



CAQ

PUBLIC POLICY & TECHNICAL ALERT

March 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.

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PCAOB

PCAOB Board Member Kaiser sworn in

[James G. Kaiser](#) was sworn in as a Board member of the PCAOB on March 1.

Kaiser, a certified public accountant, joins the PCAOB after retiring from PwC with 38 years of service, including 28 years as an audit partner. From 2015 until he retired in 2018, he was a member of the PwC Global Assurance Executive Leadership Team that developed the firm's global strategy for the audit and assurance business, including its global digital audit strategy, and he led the transformation of PwC's audit software platform.

Since 2014, Kaiser also served as the Global Assurance Methodology & Transformation Leader, where he led the firm's efforts to drive innovation in auditing and was responsible for its adherence to international auditing standards. Earlier, he was a lead audit partner on both large and complex global companies as well as emerging growth companies.

SEC

SEC accepts 2018 US GAAP Financial Reporting Taxonomy

The FASB announced on March 19 that the SEC has accepted the [2018 US GAAP Financial Reporting Taxonomy](#). The SEC has also accepted the new [2018 SEC Reporting Taxonomy](#) (SRT).

The SRT contains elements necessary to meet SEC requirements for financial schedules, condensed consolidating financial information for guarantors, and disclosures about oil- and gas-producing activities. The SRT also includes dimensional elements whose underlying recognition and measurement are not specified by US GAAP but are elements commonly used by US GAAP filers.

On March 30, SEC staff updated the [FAQs on the IFRS Taxonomy](#) to address the use of the 2018 SRT in company filings and add a link to access XBRL submissions prepared using the IFRS Taxonomy in the financial statement and notes data sets.



FASB

FASB proposes improvements to accounting for costs of implementation activities performed in certain cloud computing arrangements

The FASB on March 1 issued [Proposed Accounting Standards Update \(ASU\), *Intangibles – Goodwill and Other – Internal-Use Software \(Subtopic 350-40\): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements*](#) (a consensus of the FASB Emerging Issues Task Force).

The proposed ASU would align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract would not be affected by the proposed amendments.

The proposed ASU also would require an organization to disclose certain qualitative and quantitative information about implementation costs associated with internal-use software and all hosting arrangements, not just hosting arrangements that are service contracts.

The deadline for submitting comments is April 30, 2018.

International

IFIAR publishes annual inspection findings survey

IFIAR on March 8 released its [2017 Survey of Inspection Findings](#). The survey found that, although the frequency of findings from inspections of individual audit engagements has reduced on an overall basis compared to the last survey, progress has not been experienced in all jurisdictions or at the same rate. IFIAR also noted no definitive trends for findings arising from inspections of firm-wide systems of quality control.

IFIAR said the survey findings affirm its views that the global networks must continue in their efforts to strengthen their systems of quality control and drive consistent execution of high quality audits throughout the world.



ACCA reports on benefits of KAMs

The Association of Chartered Certified Accountants (ACCA) on March 13 released a [report](#) on IASB's [ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*](#).

ACCA found that investors consider the inclusion of key audit matters (KAMs) in the auditor's report useful. But ACCA also found that highlighting KAMs has given rise to a number of other benefits, including:

- Publication of KAMs has provided new focus for discussions between the auditor and the audit committee. For the first time, there is transparency in the most important audit issues that were discussed between the audit engagement partner and the audit committee. As a result, feedback from audit committee members shows that disclosure of KAMs has resulted in improvements in corporate governance.
- The process of reporting outputs from the auditor's reporting to the audit committee appears to have had a positive impact on audit quality.
- There is evidence that reporting by the auditor in relation to part of the financial statements has, in some cases, led companies to add to the disclosures in the financial statements made in previous years. In this way, KAMs have catalyzed better financial reporting.

IASB proposes amendments to IAS 8

The IASB proposed [narrow-scope amendments](#) to IAS 8 on March 27, *Accounting Policies: Changes in Accounting Estimates and Errors*.

IAS 8 sets out the criteria for selecting and changing accounting policies. Companies change accounting policy either as a result of new requirements in IFRS standards or when the change would provide better information for users of financial statements. When a company changes an accounting policy, it is currently required to apply the new policy as if it had always applied this policy – unless this is not practicable. Companies may decide to change an accounting policy as a result of an agenda decision published by the IFRS Interpretations Committee. Agenda decisions explain why the Interpretations Committee concludes that there is no need to amend or add to requirements in IFRS Standards after considering an application question. Agenda decisions are non-authoritative but often contain helpful explanatory information about how to apply IFRS Standards.

The IASB is proposing that in deciding how far back to go in applying a change in accounting policy that results from an agenda decision, a company will consider not only whether it is practicable but also the benefits to users and costs to the company of making the change.

The deadline for submitting comments is July 27, 2018.



IASB completes revisions to its Conceptual Framework

The IASB on March 29 issued a revised version of its [Conceptual Framework for Financial Reporting](#).

The *Conceptual Framework for Financial Reporting (Conceptual Framework)* sets out the fundamental concepts of financial reporting that guide the IASB in developing IFRS standards. It helps to ensure that the standards are conceptually consistent and that similar transactions are treated the same way, providing useful information for investors and others. It also assists companies in developing accounting policies when no IFRS standard applies to a particular transaction; and it helps stakeholders more broadly to understand the standards better.

The revised *Conceptual Framework* includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – the definition of a liability, in particular; and clarifications in important areas, such as the roles of stewardship, prudence, and measurement uncertainty in financial reporting.

IFRS Foundation publishes IFRS Taxonomy 2018

The IFRS Foundation on March 16 published [IFRS Taxonomy 2018](#) (2018 Taxonomy). The 2018 Taxonomy reflects the presentation and disclosure requirements of the IFRS standards as issued by the IASB as of January 1, 2018, the *IFRS for Small and Medium-sized Entities* standard as issued by the IASB in December 2015 and Practice Statement 1, *Management Commentary*, as issued by the IASB in December 2010.

The IFRS Foundation also published two IFRS Taxonomy Updates:

- [Annual Improvements](#); and
- [Prepayment Features with Negative Compensation \(Amendments to IFRS 9\)](#)

European Commission launches fitness check on public reporting by companies

The European Commission has published a consultation document, [Fitness Check on the EU Framework for Public Reporting by Companies](#) (Consultation), that seeks stakeholder views on whether the European Union's (EU) framework for public reporting by companies is fit for purpose.

The Consultation document's objectives include:

- To assess whether the EU public reporting framework is overall still relevant for meeting the intended objectives, adds value at the European level, is effective, internally consistent, coherent with other EU policies, efficient and not unnecessarily burdensome;



- To review specific aspects of the existing legislation as required by EU law; and,
- To assess whether the EU public reporting framework is fit for new challenges (such as sustainability and digitalization).

The deadline for submitting comments is July 21, 2018. The comments will feed into a Staff Working Document on the fitness of the EU framework for public reporting by companies, to be published in 2019.

European Union adopts amendments to IFRS 9

The EU on March 26 published a [Commission Regulation](#) endorsing *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments issued by the IASB in [October 2017](#) address the concerns about how [IFRS 9, Financial Instruments](#), classifies particular prepayable financial assets.

The EU effective date is the same as the IASB's (January 1, 2019), that is, one year after the first application of IFRS 9 in its current version. Early application is permitted so entities can apply the amendments together with IFRS 9 if they wish to do so.

IFAC appoints new CEO

IFAC [announced](#) on March 2 that Kevin Dancey, former President and Chief Executive Officer of CPA Canada, has been selected as IFAC's next Chief Executive Officer. He will succeed current IFAC Chief Executive Officer, Faye Choudhury, whose term expires at the end of 2018. Dancey joins on May 14, and will work closely with Choudhury to ensure a seamless leadership transition.

In addition to leading CPA Canada and the Canadian Institute of Chartered Accountants, Dancey has served as PwC's Canadian Senior Partner and Chief Executive Officer. Prior to the firm's global merger with Price Waterhouse, he was Coopers & Lybrand's national tax practice leader.

Other Developments

AICPA issues auditing interpretation on dual reporting

The AICPA Auditing Standards Board issued on March 2, [Auditing Interpretation No. 4, Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB](#).

Auditing Interpretation No. 4 provides guidance for complying with [AU-C Section 700, Forming an Opinion and Reporting on Financial Statements](#), in the context of [AS No. 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion](#).



Auditing Interpretation No. 4 applies in situations when an auditor may be required by law or regulation – or voluntarily agrees – to perform an audit engagement in accordance with PCAOB standards for a company whose audit is not subject to PCAOB oversight.

Although Auditing Interpretation No. 4 has been determined to be consistent with generally accepted auditing standards, it should not be construed to be an interpretation of PCAOB standards.

AICPA appoints Robert Dohrer as Chief Auditor

The AICPA on March 27 announced that Robert Dohrer will join the AICPA as chief auditor. He will succeed Charles Landes, the AICPA's vice president of professional standards – public accounting, who plans to retire early next year.

Currently based in London, Dohrer has overall responsibility for RSM International's audit and other attest services policies, procedures and guidance, as well as general risk containment policies for the network. Prior to joining RSM in 2012, Bob served as RSM US's (then McGladrey LLP) National Director of Assurance Services and International Assurance Services Practice Leader and served a broad range of clients. He has 29 years of experience in public accounting, all with RSM International and RSM US.

Dohrer currently serves as chairman of the AICPA's Assurance Services Executive Committee and has led efforts related to System and Organizational Controls, cybersecurity and sustainability. Internationally, he is a member of the IAASB, where he serves as Chair of the Data Analytics Working Group, Co-Chairs the IAASB Group Audits Task Force, and is a member of the IAASB Quality Control Task Force.

CAQ Updates

New roadmap can help audit committees enhance oversight of non-GAAP measures

The CAQ on March 16 issued a report presenting themes that emerged at a series of multi-stakeholder roundtables held in 2017. [Non-GAAP Measures: A Roadmap for Audit Committees](#) provides a set of key considerations for audit committees, including leading practices to assess whether a company's non-GAAP metrics present a balanced representation of the company's performance.

Among other recommendations, the CAQ suggests the audit committee:



- Put itself in the shoes of investors when evaluating if the presented non-GAAP measures and related disclosures align with the company's overall strategy and performance;
- Ask management whether it has an internal policy that provides guidelines for determining how non-GAAP measures are generated, calculated, and presented;
- Discuss with management how the company makes changes to the non-GAAP measures it presents and the rationale for why it would or would not make changes;
- Ask the company to compare or benchmark its non-GAAP measures to its peers;
- Leverage external auditors as a resource when evaluating non-GAAP measures; and,
- Engage with investors directly or through investor relations to ensure that the presented non-GAAP measures aid investors' understanding of the company's performance.

The CAQ also released a [companion video](#) featuring interviews with audit committee chairs that provides additional context and real-life examples of how audit committees are thinking about and overseeing non-GAAP measures.

CAQ posts highlights of November 2017 IPTF meeting

The CAQ posted on its website [highlights](#) from the November 21, 2017 meeting of the International Practices Task Force (IPTF) with SEC staff. The issues discussed during the meeting included:

- Use of the SEC's General Instruction G accommodations upon making an unreserved statement of compliance with IFRS-IASB for the first time when previous GAAP was substantially consistent with IFRS-IASB;
- Adoption of IFRS in an interim period in relation to Regulation S-X, Rule 3-05 financial statements;
- Application of the SEC's New Securities Act Compliance and Disclosure Interpretations (C&DIs) to Foreign Private Issuers;
- Update on XBRL Implementation for IFRS Filers; and,
- Monitoring Inflation in Certain Countries.

The next meeting of IPTF has been set for May 16, 2018.

CAQ releases framework for compiling inflation data

The CAQ and IPTF released a [framework for compiling inflation data](#) to assist registrants in monitoring inflation statistics in connection with their determination of the inflationary status of countries in which they have operations. The information in the discussion document may be helpful to management in applying FASB Accounting Standards Codification Topic 830, *Foreign Currency Matters* (ASC 830), in conjunction with its internal controls over financial reporting to reach a conclusion on whether a country's economy should be considered highly-inflationary.

The IPTF compiled cumulative inflation data by country (for those countries for which the International Monetary Fund publishes data), and then categorized the countries based on their cumulative inflation rates and the implementation guidance in ASC 830. In addition, the IPTF identified countries where *projected* cumulative inflation rates would have been categorized into categories considering the guidance in ASC 830 and in circumstances where there was not consistent reliable data.

Upcoming Events

April 23-24

AICPA Cybersecurity Advisory Services Certificate Course, Durham, NC ([Link](#))

April 23-27

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

April 25-26

AICPA SOC for Cybersecurity Certificate Course, Durham, NC ([Link](#))

April 26

Center for Capital Markets Competitiveness Annual Capital Markets Summit, Washington, DC ([Link](#))

May 2-4

AICPA CFO Conference, New York, NY ([Link](#))

May 3

Baruch College Annual Financial Reporting Conference, New York, NY ([Link](#))

May 15-17

AICPA Employee Benefit Plans Conference, Las Vegas, NV ([Link](#))

May 17-18

PLI Midyear SEC Reporting & FASB Forum, Dallas, TX ([Link](#))

May 21-25

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

June 5-6

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

June 7-8

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

June 7-8

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

June 11-13

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

June 18-19

PLI Midyear SEC Reporting & FASB Forum, San Francisco, CA ([Link](#))

June 18-22

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

July 16-20

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

August 4-8

American Accounting Association Annual Meeting, National Harbor, MD ([Link](#))

September 17-19

AICPA National Conference on Banks & Savings Institutions, National Harbor, MD ([Link](#))

September 17-21

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

September 24-25

PLI Midyear SEC
Reporting & FASB Forum
for Mid-sized & Smaller
Companies, Las Vegas,
NV ([Link](#))

October 1-2

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

October 22-24

AICPA Conference on
Credit Unions, Las Vegas,
NV ([Link](#))

October 22-26

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

November 12-13

PLI Annual SEC Reporting
& FASB Forum, Dallas, TX
([Link](#))

November 11-13

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

November 12-16

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

November 28-29

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

December 3-4

PLI Annual SEC Reporting
& FASB Forum, San
Francisco, CA ([Link](#))

December 10-12

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

December 10-14

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

December 17-18

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

December 17-18

Webcast: PLI Annual SEC
Reporting & FASB Forum
([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.

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.

