

May 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 publishes 2017 Annual Report
- PCAOB announces senior staff departures

SEC

- SEC proposes amendments to auditor independence rules
- SEC Division of Corporation Finance updates C&DIs
- Commissioner Piwowar announces departure
- New SEC infographics illustrate the structure of financial reporting

FASB

- FASB issues codification improvements to Topic 942
- FASB member Harold Monk steps down

International

- FRC publishes Audit Culture Thematic Review
- IESBA consults on professional skepticism
- IAASB seeks stakeholder views on future strategy
- IFRS Foundation publishes overview of proposed amendments to IAS 8

Other Developments

- AICPA seeks comments on draft Accounting and Valuation Guide
- AICPA issues revenue recognition working drafts
- AICPA Trust Services Criteria now available as a free resource



CAQ

- CAQ fact sheet helps companies meet the challenges of managing cybersecurity risk
- CAQ posts highlights of March 13 SEC Regulations Committee meeting
- CAQ alert helps auditors of brokers and dealers plan 2018 audits

Upcoming Events

PCAOB

PCAOB publishes 2017 Annual Report

The PCAOB on May 2 published its [2017 Annual Report](#). Chairman William Duhnke writes: “On Dec. 12, 2017, the Securities and Exchange Commission appointed five new members of the Board. This means that 2018 necessarily will be a year of transition for the PCAOB. With change, however, comes opportunity. The new Board fully intends to use this opportunity to examine all aspects of the PCAOB’s activities.”

PCAOB announces senior staff departures

The PCAOB on May 18 announced that [Helen Munter](#), Director of the Division of Registration and Inspections, will leave the organization at the end of May after 14 years of service. “As director of the Division since 2011,” the PCAOB said, “Ms. Munter has played a key role in the oversight of the audit work of all PCAOB-registered firms, both domestic and foreign. She has been a driving force in developing the inspection process that strengthened the PCAOB’s efforts to improve audit quality across a broad spectrum of firms.”

On May 22, the PCAOB announced that [Martin Baumann](#), Chief Auditor and Director of Professional Standards, will also depart at the end of May after 12 years of service. Baumann has led the Office of the Chief Auditor since 2009, during which time he oversaw landmark standard-setting projects in recent years to benefit investors by increasing the transparency of the audit and the usefulness of the audit report. He joined the PCAOB in 2006, and served as director of the Office of Research and Analysis from 2007 to 2009.

And on May 29, the PCAOB announced that [Claudius Modesti](#) will leave at the end of May after serving 14 years as Director of the Division Enforcement and Investigations. Modesti joined the PCAOB in May 2004 as the first enforcement director and led the team that built the enforcement group from its inception. He and his team have brought, settled and litigated matters across a broad spectrum of audit firms and conduct, including significant audit failures, noncooperation with the Board’s oversight processes, and independence violations. A significant number of these matters involved cross-border audits.



SEC

SEC proposes amendments to auditor independence rules

The SEC on May 2 [proposed amendments](#) to its auditor independence rules to refocus the analysis that must be conducted to determine whether an auditor is independent when the auditor has a lending relationship with certain shareholders of its client at any time during an audit or professional engagement period. Specifically, the proposed amendments to Rule 2-01 of Regulation S-X would:

- Focus the analysis solely on beneficial ownership;
- Replace the existing ten percent bright-line shareholder ownership test with a “significant influence” test;
- Add a “known through reasonable inquiry” standard with respect to identifying beneficial owners of the audit client’s equity securities; and,
- Amend the definition of “audit client” for a fund under audit to exclude from the provision funds that otherwise would be considered “affiliates of the audit client”.

The SEC is also requesting comments on other potential amendments to its auditor independence rules. Including:

- Should the SEC make other changes to auditor independence rules? If so, which rules and why?
- Would the proposed amendments have any unintended impact on other professional standards that may exist, such as the requirements of the PCAOB, professional societies, or state boards of accountancy?

The deadline for submitting comments is July 9, 2018.

SEC Division of Corporation Finance updates C&DIs

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

- [Proxy Rules and Schedules 14A/14C](#) (Updated 5/11/18)

Commissioner Piowar announces departure

SEC Commissioner Michael Piowar on May 7 [notified President Trump](#) that he intends to resign on the earlier of July 7 or the swearing in of his successor. His term officially ends on June 5, 2018.



New SEC infographics illustrate the structure of financial reporting

To enhance investor understanding of the U.S. system of financial reporting, the SEC Office of the Chief Accountant released a [new set of infographics](#). One is a blueprint, offered in both complex and simplified versions, illustrating how key players interconnect in the financial reporting process. A segment chart depicts the variations in financial reporting requirements in three different market segments: domestic issuers, foreign private issuers, and private companies.

FASB

FASB issues codification improvements to Topic 942

The FASB on May 7 issued [Accounting Standards Update \(ASU\) 2018-06, Codification Improvements to Topic 942, Financial Services – Depository and Lending](#). The ASU supersedes the guidance in Subtopic 942-740, *Financial Services – Depository and Lending – Income Taxes*, that is related to Circular 202 because that guidance has been rescinded by the Office of the Comptroller of the Currency and is no longer relevant. The amendments in the ASU take effect immediately.

FASB member Harold Monk steps down

The FASB announced on May 14 that Board member [Harold Monk](#) will resign effective May 31, 2018. Monk was appointed to the FASB by the Financial Accounting Foundation (FAF) Trustees in November 2016, and officially joined the board on January 1, 2017. Charles Noski, Chairman of the FAF Board of Trustees, said the Trustees will soon begin a formal search to identify and appoint Monk's successor.

International

FRC publishes Audit Culture Thematic Review

The U.K. Financial Reporting Council (FRC) on May 10 released an [Audit Culture Thematic Review](#) report. The report provides a snapshot of the actions being taken by the eight firms that have adopted the U.K. Audit Firm Governance Code to establish, promote, and embed a culture that is committed to delivering consistently high quality audits. The findings are drawn from a wide range of evidence including the FRC's analysis of documentation obtained from the firms; a series of interviews with the firms' leadership, independent non-executives, investors, and audit committee members; a survey of a sample of audit partners and staff; and a series of focus groups run on the FRC's behalf by an independent third party.



The report notes that firms are investing considerable time and effort on their firm-wide culture and identifies numerous examples of good practice among firms and highlights key areas that firms should address to enhance audit quality. It also identifies five key areas where firms should focus greater attention to establish, embed and promote an appropriate audit culture.

IESBA consults on professional skepticism

The International Ethics Standards Board for Accountants (IESBA) on May 14 issued for public comment the consultation paper, *Professional Skepticism – Meeting Public Expectations*. The paper is organized into three sections that explore:

- The behavioral characteristics inherent in professional skepticism;
- Whether all professional accountants should apply these behavioral characteristics; and,
- Whether the *International Code of Ethics for Professional Accountants (including International Independence Standards)* should be further developed to address behaviors associated with the exercise of appropriate professional skepticism.

Through the consultation, the IESBA aims to support and reinforce the effective exercise of professional skepticism in audit and other assurance engagements.

The deadline for submitting comments is August 15, 2018.

IAASB seeks stakeholder views on future strategy

The IAASB on May 24 released a [Strategy Survey](#) to seek views and insights from its stakeholders on emerging developments and trends that are likely to be important to the Board's 2020-2023 strategy. The input from the survey will help inform the development of a consultation paper on the IAASB's 2020-2023 strategy, expected to be published at the end of 2018.

The IAASB is looking to obtain stakeholders' views on areas of future focus as the Board continues its [work on current projects](#), including revisions of the standards on auditing accounting estimates; identifying and assessing risks of material misstatement; and quality control for firms and audit engagements. The Board is also looking for views as it plans to undertake work on agreed upon procedures engagements and emerging forms of external reporting.

The deadline for submitting survey responses is July 24, 2018.

IFRS Foundation publishes overview of proposed amendments to IAS 8

The IFRS Foundation on May 11 published a [document](#) to accompany the IASB's exposure draft of the proposed amendments to IAS 8, *Accounting Policies – Changes in Accounting Estimates and Errors*. It provides an overview of the proposed amendments to IAS 8 and the standard's intended application in practice.

Other Developments

AICPA seeks comments on draft Accounting and Valuation Guide

The AICPA Financial Reporting Executive Committee (FinREC) on May 15 issued a working draft of the AICPA Accounting and Valuation Guide, *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies*. The guide provides non-authoritative guidance and illustrations for preparers of financial statements, independent auditors, and valuation specialists regarding the accounting for and valuation of portfolio company investments held by investment companies within the scope of FASB Accounting Standards Codification Topic 946, *Financial Services – Investment Companies* (including private equity funds, venture capital funds, hedge funds, and business development companies).

The deadline for submitting comments on the draft guide is August 15, 2018.

AICPA issues revenue recognition working drafts

The AICPA FinREC on May 1 issued two working drafts on revenue recognition implementation issues. When completed, the issues will be included in the AICPA's Revenue Recognition Guide.

- Gaming: [Issue No. 6-9B](#), *Gaming Entity's Accounting for Management Contract Revenues, Including Costs Reimbursed by Managed Properties*.
- Telecommunications: [Issue No. 15-3](#), *Contract Modifications*.

The deadline for submitting comments on the working drafts is July 2, 2018.

AICPA Trust Services Criteria now available as a free resource

The AICPA recently posted the Trust Services Criteria originally released in April 2017 as a free resource on its [webpage](#). This was previously available for purchase.



CAQ

CAQ fact sheet helps companies meet the challenges of managing cybersecurity risk

The CAQ on May 15 published a [one-page fact sheet](#) to provide an overview of how and why the CPA profession can help companies meet the challenges of managing cybersecurity risk. Key points include the following:

- CPAs operate under principles and standards of performance that have defined the accounting profession for over 125 years;
- CPAs have a broad and deep understanding of business risks and controls;
- CPAs bring to bear deep experience in IT security; and,
- CPAs have developed a robust cybersecurity risk management framework.

CAQ posts highlights of March 13 SEC Regulations Committee meeting

The CAQ posted [highlights](#) from the March 13, 2018 meeting of the SEC Regulations Committee with the SEC. The financial reporting matters discussed included the following:

- Financial reporting implications of tax reform legislation;
- Waivers of financial statements required by Rule 3-09 of Regulation S-X;
- New Accounting Standards;
- Use of most recent year-end financial statements in assessing Regulation S-X, Rule 1-02(w) significance in an IPO; and,
- Audit requirements for pre-transaction periods following a reverse merger involving two operating companies.

CAQ alert helps auditors of brokers and dealers plan 2018 audits

The CAQ on May 30 issued an [Audit Planning Alert for Auditors of Brokers and Dealers](#). The alert poses questions for auditors of brokers and dealers to consider as they plan both their audit and attestation engagements. The alert focuses on five areas: (1) auditing revenue, (2) auditing related party transactions, (3) auditing the supplemental information, (4) performing examination engagements, and (5) performing review engagements.

Upcoming Events

June 11

FASB Transition Resource Group for Credit Losses, Norwalk, CT ([Link](#))

June 11-13

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

June 14

SEC Investor Advisory Committee Meeting, Atlanta, GA ([Link](#))

June 18-19

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

June 18-22

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

July 9

PCAOB Forum on Auditing in the Small Business Environment, Denver, CO ([Link](#))

July 10

PCAOB Forum for Auditors of Broker-Dealers, Denver, CO ([Link](#))

July 10

NACD 2018 Leading Minds of Governance – West, San Francisco, CA ([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 18

PCAOB Forum on Auditing in the Small Business Environment, Fairfax, VA ([Link](#))

September 19

PCAOB Forum for Auditors of Broker-Dealers, Fairfax, VA ([Link](#))

September 24-25

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

September 29-October 2

NACD 2018 Global Board Leaders' Summit, Washington, DC ([Link](#))

October 1-2

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

October 18

PCAOB Forum on Auditing in the Small Business Environment, Tempe, AZ ([Link](#))

October 22-24

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

October 22-26

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

November 2

PCAOB Forum for Auditors of Broker-Dealers, Jersey City, NJ ([Link](#))



CAQ

PUBLIC POLICY & TECHNICAL ALERT

November 11-13

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

November 12-13

FEI Current Financial
Reporting Issues
Conference, New York,
NY ([Link](#))

November 12-13

PLI Annual SEC Reporting
& FASB Forum, Dallas, TX
([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 17-18

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



CENTER
FOR AUDIT
QUALITY