



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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SEC

SEC, FINRA schedule regional compliance outreach seminars for broker-dealers

The Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA) on February 2 announced the opening of registration for their [2016 Compliance Outreach Regional Seminars](#) for brokers and dealers that will take place in New York, Atlanta, Dallas, Boston, Chicago, and San Francisco, beginning in April. Each regional seminar will provide a forum for regulators and industry professionals to discuss current regulatory issues and exchange ideas for effective compliance practices. Registration is open to risk, audit, legal, and compliance professionals employed by brokers and dealers.

FASB releases final lease accounting standard

The Financial Accounting Standards Board (FASB) on February 25 issued [Accounting Standards Update \(ASU\) No. 2016-02, Leases \(Topic 842\)](#). ASU 2016-02 requires a lessee to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires that only capital leases be recognized on the balance sheet, the ASU requires that both types of leases be recognized on the balance sheet.

The ASU also requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements.

The accounting by organizations that own the assets leased by the lessee – also known as lessor accounting – remains largely unchanged from current GAAP. But ASU 2016-02 contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014.

The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities and certain other entities that are quoted on an exchange or file financial statements with the SEC. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities.

FASB proposes ASU to address cash flow issues

The FASB on January 29 issued the proposed ASU, [Statement of Cash Flows \(Topic 230\): Classification of Certain Cash Receipts and Cash Payments](#). The proposed ASU, a consensus of the FASB's Emerging Issues Task Force, aims to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows by addressing eight specific cash flow issues for which existing guidance is unclear or does not exist.

The eight issues include:

- Debt Prepayment or Debt Extinguishment Costs
- Settlement of Zero-Coupon Bonds
- Contingent Consideration Payments Made after a Business Combination
- Proceeds from the Settlement of Insurance Claims
- Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies
- Distributions Received from Equity Method Investees
- Beneficial Interests in Securitization Transactions
- Separately Identifiable Cash Flows and Application of the Predominance Principle

The deadline for submitting comments on the proposed ASU is March 29.

International

FRC survey reviews experiences with extended auditors' reports

The U.K. Financial Reporting Council (FRC) on January 28 published a [report](#) on its review of the second year of extended auditors' reports. The review covered nearly 80 percent of the 350 largest companies listed on the London Stock Exchange.

Key findings include:

- Investors have welcomed extended auditor reporting, and greatly value the enhanced information it provides;
- The reports that earned the greatest praise from investors are carefully structured with the end user in mind, and signpost key information. They also include clear, concise and transparent disclosures about risk, scope, and materiality, as well as the critical areas where professional judgment and assumptions have been addressed; and
- Materiality still presents an area of challenge, despite the innovative approaches adopted in year one. There is still only limited commentary by auditors on the reasons for using or changing particular materiality benchmarks or for significant changes in the overall level of materiality used for the financial statements as a whole. Many investors have expressed a strong preference for enhanced disclosure on all aspects of materiality and how it impacts on the conduct of the audit.

IESBA re-exposes proposed changes to code on long association of personnel with an audit or assurance client

The International Ethics Standards Board for Accountants (IESBA) on February 4 re-exposed for public comment [proposed changes](#) to the *Code of Ethics for Professional Accountants* (the Code). The proposed changes address how audit firm personnel should act toward an audit or assurance client who has a long association with the firm.

Specifically, the Exposure Draft (ED) proposes reduced cooling off periods for certain partners involved in audits of listed and non-listed public interest entities.

The ED also includes a basis for conclusions regarding proposals in the [August 2014 Exposure Draft, Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing the Long Association of Personnel with An Audit or Assurance Client](#), which the IESBA has now closed.

The deadline for submitting comments on the ED is May 9, 2016.

U.S. Congress

House approves bill to exempt smaller companies from using XBRL

The House of Representatives on February 3 approved [H.R. 1675](#), the *Capital Markets Improvement Act of 2016*. The bill includes [H.R. 1965](#), the *Small Company Disclosure Simplification Act*, which the House Financial Services Committee approved on January 28.

H.R. 1965 would exempt emerging growth companies and issuers with total annual gross revenues of less than \$250 million from the requirements to use Extensible Business Reporting Language (XBRL) for financial statements and other mandatory periodic reports filed with the SEC. These companies could voluntarily elect to use XBRL for such reporting.

The bill also would direct the SEC to:

- Analyze the costs and benefits to such issuers of the requirements to use XBRL for financial statements and other mandatory periodic reporting; and
- Report to the House Financial Services Committee and Senate Banking Committee on the results of its analysis as well as on progress in implementing XBRL reporting within the SEC, and use of XBRL data by the SEC and investors.

H.R. 1965 was referred to the Senate Banking Committee in January 2015 as a provision of [H.R. 37](#), the *Promoting Job Creation and Reducing Small Business Burdens Act*. However, the Committee has yet to take any action on the provision.

CAQ Updates

CAQ releases cybersecurity resource

The Center for Audit Quality (CAQ) on February 1 issued [Understanding Cybersecurity and the External Audit](#), a resource that explains the role that public company auditors can play regarding cybersecurity in two two important contexts: (1) the audits of financial statements and internal control over financial reporting (where applicable), and (2) disclosures.

Highlights of International Practices Task Force meeting now available

The CAQ has made available [highlights](#) of the International Practices Task Force's (IPTF) November 17, 2015 Joint Meeting with SEC staff. The IPTF is a task force of the CAQ's SEC Regulations Committee.

The issues discussed during the meeting included:

- Monitoring inflation in certain countries, including Malawi, Venezuela, Sudan, Belarus, Islamic Republic of Iran, South Sudan, Ukraine, and Argentina;
- Regulation S-K 512(a)(4) "keeping current" requirements in an F-4 exchange offer;
- Pro forma financial information in cross-border mergers accounted for as reverse acquisitions;
- More current interim financial information and the need to update MD&A (Operating and Financial Review (OFR)) and any pro forma information in a registration statement;
- Presentation of Selected Financial Data of a foreign private issuer (FPI) upon adoption of the new revenue standard (i.e., IFRS 15 for IFRS or ASU 2014-09 for U.S. GAAP) when the standard is adopted retrospectively; and
- SEC staff observations regarding the use of IFRS XBRL Taxonomy by FPIs.

The next IPTF meeting has been scheduled for May 17.

CAQ releases new 'Profession in Focus' videos

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

- [Episode 17](#) features Jeanette M. Franzel, Board Member at the PCAOB. Franzel, one of two CPAs on the PCAOB, discusses priorities for the PCAOB, its engagement with audit committees, and its successful scholarship program for accounting students.
- [Episode 18](#) features Mark Cheffers, CEO and founder of Audit Analytics. Cheffers provides thoughts on the *Audit Committee Transparency Barometer*, a CAQ and Audit Analytics publication that tracks how U.S. audit committees approach the public communication of their financial reporting oversight activities.

Upcoming Events

March 2

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

March 8-9

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

March 14-18

IAASB Board Meeting, New York, NY ([Link](#))

March 14-18

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

March 29

FASB Webcast: Accounting Standards Update on Leases ([Link](#))

April 7

SEC/FINRA Compliance Outreach Regional Seminar, New York, NY ([Link](#))

April 13

NACD Capital Area Chapter Event, “The New World of Audit Committees,” Washington, DC ([Link](#))

April 20

SEC/FINRA Compliance Outreach Regional Seminar, Atlanta, GA ([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](#))

May 23-24

FEI Financial Leadership Summit Conference, Colorado Springs, CO ([Link](#))

June 7

SEC/FINRA Compliance Outreach Regional Seminar, Dallas, TX ([Link](#))

June 12-17

ACFE Global Fraud Conference, Las Vegas, NV ([Link](#))

June 14

SEC/FINRA Compliance Outreach Regional Seminar, Boston, MA ([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](#))

July 25

SEC/FINRA Compliance Outreach Regional Seminar, Chicago, IL ([Link](#))

August 18

SEC/FINRA Compliance Outreach Regional Seminar, San Francisco, CA ([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.