

Snapshot

SEC issues final rule to amend loan provision guidance

JUNE 27, 2019

SNAPSHOT 2019-11

The SEC issued a [Final Rule](#), *Auditor Independence With Respect to Certain Loans or Debtor-Creditor Relationships*, which is intended to refocus the analysis an auditor is required to complete related to potential lending relationships with certain shareholders of an audit client at any time during the audit or professional engagement period.

The amendments will allow auditors to more effectively identify debtor-creditor relationships that could impair an auditor's objectivity and impartiality, and will eliminate the need to evaluate relationships that are unlikely to pose an independence threat.

The adopted amendments are summarized below.

1. Auditor's analysis to focus on beneficial ownership

In evaluating debtor-creditor relationships, auditors will focus their analysis solely on "beneficial ownership" and not consider those owners who merely hold the audit client's equity securities as a holder of record on behalf of their beneficial owners.

2. Significant influence test applied in debtor-creditor relationship analysis

The existing 10% bright-line shareholder ownership test will be replaced with a "significant influence" test for identifying debtor-creditor relationships that need to be monitored by the auditor.

- Auditors may apply the principles for assessing significant influence in ASC 323, *Investments – Equity Method and Joint Ventures*.

- Considerations for significant influence include the following (or other) qualitative factors:
 - Beneficial ownership meets or exceeds 20% ownership of the equity shares of an audit client.
 - Entity or individual has oversight or decision-making over the audit client's operating and financial policies

The evaluation should be based on the particular facts and circumstances relevant to the audited entity.

3. A reasonable inquiry threshold is applied

Auditors and audit clients will only be expected to conduct a reasonable inquiry analysis to identify beneficial owners of the audit client's equity securities. This analysis might include

- Looking into the audit client's governance structure and governing documents.
- Reviewing commission filings about beneficial owners.
- Considering other information provided by the audit client.

4. Certain affiliates of the audit client are excluded

The Final Rule provides guidance on evaluating the audit client's definition of "fund audits." In evaluating lending relationships with a fund audit client, any other fund (not audited) that would be considered a brother-

sister affiliate of the audit client may be excluded from the debtor-creditor relationship analysis.

The Final Rule is effective 90 days after it is published in the *Federal Register*.

Contacts



Anna Dourdourekas
Partner-in-Charge
Independence and Ethics
T + 1 630 873 2633
Email: anna.dourdourekas@us.gt.com



Wendy Garrett
Managing Director
Independence and Ethics
T +1 630 873 2577
E wendy.garrett@us.gt.com

This Grant Thornton LLP bulletin provides information and comments on current accounting issues and developments. It is not a comprehensive analysis of the subject matter covered and is not intended to provide accounting or other advice or guidance with respect to the matters addressed in the bulletin. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at conclusions that comply with matters addressed in this bulletin. For additional information on topics covered in this bulletin, contact your Grant Thornton LLP professional.