



July 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 posts updated standard-setting agenda

The PCAOB's Office of the Chief Auditor posted an [updated standard-setting agenda](#), which also includes updates on the research agenda.

The standard-setting projects include:

- *Auditing Accounting Estimates, Including Fair Value Measurements.* This proposal was issued in conjunction with a companion proposal on the auditor's use of the work of specialists. The comment period on both proposals ended on August 30, 2017. The staff has analyzed the comments received and is developing a recommendation for Board consideration in Q4 2018.
- *The Auditor's Use of the Work of Specialists.* This proposal was issued in conjunction with a companion proposal on auditing accounting estimates, including fair value measurements. The comment period on both proposals ended on August 30, 2017. The staff has analyzed the comments received and is developing a recommendation for Board consideration in Q4 2018.
- *Supervision of Audits Involving Other Auditors.* After consideration of comments received on the proposal and discussions with the Standing Advisory Group, on September 26, 2017, the Board issued a supplemental request for comment on revisions to the proposed amendments and proposed standard. The comment period on the supplemental request for comment ended on November 15, 2017. The staff is analyzing comments and determining next steps.
- *Going Concern.* The staff plans to continue its research and outreach activities, including monitoring the effect on audits of the changes to the relevant accounting standards. In the meantime, AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*,



and Staff Audit Practice Alert No. 13 continue to provide the applicable requirements and guidance, respectively, for audits under PCAOB standards.

The research projects include:

- Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities.
- Changes in the Use of Data and Technology in the Conduct of Audits.
- Auditor's Role Regarding Other Information and Company Performance Measures, Including Non-GAAP Measures.
- Auditor's Consideration of Noncompliance with Laws and Regulations.
- Auditor Communications with Audit Committees Concerning Independence.

SEC

SEC approves amendments and issues Concept Release related to Securities Act Rule 701, Regulation ATS

The SEC on July 18 issued [final rules to amend Securities Act Rule 701](#), which provides an exemption from registration for securities issued by non-reporting companies pursuant to compensatory arrangements. The amendment increases from \$5 million to \$10 million the threshold in excess of which the issuer is required to deliver additional disclosures to investors.

The SEC also issued a [Concept Release](#) seeking public comment on ways to modernize compensatory securities offerings and sales. The Concept Release solicits comment on:

- “Gig economy” relationships, in light of issuers using internet platforms to provide workers the opportunity to sell goods and services, to better understand how they work and determine what attributes of these relationships potentially may provide a basis for extending eligibility for the Rule 701 exemption;
- Whether the SEC should further revise the disclosure content and timing requirements of Rule 701(e); and,
- Whether the use of Form S-8 to register the offering of securities pursuant to employee benefit plans should be further streamlined.

The deadline for submitting comments is September 24, 2018.

In addition, the SEC adopted [amendments to Regulation Alternative Trading Systems \(ATSs\)](#) to enhance operational transparency and regulatory oversight of ATSs that trade stocks listed on a national securities exchange.



SEC proposes rules to simplify and streamline disclosures in certain registered debt offerings

The SEC on July 24 [proposed amendments](#) to the financial disclosure requirements in Rule 3-10 of Regulation S-X for guarantors and issuers of guaranteed securities registered or being registered, as well as the financial disclosure requirements in Rule 3-16 of Regulation S-X for affiliates whose securities collateralize securities registered or being registered.

Proposed Amendments to Rule 3-10 - Under the proposed amendments, Rule 3-10 would:

- Continue to permit the omission of separate financial statements of subsidiary issuers and guarantors when certain conditions are met, and the parent company provides supplemental financial and non-financial disclosure about the subsidiary issuers and/or guarantors and the guarantees; and,
- Provide the conditions that must be met in order to omit separate subsidiary issuer or guarantor financial statements. Proposed Rule 13-01, contained in new Article 13 of Regulation S-X, would specify the disclosure requirements for the accompanying proposed disclosures.

Proposed Amendments to Rule 3-16 - Among other things, the proposed amendments would:

- Replace the existing requirement to provide separate financial statements for each affiliate whose securities are pledged as collateral with financial and non-financial disclosures about the affiliate(s) and the collateral arrangement as a supplement to the consolidated financial statements of the registrant that issues the collateralized security;
- Permit the proposed financial and non-financial disclosures to be located in filings in the same manner as described above for the disclosures related to guarantors and guaranteed securities; and,
- Replace the requirement to provide disclosure only when the pledged securities meet or exceed a numerical threshold relative to the securities registered or being registered with a requirement to provide the proposed financial and non-financial disclosures in all cases, unless they are immaterial to holders of the collateralized security.

The deadline for submitting comments will be 60 days following publication in the *Federal Register*.



FASB

FASB issues new ASUs

The FASB issued three new Accounting Standards Updates (ASUs) in July:

- [ASU 2018-09, *Codification Improvements*](#)

Issued on July 16, the amendments affect a wide variety of topics in the Codification, including:

- Amendments to Subtopic 220-10, *Income Statement – Reporting Comprehensive Income – Overall*
- Amendments to Subtopic 470-50, *Debt – Modifications and Extinguishments*
- Amendments to Subtopic 480-10, *Distinguishing Liabilities from Equity – Overall*
- Amendments to Subtopic 718-740, *Compensation – Stock Compensation – Income Taxes*
- Amendments to Subtopic 805-740, *Business Combinations – Income Taxes*
- Amendments to Subtopic 815-10, *Derivatives and Hedging – Overall*
- Amendments to Subtopic 820-10, *Fair Value Measurement – Overall*
- Amendments to Subtopic 940-405, *Financial Services – Brokers and Dealers – Liabilities*
- Amendments to Subtopic 962-325, *Plan Accounting – Defined Contribution Pension Plans – Investments – Other*

- [ASU 2018-10, *Codification Improvements to Topic 842, Leases*](#)

Issued on July 18, the amendments clarify how to apply certain aspects of the new leases standard. The amendments address the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments, among other things.

- [ASU 2018-11, *Leases \(Topic 842\) – Targeted Improvements*](#)

Issued on July 30, the ASU simplifies transition requirements and, for lessors, provides a practical expedient for the separation of non-lease components from lease components. Specifically, the ASU provides:



- An option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements; and,
- A practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are met.

International

IAASB proposes changes to ISA 315

The IAASB on July 16 issued [Proposed International Standard on Auditing \(ISA\) 315 \(Revised\), Identifying and Assessing the Risks of Material Misstatement \(ISA 315\)](#). The IAASB is proposing more robust requirements and improved guidance to:

- Drive consistent and effective identification and assessment of risks of material misstatement;
- Modernize ISA 315 to meet evolving business needs, including information technology and how auditors use automated tools and techniques to perform audit procedures;
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities; and,
- Focus auditors on exercising professional skepticism throughout the risk identification and assessment process.

The deadline for submitting comments is November 2, 2018.

IAASB approves revised ISA 540

The IAASB, at its June 18-23 meeting, approved [ISA 540 \(Revised\), Auditing Accounting Estimates and Related Disclosures \(ISA 540 \(Revised\)\)](#). To facilitate early adoption, the IAASB published the text of ISA 540 (Revised) pending the Public Interest Oversight Board's confirmation that due process was followed. The final standard is anticipated in October 2018.

Among other things, the ISA:

- Requires a separate assessment of inherent risk for purposes of assessing the risks of material misstatement at the assertion level for accounting estimates;
- Requires a separate assessment of control risk when assessing the risks of material misstatement at the assertion level for accounting estimates;
- Emphasizes that the auditor's further audit procedures (including, where appropriate, tests of controls) need to be responsive to the reasons for the assessed risks of material



misstatement at the assertion level, taking into account the effect of one or more inherent risk factors and the auditor's assessment of control risk; and,

- Requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

The ISA will be effective for audits of financial statements for periods beginning on or after December 15, 2019.

IFAC updates guide to auditing smaller companies

IFAC on July 17 released an updated version of its [Guide to Using ISAs in the Audits of Small- and Medium-Sized Entities](#). The guide is intended to help audit firms efficiently and proportionally apply the ISAs on audits of small- and medium-sized entities (SMEs).

The guide, now in its fourth edition, has been updated to reflect changes to the ISAs since previous editions, including IAASB projects on auditor reporting, disclosures, auditor responsibilities relating to other information and using the work of internal auditors. Volume 1 covers the fundamental concepts of a risk-based audit in conformance with the ISAs. Volume 2 contains practical guidance on performing SME audits, including two illustrative case studies – one of an SME audit and one of a micro-entity audit.

IASB publishes educational resources to support IFRS 17 implementation

The IASB, as part of its activities to support the implementation of IFRS 17, *Insurance Contracts*, on July 10 published [educational materials for insurance contracts issued by mutual entities](#).

This 12-page document covers: (1) what a mutual entity is; (2) accounting for contracts issued by a mutual entity; and (3) whether a mutual entity could have equity.

On July 13, the IASB published a [pocket guide on reinsurance contracts held](#) and a [simple example of a reinsurance contract held](#). The pocket guide is a reference tool on how IFRS 17 applies to reinsurance contracts held and includes insights on implementing IFRS 17 from the discussions of the Transition Resource Group for IFRS 17. The simple example of a reinsurance contract held illustrates the requirements in IFRS 17: (1) applied to a group of underlying insurance contracts; and (2) applied to a reinsurance contract held that provides proportionate coverage for that group of underlying insurance contracts.

FRC proposes revisions to auditing accounting estimates

The U.K. Financial Reporting Council (FRC) on July 23 launched a consultation on [proposed revisions to ISA \(UK\) 540, Auditing Accounting Estimates and Related Disclosures](#). The FRC's proposed changes reflect revisions made by the IAASB, and addresses issues arising from evolving financial reporting frameworks, particularly the move to accounting for financial instruments on an expected loss basis, which is of particular significance for banks.

The revised standard would require better risk assessment and greater work effort on the part of auditors, who would also need to apply a higher benchmark in assessing the adequacy of disclosures. This would be important not only to financial services audits, when auditing expected credit losses, but also in dealing with new accounting standards for revenue recognition and insurance contracts, where applicable.

Other Developments

AICPA proposes SSAE to increase flexibility in attestation engagements

The AICPA Auditing Standards Board on July 11 issued [Proposed Statement on Standards for Attestation Engagements \(SSAE\), Revisions to SSAE No. 18, Clarification and Recodification](#). The proposed SSAE would:

- No longer require the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter or performing an agreed-upon procedures engagement.
- More closely harmonize AT-C section 210, *Review Engagements*, with the limited assurance provisions of International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits and Reviews of Historical Financial Information*, including changing the term “review engagement” to “limited assurance engagement.”
- Revise AT-C section 215, *Agreed-Upon Procedures Engagements*, by: (1) no longer requiring that all the parties to the engagement agree to the procedures to be performed and, therefore, take responsibility for their sufficiency; and (2) allowing the practitioner to issue a general use report, unless the procedures are prescribed and the practitioner is precluded from designing or performing additional procedures, or the criteria are not available to users or are suitable only for a limited number of users.

The deadline for submitting comments is October 11, 2018.



U.S. Congress

House passes 'JOBS Act 3.0'

The House of Representatives on July 17 overwhelmingly approved the [JOBS and Investor Confidence Act of 2018](#), also known as the “JOBS Act 3.0.” The vote was 406-4.

The bill is comprised of 32 individual pieces of legislation that have passed the House with broad bipartisan support. Among the 32 bills, two bear particularly on auditing and financial reporting:

- [H.R. 1645](#), the *Fostering Innovation Act*, would amend Section 404(b) of the Sarbanes-Oxley Act to extend the exemption to comply with the law for certain low-revenue emerging growth companies (EGCs) that would otherwise lose their exempt status at the end of the five-year period that applies under current law.
- [H.R. 5970](#), the *Modernizing Disclosures for Investors Act*, would require the SEC to provide a report to Congress with a cost-benefit analysis of EGCs' use of Form 10-Q, including the costs and benefits to investors and other market participants of the current requirements for reporting on Form 10-Q, as well as the expected impact of the use of alternative formats of quarterly reporting for EGCs. The bill also would direct the SEC to report to Congress with recommendations for decreasing costs, increasing transparency, and increasing efficiency of quarterly financial reporting by EGCs.

CAQ

CAQ comments on SEC's proposed amendments to auditor independence rules

The CAQ on July 3 submitted a [comment letter](#) on the SEC proposal, [Auditor Independence with Respect to Certain Loans or Debtor-Creditor Relationships](#). The proposed amendments to Rule 2-01 of Regulation S-X are intended 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.

In its comment letter, the CAQ provides views on the SEC's specific proposal to improve certain aspects of Rule 2-01(c)(1)(ii)(A), referred to as the “Loan Provision.” The CAQ notes that the Loan Provision, as conceived, was designed to curb potential self-interests arising from a debtor or creditor relationship that could affect auditor objectivity. However, the CAQ's letter states, “the current Loan Provision as applied to certain situations can result in non-compliance with the rule even though there is plainly no impact on the auditor's objectivity and impartiality.”



The letter outlines practical challenges confronted in addressing the current Loan Provision, provides detail regarding the CAQ's support for the specific elements of the SEC's proposal, and offers additional considerations in response to questions posed by the SEC.

CAQ comments on SEC's draft strategic plan

The CAQ on July 25 submitted a [comment letter](#) on the SEC's *Draft 2018-2022 Strategic Plan*. The letter expresses support for the goals outlined in the plan. The CAQ focuses its comments on protecting the interests of Main Street investors, facilitating capital formation, and collaborating with internal and external stakeholders.

CAQ publishes roadmap for future auditors

On July 12, the CAQ, in collaboration with the leading public company accounting firms and the AICPA, published *Mindset, Behaviors, Knowledge & Skills: Building a Roadmap for the Auditor of the Future*. The publication was developed to help students understand what they will need to become successful auditors.

Designed for both students and educators, the roadmap is a hands-on guide that outlines the mindsets, behaviors, knowledge, and skill sets that public accounting firms seek in their future auditors. The roadmap also provides a list of key knowledge areas on which aspiring auditors should focus while in school. It includes space where students can write down the key related courses that they might have identified on their own or working with accounting professors or academic and career advisors.

CAQ publication promotes understanding of CAMs

The CAQ on July 24 published *Key Concepts and FAQs for Audit Committees, Investors, and Other Users of Financial Statements*. The publication is designed to promote understanding of critical audit matters (CAMs), a new component of the auditor's report which will be required by a standard adopted by the PCAOB in 2017. The publication provides definitions, key concepts, implementation deadlines, frequently asked questions about CAMs, and side-by-side comparisons of US and IAASB standards on expanded auditor reporting.

Upcoming Events

August 4-8

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

September 12

NACD Event: Data Privacy & Protection: The Board's Role, Alexandria, VA ([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](#))

November 8

NACD-USC Marshall Corporate Directors Symposium, Los Angeles, CA ([Link](#))

November 12-13

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

November 11-13

AICPA Oil & Gas Conference, Denver, CO ([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 10-14

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

December 17-18

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

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