



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets
Affiliated with the American Institute of CPAs

CAQ Public Policy Monitor

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As part of the Center for Audit Quality's ongoing effort to keep members informed on critical public policy matters with the potential to impact the public company audit profession, we are pleased to offer the Public Policy Monitor. Each month, the CAQ Public Policy Monitor highlights and examines the policies and broader political events shaping the public debate on public company auditing, as well as financial reporting and related regulatory and legislative issues.

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PCAOB

PCAOB to require naming the engagement partner on new form

The Public Company Accounting Oversight Board (PCAOB) on December 15 adopted [new rules](#) that require audit firms to disclose the names of each audit engagement partner as well as the names of other audit firms that participated in each audit. The new rules are subject to approval by the Securities and Exchange Commission (SEC).

“In the [PCAOB]’s own experience,” the adopting release says, “information about the engagement partner and other accounting firms participating in the audit can be used along with other information...in

order to provide insights into audit quality.” The new rules “will add more specific data points to the mix of information that can be used when evaluating audit quality.”

Under the rules, auditors will be required to file a new PCAOB Form AP, *Auditor Reporting of Certain Audit Participants*, for each issuer audit, disclosing:

- The name of the engagement partner;
- The names, locations, and extent of participation of other accounting firms that took part in the audit, if their work constituted 5 percent or more of the total audit hours; and
- The number and aggregate extent of participation of all other accounting firms that took part in the audit whose individual participation was less than 5 percent of the total audit hours.

The standard filing deadline for Form AP will be 35 days after the date the auditor’s report is first included in a document filed with the SEC. In the case of initial public offerings, the Form AP filing deadline will be 10 days after the auditor’s report is first included in a document filed with the SEC. The information filed on Form AP will be available in a searchable database on the PCAOB website.

If approved by the SEC, the disclosure requirement for the engagement partner will be effective for auditor’s reports issued on or after January 31, 2017, or three months after SEC approval, whichever is later. For the disclosure of other audit firms participating in the audit, the requirement will be effective for reports issued on or after June 30, 2017.

PCAOB staff plans to publish guidance in 2016 relating to compliance with the reporting requirements of Form AP.

CAQ Point of View:

The PCAOB “should be commended for its responsiveness to concerns raised by a variety of stakeholders regarding identifying the engagement partner in the auditor’s report by proposing disclosure of this information in the newly created Form AP,” CAQ Executive Director Cindy Fornelli said in a [statement](#). “The CAQ looks forward to expected adoption of this rule in the new year.”

PCAOB announces new and reappointed SAG members

The PCAOB on December 9 [announced](#) seven new and reappointed members to its Standing Advisory Group.

New Appointments:

- Prat Bhatt, Corporate Controller & Chief Accounting Officer, Cisco
- David J. Middendorf, National Managing Partner – Audit Quality & Professional Practice, KPMG
- Karen K. Nelson, Professor of Accounting, Rice University
- David M. Sullivan, Deputy Managing Partner – Professional Practice, Deloitte

Reappointments:

- Peter C. Clapman, Senior Advisor, CamberView Partners, LLC
- Jean M. Joy, Director of Professional Practice and Director of Financial Institutions Practice, Wolf & Company, P.C.

- Elizabeth F. Mooney, Vice President, The Capital Group Companies

The new and reappointed members will serve three-year terms, beginning in January 2016.

Highlights of 2015 AICPA Conference on Current SEC and PCAOB Developments

The American Institute of CPAs (AICPA) held its annual Conference on Current SEC and PCAOB Developments (Conference) on December 9-11 in Washington, D.C. Representatives of the [SEC](#), [PCAOB](#), Financial Accounting Standards Board (FASB), and [International Accounting Standards Board](#) (IASB) shared their views on various accounting, financial reporting and auditing issues.

Highlights included:

Internal control over financial reporting. SEC and PCAOB officials – including SEC Chair [Mary Jo White](#), SEC Chief Accountant [James Schnurr](#), and PCAOB Chairman [James Doty](#) – emphasized the importance of strong internal controls throughout the Conference. They observed that recent PCAOB inspection findings on internal control over financial reporting (ICFR) may indicate deficiencies in the design of management’s controls, particularly the documentation of key management review controls, and said auditors must take a risk-based approach when auditing ICFR. They said auditors must discuss with management and audit committees their expectations about the extent of documentation management needs to support the effectiveness of key controls, which should be commensurate with the associated risk.

Disclosure effectiveness, including non-GAAP financial measures. SEC and FASB representatives provided updates on their disclosure effectiveness initiatives. The SEC representatives said they expect additional rulemaking in 2016 related to Regulations S-X and S-K, as well as improved search functionality for filings on the SEC’s website. FASB Chairman [Russell Golden](#) provided an update on the board’s disclosure framework project and its focus on material disclosures. SEC representatives said they were encouraged by recent efforts by companies to make voluntary improvements to their disclosures but highlighted several focus areas where they expect more meaningful disclosures. For example, they said the use and disclosure of non-GAAP financial measures requires close attention.

Segment reporting. SEC and PCAOB representatives – including SEC Deputy Chief Accountant [Wesley Bricker](#), [Courtney Sachtleben](#), Professional Accounting Fellow in the SEC’s Office of the Chief Accountant (OCA), and [Helen Munter](#), Director of the PCAOB’s Division of Registration and Inspections – said that segment reporting continues to be a critical focus area because investors continue to identify it as the most important disclosure area in SEC filings. They are focusing on whether companies are appropriately identifying and aggregating operating segments, as well as the design and operation of internal controls over these judgments.

Audit Committees. White and Schnurr each expressed concerns about the audit committee’s expanding and changing role. They observed that the roles and responsibilities now frequently imposed on audit committees, in addition to their core SEC-required duties, might interfere with their primary responsibility of overseeing the company’s financial reporting. SEC Deputy Chief Accountant [Brian Croteau](#) discussed the comments received on the [July 2015 concept release](#), *Possible Revisions to Audit Committee Disclosures*.

The full text of [speeches made by other SEC staff representatives](#) can be found on the SEC website.

SEC

SEC proposes resource extraction disclosure, derivatives rules

The SEC on December 11 [voted to propose rules](#) that would require resource extraction issuers to disclose payments made to the U.S. federal government or foreign governments for the commercial development of oil, natural gas, or minerals. Under the proposed rules, an issuer would be required to disclose such payments made to the U.S. federal government or a foreign government if the issuer is required to file annual reports with the SEC under the Securities Exchange Act. The issuer would also be required to disclose payments made by a subsidiary or entity controlled by the issuer.

Initial public comments are due by January 25, 2016. Reply comments, which may respond only to issues raised in the initial comment period, are due on February 16, 2016.

The SEC also [voted to propose a new rule](#) to enhance the regulation of the use of derivatives by registered investment companies, including mutual funds, exchange-traded funds (ETFs) and closed-end funds, as well as business development companies. The proposed rule is designed to improve investor protection by limiting the use of derivatives and requiring the implementation of risk management measures.

Under the proposed rule, a fund would be required:

- To comply with one of two alternative portfolio limitations designed to limit the amount of leverage the fund may obtain through derivatives and certain other transactions;
- To manage the risks associated with their derivatives transactions by segregating certain assets in an amount designed to enable the fund to meet its obligations, including under stressed conditions; and
- To establish a formalized derivatives risk management program if the fund engages in more than a limited amount of derivatives transactions or uses complex derivatives.

The deadline for submitting comments will be 90 days after publication in the *Federal Register*.

FASB/IASB

FASB releases final financial instruments standard

The FASB on January 5 issued Accounting Standards Update (ASU) [No. 2016-01](#), *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. “The new standard is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments,” FASB Chairman Russell Golden said in the [news release](#). It improves the accounting model to better meet the requirements of today’s complex economic environment.”

The new guidance makes targeted improvements to existing GAAP by:

- Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;

- Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- Eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities;
- Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and
- Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

For public companies, the ASU will take effect for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For private companies, not-for-profit organizations, and employee benefit plans, the standard becomes effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019.

The ASU permits early adoption of the own credit provision. Additionally, it permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost.

FASB issues one proposed ASU in December

The FASB on December 3 issued the [proposed Accounting Standards Update](#) (ASU), *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The proposed ASU would remove the following disclosure requirements from Topic 820, *Fair Value Measurement*, either because they are not consistent with the concepts in the proposed Concepts Statement or because they are no longer deemed to provide useful information:

- The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy;
- The policy for timing of transfers between levels;
- The valuation policies and procedures for Level 3 fair value measurements; and
- For private companies, the change in unrealized gains and losses for the period included in earnings (or changes in net assets) on recurring Level 3 fair value measurements held at the end of the reporting period.

The deadline for submitting comments on the proposed ASU is February 29, 2016.

IASB proposes amendments to the current insurance contracts standard

The IASB on December 9 [proposed for public comment](#) amendments to IFRS 4, *Insurance Contracts*. The purpose of the proposed amendments is to address the temporary consequences of the different effective dates of IFRS 9, *Financial Instruments*, and the new insurance contracts standard, both of which are relevant to companies that issue insurance contracts.

In an effort to address concerns expressed about the different effective dates, the IASB is proposing to introduce:

- An option that would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, the incremental volatility in profit or loss arising from changes in the measurement of financial assets upon application of IFRS 9. This approach would be in place until the new insurance contracts standard becomes effective (the “overlay approach”); and
- An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the “deferral approach”). This exemption would be available until the new insurance contracts standard becomes effective (but it could not be used after January 1, 2021)

The deadline for submitting comments on the Exposure Draft, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, is February 8, 2016.

International

IAASB seeking feedback on standard-setting to enhance audit quality

The International Auditing and Assurance Standards Board (IAASB) on December 17 released an [Invitation to Comment](#), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (the ITC). The ITC highlights the IAASB’s discussions on the topics of professional skepticism, quality control, and group audits, and flags potential standard-setting activities the IAASB could take to enhance audit quality.

More specifically, the IAASB has identified the following key public interest issues related to professional skepticism, quality control, and group audits:

- Fostering an appropriately independent and challenging skeptical mindset of the auditor;
- Enhancing documentation of the auditor’s judgments;
- Keeping ISAs fit for purpose;
- Encouraging proactive quality management at the firm and engagement level;
- Exploring transparency and its role in audit quality;
- Focusing more on firms (including networks) and their internal and external monitoring and remediation activities; and
- Reinforcing the need for robust communication and interactions during the audit.

The IAASB also released a companion document, [Overview of the ITC](#), which is designed to solicit feedback from investors, audit committees, and preparers. It summarizes the key areas the IAASB is exploring and the direction it may take and may be useful in facilitating outreach by stakeholders to develop their responses.

The deadline for submitting comments on both publications is May 16, 2016. The IAASB intends to supplement these public consultations with outreach events in 2016. In the upcoming weeks, the IAASB plans to release additional tools and publications on its website to assist stakeholders in understanding how the ITC and Overview are relevant to them and to facilitate responses.

FRC proposes changes to U.K. Audit Firm Governance Code

The U.K. Financial Reporting Council (FRC) on December 7 released [proposed revisions](#) to the Audit Firm Governance Code. The Code was introduced in January 2010 and applies to firms auditing 20 or more listed companies. It was created with the aim of providing a formal benchmark of good governance practice against which firms that audit listed companies can report for the benefit of shareholders in such companies.

In particular, the FRC proposes that firms revise their transparency reports to include content that is of greater relevance to investors, regulators, and other stakeholders. Firms applying the Code should include the following:

- A separate report from the independent non-executives and/or public interest committee. This report should include an explanation of how the independent non-executives or committee has overseen the U.K. audit practice in particular, as well as the wider U.K. business more generally, over the reporting period.
- An explanation of why the firm has chosen to position its independent non-executives in the way that they have and how they believe that this serves the public interest by helping to ensure audit quality and capacity.
- A statement of how the firm has worked during the year to fulfill the Code's purpose, defined as: (1) audit quality and the preservation of audit capacity; (2) the firm's reputation more broadly, including oversight of non-audit businesses; and (3) prevention of firm failure.
- Details of any provisions from the U.K. Corporate Governance Code they have adopted within their own governance structures and a consideration of whether there are any others it might adopt in the future.
- A report on the work of the firm's Board, including performance against any Key Performance Indicators (KPIs) in place.

The deadline for submitting comments on the proposed revisions is March 11, 2016.

FSB establishes Task Force on Climate-related Financial Disclosures

The Financial Stability Board (FSB) on December 4 [announced](#) that it is establishing an industry-led Task Force on Climate-related Financial Disclosures. The Task Force, under the chairmanship of Michael Bloomberg, will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, insurers, investors, and other stakeholders.

The Task Force will consider the physical, liability, and transition risks associated with climate change and what constitutes effective financial disclosures in this area. It will seek to develop a set of recommendations for consistent, comparable, reliable, clear and efficient climate-related disclosures.

The Task Force will conduct its work in two stages. During the first stage, the Task Force will consist of about ten individuals, who will determine the scope and high-level objectives for its work. It is expected that this first stage will be completed by the end of March 2016. During the second stage, the Task Force's work will likely expand to include up to 30 individuals, and will focus on delivering specific recommendations for voluntary disclosure principles and leading practices, if appropriate, with a view to completing its work by the end of 2016.

House bill would allow more SOX 404(b) exemptions

On December 1, Reps. Kyrsten Sinema (D-Ariz.) and Mike Fitzpatrick (R-Pa.) introduced [H.R. 4139](#), the *Fostering Innovation Act of 2015*. The bill would give research-driven emerging growth companies (EGCs) a longer exemption from Section 404(b) of the Sarbanes-Oxley Act than is currently provided for under the JOBS Act.

Specifically, the bill would grant an exception from Section 404(b) to any issuer that met the following conditions:

- It ceased to be an EGC on the last day of the fiscal year following the fifth anniversary of the date of the issuer's first sale of common equity securities of the issuer pursuant to an effective registration statement under the Securities Act of 1933;
- It had average annual gross revenues of less than \$50,000,000 as of its most recently completed fiscal year; and
- It was not a large accelerated filer.

An issuer would cease to be eligible for the exemption at the earliest of: (1) the last day of the fiscal year following the tenth anniversary of the date of the issuer's first sale of common equity; the last day of the fiscal year during which the issuer's average annual gross revenues of the issuer exceeded \$50,000,000; or (3) the date on which the issuer became a large accelerated filer.

The bill was referred to the House Financial Services Committee.

Senators introduce Cybersecurity Disclosure Act

Sens. Jack Reed (D-R.I.) and Susan Collins (R-Maine) on December 17 introduced [S. 2410](#), the *Cybersecurity Disclosure Act of 2015*. The bill would require public companies to disclose in their annual financial reports or proxy statements whether any member of the board of directors has cybersecurity expertise or experience, and if not, why having this expertise or experience on the board is not necessary because of other cybersecurity steps taken by the company.

The bill would require the SEC to issue final rules within one year of the bill's passage. It also would require the SEC, in coordination with the National Institute of Standards and Technology, to define what constitutes expertise or experience in cybersecurity, such as professional qualifications to administer information security program functions or experience detecting, preventing, mitigating, or addressing cybersecurity threats.

“For decades the SEC has had the mandate to make sure investors and shareholders have similar information as insiders,” Sen. Collins said in a [press release](#). “Unfortunately, the annual disclosures made by publicly traded companies have not kept pace with the pace of technological innovation. Our bill fixes that by making sure that firms provide a basic amount of information about the degree to which a firm is protecting the economic and financial interests of the firm from cyber attacks.”

Transportation funding bill includes financial disclosure modifications

President Barack Obama on December 4, 2015 signed into law [H.R. 22](#), *Fixing America's Surface Transportation Act* (FAST Act). While primarily a transportation-funding bill, the FAST Act also includes provisions modifying some financial disclosure requirements for public companies, particularly smaller issuers, and improving access to capital for emerging growth companies (EGCs).

- **Sec. 71001.** Effective immediately, the required period between the public filing of an IPO registration statement that was previously filed with the SEC for confidential review and the commencement of the IPO roadshow is shortened from 21 to 15 calendar days.
- **Sec. 71002.** If a company that filed (or confidentially submitted) a registration statement for an IPO as an EGC loses its EGC status, the company will continue to be treated as an EGC until the earlier of: (1) the date on which the company completes its IPO or (2) one year from the date that the company ceases to be an EGC.
- **Sec. 71003.** The SEC must, by January 3, 2016, revise Form S-1 and Form F-1 to allow an EGC to omit from its draft registration statement – or a publicly-filed registration statement – financial statements for periods that would otherwise be required under Regulation S-X if: (1) the EGC reasonably believes that such periods would not be required in Form S-1 or Form F-1 at the time of the contemplated offering; and (2) prior to the distribution of a preliminary prospectus, the EGC amends the registration statement to include all financial statements required by Regulation S-X at the date of the amendment. The change applies to an issuer's financial statements as well as pro forma and acquired company financial statements. To provide guidance with respect to these provisions, the SEC staff issued [Compliance and Disclosure Interpretations](#) on December 10, 2015.
- **Sec. 72001.** By June 1, 2016, the SEC must issue rules to allow companies to include a summary page in Form 10-K, provided that each item on the summary page include a cross-reference (by electronic link or otherwise) to the material contained in form 10-K to which the item relates.
- **Sec. 72002.** By June 1, 2016, and if no further consideration is needed under the study mandated by Sec. 72003, the SEC must revise Regulation S-K to: (1) scale the disclosure requirements to reduce burdens on EGCs, accelerated filers, smaller reporting companies, and other smaller companies while still providing material information; and (2) eliminate duplicative, overlapping, outdated, or unnecessary provisions of Regulation S-K for all issuers.
- **Sec. 72003.** The SEC must conduct a study of Regulation S-K to: (1) determine how to simplify the requirements and reduce the burdens on issuers while providing material information; (2) determine how to emphasize the provision of company-specific information, avoidance of boilerplate, and preservation of completeness and comparability of information across registrants; and (3) evaluate methods for presenting and delivering disclosures that would discourage repetition and immaterial information. The SEC must deliver the study, with specific recommendations, to Congress by November 28, 2016. Once the report is delivered, the SEC will have 360 days to propose rules to implement the study's recommendations.
- **Section 84001.** The SEC must, by January 18, 2016, revise Form S-1 to permit smaller reporting companies (generally, issuers having a public float of less than \$75 million) to incorporate by reference Exchange Act reports filed after the effective date of a Form S-1 registration statement. Previously, issuers could only update Form S-1 registration statements by filing post-effective amendments that would be potentially subject to SEC review before becoming effective.

CAQ Updates

CAQ releases new 'Profession in Focus' videos

The CAQ has released four new episodes of its online video series, *Profession in Focus*:

- In [episode 12](#), Michael Leonardson, Partner at EY, discusses the opportunities, challenges, and career implications of data analytics in the context of the financial statement audit.
- In [episode 13](#), Jean M. Joy, CPA, Director of Professional Practice and Director of the Financial Institutions Group at Wolf & Company P.C., shares insights on challenges and policy environment for mid-sized firms in the public company auditing profession.
- In [episode 14](#), PwC Chairman and Senior Partner Robert E. Moritz, a current member and former chair of the CAQ's Governing Board, addresses cybersecurity, the role of the external auditor in that critical area, and how that role might expand. He also discusses why auditing makes a great career choice.
- In [episode 15](#), Barry Melancon, President and CEO of the American Institute of CPAs and a member of the CAQ's Governing Board, discusses the strong state of audit quality, the role of assurance in cybersecurity, and key questions for the profession regarding attracting the best and brightest.

The video series is [archived](#) on the CAQ website.

Upcoming Events

January 11

PCAOB Webinar: PCAOB Inspections of Auditors of Broker-Dealers ([Link](#))

January 14

NACD Chapter Event, "Audit Committee Agendas 2016: Emerging Issues and Best Practices," Chicago, IL ([Link](#))

January 14-16

AAA Auditing Section Midyear Meeting, Scottsdale, AZ ([Link](#))

January 18-22

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

January 21

SEC Investor Advisory Committee Meeting, Washington, DC ([Link](#))

January 22-23

AAA Financial Accounting and Reporting Section Midyear Meeting, Newport Beach, CA ([Link](#))

January 26-28

IFRS Foundation Trustees Meeting, London, UK ([Link](#))

February 18-20

AAA International Accounting Section Midyear Meeting, New Orleans, LA ([Link](#))

March 8-9

ICGN Frankfurt Conference, Frankfurt, Germany ([Link](#))

March 16

Center for Capital Markets Competitiveness Annual Capital Markets Summit, Washington, DC ([Link](#))

March 21-23

CII 2016 Spring Conference, Washington, DC ([Link](#))

May 8-11

CFA Institute Annual Conference, Montreal, Canada ([Link](#))

May 10-12

AICPA Employee Benefit Plans Conference, Las Vegas, NV ([Link](#))

June 22-25

Society of Corporate Secretaries & Governance Professionals National Conference, Colorado Springs, CO ([Link](#))

June 27-29

ICGN Annual Conference, San Francisco, CA ([Link](#))

July 21-22

AICPA National Advanced Accounting and Auditing Technical Symposium, Salt Lake, UT ([Link](#))

September 21-23

AICPA National Conference on Banks & Savings Institutions, National Harbor, DC ([Link](#))

September 28-29

CII 2016 Fall Conference, Chicago, IL ([Link](#))

October 6-10

American Accounting Association Annual Meeting, New York, NY ([Link](#))

October 16-18

American Bankers Association Annual Convention, Nashville, TN ([Link](#))

October 30-November 2

NASBA Annual Meeting, Austin, TX ([Link](#))

November 13-15

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

December 5-7

AICPA Conference on Current SEC and PCAOB Developments, Washington, DC ([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 Monitor represents the observations of the CAQ, but not necessarily the views of particular member firms, Governing Board members or individuals associated with the CAQ. Questions and comments about the CAQ Public Policy Monitor can be addressed to: ppm@thecaq.org.