nonelective contribution (QNEC). However, the procedure does clarify that a correction for a missed matching contribution that is not subject to immediate vesting under the plan's terms may remain subject to the plan's vesting schedule, rather than requiring this correction be made with a QNEC, as in the past.

  The new procedure also clarifies the requirements when an overpayment has been made to a plan participant and the participant fails to reimburse the plan for the excess. It includes acknowledgement of the different implications of such actions in defined contribution retirement and defined benefit plans.

- *403(b) plan matters*. The procedure expands the types of defects that can be corrected for 403(b) plans and, in general, provides that correction will be accomplished in the same manner as the comparable 401(a) plan. The exceptions to this general rule apply to items unique to 403(b) plans, such as the adoption by an ineligible employer. In addition, the procedure provides that certain types of 403(b) operational defects can be corrected by reclassifying the affected account to a taxable (403(c)) account.

  Generally, for a plan to be eligible for correction under any aspect of Employee Plans Compliance Resolution System (EPCRS), it must have an individual determination letter or be covered by an opinion letter issued to the document provider. This requirement would be an obstacle for 403(b) plans, as there is currently no determination or opinion letter program. The new procedure is clearly designed to encourage access to correction, as it allows all 403(b) plans that were timely amended with the final 403(b) tax regulations to be considered to have a determination letter. In addition, it provides that plans which were not timely amended, but have submitted or are in the process of submitting a request for relief under EPCRS, will be considered to have a favorable letter. If the plan sponsor attempts to self-correct such a document failure, they will not be considered to have a favorable letter for other aspects of the procedure.

To encourage nonamenders to file for relief, the filing fee for such applications is reduced by 50 percent if such application is made not later than December 31, 2013.

- *Coordination with subsequent developments*. The limitations on plan amendments and distribution forms associated with the funded status of a defined benefit pension plan were not considered under the prior versions of EPCRS. The 2013 update recognizes this interaction and identifies certain fact patterns when an additional contribution may be required to meet the combined requirements of the correction principles and the law.

Determination Letter Program Changes

.186 Effective May 1, 2012, the IRS made several changes in the determination letter process. The consequence of these changes is that adopters of prototype or volume submitter plans who do not make any changes to the form of the plan will not be permitted to request a determination letter. In addition, the determination letter process will no longer include the demonstrations on how the plan satisfies coverage and nondiscrimination, other than the safe harbor provisions.

Required Plan Amendments for 2012 Plan Year

.187 2012 was a relatively quiet year for plan amendments. Obviously, any elective amendments made by the plan sponsor that affect the operations of the plan during the 2012 plan year had to be made by the end of the plan year, but there were few nonelective items that required action in 2012. For a complete list of plan amendments, see the "2012 Cumulative List of Changes" (www.irs.gov/Retirement-Plans/Determination,-Opinion-and-Advisory-Letter-for-Retirement-Plans—Cumulative-List-of-Changes-in-Retirement-Plan-Qualification-Requirements). Items that may have required action in the 2012 plan year included

- defined benefit pension plans that needed to be amended by the end of the 2012 plan year for the funding based limits on accruals and distributions under IRC Section 436.
- Puerto Rico plans which had to be amended by the end of the 2012 plan year for changes associated with the 2011 changes to the Puerto Rican tax code.

Changes in Compensation Limits

.188 The IRS maintains a history of the dollar limits for the various operational tests on its website. (See www.irs.gov/pub/irs-tege/cola_table.pdf.) This information has historical data that dates back to 1989.

Suspension of Letter Forwarding Program for Missing Participants or Beneficiaries

.189 On August 31, 2012, the IRS released Revenue Procedure 2012-35 (www.irs.gov/pub/irs-drop/rp-12-35.pdf), which outlines changes in Revenue Procedure 94-22, specifically removing language allowing the service to forward letters on behalf of plan sponsors related to a missing taxpayer who is entitled to a retirement benefit. Even though the IRS will no longer forward letters to missing participants or beneficiaries, plan sponsors are still responsible for making a reasonable effort to find missing participants or beneficiaries. Methods used by plan sponsors include Internet searches, private search companies, and the Social Security Letter Forwarding Program.

Employee Benefit Plans Guide Overhaul Status

.190 The Financial Reporting Executive Committee (FinREC), ASB, and the Employee Benefit Plan Guide Overhaul Task Force have released a new comprehensive revision of the guide in May 2013. The effective date of the guide is January 1, 2013. Enhancements were made, addressing numerous accounting, auditing, industry, and regulatory issues that have transpired since the guide was last revised in 1991. It is currently available at www.cpa2biz.com.

AICPA Industry Expert Panel—Employee Benefit Plans

.191 The Employee Benefits Plans Expert Panel is made up of 13 individuals from CPA firms of all sizes who have extensive employee benefit plan experience. They monitor employee benefit plan industry developments, trends, and opportunities to identify and advise on reporting, attest, and assurance issues unique to employee benefit plans. They also assist in the development of many AICPA publications specific to the employee benefit plan industry (for a listing of industry publications, see the "Employee Benefit Plan Resources" section). In addition, panel members are speakers at AICPA national conferences, and they participate in AICPA webcasts and Employee Benefit Plan Audit Quality Center (EBPAQC) webinars. During the past year, the Employee Benefits Plans Expert Panel has discussed topics such as fair value measurement and disclosures, 403(b) plan considerations, the Early Retirement Reinsurance Program, limited scope audit considerations, and reporting on supplemental schedules.

.192 See the AICPA Employee Benefit Plans Expert Panel's website at www.aicpa.org/interestareas/employeebenefitplanauditquality/community/pages/aicpa%20employee%20benefit%20plan%20expert%20panel.

Recent AICPA Independence and Ethics Developments

.193 Auditors of employee benefit plans need to evaluate independence following the rules, interpretations, and ethics rulings of the AICPA (Rule 101, *Independence* [AICPA, *Professional Standards*, ET sec. 101 par. .01]), the guidelines of the DOL (29 CFR 2509.75-9, *Interpretive Bulletin*), and, if applicable, the rules of the PCAOB and SEC (PCAOB Rule 3502 and Rule 2-01 of Regulation S-X). Each of these rulemaking and standard setting bodies brings varying considerations to their promulgated standards on independence and ethics, which may have a broader effect on an auditor's ability to serve a client.

Help Desk: In response, the EBPAQC has developed a tool, "DOL and AICPA Independence Rule Comparison," (updated May 10, 2012) to assist members in summarizing some of the more common independence rules that could affect auditors of employee benefit plans.

.194 Also, it is important for auditors of employee benefit plans to understand any new standards and amendments to existing standards designed to assist in their evaluation of independence with respect to their clients and to better understand the ethical issues affecting decisions they may encounter.

Professional Ethics Executive Committee

Interpretation No. 101-18

.195 The AICPA Professional Ethics Executive Committee (PEEC) adopted Interpretation No. 101-18, "Application of the Independence Rules to Affiliates" under Rule 101 (AICPA, *Professional Standards*, ET sec. 101 par. .20), which will be effective for engagements covering periods beginning on or after January 1, 2014, with early implementation permitted. The interpretation requires that the independence requirements should be applied to interest and relationships that a member and firm have with affiliates of a financial statement attest client. The interpretation identifies 10 types of entities that will be considered affiliates, including employee benefit plans and sponsors of a financial statement attest client.

Approved Revisions to Interpretation No. 101-3

.196 At its meeting in May 2012, the PEEC approved final revisions to Interpretation No. 101-3, "Nonattest Services," under Rule 101 (AICPA, *Professional Standards*, ET sec. 101 par. .05). These revisions were effective on August 31, 2012, because they were previously exposed for comment in February 2011. They include addressing the period in which independence is considered impaired and an explanation that communications between a member and client during an attest engagement are considered a normal part of the attest engagement and would not constitute performing a nonattest service subject to this interpretation.

Proposed Revisions to Interpretation No. 101-3

.197 The PEEC has proposed revisions to Interpretation No. 101-3 that appear in an omnibus exposure draft of the Professional Ethics Division dated June 29, 2012. The PEEC has proposed that financial statement preparation and cash-to-accrual conversions performed by a member for a client should be considered nonattest services, regardless of whether the services are performed as part of an audit, and will be subject to the independence requirements of Interpretation No. 101-3. PEEC has suggested that a two-year transition period be allowed after the revised interpretation is published, as it would be a change in position and members may need to implement new policies as well as procedures. The comment period for this concluded on November 30, 2012. Auditors of employee benefit plans may want to begin to consider the future effect such a change would have on their clients if approved.

Help Desk: These approved and proposed revisions are discussed in further detail in the Audit Risk Alert *Independence and Ethics Developments—2012/13*. In addition, the Audit Risk Alert *Independence and Ethics Developments—2012/13* contains a complete update on new independence and ethics pronouncements; it will heighten your awareness of independence and ethics matters likely to affect your practice. Obtain this alert by calling the AICPA at 888.777.7077 or visiting www.cpa2biz.com.

(continued)

The exposure draft including comments received can be viewed at www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/DownloadableDocuments/2012JuneOmnibusProposalAICPAProfessionalEthicsDivision.pdf.

PEEC meeting information, including meeting agendas, discussion materials, and minutes of prior meetings, can be found at www.aicpa.org/InterestAreas/ProfessionalEthics/Community/MeetingMinutesandAgendas/Pages/MeetingInfo.

PCAOB

.198 The PCAOB issued a concept release to solicit public comment on ways that auditor independence, objectivity, and professional skepticism can be enhanced, including mandatory rotation of audit firms. Mandatory audit firm rotation would limit the number of consecutive years for which a registered public accounting firm could serve as the auditor of a public company. The concept release also seeks comment on whether there are other measures that could meaningfully enhance auditor independence, objectivity, and professional skepticism. The comment period for this matter concluded on November 19, 2012.

Help Desk: Readers may find the concept release, the related questions posed by the PCAOB, and the current status of the release on the Rulemaking Releases and Comments page on the PCAOB website at www.pcaob.org.

On the Horizon

.199 Auditors should keep abreast of auditing and accounting developments and upcoming guidance that may affect their engagements. The following sections present brief information about some ongoing projects that have particular significance to employee benefit plans or that may result in significant changes. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing existing standards.

.200 Information on, and copies of, outstanding exposure drafts may be obtained from the various standard-setters' websites. These websites contain indepth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to Audit Risk Alert *General Accounting and Auditing Developments—2012/13* (product nos. ARAGEN12P, ARAGEN12E, or WGE-XX) for further information.

Auditing and Attestation Pipeline

The Clarity Project—Using the Work of Internal Auditors

.201 The ASB has completed the clarity redrafting of all but one AU-C section. AU section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*), was delayed in order to enable the SAS to align with the IAASB's revisions to the clarified ISA 610, *Using the Work of Internal Auditors*. The proposed ISA 610 (Revised), *Using the Work of Internal Auditors* was issued in July 2010.

.202 At the December 2011 meeting, the IAASB voted to issue as final the section of proposed ISA 610 (Revised) that relates to using the work of the internal audit function and agreed to defer the issuance of the section of proposed ISA 610 (Revised) that relates to direct assistance. Pending a resolution from the international Ethics Standards Board for Accountants on the matter of an external auditor using an internal auditor in a direct assistance capacity, it is anticipated that the IAASB will vote to issue ISA 610 (Revised) in its entirety as a final standard.

.203 The AICPA exposure draft "Proposed Statement on Standards, Using the Work of Internal Auditors" was released on April 15, 2013 with a 90-day comment period. At the time of this publication, the final standard is expected to be released between the 4th quarter of 2013 and the 2nd quarter 2014.

PCAOB Draft Auditing Standard on Confirmations

.204 The PCAOB has proposed a draft auditing standard on confirmations. A concept release was originally issued in April 2009 and received 24 comment letters. This proposed auditing standard, issued in July 2010, would strengthen the requirements under the current auditing standard AU section 330, *The Confirmation Process* (AICPA, *PCAOB Standards and Related Rules*, Interim Standards), and replace it upon final issuance of a standard and approval from the SEC. The proposed new standard

- requires confirmation procedures for specific accounts, such as receivables that arise from credit sales, loans, or other transactions, and also in response to significant risks that relate to the relevant assertions that can be adequately addressed by confirmation procedures.
- incorporates procedures in response to the risk of material misstatement, such as in the areas of investigating exceptions reflected on confirmation responses and evaluating nonresponses to confirmation requests.
- updates the confirmation guidance to reflect significant advances in technology and explains that confirmation responses received electronically (for example, by fax, by e-mail, through an intermediary, or by direct access) might involve additional risks relating to reliability. Therefore, the auditor must perform additional requirements.
- defines a confirmation response to include electronic or other media.
- enhances requirements when confirmation responses include disclaimers and restrictive language by requiring the auditor to evaluate the effect on the reliability of a confirmation response. Further, if the disclaimer or restrictive language causes doubts about the reliability of a confirmation response, the auditor should obtain additional appropriate audit evidence.

In drafting this proposed standard, the PCAOB considered the guidance contained in ISA 505, *External Confirmations*, and the AICPA's proposed guidance on confirmations.

.205 The comment period for the PCAOB's proposed standard ended September 13, 2010. A summary about the comments received was then discussed at the October 14, 2010, Standing Advisory Group (SAG) meeting.

Respondents recommended that the proposed standard be modified to be more principles and risk-based, include that the presumption to confirm receivables may be overcome if the use of confirmations would be ineffective, and discuss limitations on the use of internal audit or refer to AU section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Interim Standards). SAG noted that it would take the comments received into account as it deliberated its next steps with regard to the proposed standard. As of November 2012, the PCAOB is drafting a reproposal for the board's consideration.

> **Help Desk**: Look for further developments on these proposed auditing standards on the PCAOB website at www.pcaob.org.

Accounting Pipeline

Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04

.206 On April 30, 2013, FASB issued a proposal to defer indefinitely the effective date for certain disclosures about investments held by a nonpublic employee benefit plan in the plan sponsor's own equity securities. Comments on proposed ASU *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04* are due by May 31, 2013.

.207 The proposal seeks to address concerns about certain disclosure requirements that would potentially provide proprietary information about private companies through the dissemination of their employee benefit plans' financial statements on the plan regulator's website. The deferral would allow time for discussions about the specific quantitative disclosures and their potential effect on the plan sponsor as a result of making that information public. The proposed deferral would be effective upon issuance of the final ASU. That final ASU is expected to be issued in June 2013.

Definition of a Nonpublic Entity

.208 This project's focus is on defining what constitutes a private company (nonpublic business entity) to distinguish between different types of entities for standard-setting purposes and on determining which companies are to be included in the scope of the Private Company Decision-Making Framework. On July 31, 2012, FASB issued an Invitation to Comment on a staff paper that outlines an approach for deciding whether and when to modify GAAP for private companies.

.209 FASB will continue to deliberate other topics necessary to complete its tentative decisions on the definition of a private company. FASB also will begin the second phase of this project, which involves determining what constitutes a nonpublic not-for-profit entity. An exposure draft is expected in the first half of 2013.

Offsetting

.210 The amendments to FASB ASC 210-20 in ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, enhance disclosures about financial instruments and derivative instruments that are either offset in accordance with GAAP or are subject to an enforceable master netting arrangement or similar agreement. The objective of the disclosures is to facilitate comparison between those entities that prepare their financial statements on the basis of GAAP and those entities that prepare their financial statements on the basis of IFRS.

.211 The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset, in accordance with the guidance in FASB ASC 210-20-45 and 815-10-45, in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosure may be by instrument or by counterparty. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements.

.212 All entities, including employee benefit plans, will be required to disclose the following information for assets and liabilities within the scope of the new standard:

a. The gross amounts of those recognized assets and those recognized liabilities

b. The amounts offset to determine the net amounts presented in the statement of financial position (net assets available for benefits)

c. The net amounts presented in the statement of financial position (net assets available for benefits)

d. The amounts subject to an enforceable master netting arrangement or similar agreement not otherwise included in item *b*

e. The net amount after deducting the amounts in item *d* from the amounts in item *c*

.213 The amended guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and it should be applied retrospectively to all comparative periods presented. Readers may want to consider the substantial time and resources that may be required for employee benefit plans to identify arrangements subject to offsetting and prepare related financial statement disclosures under the new requirements as well as additional time and resources that may be needed for auditors to audit such disclosures. Readers are encouraged to read the full ASU on the FASB website at www.fasb.org.

Clarifying the Scope of Disclosures About Offsetting

.214 In January 2013, FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments clarify that the scope of ASU No. 2011-11 applies to derivatives accounted for in accordance with FASB ASC 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with FASB ASC 210-20-45 or FASB ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

.215 An entity is required to apply the amendments in this ASU for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU No. 2011-11. Readers are encouraged to read the full ASU on the FASB website at www.fasb.org.

Repurchase Agreements

.216 In January 2012, FASB issued for public comment a proposal to improve financial reporting about repurchase agreements and other transfers with forward agreements to repurchase transferred assets. The proposed ASU, *Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*, would clarify the guidance for distinguishing these transactions as either sales or secured borrowings and improve disclosures about them.

.217 The proposed guidance would eliminate the distinction between agreements that settle before the maturity of the transferred asset and those that settle at the same time as the transferred asset matures. As a result, both types of transfers with forward agreements to repurchase the transferred assets or "substantially-the-same" assets at a fixed price would maintain the transferor's effective control during the term of the agreement and would be accounted for as secured borrowings. For these types of arrangements, the proposed guidance would result in financial reporting that is more comparable with IFRS. When the transferor does not maintain effective control over a transferred financial asset, the transaction would be required to be assessed under the remaining derecognition conditions in U.S. GAAP to determine whether it should be accounted for as a secured borrowing or sale with a forward repurchase agreement.

.218 Comments on this proposed ASU were due by March 29, 2013.

Liquidation Basis of Accounting

.219 On July 2, 2012, FASB issued a proposed ASU, *Presentation of Financial Statements (Topic 205): The Liquidation Basis of Accounting*, for a 90-day comment period. The comment period ended on October 1, 2012. The objective of this project is to provide guidance about how and when an entity should apply the liquidation basis of accounting.

.220 The board affirmed the proposed guidance requiring an entity to prepare its financial statements using the liquidation basis of accounting when liquidation becomes imminent. Furthermore, the board decided to clarify that liquidation would be considered imminent when a plan of liquidation is approved by or imposed on the entity by those with the power to do so. The board also decided that all entities would be subject to the proposed guidance, provided the entity's liquidation was not as planned at inception. The board plans to complete redeliberations of the proposed ASU during the first quarter of 2013.

Help Desk: For additional information on this proposed ASU, see the FASB project update at www.fasb.org.

Going Concern

.221 The purpose of this project is to provide guidance about (*a*) how an entity should assess its ability to continue as a going concern and (*b*) the timing, nature, and extent of any related disclosure requirements. The proposed standard is expected to be reexposed in the first half of 2013.

Technical Corrections and Amendments—Master Glossary

.222 On November 14, 2012, FASB discussed the scope of the amendments to FASB ASC for technical corrections, including Master Glossary amendments, benefit plan illustrative guidance amendments, and other amendments. FASB decided to issue a separate exposure draft for amendments related to Master Glossary items. These amendments relate to corrections to unlinked terms and duplicate terms in the Master Glossary. For unlinked terms in the Master Glossary, FASB decided to propose adding links for certain unlinked terms already used in FASB ASC and deleting other terms not used. For duplicate terms in the Master Glossary, FASB decided not to address any duplicate terms related to other active projects as part of the Technical Corrections project (they will be addressed in those other projects).

.223 The Master Glossary contains several terms related to defined benefit plans and defined contribution retirement plans that also result in redundancy. To resolve this redundancy, FASB decided to propose combining the five related defined benefit plan definitions into a single definition of defined benefit plan and the three related defined contribution retirement plan definitions into a single definition of defined contribution retirement plan.

.224 The exposure draft will be issued during the first quarter of 2013 and will have a 90-day comment period.

Employee Benefit Plan Resources

.225 The following are various resources that practitioners engaged in the employee benefit plan industry may find beneficial.

AICPA Employee Benefit Plan Audit Quality Center

.226 The AICPA EBPAQC is a firm based, volunteer membership center of more than 2,200 firms with the goal of promoting quality employee benefit plan audits. EBPAQC member firms receive valuable ERISA audit and firm best practice tools and resources that are not available from any other source.

.227 The EBPAQC provides timely e-alerts with information about recent developments affecting employee benefit plan audits, as well as other resources and tools including

- audit and accounting resource centers, including ESOPs, SOC 1 reports and service organizations, limited scope audits, 403(b) plans, internal control communications, plan investments, EBP fraud, auditor independence, and more.
- exclusive member-only live forum webinars on current topics and preparing your firm for the EBP audit season. These webinars are free to members and continuing professional education (CPE) is available for paid registrants.
- center tools including a SOC 1 report checklist, internal self-inspection tool, a summary of DOL criminal enforcement cases, internal control communication tools, and examples of internal control communications for employee benefit plans.

- a member-to-member online discussion forum with more than 3,500 participants and 2,400 topics.
- "topix" primer on topics such as tax and compliance issues for 401(k) plans, insurance company products, parties in interest and prohibited transactions, limited scope audits, and 403(b) plans.
- plan advisories to share with plan clients that help plan sponsors and administrators including the following:
- *Understanding Auditor Communication*
- *Effective Monitoring of Outsourced Plan Recordkeeping and Reporting Functions*
- *The Importance of Internal Controls in Financial Reporting and Safeguarding Plan Assets*
- *Valuing and Reporting Plan Investments*

Help Desk: Visit the center website at www.aicpa.org/InterestAreas/EmployeeBenefitPlanAuditQuality/Pages/EBPAQhomepage to see a list of EBPAQC member firms and to preview EBPAQC benefits. For more information, contact the EBPAQC at ebpaqc@aicpa.org.

Publications

.228 Practitioners may find the following publications useful. Choose the format best for you—online, eBook, or print.

- Audit and Accounting Guide *Employee Benefit Plans* (2013) (product nos. AAGEBP13P, AAGEBP13E, or WEB-XX)
- *Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans* (2013) (product nos. ACKDBP13P or WDB-CL)
- *Checklists and Illustrative Financial Statements for Defined Contribution Retirement Plans* (2013) (product nos. ACKDCP13P or WDC-CL)
- *Checklists and Illustrative Financial Statements for Health and Welfare Benefit Plans* (2013) (product nos. ACKHWP13P or WHW-CL)
- *Employee Benefit Plans Accounting Trends & Techniques*, 4th edition (product nos. 0066512, AATTEBP12E, or WET-XX)
- Audit and Accounting Practice Aid *Using an SSAE No. 16 Service Auditor's Report (SOC 1 Report) in Audits of Employee Benefit Plans* (product nos. 0610611, APASOC112E, or APASOC1O)
- Audit Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* (2012) (product nos. AAGRAS12P, AAGRAS12E, or WRA-XX)
- Audit Guide *Special Considerations in Auditing Financial Instruments* (2012) (product nos. AAGAFI12P, AAGAFI12E, or AAGAFIO)
- Audit Guide *Audit Sampling* (2012) (product nos. AAGSAM12P, AAGSAM12E, or WAS-XX)

- Audit Risk Alert *General Accounting and Auditing Developments—2012/13* (product nos. ARAGEN12P, ARAGEN12E, or WGE-XX)
- Audit Risk Alert *Independence and Ethics Developments—2012/13* (product nos. ARAIET12P, ARAIET12E, or WIA-XX)
- *U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure (formerly Accounting Trends & Techniques), 65th Edition* (product nos. ATTATT12P or WNG-XX)
- *Audit and Accounting Manual* (2012) (product nos. AAMAAM12P or WAM-XX)
- Financial Reporting Alert *Current Accounting Issues and Risks for Financial Management and Reporting—2012/2013* (product nos. AFACAI12P or AFACAIE)

Continuing Professional Education

.229 The AICPA offers a number of CPE courses that are valuable to CPAs working in public practice and industry, including the following specifically related to employee benefit plans:

- *Advanced Employee Benefit Plan Topics*
- *Employee Benefit Plans: Audit and Accounting Essentials*
- *Audits of 403(b) Plans: A Challenging New Audit Area*
- *Audits of 401(k) Plans*

Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

.230 AICPA CPExpress, offered exclusively through CPA2Biz, is the AICPA's flagship online learning product. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning in a wide variety of topics. Subscriptions are available at www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/Tax/Research/PRDOVR~PC-BYF-XX/PC-BYF-XX.jsp (product no. BYF-XX).

.231 To register for individual courses or to learn more, visit www.cpa2biz.com.

Webcasts

.232 Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high-quality CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available for viewing. For additional details on available webcasts, please visit www.cpa2biz.com/AST/AICPA_CPA2BIZ_Browse/Store/Webcasts.jsp.

Member Service Center

.233 To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at 888.777.7077.

Hotlines

Accounting and Auditing Technical Hotline

.234 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. The hotline is available from 9 a.m. to 8 p.m. ET on weekdays. You can reach the Technical Hotline at 877.242.7212 or online at www.aicpa.org/Research/TechnicalHotline. Members can also e-mail questions to aahotline@aicpa.org. Additionally, members can submit questions by completing a Technical Inquiry form found on the website.

Ethics Hotline

.235 In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 888.777.7077 or by e-mail at ethics@aicpa.org.

AICPA Online Professional Library: Accounting and Auditing Literature

.236 The AICPA has created your core accounting and auditing library online. The AICPA Online Professional Library is now customizable to suit your preferences or your firm's needs. You can also sign up for access to the entire library. Get access—anytime, anywhere—to FASB ASC, the AICPA's latest *Professional Standards*, *Technical Practice Aids*, Audit and Accounting Guides, Audit Risk Alerts, Accounting Trends & Techniques, and more. To subscribe to this essential online service for accounting professionals, visit www.cpa2biz.com.

Codified Clarity Standards

.237 The best way to obtain the codified clarity standards is with a subscription to AICPA *Professional Standards* in the AICPA Online Professional Library. Although the individual SASs are available in paperback, this online codified resource is what you need to update your firm audit methodology and begin understanding how clarity standards change certain ways you perform your audits. Visit www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/MostPopularProductGroups/AICPAResourceOnline/PRD~PC-005102/PC-005102.jsp for online access to AICPA *Professional Standards*.

.238 You can also get the clarified standards in paperback format. *Codification of Statements on Auditing Standards* is published each spring and includes the clarified auditing standards and the attestation standards. *Professional Standards*, which has the full complement of AICPA standards, is published each summer.

.239 The codification of clarified standards includes various resources:

- A preface, "Principles Underlying the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards"
- A glossary of terms defined in the standards

- Appendixes describing the differences between GAAS and the ISAs
- A table mapping the extant AU sections to the clarified AU sections

Financial Reporting Center of AICPA.org

.240 CPAs face unprecedented changes in financial reporting. As such, the AICPA has created the Financial Reporting Center to support you in the execution of high-quality financial reporting. This center provides exclusive member-only resources for the entire financial reporting process and can be accessed at www.aicpa.org/frc.

.241 The Financial Reporting Center provides timely and relevant news, guidance, and examples supporting the financial reporting process. You will find resources for accounting, preparing financial statements, and performing various types of engagements, including compilation and review, audit and attest, and assurance and advisory.

.242 For example, the Financial Reporting Center offers a dedicated section to the Clarity Project. For the latest resources available to help you implement the clarified standards, visit the "Improving the Clarity of Auditing Standards" page at www.aicpa.org/SASClarity.

Industry Conferences

.243 The AICPA offers an annual Employee Benefit Plans Accounting, Auditing, and Regulatory Update Conference in late fall. The conference is a two-day high-level forum that lets you interact with expert auditors and members of the DOL. The 2013 conference will be held December 12–13, 2013, in Washington, DC.

.244 The AICPA offers an annual National Conference on Employee Benefit Plans each spring. The conference is a three-day conference designed to update attendees on recent developments related to employee benefit plans. The 2013 conference will be held in May 2014. For further information about the conference, call 888.777.7077 or visit www.cpa2biz.com.

.245

Appendix—Additional Internet Resources

Here are some useful websites that may provide valuable information to accountants.

Website Name	*Content*	*Website*
AICPA	Summaries of recent auditing and other professional standards, as well as other AICPA activities	www.aicpa.org www.cpa2biz.com www.ifrs.com
AICPA Financial Reporting Executive Committee	Summaries of recently issued guides, technical questions and answers, and practice bulletins containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/interestareas/frc/accountingfinancialreporting/pages/finrec
AICPA Auditing Standards Board	Summaries of recently issued auditing standards and interpretations	www.aicpa.org/Research/Standards/AuditAttest/ASB/Pages/AuditingStandardsBoard
AICPA Accounting and Review Services Committee	Summaries of review and compilation standards and interpretations	www.aicpa.org/RESEARCH/STANDARDS/COMPILATIONREVIEW/ARSC/Pages/ARSC
Economy.com	Source for analyses, data, forecasts, and information on the U.S. and world economies	www.economy.com
The Federal Reserve Board	Source of key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
International Accounting Standards Board	Summaries of International Financial Reporting Standards and International Accounting Standards	www.iasb.org

Website Name	*Content*	*Website*
International Auditing and Assurance Standards Board	Summaries of International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Information on standards setting activities in the international arena	www.ifac.org
Private Company Financial Reporting Committee	Information on the initiative to further improve FASB's standard setting process to consider needs of private companies and their constituents of financial reporting	www.pcfr.org
Public Company Accounting Oversight Board (PCAOB)	Information on accounting and auditing activities of the PCAOB and other matters	www.pcaob.org
Securities and Exchange Commission (SEC)	Information on current SEC rulemaking and the Electronic Data Gathering, Analysis, and Retrieval database	www.sec.gov
USA.gov	Portal through which all government agencies can be accessed	www.usa.gov