



# CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets  
Affiliated with the American Institute of CPAs

## CAQ Public Policy and Technical Alert

DECEMBER 2016

*As part of the Center for Audit Quality's ongoing effort to keep members and stakeholders informed on significant public policy and accounting matters, we are pleased to offer the Public Policy and Technical Alert (PPTA). Each month, the PPTA highlights and examines the regulatory, standard-setting, legislative, and broader financial reporting developments impacting the public company audit profession. Please note that the PPTA is intended as general information and should not be relied upon as being definitive or all-inclusive. The CAQ encourages member firms to refer to the rules, standards, guidance, and other resources in their entirety at the hyperlinks provided below. All entities should carefully evaluate which requirements apply to their respective organizations.*

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### PCAOB

#### PCAOB Board Member Jay Hanson resigns

The Public Company Accounting Oversight Board (PCAOB) on December 23 [announced](#) the resignation of Board Member Jay Hanson. Hanson was appointed to a first term at the PCAOB in January 2011. His second term was to continue through October 2018.

#### PCAOB publishes staff guidance on audits of Mainland China issuers

The PCAOB on December 30 published [Staff Questions and Answers](#) (Q&A) pertaining to the audits of Mainland China issuers by PCAOB-registered firms outside of Mainland China. In 2015, the Chinese

Ministry of Finance implemented *Interim Provisions on Auditing Operations Conducted by Accounting Firms Concerning the Overseas Listing of Domestic Chinese Companies* (the “MOF Rule”). The MOF Rule governs the conduct of auditors based outside of Mainland China that perform audit work in Mainland China. The Q&A represents the PCAOB staff’s answers to questions received by the PCAOB from registered public accounting firms about the application of certain PCAOB requirements when a PCAOB-registered firm based outside of Mainland China provides audit services in Mainland China that the Firm understands to be subject to the MOF Rule. The staff’s answers provided in the Q&A do not constitute Board rules, nor have they been approved by the Board.

One of the five questions answered in the document is whether the MOF Rule has any impact on a registered firm’s obligations to provide its audit documentation and other information to the PCAOB in PCAOB inspections and investigations. In the staff’s view, the answer is no.

## SEC

### SEC announces additional departures

The Securities and Exchange Commission (SEC) announced the departure of three high-level staff members.

- On December 2, [Mark Flannery](#), Chief Economist and Director of the Division of Economic and Risk Analysis (DERA) announced that he plans to leave by the end of 2016. He has held the positions since September 2014. Upon Flannery’s departure, Scott Bauguess, the Deputy Chief Economist and DERA Deputy Director, will become the acting Chief Economist and acting Director of DERA.
- On December 6, [Keith Higgins](#), Director of the SEC’s Division of Corporation Finance (Division), plans to leave in early January. He has held the position since June 2013. Upon his departure, Shelley Parratt, Deputy Director for the Division, will become the acting Director. Parratt has served previously as acting Director. She has served as Deputy Director of the Division since 2003, and has been responsible for assisting in strategic planning and developing Division policies and procedures and overseeing the disclosure review program.
- On December 8, Enforcement Director [Andrew Ceresney](#) announced that he will leave by the end of 2016. During his four-year tenure, the SEC filed more than 2,850 enforcement actions and obtained judgments and orders totaling more than \$13.8 billion in monetary sanctions. The SEC also charged over 3,300 companies and over 2,700 individuals, including many CEOs, CFOs, and other senior corporate officers. Upon Ceresney’s departure, Stephanie Avakian, Deputy Director of the Enforcement Division, will become the acting Director.

### SEC updates C&DIs

The SEC Division of Corporation Finance updated the following Compliance and Disclosure Interpretations (C&DIs) in December:

- **Exchange Act Rules**
  - Sections 110 to 119. Definitions: Rules 3a11-1 to 3b-19 (Updated 12/8/16)
    - [New C&DI 110.02](#)
    - [New C&DI 110.03](#)
    - [New C&DI 110.04](#)

- [New C&DI 110.05](#)
  - [New C&DI 110.06](#)
  - [New C&DI 110.07](#)
  - [New C&DI 110.08](#)
- Sections 150 to 159. Extensions and Temporary Exemptions; Definitions: Rules 12g-1 to 12h-6 (Updated 12/8/16)
    - Section 150. Rule 12g-3: [New C&DI 150.02](#)
    - Section 155. Rule 12h-6: [New C&DI 155.01](#)
- **Securities Act Rules**
    - Section 138. Rule 144A – Private Resales of Securities to Institutions (Updated 12/8/16)
      - [New C&DI 138.05](#)
      - [New C&DI 138.06](#)
      - [New C&DI 138.07](#)
      - [New C&DI 138.08](#)
      - [New C&DI 138.09](#)
      - [New C&DI 138.10](#)
    - Section 203. Rule 405 – Definition of Terms (Updated 12/8/16)
      - [New C&DI 203.17](#)
      - [New C&DI 203.18](#)
      - [New C&DI 203.19](#)
      - [New C&DI 203.20](#)
      - [New C&DI 203.21](#)
      - [New C&DI 203.22](#)
      - [New C&DI 203.23](#)
    - Section 276. Rule 902 – Definitions (Updated 12/8/16)
      - [New C&DI 276.01](#)
    - Section 277. Rule 903 – Offers or Sales of Securities by the Issuer, a Distributor, Any of their Respective Affiliates, or Any Person Acting on Behalf of Any of the Foregoing; Conditions Relating to Specific Securities (Updated 12/8/16)
      - [New C&DI 277.02](#)
      - [New C&DI 277.03](#)
      - [New C&DI 277.04](#)
      - [New C&DI 277.05](#)
      - [New C&DI 277.06](#)
  - **Exchange Act Forms**
    - Section 110. Form 20-F (Updated 12/8/16)
      - [New C&DI 110.03](#)
      - [New C&DI 110.04](#)
      - [New C&DI 110.05](#)
      - [New C&DI 110.06](#)
      - [New C&DI 110.07](#)

- **Securities Act Forms**
  - Section 102. F-Series Forms Generally (Updated 12/8/16)
    - [New C&DI 102.03](#)
    - [New C&DI 102.04](#)

## FASB

### FASB releases new, proposed ASUs

In December, the Financial Accounting Standards Board (FASB) issued two new and one Proposed Accounting Standards Updates (ASUs):

- [ASU 2016-19, \*Technical Corrections and Improvements\*](#)

Issued on December 14, the amendments in the ASU represent changes to clarify, correct errors, or make minor improvements to the *FASB Accounting Standards Codification*® (Codification). The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. Most of the amendments in this ASU do not require transition guidance and are effective upon issuance of this ASU.

- [ASU 2016-20, \*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers\*](#)

Issued on December 21, the amendments in the ASU affect narrow aspects of the guidance issued in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by ASU 2014-09 which was deferred by one year by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*).

- [Proposed ASU, \*Distinguishing Liabilities from Equity \(Topic 480\)\*](#)

Issued on December 12, the two-part proposal addresses issues identified as a result of the complexity associated with applying U.S. GAAP for certain financial instruments with characteristics of liabilities and equity.

Part I addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option.

Part II addresses the difficulty of navigating Subtopic 480-10, *Distinguishing Liabilities from Equity – Overall*, because of the existence of extensive pending content in the Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable non-controlling interests.

The deadline for submitting comments is February 6, 2017.

### **CAQ's Fornelli Speaks on Seven Reasons for Auditors to Be "Profession Proud"**

Robust U.S. investor confidence, increasing transparency around the oversight of the audit process, and the profession's constructive rapport with policymakers are among the reasons why public company auditors should feel "profession proud," said Center for Audit Quality (CAQ) Executive Director [Cindy Fornelli in a December 5 speech](#). Her remarks were given before the AICPA's 2016 Conference on SEC and PCAOB Developments, held in Washington, DC.

Fornelli opened with reflections on the 10-year anniversary of the CAQ's founding, which will take place in 2017. "The CAQ and the public company auditing profession have come a long way since 2007," she said.

Fornelli then briefed attendees on various initiatives and developments that should be sources of pride for the public company auditing profession. These include the profession's work to foster conversation around non-GAAP financial measures and other pressing topics, its proactive efforts on cybersecurity, and its global engagement on social media and elsewhere to attract the best and brightest to careers in accounting and auditing.

"Judging by the hard work we are currently doing," Fornelli said, "10 years from now, the CAQ and the public company auditing profession will be even stronger than we are today, to the benefit of companies, investors, and markets."

### **CAQ paper promotes stakeholder dialogue on non-GAAP financial measures**

The CAQ on December 5 published [Non-GAAP Financial Measures: Continuing the Conversation](#) to foster conversation across the financial reporting supply chain regarding the preparation, presentation, and use of such measures.

The paper explores the issue of non-GAAP information, providing context on its definition and use, pertinent regulatory developments, and the current level of auditor involvement. While generally, auditors do not audit non-GAAP metrics, the paper notes, audit committees and management may consider using auditors as a sounding board when evaluating them. The paper also compiles sets of suggested questions for stakeholder groups to consider as it relates to their preparation or use of non-GAAP financial measures.

*Non-GAAP Financial Measures: Continuing the Conversation* builds on the CAQ's June 2016 publication, [Questions on Non-GAAP Measures: A Tool for Audit Committees](#). The CAQ plans to use the questions in these papers at round-tables and panels to further the dialogue around non-GAAP financial measures.

### **CAQ tool helps audit committees assess revenue recognition standard implementation**

The CAQ on December 13 released a tool to help audit committees assess a company's implementation of the new revenue recognition standard, which will take effect for many public companies on January 1, 2018. [Preparing for the New Revenue Recognition Standard – A Tool for Audit Committees](#) is organized into four sections:

1. *Understanding the New Revenue Recognition Standard – What Is It?* This section provides a brief overview of the core principles of the standard.
2. *Evaluating the Company’s Impact Assessment – How Will Revenue Recognition Change?* This section assists audit committees in discussing with management and auditors the impact of the new standard due to various factors related to the company’s business.
3. *Evaluating the Implementation Project Plan – How Do We Need to Prepare?* This section assists audit committees in their efforts to understand and evaluate management’s implementation project plan.
4. *Other Implementation Considerations – What Else Do We Need to Consider?* This section assists audit committees with other considerations such as transition decisions and new disclosure requirements.

The tool also offers audit committees a list of resources on revenue recognition that have been developed by CAQ member firms and the American Institute of CPAs.

### **CAQ resource highlights key considerations related to Form AP reporting**

The CAQ on December 19 published [Alert No. 2016-03](#), *Form AP, Auditor Reporting of Certain Audit Participants*, to assist audit firms with implementation of the reporting requirements of the PCAOB Rules 3210 and 3211, *Rules of the Board to Require Disclosure of Certain Participants in the Audit on Form AP*.

The alert highlights select provisions related to Form AP, *Auditor Reporting of Certain Audit Participants* reporting requirements. Information presented in the alert also could be used by member firms in communicating certain aspects of Form AP requirements to audit committees, tailored to the facts and circumstances of the audit engagement.

### **CAQ issues new ‘Profession in Focus’ videos**

The CAQ issued two new episodes of its online video series, *Profession in Focus*:

- [Episode 36](#) features Caroline Tsay, Chief Digital Officer and General Manager at Hewlett Packard Enterprise Software. Tsay, who sits on the boards of Rosetta Stone and Travelzoo, discusses innovation, board strategy, diversity, and advice for new directors.
- [Episode 37](#) features Sara Mathew, who serves on the boards of the Campbell Soup Company, Inc., Freddie Mac, and Shire plc. Mathew – formerly the Chairman, President, and Chief Executive Officer of Dun & Bradstreet – provides views on financial expertise for audit committees, the importance of contrarian thinking, cybersecurity, and boardroom diversity.

## **Upcoming Events**

### **January 12-14**

American Accounting Association Auditing Section Midyear Meeting, Orlando, FL ([Link](#))

**January 16-20**

IASB Board Meeting, London, UK ([Link](#))

**January 19**

National Association of Corporate Directors Event: Audit Committee Agendas 2017, Chicago, IL ([Link](#))

**January 27-28**

American Accounting Association Financial Accounting and Reporting Section Midyear Meeting, Charlotte, NC ([Link](#))

**January 31**

U.S. Chamber of Commerce Event, “Essential Information: Modernizing our Corporate Disclosure System,” Washington, DC ([Link](#))

**February 20-24**

IASB Board Meeting, London, UK ([Link](#))

**March 1-2**

International Corporate Governance Network Washington DC Event, Washington, DC ([Link](#))

**March 13-17**

IAASB Meeting, Lima, Peru ([Link](#))

**March 15**

FASB Roundtable on Proposed Improvements to Insurance Accounting, Norwalk, CT ([Link](#))

**March 30**

U.S. Chamber of Commerce Annual Capital Markets Summit, Washington, DC ([Link](#))

**May 3-5**

AICPA CFO Conference, Phoenix, AZ ([Link](#))

**May 3-5**

Investment Company Institute General Membership Meeting, Washington, DC ([Link](#))

**May 8-10**

AICPA Employee Benefit Plans Conference, Nashville, TN ([Link](#))

**May 21-24**

CFA Institute Annual Conference, Philadelphia, PA ([Link](#))

**June 6-8**

National Association of State Boards of Accountancy Western Regional Meeting, Coeur d’Alene, ID ([Link](#))

**June 12-14**

AICPA National Advanced Accounting and Auditing Technical Symposium, Las Vegas, NV ([Link](#))

**June 19-23**

IAASB Meeting, New York, NY ([Link](#))

**June 27-29**

National Association of State Boards of Accountancy Eastern Regional Meeting, Newport, RI ([Link](#))

**June 28-July 1**

Society for Corporate Governance Professionals National Conference, San Francisco, CA ([Link](#))

**July 11-13**

International Corporate Governance Network Annual Conference, Kuala Lumpur, Malaysia ([Link](#))

**August 5-9**

American Accounting Association Annual Meeting, San Diego, CA ([Link](#))

**September 18-22**

IAASB Meeting, New York, NY ([Link](#))

**September 24-27**

Investment Company Institute Tax and Accounting Conference, San Antonio, TX ([Link](#))

**November 6-8**

AICPA Oil & Gas Conference, Denver, CO ([Link](#))

**December 11-15**

IAASB Meeting, New York, NY ([Link](#))

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*The Center for Audit Quality is an autonomous, nonpartisan, nonprofit organization dedicated to enhancing investor confidence and public trust in the global capital markets by fostering high-quality public company audits; collaborating with other stakeholders to advance the discussion of critical issues; and advocating policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of CPAs. For more information, visit [www.thecaq.org](http://www.thecaq.org).*

*The CAQ Public Policy and Technical Alert (PPTA) represents the observations of the CAQ, but not necessarily the views of particular member firms, Governing Board members or individuals associated with the CAQ. Questions and comments about the PPTA can be addressed to: [aschumacher@thecaq.org](mailto:aschumacher@thecaq.org).*