

University of Mississippi
eGrove

Newsletters

American Institute of Certified Public Accountants
(AICPA) Historical Collection

1-1-1987

Washington report, vol. 16 no.17, June 22, 1987

American Institute of Certified Public Accountants.

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

 Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants., "Washington report, vol. 16 no.17, June 22, 1987" (1987). *Newsletters*. 1108.
https://egrove.olemiss.edu/aicpa_news/1108

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Newsletters by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

AICPA *Washington Report*

June 22, 1987, Volume XVI, Issue 17

OMB	Revisions to Circular A-102 proposed	p. 1
SEC	New SEC chairman nominated	p. 1
	Open meeting with FASB scheduled	p. 1
	Commission votes to issue for comment rule requiring certain public companies to disclose when second opinion sought on accounting matter	p. 2
TREASURY	Group health plans' continuation coverage subject of proposed IRS regulations	p. 2
	Temporary, proposed regulations concerning cash method of accounting issued	p. 2
SPECIAL:	AICPA testifies on restoration of FSLIC's secondary reserve fund	p. 3

OFFICE OF MANAGEMENT AND BUDGET

Proposed revisions to Circular A-102, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" were published by the Office of Management and Budget (OMB) (see the 6/9/87 Fed. Reg., pp. 21816-18). The proposed revised circular provides guidance to Federal agencies in the management of grants and cooperative agreements and calls upon agencies to issue "common" regulations. The affected agencies, in a related notice (see the 6/9/87 Fed. Reg., pp. 21820-62), are proposing the common regulations for adoption. A notice of the availability of the proposed revised grant application and financial reporting forms has also been published (see the 5/29/87 Fed. Reg., pp. 20178-9). Provisions in the proposed revised circular provide that in addressing the adequacy of an applicant's financial management system, the awarding agency shall rely on readily available sources of information "such as audit reports" to the extent possible and states that an agency shall prescribe whether reporting shall be on a cash or accrual basis. Where the agency requires accrual information, and the grantee's accounting records are not normally kept on an accrual basis, the proposal notes that the grantee will not be required to convert its accounting system, but shall develop the information "through an analysis of the documentation on hand." Other proposed changes to the Circular include: a reorganization of the structure and ordering of the Circular to be more readable and reflect the grants management process; greater reliance on state law and procedures; modernization of out-dated provisions and dollar thresholds; simplification; and clarification of current policies. The proposal is to be adopted by each affected agency and codified in the agency's portion of the Code of Federal Regulations. Comments on the two proposals are due on or before 8/10/87. For further information after reviewing the notices, please contact Jonathan Breul at the OMB at 202/395-3050.

SECURITIES AND EXCHANGE COMMISSION

David S. Ruder has been nominated by President Reagan to be the Chairman of the Securities and Exchange Commission. Mr. Ruder currently is Professor of Law at Northwestern University School of Law in Chicago, IL, where he also served as Dean from 1977 to 1985, having joined the faculty in 1961. In private practice, Mr. Ruder specialized in securities matters with the Chicago law firm of Schiff, Hardin & Waite from 1971 to 1976, and with the Milwaukee, IL firm of Quarles & Brady from 1957 to 1961. In making the nomination, President Reagan said, "Professor Ruder's expertise in the areas of securities anti-fraud provisions, insider trading, tender offer regulation, and SEC enforcement ensures that the Commission will have the guidance of a steady hand. No one is better equipped to continue the fine work of Chairman John Shad in the area of insider trading enforcement...." Chairman Shad is leaving the chairmanship of the Commission after six years to assume the post of Ambassador to the Netherlands. The Senate Banking, Housing, and Urban Affairs Committee is expected to hold confirmation hearings on Mr. Ruder's nomination later this summer.

An open meeting between the SEC and the Financial Accounting Standards Board (FASB) has been scheduled for 6/24/87. No specific agenda for the meeting was released and is not expected to be prior to the meeting. In making the announcement, the SEC said "matters of mutual interest" will be discussed. However, SEC staff expect those discussions to include current FASB projects. The joint session is part of the Commission's active oversight of the private sector's standard-setting activities regarding financial accounting and reporting, according to the SEC. The meeting will begin at 2 p.m. in Room 1C30 of the SEC's headquarters building, 450 Fifth Street, N.W., Washington, D.C. For further information please contact Jim Bradow at the SEC at 202/272-2130.

SECURITIES AND EXCHANGE COMMISSION

A proposed rule concerning disclosures related to changes in accountants by SEC registrant companies will be issued for public comment. The proposal was approved unanimously by the Commission after concerns were voiced by the Commissioners over the rule amendments. The new rule would modify the current SEC rule under Regulation S-K that requires a public company to file a Form 8-K when it changes its independent auditor. In the filing, the company must report and discuss any disagreements it had with the previous independent auditor. The proposed rule would expand the current filing requirement to require that the issuer also report and discuss any situations over the prior two years where it sought out a second opinion on an accounting matter from any accounting firm, other than its auditor. The company would have to disclose the nature of the matter and the views of the second accounting firm. The proposal would also clarify and codify staff and Commission interpretations as to what constitutes a "disagreement." The Commission staff, in response to a question by Commissioner Fleishman, said that the rule proposal was consistent with the recommendations made by the National Commission on Fraudulent Financial Reporting and paralleled views expressed by the AICPA, with some exceptions. The proposed rule is expected to be published in the Federal Register shortly.

TREASURY, DEPARTMENT OF

Requirements that group health plans offer continuation coverage are the subject of proposed regulations issued by the IRS (see the 6/15/87 Fed. Reg., pp. 22716-32). The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and the Tax Reform Act of 1986 included requirements that an employer-provided group health plan must offer qualified beneficiaries, who would otherwise lose coverage upon termination of employment or because of some other "qualifying event," the chance to continue coverage at "no greater than 102 percent of the 'applicable premium.'" Using a question and answer format, the proposed regulations describe which plans must offer COBRA continuation coverage and the tax consequences of failing to do so. Details covered include guidance about the scope of the continuation coverage, who is a qualified beneficiary, what is a qualifying event, how elections are made, and when payment must be made. Comments must be submitted to the IRS by 8/14/87. If further information is needed after reading the proposed regulations, please contact Mark Schwimmer at the IRS at 202/566-6212.

Temporary regulations affecting taxpayers using the cash method of accounting have been issued by the IRS (see the 6/16/87 Fed. Reg., pp. 22764-77). The temporary regulations also serve as the text of proposed regulations on which comments have been requested (see the 6/16/87 Fed. Reg., p. 22795). The temporary regulations provide the necessary guidance to comply with the changes made by the Tax Reform Act of 1986. Generally, the regulations prohibit the use of the cash method of accounting by C corporations, partnerships with a C corporation partner, and tax shelters. The IRS noted that "for this purpose, a trust subject to tax under section 511(b) is treated as a C corporation with respect to its activities constituting an unrelated trade or business." Further, exceptions to the prohibition have been granted under the proposal to: C corporations and partnerships with a C corporation partner with respect to any farming business engaged in by such entities, C corporations with gross receipts of \$5 million or less, partnerships with a C corporation partner if the partnerships have gross receipts of \$5 million or less, and qualified personal service corporations. The IRS indicated these exceptions do not apply to tax shelters. The temporary regulations are effective for taxable years beginning after 12/31/86. Comments on the proposed regulations are requested by 8/17/87. If further information is needed after reading the temporary and proposed regulations, please contact Ewan D. Purkiss at the IRS at 202/566-3238.

SPECIAL: AICPA TESTIFIES ON RESTORATION OF FSLIC'S SECONDARY RESERVE FUND

In order to restore the secondary reserve as an asset, "FSLIC would have to disburse cash to affected institutions with no requirement that the cash flow back to the FSLIC," according to Mr. Douglas J. McEachern, Chairman of the AICPA's Savings and Loan Associations Committee. Mr. McEachern appeared with Mr. Joseph F. Moraglio, Director of the AICPA's Federal Government Division, on 6/17/87 before the House Banking Subcommittee on General Oversight and Investigations. The hearing was the second of two held by the Subcommittee to investigate the elimination of FSLIC's secondary reserve fund and its impact on FSLIC-insured institutions (see the 6/15/87 Wash. Rpt.). Under GAAP, a loss must be recognized in an entity's financial statements when it is probable that an asset has been impaired and the amount of loss can be reasonably estimated. In deciding whether assets representing prepayment into the FSLIC secondary reserve have been impaired and should be written off by the insured institutions, preparers of financial statements and their accountants need to evaluate both the ability and the intent of the FSLIC to repay the amounts. Mr. McEachern also stated that, "Recent events have provided sufficient evidence that the FSLIC has neither the ability nor the intent to repay those assets." Lastly, Mr. McEachern noted that on 6/16/87 the AICPA's Accounting Standards Executive Committee approved the issuance of a practice bulletin stating that the assets relating to prepayments into FSLIC's secondary reserve fund had been impaired and should be written off by a charge to income. The practice bulletin also states that in view of recent developments, guarantees and notes receivable from FSLIC should be evaluated in accordance with the criteria set forth in FASB Statement No. 5 "Accounting for Contingencies." Therefore, in accordance with FASB No. 5, a loss on assets representing FSLIC assistance is at least "reasonably possible" and at a minimum requires disclosure of the loss, if the amounts are material. Federal Home Loan Bank Board Chairman Edwin J. Gray also appeared before the Subcommittee.

For further information contact Shirley Twillman or Joseph Petito at 202/737-6600.

AICPA *Washington Report*

American Institute of Certified Public Accountants

1455 Pennsylvania Ave., N.W., Washington, D.C. 20004-1007



AICPA 100
A CENTURY OF PROGRESS
IN ACCOUNTING
1887-1987

FIRST CLASS MAIL