



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 posts updated standard-setting agenda

The Public Company Accounting Oversight Board (PCAOB or the Board) on January 5 posted to its website an [updated standard-setting agenda](#). There is only one change to the update released in September 2015: to take account of the Board's approval of new rules requiring disclosure of the engagement partner and other accounting firms participating in an audit.

The PCAOB still plans, during the first half of 2016, to:

- Propose improvements to the auditing standards governing the planning, supervision, and performance of audits involving other auditors and multi-location audit engagements;
- Publish a staff consultation paper on going concern; and
- Re-propose a standard on the auditor's reporting model.

SEC

IAC urges changes to redefinition of 'materiality'

The Securities and Exchange Commission's (SEC) Investor Advisory Committee (IAC) on January 21 approved the submission of a [comment letter](#) on the Financial Accounting Standards Board's (FASB) [September 2015 proposals](#) to help "organizations employ discretion when determining what disclosures in notes to financial statements should be considered 'material' in their particular circumstances."

According to the IAC, the proposed changes to the definition of "materiality" are not merely clarifications, but "entail a significant and substantive alteration to the current definition." Furthermore, "[g]ranting issuers greater latitude to use discretion in evaluating the materiality of disclosures in the absence of a framework is fraught with the risk that disclosures that are unfavorable to the issuer are disproportionately viewed as immaterial and as a result excluded from the financial statements. Such a result is not in the best interest of investors, and is anathema to investor protection, capital formation, and the efficient functioning of the capital markets."

The IAC recommends that the FASB either maintain the current definition of materiality or "[w]ithdraw the Proposals and precede any future proposals with a more complete record that sets out both the concerns requiring any changes to the definition of materiality and the implications of any such changes, and that more clearly alerts the public to the consequences of such revisions."

SEC extends comment period on proposed resource extraction disclosure rule

The SEC on January 21 extended the comment period on its proposed rule to require resource extraction issuers to disclose payments made to the U.S. government or foreign governments for the commercial development of oil, natural gas, or minerals. The original deadline for submitting initial comments on the proposal was January 25. For reply comments, which may respond only to issues raised in the initial comment period, the deadline was February 16. According to the [January 21 release](#), the deadline for submitting initial comments has been extended until February 16, and until March 8 for reply comments.

SEC announces examination priorities for 2016

The SEC's Office of Compliance Inspections and Examinations (OCIE) on January 11 published its [examination priorities](#) for 2016. The priorities address issues across a variety of financial institutions, including investment advisers, investment companies, brokers and dealers, transfer agents, clearing agencies, and national securities exchanges.

The areas of examination include:

- **Retail Investors:** OCIE will continue several 2015 initiatives to assess risks to retail investors seeking information, advice, products, and services to help them plan for and live in retirement. It also will undertake examinations to review exchange-traded funds (ETFs) and ETF trading practices, variable annuity recommendations and disclosures, and potential conflicts and risks involving advisers to public pension funds.

- **Market-Wide Risks:** OCIE will continue its focus on cybersecurity controls at broker-dealers and investment advisers. New initiatives for 2016 include an evaluation of broker-dealers' and investment advisers' liquidity risk management practices, and firms' compliance with the Regulation Systems Compliance and Integrity (SCI), designed to strengthen the technology infrastructure of the U.S. securities markets.
- **Data Analytics:** OCIE's enhanced ability to analyze large amounts of data will assist examiners' ongoing initiatives to assess anti-money laundering compliance, detect microcap fraud, and review for excessive trading. Data analytics also will help examinations focused on promotion of new, complex, and high-risk products.

SEC adopts interim rules implementing FAST Act provisions

The SEC on January 13 approved [interim final rules](#), *Simplification of Disclosure Requirements for Emerging Growth Companies and Forward Incorporation by Reference on Form S-1 for Smaller Reporting Companies* (Release 33-10003). The interim final rules implement two provisions of the Fixing America's Surface Transportation (FAST) Act that revise financial reporting forms for emerging growth companies (EGCs) and smaller reporting companies. The rules cover the following sections of the FAST Act:

- **Sec. 71003** amends Section 102 of the Jumpstart Our Business Startups (JOBS) Act to allow an EGC that is filing a registration statement (or submitting a draft registration statement for confidential review) under Section 6 of the Securities Act on Form S-1 or Form F-1 to omit financial information for historical periods otherwise required by Regulation S-X if it reasonably believes the omitted information will not be required to be included in the filing at the time of the contemplated offering, so long as the issuer amends the registration statement prior to distributing a preliminary prospectus to include all financial information required by Regulation S-X at the time of the amendment.
- **Sec. 84001** requires the SEC to revise Form S-1 to permit a smaller reporting company to incorporate by reference into its registration statement any documents filed by the issuer subsequent to the effective date of the registration statement. The interim final rules add a new paragraph to Item 12 of Form S-1 to effect this provision.

The interim final rules become effective upon publication in the *Federal Register*. The deadline for submitting comments on the rules is February 18.

FASB/IASB

FASB proposes changes to retirement benefit reporting

The FASB on January 26 issued two proposed Accounting Standards Updates (ASUs) intended to improve financial reporting by employers related to defined benefit pension and other postretirement benefit plans.

- The [proposed ASU](#), *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, would provide additional guidance on the presentation of the components of net periodic pension cost and net periodic postretirement benefit cost (net benefit cost) in the income statement and on the components eligible for capitalization in assets.

- The [proposed ASU, Compensation—Retirement Benefits—Defined Benefit Plans—General \(Subtopic 715-20\): Changes to the Disclosure Requirements for Defined Benefit Plans](#), would modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans.

The deadline for submitting comments on both proposed ASUs is April 25.

IASB issues new lease accounting standard

The International Accounting Standards Board (IASB) on January 13 [issued IFRS 16, Leases](#), replacing IAS 17. IFRS 16 requires leases to be reported as assets and liabilities on the balance sheet and removes the classification of leases as either operating leases or finance leases, treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements.

“These new accounting requirements bring lease accounting into the 21st century, ending the guesswork involved when calculating a company’s often-substantial lease obligations,” IASB Chairman Hans Hoogervorst said. “The new standard will provide much-needed transparency on companies’ lease assets and liabilities, meaning that off-balance-sheet lease financing is no longer lurking in the shadows. It will also improve comparability between companies that lease and those that borrow to buy.”

IFRS 16 is effective January 1, 2019. Early application is permitted, as long as the recently issued revenue standard – IFRS 15, *Revenue from Contracts with Customers* – is also applied.

IASB issues amendments to income tax standard

The IASB on January 19 issued [amendments to IAS 12, Income Taxes](#). IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments, *Recognition of Deferred Tax Assets for Unrealized Losses*, clarify how to account for deferred tax assets related to debt instruments measured at fair value. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

International

IAASB finalizes changes for reporting on special purpose financial statements

The International Auditing and Assurance Standards Board (IAASB) on January 7 released two revised International Standards on Auditing (ISAs) related to auditor reporting on special purpose financial statements. [ISA 800 \(Revised\), Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks](#) and [ISA 805 \(Revised\), Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement](#), include limited amendments to provide clarity about how the [new and revised Auditor Reporting standards](#) issued in January 2015 apply in the context of special purpose financial statements.

Both ISAs are effective for audits of financial statements for periods ending on or after December 15, 2016.

FEE pursues the debate on the future of audit and assurance

In January, the Federation of European Accountants (FEE) [published a discussion paper](#), *Pursuing a Strategic Debate*. The paper summarizes the comments received on the FEE's 2014 discussion paper, *Opening a Discussion: the Future of Audit and Assurance* and on the FEE audit conference, *Long Term Vision and Short Term Challenges*, held in June 2015.

“[I]t was suggested that, as a way to demonstrate quality work, the profession could devise a set of agreed audit quality indicators with defined criteria,” the FEE writes. “At first, these indicators would help those charged with governance to assess auditors from a qualitative point of view. Making some of these indicators available in the audit firm transparency reports could be seen as best practice in the long run. This practice is already underway in some jurisdictions.”

The report also identifies three main topics as critical to the future of audit and assurance:

- *Respond to stakeholders' needs.* Engagement with stakeholders needs to be enhanced. Auditor communication was one of the key areas where the profession had recently demonstrated its ability to adapt and engage with its stakeholders. Further initiatives should be explored such as responding to stakeholders' needs on new types of assurance, and amongst others, over non-financial information;
- *Encourage innovation driven by technology.* Harnessing the benefits of technology and in particular ongoing innovations in IT was identified as one of the key challenges ahead. Understanding the capabilities that technology offers, and the skillset development required to harness these capabilities, was acknowledged as a key strategic objective;
- *Rethink education to ensure the right skillset for the future.* The way the future generation of auditors is educated and trained may need to be adapted to reflect a changing environment.

CAQ Updates

Report highlights stakeholder discussions on AQIs

The Center for Audit Quality (CAQ) on January 12 issued a [report](#) on the insights learned from a series of roundtable discussions with audit committee members and other interested stakeholders around the globe to gather their feedback on a potential set of audit quality indicators (AQIs). The discussions, together with the results from pilot testing of [The CAQ Approach to Audit Quality Indicators](#), suggest a path forward on efforts to identify the most effective way to assess audit quality.

Key findings from the roundtables – held in New York, Chicago, London, and Singapore during the summer of 2015 – include the following:

- Desire for information that can assist audit committees in their assessment of the more qualitative aspects of the audit, such as the engagement team having the right mindset to bring forth professional skepticism and auditor judgment, which cannot be adequately captured in a quantitative AQI, and is best achieved through dialogue.
- Recognition that, although AQIs can help audit committees oversee the quality of their external audit, the external audit is just one aspect of quality financial reporting.

- Endorsement of a flexible approach that allows an audit committee, working with the external auditor, to tailor or customize the selection and portfolio of AQIs that best suit its specific information needs.
- General support for the concept of AQIs and recognition of their potential value to audit committees' auditor oversight responsibilities, although some participants felt they already have the tools necessary for them to gauge the quality of their audit.
- Agreement that AQIs alone, without context, cannot adequately communicate factors relevant to any particular audit engagement or audit firm.
- Agreement that the process of identifying and evaluating AQIs needs to be audit committee-driven and iterative, and will require continuous assessment and refinement in order to meet the changing information needs of audit committees.
- Belief that mandated public disclosure of engagement-level AQIs could lead to unintended consequences and that any disclosures of engagement-level AQI information should be voluntary.

CAQ comments on ICGN's stewardship, board diversity consultations

The CAQ on January 15 [submitted comments](#) on the International Corporate Governance Network (ICGN) Member Consultation on the [Global Stewardship Code](#) (the Code). The Code is intended to serve as:

- An international “passport” for institutional investors seeking to signal their stewardship policies and practices either when investing in markets without stewardship codes or investing in multiple markets with differing codes;
- A point of reference for investors on what stewardship entails and how to implement it in practical terms; and
- A point of reference to guide jurisdictions seeking to establish their own stewardship codes by providing an overarching model of stewardship that can be adapted to the individual situations of countries or regions.

Boards should provide meaningful information to investors about how they execute their responsibilities, “which would enable investors to monitor and respond, if necessary, to urge closer harmonization of board strategy with investor expectations,” the CAQ wrote. “Disclosures by investors made in relation to the Code regarding their major stewardship approaches, can assist companies to understand these approaches and the expectations of their major shareholders. The potential result is better alignment of corporate and shareholder interests and improvement in long-term value creation at the company and risk-adjusted returns to shareholders.”

“From an audit and audit committee perspective,” the CAQ added, “enhanced investor interest and attention to the board’s activities reinforces board accountability and therefore should fortify processes for board oversight of financial reporting and the audit process. The potential result is a continuing cycle of mutually reinforcing activities that bring about increasingly beneficial outcomes in terms of board effectiveness and quality financial reporting.”

On January 29, the CAQ submitted comments on the ICGN Member Consultation on [Guidance on Diversity on Boards](#) (Member Consultation). The Member Consultation proposes updates to the ICGN’s *Guidance on Gender Diversity on Boards*, which was originally published in 2013 and emphasized the

importance of gender diversity to promote effective board governance. The proposed updates in the Member Consultation were “developed in response to evolving corporate governance practices, changing market expectations and a strengthened business case that establishes that diversity is a core attribute of a well-functioning board which supports greater long-term value for shareholders and investee companies.”

In its [comment letter](#), the CAQ writes that it supports expanding “the definition of diversity beyond gender and continue to evolve the guidance on board diversity as market expectations change. We believe that a principles-based approach with associated guidelines, rather than prescriptive mandates, can provide a helpful framework for boards and companies to achieve appropriate board composition. Disclosure of certain policies around board diversity may facilitate a dialogue between investors, corporate boards, and management, and, in turn, reinforce accountability and good governance practices.”

Highlights of SEC Regulations Committee meeting now available

The CAQ on January 19 posted on its website [highlights](#) from the October 21, 2015 meeting of the SEC Regulations Committee with SEC staff. Among the topics address were:

- Regulation A Update
- Revenue Recognition
- Interaction between ASU 2014-17 (Push Down Accounting) and the presentation/computation guidance in Rule 3-10(i) of Regulation S-X, SAB Topic 6-K, and SAB Topic 1-J
- FRM Section 3420, Distributions to Promoters/Owners At or Prior to Closing of an IPO
- Shelf Take Downs and Greater than 50% Completed and Probable Business Acquisitions

CAQ releases new ‘Profession in Focus’ video

The CAQ released one new episode of its online video series, *Profession in Focus*:

- In [Episode 16](#), PCAOB Member Jay Hanson discusses the state of audit quality, internal control over financial reporting, and the PCAOB’s 2016 priorities.

Upcoming Events

February 3

FASB Board Meeting, Norwalk, CT ([Link](#))

February 4

FASB Public Meeting on Financial Instruments: Impairment, Norwalk, CT ([Link](#))

February 9

ICI 2016 Capital Markets Conference, New York, NY ([Link](#))

February 15-19

IASB Board 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](#))

May 18-19

PCAOB Standing Advisory Group Meeting, Washington, DC ([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](#))

November 30-December 1

PCAOB Standing Advisory Group Meeting, Washington, DC ([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.