



## August 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 issues report on 2017 inspections of broker-dealer auditors

The PCAOB on August 20 issued its [Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers](#) (Annual Report). Consistent with prior years, and as noted in a [CAQ alert](#), audit and attestation deficiencies were identified in the following areas: auditing revenue, assessing and responding to risks of material misstatement due to fraud, auditing supplemental information for the customer protection rule, engagement quality review, and examination procedures. However, there were fewer independence violations identified than in previous years.

New this year, the PCAOB also issued [Executive Highlights](#) of the Annual Report. The Executive Highlights provide a summary of actions for audit firms, the 2017 inspection results, and other key takeaways. It also provides considerations for broker and dealer owners and audit committees (or equivalent), which may help foster a dialogue between the auditor and audit committee (or equivalent) on the actions being taken to avoid these types of deficiencies.

### PCAOB updates staff guidance on changes to the auditor's report

The PCAOB on August 23 published updated [staff guidance](#) on changes to the auditor's report. The document includes a one-page summary of the updates made to the guidance from the previous version issued on December 28, 2017.

### PCAOB seeks public comment on draft five-year strategic plan

The PCAOB on August 10 released a draft of its five-year strategic plan, for the first time inviting public comment on its areas of strategic focus in fulfilling its mission to protect investors and the public interest through high quality audit reports. The [Draft Strategic Plan 2018-2022](#) includes a draft of the PCAOB's mission, vision, values, strategic goals and objectives, as well as key factors affecting the strategic outlook.

The draft includes five strategic goals:

- Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation;
- Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities;
- Enhance transparency and accessibility through proactive stakeholder engagement;



- Pursue operational excellence through efficient and effective use of resources, information, and technology; and,
- Develop, empower, and reward staff, to achieve shared goals.

The deadline for submitting comments is September 10, 2018.

## SEC

### **SEC adopts amendments to simplify and update disclosure requirements**

The SEC on August 17 voted to adopt [amendments to certain disclosure requirements](#) that have become duplicative, overlapping, or outdated in light of other SEC disclosure requirements, US GAAP, or changes in the information environment. The SEC is also referring certain disclosure requirements that overlap with, but require information incremental to, US GAAP to the FASB for consideration for potential incorporation into US GAAP.

The amendments apply primarily to public reporting companies (including foreign private issuers). Some of the amendments also apply to other entities the SEC regulates, including Regulation A issuers, investment advisers, investment companies, broker-dealers, and nationally recognized statistical rating organizations.

The amendments are part of an initiative by the SEC's Division of Corporation Finance (Corp Fin) to review disclosure requirements applicable to issuers to consider ways to improve the requirements for the benefit of investors and issuers. The amendments are also part of the SEC's efforts to implement the Fixing America's Surface Transportation Act, which, among other things, requires the SEC to eliminate provisions of Regulation S-K that are duplicative, overlapping, outdated, or unnecessary.

The amendments will be effective 30 days from publication in the *Federal Register*.

### **SEC Division of Corporation Finance to continue to enhance transparency of staff actions**

Corp Fin in June announced that it would begin releasing via EDGAR documentation of certain staff communications sent to issuers engaged in its filing review process. [On August 20, Corp Fin announced](#) that, starting October 1, 2018, it will begin to release via EDGAR orders it issues granting or denying regulatory relief on behalf of the SEC. Corp Fin said it intends to continue its efforts to enhance transparency in subsequent phases by releasing additional types of documents, including those memorializing actions or positions taken by Corp Fin staff, such as interpretive guidance and no-action relief.



## SEC Division of Corporation Finance issues compliance guide to new definition of smaller reporting company

Corp Fin on August 10 issued [A Small Entity Compliance Guide for Issuers](#), which summarizes the SEC's amendments to the definition of "smaller reporting company" (SRC) and related amendments. The guide is divided into the following sections:

- Summary of amendments
- Qualifying as a SRC
- Guidance on transitioning to the amended SRC definition
- Chart of scaled disclosure requirements available to SRCs
- Amendments to Rule 3-05 of Regulation S-X
- Amendments to the accelerated filer and large accelerated filer definitions
- Other resources
- Contacting the SEC staff

## SEC Division of Corporation Finance updates C&DIs

Corp Fin updated the following Compliance and Disclosure Interpretations (C&DIs):

- **Proxy Rules and Schedules 14A/14C**
  - [New Questions 126.06 and 126.07](#) (Updated 7/31/18)

## FASB

### FASB seeks public companies for segment reporting study

The FASB on August 6 announced that it is [seeking public companies](#) to participate in a study on potential improvements to the segment aggregation guidance and the reportable segments process. The study is the first phase of preparer outreach to be conducted by the FASB on segment reporting.

For the study, the FASB seeks public companies that prepare financial statements using the aggregation criteria in FASB Accounting Standards Codification Topic 280, *Segment Reporting*. Participants in the study will be asked to provide information on how they currently use the criteria and how two potential alternative approaches would affect their segment reporting.

The study period began in August 2018 and is expected to last 2-3 months. Organizations interested in participating can register [here](#).



## FASB issues new, proposed ASUs

The FASB issued four new Accounting Standards Updates (ASUs) in August:

- [\*ASU 2018-12, Financial Services – Insurance \(Topic 944\): Targeted Improvements to the Accounting for Long-Duration Contracts\*](#)

Issued on August 15, the ASU improves financial reporting for insurance companies that issue long-duration contracts, such as life insurance, disability income, long-term care, and annuities. Specifically, the ASU:

- Requires updated assumptions for liability measurement;
- Standardizes the liability discount rate;
- Provides greater consistency in measurement of market risk benefits;
- Simplifies amortization of deferred acquisition costs; and,
- Requires enhanced disclosures.

For calendar-year end public companies, the changes will be effective in 2021. For all other calendar-year end companies, the changes will be effective in 2022. Early adoption is permitted.

A [\*FASB in Focus\*](#) overview, an [\*Understanding Costs and Benefits\*](#) document, and an [educational video](#) are also available.

- [\*ASU 2018-13, Fair Value Measurement \(Topic 820\): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement\*](#)

Issued on August 28, the ASU improves the disclosure requirements on fair value measurements in Topic 820. The amendments are effective for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted.

- [\*ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General \(Topic 715-20\): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans\*](#)

Issued on August 28, the ASU improves the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments are effective for fiscal years ending after December 15, 2020, for public companies, and for fiscal years ending after December 15, 2021, for all other organizations. Early adoption is permitted.



- [\*ASU 2018-15, 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\*](#)

Issued on August 29, the ASU aligns the following requirements for capitalizing implementation costs:

- Those incurred in a hosting arrangement that is a service contract; and,
- Those incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).

The ASU is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the ASU is effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period, for all entities. The ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

The FASB also issued two proposed ASUs:

- [\*Proposed ASU, Leases \(Topic 842\): Narrow-Scope Improvements for Lessors\*](#)

Issued on August 13, the proposed ASU would reduce costs and ease implementation of ASU 2016-02, *Leases (Topic 842)* for financial statement preparers. The proposal would also clarify a specific requirement in the standard related to lessor accounting. Specifically, the proposed ASU addresses the following issues facing lessors when applying the Leases standard:

- Sales taxes and other similar taxes collected from lessees;
- Certain lessor costs paid directly by lessees; and,
- Recognition of variable payments for contracts with lease and non-lease components.

The deadline for submitting comments is September 12, 2018.



- [Proposed ASU, Codification Improvements to Topic 326, Financial Statements – Credit Losses](#)

Issued on August 20, the proposed ASU would amend the transition requirements and scope of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The proposed ASU would:

- Mitigate transition complexity by requiring entities other than public business entities to implement it for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.
- Clarify that receivables arising from operating leases are not within the scope of Topic 326, but rather, should be accounted for in accordance with Topic 842.

The deadline for submitting comments is September 19, 2018.

## **FASB issues changes to Conceptual Framework**

On August 28, the FASB issued two changes to its Conceptual Framework:

- [Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting – Chapter 8, Notes to Financial Statements](#)

The new chapter explains what information the FASB should have preparers consider including in notes to financial statements by describing the purpose of notes, the nature of appropriate content, and general limitations. It also addresses the FASB's considerations specific to interim reporting disclosure requirements.

- [Amendments to Concepts Statement No. 8, Conceptual Framework for Financial Reporting – Chapter 3, Qualitative Characteristics of Useful Financial Information](#)

The amendments align the FASB's definition of materiality with other definitions in the financial reporting system. The materiality concepts will now be consistent with the SEC's definition of materiality, PCAOB and AICPA auditing standards, and the US judicial system.

## Other Developments

### AICPA issues working drafts on credit loss accounting issues

The AICPA's Financial Reporting Executive Committee on August 10 issued two working drafts of accounting issues related to implementation of Topic 326:

- [Issue No. 1](#): Zero Expected Credit Losses
- [Issue No. 22](#): Reversion Method: Estimation vs. Accounting Policy

The deadline for submitting comments is October 10, 2018.

## CAQ

### CAQ comments on IESBA paper on professional skepticism

The CAQ on August 15 submitted a [comment letter](#) on the International Ethics Standards Board for Accountants' (IESBA) Consultation Paper, *Professional Skepticism – Meeting Public Expectations*. Emphasizing the importance of professional skepticism and judgment to audit quality, the CAQ's letter offers IESBA four high-level recommendations related to professional skepticism: (1) create a better understanding of behavioral characteristics; (2) seek clarity and address ambiguity; (3) use collaboration to promote action; and (4) address the expectation gap.

### CAQ issues alert on broker's and dealer's use of a service organization

On August 22, the CAQ issued [Broker's and Dealer's Use of a Service Organization](#). The Alert includes a decision tree and associated information designed to assist auditors of SEC-registered brokers and dealers in developing their audit approach on audit and attestation engagements of a broker or dealer that uses a service organization.

The CAQ notes that “[t]here is no one-size-fits-all approach to auditing a broker's or dealer's use of a service organization. Auditors should carefully design and execute their audit approach based upon their understanding of the broker's or dealer's transactions, related risks, the relevant controls at the broker or dealer, and the controls performed at the service organization that are part of the broker's or dealer's information system.”

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

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



- [Episode 60](#) features Jackie Daylor, National Managing Partner – Audit Quality & Professional Practice at KPMG in the U.S. She discusses the updated auditor’s report, critical audit matters, and the keys to success for audit committees and others as they contend with a new approach to auditor reporting.
- [Episode 61](#) features Jan Babiak, who serves on the boards of Walgreens Boots Alliance, Inc., Bank of Montreal, and Euromoney Institutional Investors. She offers insights on the benefits of enhancing audit committee disclosure, the new auditor’s reporting model, audit committee “scope creep,” and how to think about board diversity.

## Upcoming Events

### September 12

NACD Event: Data Privacy & Protection: The Board’s Role, Bethesda, MD ([Link](#))

### September 13

SEC Investor Advisory Committee Meeting, Washington, DC ([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 21

17<sup>th</sup> Annual SEC ‘Hot Topics’ Conference, Irvine, CA ([Link](#))

### September 24-25

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

### September 27-28

23<sup>rd</sup> Symposium on Audit Research, Champaign, IL ([Link](#))

### September 29-October 2

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

### October 1-2

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

### October 17

2018 Audit Committee Summit Program, Newport Beach, CA ([Link](#))

### October 18

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

### October 22

ICGN New York Event, New York, NY ([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](#))



# CAQ

# PUBLIC POLICY & TECHNICAL ALERT

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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