



# CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets  
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## CAQ Public Policy and Technical Alert

MARCH 2017

*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

#### Senators reintroduce PCAOB transparency legislation

Senators Jack Reed (D-R.I.) and Charles Grassley (R-Iowa) on March 13 reintroduced the *PCAOB Enforcement Transparency Act*. The bill ([S. 610](#)), according to a [news release](#) from Sen. Reed's office, "would make Public Company Accounting Oversight Board (PCAOB) disciplinary proceedings public to bring auditing deficiencies at the firms or the companies they audit to light in a timely manner and help deter violations." Sens. Reed and Grassley originally introduced the bill in 2011.

“Reliable financial reporting is vital to the health of our economy” Sen. Reed said, “and we must take the legislative steps necessary to enhance transparency in the PCAOB’s enforcement process...”

S. 610 has been referred to the Senate Banking Committee.

## SEC

### **SEC proposes Inline XBRL filing of tagged data**

The Securities and Exchange Commission (SEC) on March 1 [proposed amendments](#) intended to improve the quality and accessibility of data submitted by public companies and mutual funds using eXtensible Business Reporting Language (XBRL). The proposed amendments would require the use of Inline XBRL format for the submission of operating company financial statement information and mutual fund risk/return summaries. The proposal would also eliminate the requirement for filers to post XBRL data on their websites. Inline XBRL allows filers to embed XBRL data directly into their filings instead of as attachments, reducing the likelihood of inconsistencies. The recommendations are part of the SEC’s disclosure modernization initiative.

The deadline for submitting comments is May 16, 2017.

### **SEC publishes IFRS Taxonomy; accepts FASB 2017 US GAAP financial reporting taxonomy**

On March 1, the SEC [announced](#) publication of a taxonomy so that foreign private issuers (FPIs) that prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) may submit those reports using XBRL. FPIs that prepare their financial statements in accordance with IFRS as issued by the International Accounting Standards Board (IASB) may begin immediately to submit their financial statements in XBRL. Otherwise, all such FPIs must submit their financial statements in XBRL for fiscal periods ending on or after December 15, 2017.

On March 9, the SEC [accepted](#) the Financial Accounting Standards Board’s (FASB) [2017 US GAAP Financial Reporting Taxonomy](#).

### **SEC approves rules to ease investor access to exhibits in company filings**

The SEC on March 1 [adopted rule and form amendments](#) to make it easier for investors and other market participants to find and access exhibits in registration statements and periodic reports that were originally provided in previous filings. The amendments, which take effect on September 1, 2017, will require issuers to include a hyperlink to each exhibit in the filing’s exhibit index.

### **SEC proposes amendments to municipal securities disclosures**

Also on March 1, the SEC [proposed rule amendments](#) to improve investor protection and enhance transparency in the municipal securities market.

Rule 15c2-12 (the Rule) under the Securities Exchange Act of 1934 requires brokers, dealers, and municipal securities dealers that are acting as underwriters in primary offerings of municipal securities subject to the Rule to reasonably determine, among other things, that the issuer or obligated person has

agreed to provide to the Municipal Securities Rulemaking Board (MSRB) timely notice of certain events. The proposed amendments would add two new event notices:

- Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material; and
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.

The deadline for submitting comments is May 15, 2017.

### **SEC seeks input on possible changes to Industry Guide 3**

The SEC on March 1 [published a request for public comment](#) on disclosures called for by Industry Guide 3 - Statistical Disclosure by Bank Holding Companies. Specifically, the SEC is soliciting public input on whether Guide 3 continues to elicit the information that investors need for informed investment and voting decisions. The SEC also seeks comments on whether there are new types of disclosures about the activities of bank holding companies that investors would find important.

The deadline for submitting comments is May 8, 2017.

### **SEC adopts T+2 settlement cycle for securities transactions**

The SEC on March 22 [adopted](#) an amendment to shorten by one business day the standard settlement cycle for most broker-dealer securities transactions. Currently, the standard settlement cycle for these transactions is three business days, known as T+3. The [amended rule](#) shortens the settlement cycle to two business days, T+2. The amended rule is designed to enhance efficiency, reduce risk, and ensure a coordinated and expeditious transition by market participants to a shortened standard settlement cycle. Broker-dealers will be required to comply with the amended rule beginning on Sept. 5, 2017.

### **SEC names Sagar Teotia as Deputy Chief Accountant**

The SEC on March 30 [announced](#) the appointment of Sagar S. Teotia as a Deputy Chief Accountant in the Office of the Chief Accountant. Mr. Teotia will lead the activities of the office's accounting group, which includes understanding investor and other perspectives on accounting matters and consulting with public companies, auditors, and divisions and offices within the SEC, on the application of accounting standards and financial disclosure requirements.

Teotia joins the SEC with approximately 18 years of professional experience that includes expertise in regulatory matters, technical accounting, and mergers and acquisitions. He joins the SEC from Deloitte & Touche LLP's National Office Accounting Consultation Group in Chicago, where he was a partner.

## **FASB**

### **FASB issues new, proposed ASUs**

In March, the FASB issued two new and one proposed Accounting Standards Updates (ASUs):

- [ASU 2017-07, Compensation – Retirement Benefits \(Topic 715\): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost](#)

Issued on March 10, the ASU improves the presentation of net periodic pension cost and net period postretirement benefit cost. Specifically, the amendments in the Update:

1. Require that an employer report the service cost component of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period.
2. Require that an employer present the other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented.
  - a. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described.
  - b. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed.
3. Allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

The ASU is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance.

- [ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs \(Subtopic 310-20\): Premium Amortization on Purchased Callable Debt Securities](#)

Issued on March 30, the ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the ASU requires the premium to be amortized to the earliest call date. The ASU does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.

For public business entities, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

- [Proposed ASU, Compensation – Stock Compensation \(Topic 718\): Improvements to Nonemployee Share-Based Payment Accounting](#)

Issued on March 7, the proposed amendments would expand the scope of Topic 718 which currently only includes payments to employees, to include payments for goods and services to nonemployees. Consequently, the accounting for share-based payments to nonemployees and employees would be similar. The proposed ASU would supersede Subtopic 505-50, *Equity—Equity Based Payments to Non-Employees*.

A [FASB In Focus](#) provides an overview of the proposed amendments.

The deadline for submitting comments in June 5, 2017.

## International

### IFIAR releases 2016 Inspection Findings Survey

The International Forum of Independent Audit Regulators (IFIAR) on March 3 [released](#) its annual [Survey of Inspection Findings](#) (Survey) for 2016. The Survey summarizes key inspection results from the audits of listed public interest entities (PIEs), including systemically important financial institutions (SIFIs) and firm-wide systems of quality control submitted by 36 IFIAR members in jurisdictions around the world. Inspection findings are deficiencies in audit procedures that indicate that the audit firm did not obtain sufficient appropriate audit evidence to support its opinion, but do not necessarily imply that those financial statements are also materially misstated.

The Survey found a general decline in inspection finding rates. However, the high rates of findings continue to be of concern to IFIAR. There are similarities in the nature and extent of findings compared to the previous year. Overall, the results continue to show a lack of consistency in the execution of high quality audits and point to the continued need to address firm-wide systems of quality control, including in the critical area of auditor independence.

### IASB outlines steps to improve disclosures in financial statements

The IASB on March 30 [published a Discussion Paper](#) that suggests principles to make disclosures in financial statements more effective.

The paper, *Disclosure Initiative – Principles of Disclosure*, seeks public feedback on disclosure issues the IASB has identified through outreach as well as its preliminary proposals to resolve these issues. Ultimately, it is expected that the Discussion Paper could lead to amendments to International Accounting Standard (IAS) 1, the Standard covering general disclosure requirements, or the development of a new general disclosure Standard.

The deadline for submitting comments on the discussion paper is October 2, 2017.

### IASB proposes improvements to IFRS 8

The IASB on March 29 [proposed improvements](#) to IFRS 8, *Operating Segments*. IFRS 8 sets out the disclosure requirements for information about a company's operating segments, products and services, as well as about the geographical areas in which it operates and its major customers.

The proposed improvements include amendments:

- to clarify and emphasize the criteria that must be met before two operating segments may be aggregated;
- to require companies to disclose the title and role of the person or group that performs the function of the chief operating decision maker; and
- to require companies to provide information in the notes to the financial statements if segments in the financial statements differ from segments reported elsewhere in the annual report and in accompanying materials.

The IASB has also proposed amendments to IAS 34, *Interim Financial Reporting*, to require companies that change their segments to provide restated segment information for prior interim periods earlier than they currently do.

The deadline for submitting comments is July 31, 2017.

## CAQ Updates

### Anti-Fraud Collaboration report focuses on complex accounting areas

The Anti-Fraud Collaboration on March 16 released [\*Addressing Challenges for Highly Subjective and Complex Accounting Areas\*](#), which compiles leading-practice recommendations from dozens of company executives, corporate directors, auditors, and regulators who attended two 2016 workshops to discuss ways to help deter fraud and enhance financial reporting. The workshops explored issues that were identified in an analysis of enforcement actions in which the SEC took an action against an issuer or individual because of a securities violation and asserted that there were serious issues with the company's internal controls. The workshops also examined case studies as a catalyst for the discussions.

The report's key recommendations concerning company accounting policies include:

- Accounting policies must adhere to technical accounting guidance. Supervisors and managers are responsible for implementation. It is critical that these policies be understandable to non-accountants who may not be conversant in the nuances of technical accounting.
- Process must be married to policies. Accounting policies must be reviewed at regular intervals and address how to uncover and monitor changes in activities that impact accounting.
- Policies must be tested in the field prior to implementation, and then monitored for compliance post-implementation.
- Accounting policies in regards to revenue recognition should be granular, because even slight changes in contract terms can have a major impact on revenue.

The report also outlines key recommendations regarding internal control over financial reporting (ICFR):

- Tone at the top is an essential component of an ICFR regime.
- A risk-based evaluation is the best approach for achieving effectiveness and efficiency in ICFR.
- Internal controls over unusual and non-routine transactions are sometimes overlooked or given less attention than core processes when developing an effective ICFR regime.

The Anti-Fraud Collaboration represents the collaborative efforts of the CAQ, Financial Executives International (FEI), the National Association of Corporate Directors (NACD), and The Institute of Internal Auditors (IIA).

### CAQ issues new 'Profession in Focus' videos

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

- [Episode 42](#) features Rodney Chase, who currently serves on the board at Tesoro Corporation and Hess Corporation. Chase, who previously chaired the boards of Genel Energy, plc and Computer Sciences Corporation, discusses the keys to handling investigations of fraud or potential fraud, how audit committees should approach the use of non-GAAP measures, and his views on two of the biggest issues facing audit committees in 2017.
- [Episode 43](#) features the SEC’s Margaret McGuire, Senior Counsel to the Director of Enforcement and Chief of the SEC’s Financial Reporting and Audit (FRAud) Group. McGuire discusses the objectives of the FRAud group, its extensive use of technology, and how cooperation, self-remediation, and self-reporting are key tenets of the SEC’s enforcement program.

## Upcoming Events

### April 11

NACD Southern California Chapter Event: “Policy, Audit and Risk – a Fireside Chat with Cindy Fornelli,” Los Angeles, CA ([Link](#))

### April 20

SIFMA Canada-US Securities Summit, New York, NY ([Link](#))

### April 24-28

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

### May 3-5

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

### May 3-5

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

### May 4

Baruch College Zicklin School of Business-16<sup>th</sup> Annual Financial Reporting Conference, New York, NY ([Link](#))

### May 8-10

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

### May 21-24

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

### May 24-25

PCAOB Standing Advisory Group Meeting, Washington, DC ([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](#))

**October 29-November 1**

National Association of State Boards of Accountancy Annual Meeting, New York, NY ([Link](#))

**November 6-8**

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

**November 29-30**

PCAOB Standing Advisory Group Meeting, Washington, DC ([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).*

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