



CENTER FOR AUDIT QUALITY

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

CAQ Public Policy Monitor

MARCH 2016

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

SEC approves 2016 PCAOB budget and accounting support fee

The Securities and Exchange Commission (SEC or Commission) on March 14 [approved](#) the Public Company Accounting Oversight Board's (PCAOB or Board) budget and the related annual accounting support fee for fiscal year 2016. The budget totals almost \$258 million and will be funded primarily by the collection of an accounting support fee totaling a little over \$253 million and from the under-spending in 2015 that will be available to fund the 2016 budget.

PCAOB Chairman James Doty, in his [budget presentation](#), stated that the budget would allow the Board to, among other activities:

- Improve investors' ability to discern audit quality by implementing important new disclosures about engagement partners and other firms involved in an audit;
- Enhance the meaningfulness and reliability of the audit through the PCAOB's projects on the auditor's reporting model and the auditor's role in validating fair value measurements;

- Study the implication of the growth of consulting practices on auditor independence and audit quality; and
- Continue to monitor the increasing use of audit quality indicators by audit committees and others.

The vote to approve the PCAOB's budget was 2-1. SEC Chair [Mary Jo White](#) and Commissioner [Kara Stein](#) voted for the budget; Commissioner [Michael Piwowar](#) voted against it.

SEC

Recent updates to the Financial Reporting Manual

The SEC's Division of Corporation Finance (CorpFin) updated the following sections of the [Financial Reporting Manual](#) (FRM) in the first quarter of 2016:

- 2410.8 – Revisions to update guidance on testing significance of equity method investments.
- 10000 – Revisions to conform to Fixing America's Surface Transportation (FAST) Act. Changes also made to 1310.2, 10110.5, 10220.1, 10220.4, and 10220.5.
- Topic 11 – Revisions to add guidance relating to the implementation of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (as amended by Accounting Standards Update No. 2015-14) and IFRS 15, *Revenue from Contracts with Customers*.

Updates to the Compliance and Disclosure Interpretations

CorpFin updated the following sections of the Compliance and Disclosure Interpretations (C&DIs) in March:

- Proxy Rules and Schedule 14A
 - [Section 301 – New Question 301.01](#) – Addresses the specificity with which a registrant must describe a Rule 14a-8 shareholder proposal on its proxy card. (Updated 3/22/16).

FASB/IASB

FASB issues new ASUs

The Financial Accounting Standards Board (FASB) issued seven new Accounting Standards Updates (ASUs) in March:

- [ASU 2016-03](#), *Intangibles – Goodwill and Other (Topic 350)*, *Business Combinations (Topic 805)*, *Consolidation (Topic 810)*, *Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a consensus of the Private Company Council)*, eliminates the effective dates of Private Company Council alternatives contained in:
 - ASU 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill*
 - ASU 2014-03, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach*
 - ASU 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*

- ASU 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*

The amendments are effective immediately.

- [ASU 2016-04](#), *Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force)*, provides a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for liabilities related to the sale of prepaid stored-value products be accounted for consistent with the breakage guidance in Topic 606. The amendments are effective for public business entities and certain other entities for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Earlier application is permitted, including adoption in an interim period.
- [ASU 2016-05](#), *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force)*, clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period.
- [ASU 2016-06](#), *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)*, clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this ASU is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For entities other than public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period.
- [ASU 2016-07](#), *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*, is a part of the FASB’s Simplification Initiative. It eliminates the requirement to retroactively adopt the equity method of accounting. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early application is permitted.
- [ASU 2016-08](#), *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, clarifies certain aspects of the principal versus agent guidance in the new revenue recognition standard. The effective date and transition requirements for this ASU are the same as the effective date and transition requirements of [ASU 2014-09](#), *Revenue from Contracts with Customers (Topic 606)*, as amended by [ASU 2015-14](#), *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*.

- [ASU 2016-09](#), *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, simplifies several aspects of the accounting for share-based payment award transactions, including: (1) income tax consequences; (2) classification of awards as either equity or liabilities, and (3) classification on the statement of cash flows. For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For private companies, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any organization in any interim or annual period.

International

IAASB highlights audit issues arising from Expected Credit Loss models

The International Auditing and Assurance Standards Board (IAASB) on March 2 [released a publication](#) highlighting the audit issues arising from the shift to Expected Credit Loss (ECL) models when accounting for loan losses. ECL models are now required, or will soon be required, by some financial reporting frameworks, including IFRS 9, *Financial Instruments*, which will become effective January 1, 2018.

The publication summarizes the audit challenges identified with respect to ECL and sets out initial thinking on how these challenges may be addressed under the current International Standards on Auditing (ISA).

“The adoption and implementation of ECL models will, in many cases, bring significant challenges for auditors, management, those charged with governance (e.g., audit committees), supervisors, and users,” IAASB Chairman Prof. Arnold Schiller said. “Auditors need to be aware of the changes related to ECL and the implications for audits. Auditors will need to be actively engaged in 2016 and 2017, in particular to understanding how an entity is planning for the adoption and implementation of its ECL models.”

The publication also discusses how the IAASB’s project to [revise ISA 540](#), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, will seek to further address these and other challenges regarding auditing accounting estimates, including those relating to audits of financial institutions.

IAASB finalizes changes for Engagement to Report on Summary Financial Statements

The IAASB on March 24 released International Standard on Auditing (ISA) 810 (Revised), [Engagements to Report on Summary Financial Statements](#). The ISA deals with the auditor’s responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor.

The revised guidance leverages the additional transparency in the auditor’s report on the audited financial statements resulting from the IAASB’s new and revised [Auditor Reporting Standards](#) issued in January 2015, in particular ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

ISA 810 (Revised) will become effective at the same time as the auditor reporting standards addressing general purpose financial statements – for engagements to report on summary financial statements for periods ending on or after December 15, 2016.

IFIAR releases Report on 2015 Survey of Inspection Findings

The International Forum of Independent Audit Regulators (IFIAR) on March 3 released its [Report on 2015 Survey of Inspection Findings](#) (Survey). The Survey summarizes key inspection results from the audits of public companies, including systemically important financial institutions, and firm systems for quality control submitted by 35 IFIAR members in jurisdictions around the world. Overall, the Survey found the highest number of audit inspection deficiencies in the areas of internal control testing, fair value measurement, risk assessment, and revenue recognition. In response to these reported deficiencies, the IFIAR has agreed with the six largest audit networks on a new initiative to improve audit quality globally by measurably reducing audit deficiencies by 2019.

CAQ Updates

CAQ issues new 'Profession in Focus' videos

The Center for Audit Quality (CAQ) released two new episodes of its online video series, *Profession in Focus*:

- [Episode 19](#) features Dan Sunderland, partner at Deloitte & Touche LLP. Sunderland, who serves as Deloitte's National Leader of Audit and Assurance Services, discusses the state of auditing, the role of technology, and programs aimed at narrowing the gap between academics and practitioners.
- [Episode 20](#) features Randy Fletchall, CPA. A retired EY partner and current President of the AICPA Foundation Board of Trustees, Fletchall discusses the “business imperative” of the ongoing work to foster greater diversity in the profession. He also touches on how the profession has worked to bolster the pipeline of accounting professors, as well as the importance of strengthening the rapport between the profession and the academic community.

Upcoming Events

April 13

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

April 14

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

April 18-22

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

April 20

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

April 20

PCAOB Forum for Auditors of Broker-Dealers, Newport Beach, CA ([Link](#))

April 21

PCAOB Forum on Auditing in the Small Business Environment, Newport Beach, CA ([Link](#))

May 3

FAE Broker-Dealer Conference, New York, NY ([Link](#))

May 3

FAE Broker-Dealer Conference Webcast ([Link](#))

May 4

PCAOB Forum on Auditing in the Small Business Environment, Grapevine, TX ([Link](#))

May 8-11

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

May 10-12

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

May 16

FEE/CCAB/CFA Institute Roundtable: The Future of Corporate Reporting, London, UK ([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 1

PCAOB Forum for Auditors of Broker-Dealers, Chicago, IL ([Link](#))

June 2

PCAOB Forum on Auditing in the Small Business Environment, Chicago, IL ([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 21

PCAOB Forum on Auditing in the Small Business Environment, Philadelphia, PA ([Link](#))

June 21

PLI Seminar/Webcast: Audit Committees and Financial Reporting 2016: Recent Developments and Current Issues, New York, NY ([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 17-20

IIA 2016 International Conference, New York, NY ([Link](#))

July 21

PCAOB Forum on Auditing in the Small Business Environment, New York, NY ([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 22

PCAOB Forum for Auditors of Broker-Dealers, Jersey City, NJ ([Link](#))

September 22-23

PLI SEC Reporting & FASB Forum for Mid-sized & Smaller Companies, Las Vegas, NV ([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 18

PCAOB Forum for Auditors of Broker-Dealers, Tampa, FL ([Link](#))

October 19

PCAOB Forum on Auditing in the Small Business Environment, Tampa, FL ([Link](#))

October 24-26

AICPA Conference on Credit Unions, Orlando, FL ([Link](#))

October 30-November 2

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

November 13-15

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

November 16-18

AICPA Health Care Industry Conference, Nashville, TN ([Link](#))

November 30-December 1

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

December 5-6

AICPA Employee Benefit Plans Accounting, Auditing and Regulatory Update, Washington, DC ([Link](#))

December 5-7

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

December 7

PCAOB Forum for Auditors of Broker-Dealers, Las Vegas, NV ([Link](#))

December 8

PCAOB Forum on Auditing in the Small Business Environment, Las Vegas, NV ([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.