



January 2019

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:

SEC

- Corp Fin issues statement regarding recommencement of operations

FASB

- Emerging Issues Task Force: Consensus Reached on Issue No. 18-B, "Improvements to Accounting for Episodic Television Series."
- FASB issues staff Q&A document on estimating credit loss reserves

International

- IOSCO publishes the Report on Good Practices for Audit Committees in Supporting Audit Quality
- IOSCO issues statement on disclosure of ESG matters by issuers
- FRC launches consultation on changes to Third Country Auditors (Fees) Instrument

Other Developments

- AICPA votes to issue Omnibus Statement on Auditing Standards
- AICPA issues working draft on revenue recognition for broker-dealers
- NASBA proposes changes to UAA peer review rules

CAQ

- CAQ Framework aims to assist accounting firms enhance disclosures about audit quality
- CAQ Year in Review recaps 2018 activities

Upcoming Events



SEC

Corp Fin issues statement regarding recommencement of operations

On January 27, the SEC's Division of Corporation Finance (Corp Fin) issued a [statement](#) on returning to normal operations following the partial government shutdown.

"In general, we anticipate addressing filings, submissions and requests for staff action based on when an item was submitted. In other words, absent compelling circumstances, we expect to address matters in the order in which they were received. Staff members in the Division are available to answer questions relating to filings and other federal securities law matters, but their response time may be longer than ordinary."

FASB

Emerging Issues Task Force: Consensus Reached on Issue No. 18-B, "Improvements to Accounting for Episodic Television Series."

On January 17, the Emerging Issues Task Force (EITF) [agreed to align the accounting for production costs of episodic television series with the accounting for production costs of films by removing the content distinction](#). The EITF also reached a consensus to allow an entity to assess a film group for impairment and to amend the presentation and disclosure requirements for films and episodic content. In addition, the EITF agreed to make conforming amendments to FASB Subtopic 920-350, *Entertainment — Broadcasters — Intangibles — Goodwill and Other*, to align its impairment and presentation and disclosure guidance with the EITF's decisions. The EITF also reached decisions on other items, including amortization, cash flow presentation of payments for license agreements, transition and transition disclosures, private company considerations, and effective date.

The FASB will consider for ratification the consensus on Issue 18-B in the near future.

FASB issues staff Q&A document on estimating credit loss reserves

On January 10, the FASB staff issued a [Q&A document](#) that addresses particular issues related to the weighted average remaining maturity (WARM) method for estimating the allowance for credit losses as required in Accounting Standards Update (ASU) 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU



does not require a specific credit loss method; however, it allows organizations to use judgment in determining the relevant information and estimation methods that are appropriate in their circumstances.

Some stakeholders, including small financial institutions, asked the staff whether it would be acceptable to use the WARM method to estimate expected credit losses. The WARM method uses an average annual charge-off rate as a foundation for estimating the credit losses for the remaining balances (that is, losses occurring through the end of the contractual term) of financial assets in a pool at the balance sheet date. In the Q&A document, the FASB staff agrees that the WARM method is one of many methods that could be used to estimate an allowance for credit losses for less complex financial asset pools. The staff also provides examples of how it could be used.

International

IOSCO publishes the Report on Good Practices for Audit Committees in Supporting Audit Quality

On January 17, the Board of the International Organization of Securities Commissions (IOSCO) published the [IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality \(Good Practices Report\)](#).

The audit committee has a role in promoting and supporting audit quality and contributes to greater confidence in the quality of information in the listed company's financial reports. The Good Practices Report can assist audit committees in considering ways in which they may be able to promote and support audit quality. It sets out good practices regarding the features an audit committee should have to be more effective in its role, including discussion regarding the qualifications and experience of audit committee members.

IOSCO issues statement on disclosure of ESG matters by issuers

On January 18, IOSCO published a [statement](#) setting out the importance of issuers considering the inclusion of environmental, social, and governance (ESG) matters when disclosing information material to investors' decisions.

IOSCO encourages issuers to consider the materiality of ESG matters to their business and to assess risks and opportunities in light of their business strategy and risk assessment methodology. IOSCO also suggests that when ESG matters are considered to be material, issuers should disclose the impact or potential impact on their financial performance and value creation. In doing so, issuers also are encouraged to give insight into the governance and

oversight of ESG-related material risks. The statement highlights that information provided by issuers should be balanced and should consider and reflect both the risks and opportunities presented by material ESG matters.

IOSCO reminds issuers that information disclosed outside of securities filings following a voluntary disclosure framework also may be required to be disclosed under security filings if it is material. Although some information is disclosed following a voluntary disclosure framework, that disclosure should not substitute for disclosure in regulatory filings, if material. Further, IOSCO encourages issuers to clearly disclose the framework(s) that they have used (if any) in preparing and disclosing material ESG information.

FRC launches consultation on changes to Third Country Auditors (Fees) Instrument 2019

On January 10, the UK Financial Reporting Council (FRC) [launched a consultation](#) to seek views on proposed changes to the Third Country Auditors (Fees) Instrument. The regulatory regime governing Third Country Auditors (TCA) is changing because of the UK leaving the EU. If there is no withdrawal agreement between the UK and the EU providing for an implementation period, the UK will apply the TCA regime to non-UK auditors that audit the accounts of companies from outside the UK that issue certain securities on a UK regulated market.

Section 1251 of the Companies Act 2006 provides the Secretary of State with a power to make regulations that require registered TCAs to pay periodic fees. This power has been delegated to the FRC and was most recently exercised by the Third Country Auditors (Fees) Instrument 2018. The Third Country Auditors (Fees) Instrument needs to be updated to reflect the legislative changes.

This consultation is open to the public and closes on February 7.

Other Developments

AICPA votes to issue Omnibus Statement on Auditing Standards

On January 3, the AICPA's Auditing Standards Board (ASB) voted to issue Statement on Auditing Standards (SAS), [Omnibus Statement on Auditing Standards – 2019 \(Omnibus SAS\)](#).

The Omnibus SAS primarily amends AU-C section 550, *Related Parties*, and AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*. The project arose from the ASB's strategy of considering the standards of other standard-setters, such as the PCAOB, in its continuing



efforts to promulgate high-quality, objective audit and attestation standards that inspire public trust.

The effective date of these new standards is expected to be no earlier than for audits of financial statements for periods ending on or after December 15, 2020.

AICPA issues working draft on revenue recognition for broker-dealers

The AICPA's Financial Reporting Executive Committee published a [working draft](#) of an illustrative note to the financial statements of SEC-registered brokers and dealers. According to the [Journal of Accountancy](#), the note is related to the implementation of FASB's new revenue recognition standard and will be included in the 2019 print edition of the *AICPA Accounting Guide: Brokers and Dealers in Securities*. The note also will be included in the electronic edition of the 2018 guide.

The deadline for submitting comments on the working draft is March 4.

NASBA proposes changes to UAA peer review rules

The National Association of State Boards of Accountancy (NASBA) proposed changes to the Uniform Accountancy Act (UAA) Model Rules related to peer review programs.

The [Journal of Accountancy](#) reported that the [proposed rules](#) would change Article 7 of the UAA Model Rules and would:

- Contain basic definitions and recognize the AICPA and the state CPA societies as approved sponsoring organizations.
- Provide guidance for the selection of Peer Review Oversight Committee members.
- Clarify requirements firms need to meet by a set date in order to comply with state board of accountancy peer review requirements.
- Specify certain documents related to peer review for firms to submit to state boards of accountancy at certain times.

The deadline for submitting comments is June 30.

CAQ

CAQ Framework aims to assist accounting firms enhance disclosures about audit quality

According to a new CAQ resource published on January 8, enhanced disclosures, along with related metrics, can promote important dialogue and deepen the understanding of audit quality. The [Audit Quality Disclosure Framework](#) (Framework) assists firms in their ongoing efforts to develop such disclosures, which many accounting firms now provide through annual transparency or audit quality reports.

Developed in consultation with a range of CAQ member firms, the Framework adheres to three key principles:

- The Framework is voluntary and illustrative, as opposed to prescriptive or all-inclusive.
- The Framework is flexible, giving firms the ability to tailor the information that is most relevant and meaningful to its audit quality.
- The Framework relates to disclosure of a system of quality control at a firm-level, rather than at the engagement-level.

Under these overarching principles, the Framework provides “Points of Focus” for six elements of audit quality and certain examples of firm-level audit quality indicators (AQIs):

1. Leadership, Culture, and Firm Governance
2. Ethics and Independence
3. Acceptance and Continuance of Clients and Engagements
4. Engagement Team Management
5. Audit Engagement Performance
6. Monitoring

This Framework builds on past efforts of the CAQ, its member firms, and others to develop perspectives on AQIs. More information on these efforts can be found at the CAQ’s dedicated [AQIs resource page](#).

CAQ Year in Review recaps 2018 activities

The CAQ has published its [2018 Year in Review](#), which covers the CAQ’s key activities and accomplishments in support of public company audit quality. Among other topics, the Year in Review highlights the CAQ’s work to help public company auditors improve their effectiveness, its support for independent research, its collaborative efforts to fight financial reporting fraud and work with audit committees, and its engagement with investors and regulators on a range of key issues.

Upcoming Events

February 6-8

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

February 12-13

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

March 4-6

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

March 4-8

RSA Conference, San
Francisco, CA ([Link](#))

March 11-15

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

March 21

KPMG/NACD Quarterly
Audit Committee Webcast
([Link](#))

April 2

CCMC Annual Capital
Markets Summit,
Washington, DC ([Link](#))

April 8-12

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

May 6-8

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

May 12-15

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

May 13-17

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

June 9-13

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

June 13-14

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

June 17-18

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

June 17-19

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

June 20

KPMG/NACD Quarterly
Audit Committee Webcast
([Link](#))

July 16-18

ICGN Annual Conference,
Tokyo, Japan ([Link](#))

July 22-26

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

August 10-14

AAA Annual Meeting, San
Francisco, CA ([Link](#))

September 12

KPMG/NACD Quarterly
Audit Committee Webcast
([Link](#))

September 21-24

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

September 23-24

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

September 23-27

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

October 21-25

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

November 6-8

AICPA Women's Global
Leadership Summit, San
Diego, CA ([Link](#))



CAQ

PUBLIC POLICY & TECHNICAL ALERT

November 11-12

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

November 18-22

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

November 18-19

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

December 2-3

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

December 5-6

AICPA Construction & Real Estate Conference, Nashville, TN ([Link](#))

December 9-11

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

December 9-13

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

December 19-20

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

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