



## November 2018

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.

### In This Issue:

#### PCAOB

- PCAOB approves five-year strategic plan and 2019 budget
- PCAOB announces staff appointments

#### SEC

- SEC Enforcement Division issues report on FY 2018 results
- SEC Division of Corporation Finance updates C&DIs

#### FASB

- FASB staff paper provides examples of revenue recognition implementation for private company franchisors
- FASB issues new, proposed ASUs

#### International

- IAASB seeks public comment on exposure draft on agreed-upon procedures
- IASB to propose one-year deferral of insurance contracts standard
- FRC announces 2019-20 audit thematic reviews, priority sectors, and audit areas of focus
- FRC publishes thematic review findings of IFRS 9 and IFRS 15 company disclosures
- IFAC names new president

#### Other Developments

- FEI publications address ICFR considerations in leases, CECL standards
- SASB codifies industry-specific sustainability accounting standards



## CAQ

- CAQ releases 2018 Audit Committee Transparency Barometer
- CAQ comments on IAASB exposure draft on assessing risks of material misstatements
- CAQ comments on proposed SEC rule on financial disclosures about guarantors and issuers of guaranteed securities
- CAQ issues request for auditing-related academic research proposals
- CAQ welcomes Anita Doult as Professional Practice Fellow

## Upcoming Events

### PCAOB

#### PCAOB approves five-year strategic plan and 2019 budget

The PCAOB on November 15 [approved its 2018-2022 strategic plan and fiscal year 2019 budget](#). The budget, which is subject to approval by the SEC, is \$273.7 million and provides funding for up to 838 positions. It includes core investments in personnel, processes, and technology, and will provide the PCAOB with the resources necessary to make progress toward implementing its strategic vision.

The 2018-2022 strategic plan reflects five new values and five core strategies that the PCAOB will advance in the coming years to effectively fulfill its mission. Those values and strategies seek to implement the PCAOB's vision to be a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight.

#### PCAOB announces staff appointments

The PCAOB on November 1 announced the appointment of [Liza McAndrew Moberg](#) as director of the Office of International Affairs. In this role, she will lead the PCAOB's efforts to advance cross-border engagement with others involved in investor protection efforts and to implement and maintain cooperative agreements that facilitate the PCAOB's oversight activities outside of the U.S. She will represent the PCAOB internationally before non-U.S. regulatory and multilateral bodies, such as the International Forum of Independent Audit Regulators. She has been acting director of the office since May.

Moberg joined the PCAOB in 2013 as senior adviser to the director of the Office of International Affairs. Previously she was senior adviser to the director in the SEC's Office of International Affairs. She joined the SEC in July 2007 as a professional accounting fellow in the Office of the Chief Accountant's International Affairs group.



On November 12, the PCAOB announced the appointment of [Torrie Miller Matous](#) as director of the newly-formed Office of External Affairs. The new office, which combines the offices of public affairs, government relations, and outreach and small business liaison. It also will include new liaison staff for the investor and business communities, who will further assist the PCAOB in achieving the transparency and accessibility goals outlined in its draft strategic plan.

Prior to joining the PCAOB, Matous served as chief of staff for Rep. Martha Roby (R-Ala.), where she was her top adviser and led all policy, communications, and political strategy activities since March 2017. Previously, she served as communications director for Rep. Peter Sessions (R-TX) and Sen. Richard Shelby (R-Ala.).

## SEC

### SEC Enforcement Division issues report on FY 2018 results

The SEC's Enforcement Division (Division) on November 2 issued its [annual report for fiscal year 2018](#). The report documents the Division's ongoing efforts to protect investors and market integrity. It also highlights several significant actions and initiatives that took place in FY 2018. The report presents the activities of the Division from both a qualitative and quantitative perspective.

### SEC Division of Corporation Finance updates C&DIs

On November 7, the SEC's Division of Corporation Finance updated the following Compliance and Disclosure Interpretations (C&DIs):

- **Exchange Act Rules**
  - [Section 130. Rule 12b-2](#)
    - Withdrawn Question 130.04
  - [Section 169. Rule 14a-21](#)
    - Withdrawn Questions 169.01, 169.02, 169.03
- **Exchange Act Forms**
  - [Section 104. Form 10-K](#)
    - New Question 104.13
- **Regulation S-K**
  - [Section 102](#)
    - New Questions 102.1, 102.2



## FASB

### **FASB staff paper provides examples of revenue recognition implementation for private company franchisors**

The FASB on November 5 released a [staff paper](#) that provides implementation examples to help private company franchisors preparing to implement the revenue recognition standard in 2019. The staff paper primarily targets questions related to the use of judgment in identifying performance obligations.

Under current accounting guidance, a franchisor typically recognizes an initial franchise fee when a new franchise location opens. Consequently, the franchisor has not had to assess whether pre-opening services are a separate deliverable. Under the new revenue recognition guidance, the franchisor will be required to determine if the pre-opening activities contain any distinct goods or services. To help franchisors transition to the new guidance, the staff paper provides educational illustrations of how a franchisor may make these assessments.

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

The FASB issued two new Accounting Standards Updates (ASUs) in November:

- [ASU 2018-18, Collaborative Arrangements \(Topic 808\): Clarifying the Interaction between Topic 808 and Topic 606](#)

Issued on November 5, the ASU provides guidance on how to assess whether certain transactions between collaborative arrangement participants should be accounted for within the revenue recognition standard.

The ASU also provides more comparability in the presentation of revenue for certain transactions between collaborative arrangement participants. It accomplishes this by allowing organizations to only present units of account in collaborative arrangements that are within the scope of the revenue recognition standard together with revenue accounted for under the revenue recognition standard. The parts of the collaborative arrangement that are not in the scope of the revenue recognition standard should be presented separately from revenue accounted for under the revenue recognition standard.

For public companies, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other organizations, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted.



- [ASU 2018-19, Codification Improvements to Topic 326: Financial Instruments – Credit Losses](#)

Issued on November 15, the ASU amends the transition requirements and scope of [ASU 2016-13, Financial Instruments – Credit Losses \(Topic 326\): Measurement of Credit Losses on Financial Instruments](#). Specifically, the ASU:

- Mitigates transition complexity by requiring entities other than public business entities – including not-for-profit organizations and certain employee benefit plans – to implement it for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. This aligns the implementation date for their annual financial statements with the implementation date for their interim financial statements.
- Clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the [leases](#) standard.

The effective date and transition requirements are the same as the effective dates and transition requirements in ASU 2016-13, as amended by the new ASU.

The FASB also issued two proposed ASUs:

- [Proposed ASU, Entertainment – Films – Other Assets – Film Costs \(Subtopic 926-20\) and Entertainment – Broadcasters – Intangibles – Goodwill and Other \(Subtopic 920-350\): Improvements to Accounting for Costs of Films and License Agreements for Program Materials](#)

Issued on November 7, the proposed ASU would address questions as to whether the constraint in the capitalization guidance for episodic content still provides relevant information to investors.

The proposed ASU would address the issue by converging the capitalization guidance for films and episodic content. It also would address when a company or organization should assess films and license agreements for program material for impairment at the film-group level, while amending the presentation and disclosure requirements for content that is either produced or licensed.

The deadline for submitting comments is December 7, 2018.

- [Proposed ASU, Codification Improvements – Financial Instruments](#)



Issued on November 19, the proposed ASU would clarify and improve areas of guidance related to the FASB's standards on credit losses, hedging, and recognition and measurement.

The deadline for submitting comments is December 19, 2018.

## International

### **IAASB seeks public comment on exposure draft on agreed-upon procedures**

The IAASB on November 15 issued [Proposed International Standard on Related Services \(ISRS\) 4400 \(Revised\), Agreed-Upon Procedures Engagements](#).

To ensure that the IAASB's standard on agreed-upon procedures (AUP) engagements remains relevant in the current business environment, the IAASB has proposed enhancing key concepts in the standard, including:

- The role of professional judgment in an AUP engagement;
- Disclosures relating to the practitioner's independence or lack thereof;
- Guidance on appropriate or inappropriate terminology to describe procedures and findings in AUP reports;
- The use of a practitioner's expert in an AUP engagement; and
- Restrictions on the distribution and use of the AUP report.

The deadline for submitting comments is March 15, 2019.

### **IASB to propose one-year deferral of insurance contracts standard**

The IASB on November 14 [voted to propose a one-year deferral](#) of the effective date for IFRS 17, *Insurance Contracts*, to 2022. The IASB also will propose extending the temporary exemption for insurers to apply IFRS 9, *Financial Instruments*, to 2022 so that both IFRS 9 and IFRS 17 can be applied at the same time.

The proposed deferral is subject to public consultation, which is expected in 2019. The IASB expects to discuss the merits of potential amendments to IFRS 17 during its December 2018 meeting.



## **FRC announces 2019-20 audit thematic reviews, priority sectors, and audit areas of focus**

The U.K. Financial Reporting Council (FRC) on November 15 [announced that it will supplement](#) its routine 2019-2020 Audit Quality Review (AQR) monitoring program with two thematic reviews. The thematic reviews, which focus on aspects of audit practice across a number of firms to identify both scope for improvement and good practice, complement other AQR work, all with the overriding objective of driving improvements in audit quality.

The thematic review topics are:

- *Audit Quality Indicators (AQIs)*: An assessment of the development and use of AQIs by U.K. audit firms; and
- *The use of technology in audits*: The FRC reported on firms' use of data analytics in January 2017. It will revisit the progress firms have made since, how the use of technology has widened beyond data analytics, and the potential impact upon audit quality.

## **FRC publishes thematic review findings of IFRS 9 and IFRS 15 company disclosures**

The FRC on November 5 published thematic reviews to help companies improve the quality of their corporate reporting in relation to the new accounting standards [IFRS 9, \*Financial Instruments\*](#), and [IFRS 15, \*Revenue from Contracts with Customers\*](#). The reports analyze the disclosures in a sample of companies' June 2018 interim reports in relation to the adoption of the new standards and provide examples of better practice in explaining their effect.

With respect to IFRS 9, the FRC expects to see:

- Quantification of the effect of estimation uncertainty in measuring expected credit losses and disclosure of the sensitivity of the amounts to changes in assumptions and estimations and/or a range of reasonably possible outcomes; and
- Evidence of consideration of the potential impact of the new standard, even where it does not have a material effect.

With respect to IFRS 15, the FRC expects to see:

- Clear identification and explanation of performance obligations, a new concept introduced by IFRS 15, with a focus on judgments made both in their determination and when they are considered to be satisfied; and



- The impact of the standard on the balance sheet, including accounting policies for contract assets and liabilities.

## IFAC names new president

On November 2, the International Federal of Accountants (IFAC) announced the election of [Dr. In-Ki Joo](#) of the Republic of Korea as its president. He will serve a two-year term through November 2020. He previously served as IFAC Deputy President since November 2016.

Dr. Joo is Professor Emeritus of Accounting at the Yonsei University School of Business. He has served on the Board of LG Electronics and at the Korean Institute of Certified Public Accountants. He also has served in top leadership positions at the Confederation of Asian and Pacific Accountants, the Korean Accounting Association, the Korean Academic Society of Business Administration, and the Korean Academy of Business Ethics.

IFAC also announced the election of Alan Johnson as Deputy President. Johnson's more than three decades in the public and private sector of the profession includes a recent appointment as non-executive Director and Chair of the Audit and Risk Committee at the U.K.'s Department for International Development. Previously, he was CFO of Unilever's global foods business, responsible for leading the finance functions in over 80 countries. He also has led Unilever's global internal audit function.

## Other Developments

### FEI publications address ICFR considerations in leases, CECL standards

Financial Executives International (FEI) on November 15 published two [ICFR: Insights, Issues, and Practices](#) documents that address internal control considerations for preparers' adoption of the FASB's leases and current expected credit loss (CECL) standards. The documents include considerations, insights, and best practices to help companies execute successful implementation and maintenance of effective internal control over financial reporting for these standards.

### SASB codifies industry-specific sustainability accounting standards

On November 7, the Sustainability Accounting Standards Board (SASB) published the world's first set of [industry-specific sustainability accounting standards](#) covering financially material issues. The 77 industry-specific standards are designed to assist companies in disclosing financially material, decision-useful sustainability information to investors.



“What makes SASB standards unique in the marketplace is their focus on industry specificity and financial materiality, universal concepts that are important for investors and businesses around the world,” SASB Chair Jeffrey Hales said in a [statement](#). “This is an important milestone for global capital markets. Companies and investors around the world now have codified, market-based standards for measuring, managing, and reporting on sustainability factors that drive value and affect financial performance.”

## CAQ

### CAQ releases 2018 Audit Committee Transparency Barometer

The CAQ on November 1 published the 2018 edition of the [Audit Committee Transparency Barometer](#) (Barometer), an annual report issued jointly by the CAQ and Audit Analytics. Notable findings in this year’s report include the following:

- 40 percent of S&P 500 companies disclose considerations in appointing the audit firm (up from 13 percent in 2014), compared to 27 percent of mid-cap companies (up from 10 percent in 2014) and 19 percent of small-cap companies (up from 8 percent in 2014);
- 46 percent of S&P 500 companies disclose criteria considered when evaluating the audit firm (up from 8 percent in 2014), compared to 36 percent of mid-cap companies (up from 7 percent in 2014) and 32 percent of small-cap companies (up from 15 percent in 2014); and
- 26 percent of S&P 500 companies disclose that the evaluation of the external auditor is at least an annual event (up from 4 percent in 2014), compared to 17 percent of mid-cap companies (up from 3 percent in 2014) and 12 percent of small-cap companies (up from 4 percent in 2014).

In addition to presenting statistics on disclosure trends, the Barometer offers disclosure examples to illustrate how audit committees are enhancing information for investors and others.

### CAQ comments on IAASB exposure draft on assessing risks of material misstatements

The CAQ on November 2 submitted a [comment letter](#) to the IAASB on Proposed International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs*.

In its comment letter, the CAQ expresses support for the IAASB’s efforts to consider ways to strengthen auditing practices to continuously improve audit quality. The letter notes the importance of risk assessment to audit quality and the CAQ’s belief that the ISAs should be clear



as to what is expected of auditors to perform a robust risk assessment, taking into account the nature and size of the entity.

The IAASB's proposed standard and full list of comment letters are available [here](#).

## **CAQ comments on proposed SEC rule on financial disclosures about guarantors and issuers of guaranteed securities**

The CAQ on November 15 submitted a [comment letter](#) to the SEC on the proposed rule, *Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities*. In its comment letter, the CAQ says the proposal has the potential to achieve the SEC's intention to better align the disclosure requirements with the needs of investors by providing them with material information based on specific facts and circumstances in a more understandable manner.

## **CAQ issues request for auditing-related academic research proposals**

On November 20, the CAQ issued its 11th annual [request for proposals](#) to fund independent academic research on projects of interest to the auditing profession. To date, the CAQ has funded 39 academic research projects under the auspices of its Research Advisory Board, which is comprised of representatives from academia and the public company auditing profession.

The CAQ's request for proposals targets [topics of interest](#) that include the following:

- Auditing accounting estimates and fair value measurements
- Audit committee and board effectiveness
- Audit implications of new accounting standards
- Auditor risk assessment
- Audits of internal control over financial reporting
- Cybersecurity
- Data analytics
- Fraudulent financial reporting
- Group audits
- Materiality
- New auditors' reporting model (Critical Audit Matters)
- New corporate disclosures and new media
- Non-GAAP measures
- Professional skepticism
- Value of the audit

The deadline for submitting proposals is March 14, 2019.

## CAQ welcomes Anita Doult as Professional Practice Fellow

[Anita Doult](#), CPA, has joined the CAQ as its Professional Practice Fellow. She will help guide the CAQ's professional practice and public policy activities as part of an 18-month fellowship.

Doult joins the CAQ on loan from KPMG, where she is an Audit Senior Manager in the firm's McLean, Va. office. She brings to the CAQ 10 years of experience auditing financial services entities, primarily leading integrated financial statement audits of diversified financial institutions. She has also been involved in financial statement audits of private equity investment partnerships, investment advisers, and real estate entities, as well as audits of federal agencies under the Chief Financial Officers Act. She holds a BS in accounting from the University of South Florida and a master of accounting from the Ohio State University.

## Upcoming Events

### December 10-11

AICPA Employee Benefit Plans Accounting, Auditing and Regulatory Update, Washington, DC ([Link](#))

### December 10-12

AICPA Conference on Current SEC and PCAOB Developments, Washington, DC ([Link](#))

### December 11

Senate Banking Committee Hearing, "Oversight of the U.S. Securities and Exchange Commission" ([Link](#))

### December 11-13

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

### December 12

SEC Government-Business Forum on Small Business Capital Formation, Columbus, OH ([Link](#))

### December 13

SEC Investor Advisory Committee Meeting, Washington, DC ([Link](#))

### December 17-18

PLI Annual SEC Reporting & FASB Forum, New York, NY and Webcast ([Link](#))

**January 25**

PLI Webcast: SEC and Cybersecurity: Emerging Regulatory Expectations and What's Ahead in 2019 ([Link](#))

**February 12-13**

ICGN Event, Amsterdam, The Netherlands ([Link](#))

**March 4-6**

CII Spring Conference, Washington, DC ([Link](#))

**May 6-8**

AICPA Employee Benefit Plans Conference, New Orleans, LA ([Link](#))

**May 12-15**

CFA Institute Annual Conference, London, UK ([Link](#))

**June 9-13**

AICPA Advanced Accounting and Auditing Conference, Las Vegas, NV ([Link](#))

**August 10-14**

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

**November 19-20**

SIFMA Annual Meeting, Washington, DC ([Link](#))

**September 21-24**

NACD Global Board Leaders' Summit, Washington, DC ([Link](#))

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) is intended as general information and should not be relied upon as being definitive or all-inclusive. As with all other CAQ resources, this is not authoritative and readers are urged to refer to relevant rules and standards. If legal advice or other expert assistance is required, the services of a competent professional should be sought. The CAQ makes no representations, warranties, or guarantees about, and assumes no responsibility for, the content or application of the material contained herein and expressly disclaims all liability for any damages arising out of the use of, reference to, or reliance on such material. This publication does not represent an official position of the CAQ, its board or its members.

Questions and comments about the PPTA can be addressed to: [aschumacher@thecaq.org](mailto:aschumacher@thecaq.org).

