



## February 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.

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### PCAOB

#### **PCAOB announces new Office of Enterprise Risk Management, names Chief Risk Officer, and names Chief Data Officer**

On February 25, the PCAOB announced it has [created the Office of Enterprise Risk Management](#) to implement the PCAOB's strategic objective of implementing an Enterprise Risk Management program for the organization.

The Office of Enterprise Risk Management will be led by Sue Lee, who has been named the PCAOB's first Chief Risk Officer. Prior to joining the PCAOB, Lee was Senior Vice President, General Counsel, and Corporate Secretary of Entegris, Inc., a publicly traded chemicals and materials company. In this role, she managed the company's legal, compliance, privacy, corporate governance, enterprise risk, and government affairs functions. Before joining Entegris, Inc. she was the Vice President, General Counsel, and Corporate Secretary for CYREN, Ltd., a publicly traded cybersecurity company.

The PCAOB also announced that it has [named Eric Hagopian as its first Chief Data Officer](#). In this role, Hagopian will advance the PCAOB's data management strategy and enhance the organizational approach to data management and analytics. Prior to joining the PCAOB, he served as the Director of Data Governance at CareFirst BlueCross BlueShield (CareFirst), where he was responsible for developing a data governance framework. Before joining CareFirst, he was a Chief Technologist for the Booz Allen Hamilton Strategic Innovation Group and he also spent several years as the Chief Data Officer for the U.S. Department of Homeland Security Immigration and Customs Enforcement.

### SEC

#### **SEC Division of Corporation Finance updates C&DIs**

On February 6, the SEC's Division of Corporation Finance updated the following Compliance and Disclosure Interpretations (C&DIs):

- Regulation S-K
  - Section 116. Item 401 – Directors, Executive Officers, Promoters and Control Persons
    - [New Question 116.11](#)
  - Section 133. Item 407 – Corporate Governance
    - [New Question 133.13](#)

### **SEC extends comment period for proposal regarding updated disclosure requirements and summary prospectus for variable annuity and variable life insurance contracts**

On February 14, the SEC [re-opened the comment period](#) on the proposed rulemaking to amend rules and forms to help investors make informed investment decisions regarding variable annuity and variable life insurance contracts. The public comment period for the proposed rulemaking, [Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts](#), will now end on March 15, 2019.

### **SEC proposes to expand ‘test-the-waters’ modernization reform to all issuers**

On February 19, the SEC [proposed a rule and related amendments](#) to expand the “test-the-waters” accommodation – currently available only to emerging growth companies (EGCs) as legislated by the Jumpstart Our Business Startups Act (the JOBS Act) passed in 2012 – to all issuers, including investment company issuers.

The proposed rule, [Solicitations of Interest Prior to a Registered Public Offering](#), would permit any issuer, or any person authorized to act on its behalf, to engage in oral or written communications with potential investors that are, or are reasonably believed to be, qualified institutional buyers or institutional accredited investors before or after filing a registration statement, to gauge whether such investors have an interest in a contemplated registered securities offering. The proposed rule would be non-exclusive, and an issuer could rely on other Securities Act of 1933 communications rules or exemptions when determining how, when, and what to communicate related to a contemplated securities offering.

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

### **SEC names S.P. Kothari as Chief Economist and Director of the Division of Economic and Risk Analysis**



On February 26, the SEC announced that [S.P. Kothari has been named Chief Economist and Director of the agency's Division of Economic and Risk Analysis](#). Mr. Kothari joins the SEC from the Sloan School of Management at the Massachusetts Institute of Technology (MIT), where he is a professor of accounting and finance and recently ended a six-year term as Deputy Dean of MIT Sloan School of Management.

Mr. Kothari has spent nearly two decades at MIT, both as a professor and as an administrator. He also has been Co-Chair of the Board of Governors, Asia School of Business, Kuala Lumpur, faculty director of the MIT-India Program, and editor of the academic publication, *Journal of Accounting & Economics*. In 2008, he served as global head of equity research for Barclays Global Investors, where he was responsible for research supporting the firm's active equity strategies and for managing a team of approximately 50 PhDs based around the world.

## FASB

### **FASB proposes targeted transition relief to institutions applying credit losses standard**

On February 6, the FASB issued [Proposed Accounting Standards Update \(ASU\), Targeted Transition Relief for Topic 326, Financial Instruments – Credit Losses](#), which could ease transition to the credit losses standard by providing the option to measure certain types of assets at fair value.

The proposed ASU would allow preparers to irrevocably elect the fair value option, on an instrument-by-instrument basis, for eligible financial assets measured on an amortized cost basis upon adoption of the credit losses standard. This would increase the comparability of financial statement information provided by institutions that otherwise would have reported similar financial instruments using different measurement methodologies, potentially decreasing costs for financial statement preparers while providing more useful information to investors and other users.

The deadline for submitting comments is March 8, 2019.

### **FASB issues proposal on recognizing and measuring deferred revenue in business combinations**

On February 14, the FASB issued a proposed ASU and Invitation to Comment (ITC) on the recognition and measurement of deferred revenue in business combinations.

- [Proposed ASU, Business Combinations \(Topic 805\): Revenue from Contracts with Customers – Recognizing an Assumed Liability](#), would clarify when acquiring



organizations should recognize a contract liability in a business combination. An organization would recognize deferred revenue from acquiring another organization if there was an unsatisfied performance obligation for which the acquired organization had been paid by the customer.

- The ITC, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*, asks stakeholders to provide feedback and ideas on measurement and other issues related to acquiring contracts with customers in business combinations:
  1. Payment terms and their effect on the subsequent revenue recognized; and
  2. Costs to fulfill a performance obligation in measuring the fair value of a contract liability for a revenue contract.

The deadline for submitting comments on the proposed ASU and ITC is April 30, 2019.

## International

### **New IAESB standard focuses on professional development**

On January 28, the International Accounting Education Standards Board (IAESB) released the revised *International Education Standard (IES) 7, Continuing Professional Development*. The new standard clarifies the principles and requirements on how professional accountancy organizations measure, monitor, and enforce their continuing professional development systems.

IES 7 (Revised) places greater emphasis on learning and development needed for professional accountants' roles and responsibilities rather than focusing on a minimum number of hours. Significant revisions include:

- Requiring professional accountants to record relevant continuing professional development (CPD);
- Clarifying the output-based measurement approach, which requires that professional accountants demonstrate competence;
- Clarifying the input-based measurement approach, which requires that professional accountants demonstrate competence by completing a specified amount of learning and development;
- Promoting the use of a CPD framework to provide an example structure and guidance to help professional accountants identify, undertake, and record relevant development; and
- Providing CPD measurement approaches with examples of related verifiable evidence to improve adoption.



The IAESB also [recorded a short roundtable video discussion](#) highlighting the changes and their implications to further support adoption and implementation.

IES 7 (Revised) becomes effect on January 1, 2020.

## **IAASB launches future strategy and work plan consultation**

On February 4, the IAASB released its [Proposed Strategy for 2020-2023 and Work Plan for 2020-2021](#). The proposals present a path forward that the IAASB believes meets stakeholders' evolving needs and is in the public interest. Enhancing the IAASB's processes, including using technology and appropriate resourcing, are included in the strategy and are thought to be crucial to success. These enhancements potentially also will maximize the impact of the IAASB's activities, thereby enabling more timely responses to global trends and needs.

The deadline for submitting comments is June 4, 2019.

## **FRC launches consultation into improvements to reporting intangibles**

On February 6, the UK Financial Reporting Council (FRC) released the discussion paper, [Business Reporting of Intangibles: Realistic proposals](#). The paper's objective is to add to the international debate on the business reporting of intangibles, gather views, and influence the IASB and its future work agenda.

The paper suggests that:

- Relevant and useful information could be provided without the need to recognize more intangible assets in a companies' balance sheets;
- Such information could cover a range of factors, broader than the definition of intangible assets in accounting standards, that are relevant to the generation of value;
- Improvements could be made on a voluntary basis within current reporting frameworks (such as the strategic report); and
- Participants in the reporting supply chain could collaborate to bring about improvements.

The deadline for submitting comments is April 30, 2019.

## **IAASB opens consultation on quality management for firms and engagements**

On February 8, the IAASB proposed [three interrelated standards](#) to change the way accounting firms are expected to manage quality for audits, reviews, and other assurance and related services engagements. The proposed standards are:



- Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (previously ISQC 1);
- Proposed ISQM 2, *Engagement Quality Reviews*; and
- Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements*.

The proposed standards are intended to improve engagement quality through:

- Modernizing the standards for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers;
- Increasing firm leadership responsibilities and accountability, and improving firm governance;
- More rigorous monitoring of quality management systems and remediating deficiencies;
- Enhancing the engagement partner's responsibility for audit engagement leadership and audit quality; and
- Addressing the robustness of engagement quality reviews, including engagement selection, documentation, and performance.

The IAASB also issued an Overall Explanatory Memorandum, *The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews*, which provides an explanation of the significant issues pervasive to the proposed standards, including a discussion of scalability and their interrelationship. It also sets out the IAASB's proposals regarding the effective date and the related implementation period, as well as the IAASB's planned implementation support activities.

On February 22, the IAASB's Profession Skepticism Working Group published [Professional Skepticism and Quality Management](#). The document highlights the role of fostering an appropriately independent and skeptical mindset of the auditor in the three proposed IAASB standards.

The deadline for submitting comments is July 1, 2019.

## **UK government announces audit review panel and scope**

On February 14, the UK government announced the establishment of [two advisory bodies](#) to assist the Independent Review into the Quality and Effectiveness of Audit led by Sir Donald Brydon (the "Brydon Review"). The Advisory Board includes representatives from companies,



investors, and academia. The Auditor's Advisory Group includes representatives from public accounting firms and accounting associations.

The government also published the Brydon Review's [terms of reference](#): "The review is intended to take a fresh look at the scope of the audit, how far it can and should evolve to meet the needs of users of accounts, what other forms of assurance might need to be developed, and to define and manage any residual expectations gap. It will test the current statutory audit model and ask whether it can be made more effective as currently established or whether it requires amendment. It will consider how the audit product should be developed to serve the public interest in [the] future, taking account of changing business models, new technology and stronger public expectations. It is intended that as a result of the review's recommendations any expectations gap will be better understood and users of accounts will have greater assurance about the future of the entity concerned."

## **FRC, BEIS offer Brexit no-deal advice for auditors and accountants**

On February 22, the FRC and Department for Business, Energy and Industrial Strategy (BEIS) [published letters](#) for auditors and accountants to share information in case there is no deal for leaving the European Union (EU) by March 29, 2019.

The [letter to auditors](#) sets out key actions in relation to the future of audit regulation that auditors and audit firms need to take to get ready for the UK leaving the EU. The content of the letter and corresponding FAQs are only immediately relevant in a no-deal scenario, but the FRC and BEIS urge auditors to follow the recommended actions, and note the content, so that they are prepared for the no-deal scenario.

The [letter to accountants](#) sets out important issues in relation to the future of accounting and corporate reporting that accountants need to consider on behalf of their businesses to get ready for the UK leaving the EU. The information is particularly relevant for UK and European Economic Area listed companies, Alternative Investment Market companies, large privately-owned entities, and Global Depository Receipt issuers.

## **IAASB consults on extended external reporting assurance**

On February 28, the IAASB published Consultation Paper, [Extended External Reporting \(EER\) Assurance](#), that includes the first part of draft guidance for practitioners applying International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, to EER assurance engagements. Input received will assist the IAASB in continuing to develop a non-authoritative, guidance document due to be published in the second phase of the project.





This consultation includes draft guidance covering:

- The suitability of criteria (reporting framework or standards) used to prepare the EER report;
- Preparer-developed criteria to determine the matters reported on (a preparer’s “materiality process”);
- The types of misstatements that may occur in the EER report (building assertions);
- The materiality of misstatements in the EER report;
- The preparer’s governance and internal control over its process to prepare the EER report; and
- Narrative and future-oriented information in the EER report.

The IAASB invites input on the draft guidance from all stakeholders, especially those with practical experience in this evolving area of reporting, including practitioners and other experts involved in performing engagements, preparers of EER reports, investors and other users, standard setters, and regulators.

Comments on the Consultation Paper are requested by June 21, 2019.

## Other Developments

### **Kathy King joins AICPA as Senior Director Public Affairs, Advocacy & Media**

On February 13, the AICPA [announced the hiring of Kathy King](#) as senior director, public affairs, advocacy and media. In this role, King will work with the advocacy team in Washington, D.C. promoting and defending the public and management accounting profession’s global public policy agenda.

King joins the AICPA from Folio Financial, Inc., where she led the fintech firm’s media relations activities. Before that, she served as senior vice president and partner for FleishmanHillard, where she co-led its U.S. Financial Services Practice Group and led its Washington, D.C. Corporate Reputation team. Prior to joining FleishmanHillard, King created innovative media relations and public affairs strategies for CFA Institute.

### **COSO and Crowe offer guidance on internal controls for health providers**

On February 20, the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in collaboration with Crowe LLP and CommonSpirit Health, [published new guidance](#). The *COSO Integrated Framework: An Implementation Guide for the Healthcare Provider Industry*, expands on COSO’s widely used internal control framework, but within the context of the health industry. COSO pointed out that health care organizations can have issues with system access



and integrity, clinical documentation, coding and billing, and those could lead to potential noncompliance with federal and state regulations, on top of costly mistakes. The guide introduces health care organizations to COSO's *Internal Control – Integrated Framework* and offers a roadmap to help health providers strengthen their governance and internal control structures.

## **Senators introduce bipartisan legislation providing regulatory relief to spur innovation**

Sens. Thom Tillis (R-N.C.), Gary Peters (D-Mich.), David Perdue (R-Ga.), and Kyrsten Sinema (D-Ariz.) introduced [S. 452](#), the *Fostering Innovation Act of 2019*. The bipartisan legislation would provide regulatory relief for many innovative companies that are in scientific and medical research fields.

Per Section 103 of the JOBS Act, EGCs are exempt from certain regulatory requirements – including Sarbanes-Oxley Section 404(b) – for five years after their initial public offering. S. 452 would temporarily extend the Section 404(b) exemption for an additional five years for a small subset of EGCs with annual average revenue of less than \$50 million and less than \$700 million in public float.

## **SASB names Madelyn Antoncic as new CEO**

Madelyn Antoncic [is taking the helm of the Sustainability Accounting Standards Board \(SASB\)](#). The SASB Foundation, which oversees the non-profit group, said Antoncic became CEO effective Feb. 25, 2019.

Prior to joining SASB, Ms. Antoncic served as Executive Director and a member of the Operating Committee of Principal Global Investors, a global asset management company. From 2011-15 Ms. Antoncic served as Vice President and Treasurer of the World Bank where she was responsible for overseeing every aspect of managing \$145 billion in assets including the World Bank Group's pension plans, as well as its derivatives portfolio, annual funding program and technical assistance programs engaging with member countries, among other things. Ms. Antoncic also has held a variety of leadership roles with major global private sector financial institutions, including Goldman Sachs, Barclays Capital and Lehman Brothers.

## **Upcoming Events**

**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 20**

PwC Webcast: Q1 2019 Current Accounting and Reporting Developments ([Link](#))

**March 21**

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

**March 26**

PwC Webcast: Q1 2019 Current Accounting and Reporting Developments ([Link](#))

**March 28 or April 17**

IESBA Global Ethics Webinars to Support Revised and Restructured Code of Ethics ([Link](#))

**April 2**

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

**April 2**

European Corporate Governance Conference, Bucharest, Romania ([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](#))

**June 23-28**

ACFE Global Fraud Conference, Austin, TX ([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](#))



# CAQ

# PUBLIC POLICY & TECHNICAL ALERT

**November 6-8**

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

**November 11-12**

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

**November 18-22**

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

**November 19-20**

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 16-17**

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](http://www.thecaq.org).

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