



CENTER FOR AUDIT QUALITY

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

CAQ Public Policy and Technical Alert

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As part of the Center for Audit Quality's (CAQ) 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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SEC

SEC updates C&DIs

The Securities and Exchange Commission's (SEC) Division of Corporation Finance updated the following sections of the Compliance and Disclosure Interpretations (C&DIs):

- Regulation AB – [New question 301.03](#) – Addresses whether funding agreement-backed notes should be classified as an “asset-backed security” under Item 1101(c) of Regulation AB or Section 3(a)(79) of the Exchange Act. (Updated 9/6/16)

- Securities Act Sections– [New question 139.33](#) – Addresses employee 401(k) plan contributions through self-directed brokerage windows and replaces question 239.16. (Updated 9/22/16)
- Securities Act Forms – [New question 126.41](#) – Addresses employee 401(k) plan contributions through self-directed brokerage windows and replaces question 226.15 (Updated 9/22/16)

FASB

FASB issues Proposed ASUs

The Financial Accounting Standards Board (FASB) issued four Proposed Accounting Standards Updates (ASUs) in September:

On September 8, the FASB issued the Proposed ASU, [Derivatives and Hedging \(Topic 815\): Targeted Improvements to Accounting for Hedging Activities](#). The proposed ASU would:

- Expand hedge accounting for nonfinancial and financial risk components to allow institutions to achieve hedge accounting for more of their risk management activities;
- Decrease the complexity of preparing and understanding hedge results through eliminating the separate measurement and reporting of hedge ineffectiveness;
- Enhance transparency, comparability, and understandability of hedge results through enhanced disclosures and changing the presentation of hedge results to align the effects of the hedging instrument and the hedged item; and
- Reduce the cost and complexity of applying hedge accounting by simplifying the manner in which assessments of hedge effectiveness may be performed.

An [overview](#) of the Proposed ASU is available. The deadline for submitting comments is November 22.

On September 19, the FASB issued the Proposed ASU, [Technical Corrections and Improvements to ASU 2014-09, Revenue from Contracts with Customers \(Topic 606\) – Additional Corrections](#). The proposed amendments fall within four areas:

- Loan Guarantee Fees
- Contract Asset versus Receivable
- Refund Liability
- Advertising Costs

The deadline for submitting comments is October 4.

On September 22, the FASB issued the Proposed ASU, [Receivables – Nonrefundable Fees and Other Costs \(Subtopic 310-20\): Premium Amortization on Purchased Callable Debt Securities](#). The FASB is issuing this proposed ASU to amend the amortization period for callable debt securities purchased at a premium. The FASB is proposing to shorten the amortization period for the premium to the earliest call date. Under current generally accepted accounting principles (GAAP), entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument.

The deadline for submitting comments is November 28.

On September 29, the FASB issued the Proposed ASU, [Financial Services – Insurance \(Topic 944\): Targeted Improvements to the Accounting for Long-Duration Contracts](#). The objective of the proposed ASU is to improve, simplify, and enhance the financial reporting of long-duration contracts, thus providing financial statement users with more useful information about the amount, timing, and uncertainty of cash flows related to those contracts.

Specifically, the proposed amendments would:

- Improve the timeliness of recognizing changes in the liability for future policy benefits by requiring that updated assumptions be used to measure the liability;
- Simplify and improve the accounting for certain options or guarantees in variable products (such as guaranteed minimum death, accumulation, income, and withdrawal benefits) by requiring those benefits to be measured at fair value instead of using two different measurement models;
- Simplify the amortization of deferred acquisition costs; and
- Increase transparency by improving the effectiveness of disclosures.

An [overview](#) of the Proposed ASU is available. The deadline for submitting comments is December 15.

FASB proposes 2017 GAAP Financial Reporting Taxonomy

The FASB on September 1 released the [Proposed 2017 GAAP Financial Reporting Taxonomy](#) for public review and comment. The proposed Taxonomy contains updates for accounting standards and other improvements since the 2016 Taxonomy as used by issuers filing with the SEC. The deadline for submitting comments is October 31.

International

IASB issues amendments to insurance contracts standards

The International Accounting Standards Board (IASB) on September 12 issued [Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts \(Amendments to IFRS 4\)](#). The amendments seek to address concerns that the financial statements of issuers of insurance contracts may be difficult to understand if IFRS 9 is applied before the forthcoming insurance contracts Standard. This is because of additional accounting mismatches and apparent volatility that may arise in profit or loss in the period between the effective dates of IFRS 9 and the forthcoming insurance contracts Standard.

The amendments respond to these concerns by introducing the:

- *Overlay approach* – an option for all issuers of insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and
- *Temporary exemption* – an optional temporary exemption from IFRS 9 for companies whose activities are predominantly connected with insurance (i.e. these companies will be permitted to continue to apply existing financial instrument requirements in IAS 39).

Both of these approaches supplement other measures that a company can use to address the additional accounting mismatches and volatility that may arise in profit or loss as a result of applying IFRS 9.

IAASB seeks input on growing use of data analytics in the audit

The International Auditing and Assurance Standards Board (IAASB) on September 1 published a Request for Input, [*Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*](#). The Request provides insights into the opportunities and challenges with the use of data analytics in the audit of financial statements and outlines the insights gained from the IAASB's activities to date. The deadline for submitting comments is February 15, 2017.

IAASB consults on supporting trust in emerging forms of external reporting

The IAASB's Integrated Reporting Working Group has issued a Discussion Paper, [*Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*](#). The Discussion Paper is intended to facilitate an open discussion about the IAASB's potential role and where others can or need to play a role in a holistic and interactive process to support credibility and trust in these reports. The deadline for submitting comments is December 15, 2016.

U.K. FRC issues thematic review on root cause analysis

The U.K. Financial Reporting Council (FRC) on September 16 issued a [*thematic review*](#) on root cause analysis (RCA) performed by audit firms relating to audit inspection findings. The review, covering the six largest U.K. audit firms, found that all are improving their RCA processes. The FRC makes recommendations for potential improvements in connection with planning and training on the process, consideration of using individuals and RCA techniques from outside the audit practice, and consistency of processes for investigating causes for internal and external inspections.

Other Developments

AICPA proposes criteria for a cybersecurity risk management program

The American Institute of CPAs' (AICPA) Assurance Services Executive Committee (ASEC) on September 19 issued the following Exposure Drafts for public comment:

- [*Proposed Description Criteria for Management's Description of an Entity's Cybersecurity Risk Management Program*](#) is intended for use by management in designing and describing its cybersecurity risk management program and by public accounting firms to report on management's description.
- [*Proposed Revision of Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality, and Privacy*](#) outlines revised AICPA trust services criteria for use by public accounting firms that provide advisory or attestation services to evaluate the controls within an entity's cyber risk management program, or SOC 2® engagements. Management also may use the trust services criteria to evaluate the suitability of design and operating effectiveness of controls.

The development of a common reporting framework that can assist boards of directors, senior management, and other stakeholders as they evaluate the effectiveness of an entity's cybersecurity risk management program.

The deadline for submitting comments on the Exposure Drafts is December 5.

CAQ explains auditor's role in cybersecurity risk management

A publication released on September 15 by the Internet Security Alliance (ISA), *Social Contract 3.0: Implementing a Market-Based Model for Cybersecurity*, includes a chapter contributed by the CAQ.

The [CAQ's contribution](#) explains how the auditing profession is in a strong position to play an important role in fostering instructive conversations about cybersecurity risk management, bringing to bear its core values – including independence, objectivity, and skepticism – as well as its deep expertise in providing independent evaluations in a variety of contexts.

Submitted on behalf of the auditing profession, the CAQ's chapter covers several major points:

- **Key cybersecurity considerations:** Leveraging observations from CAQ member firms, the CAQ identifies several key considerations with respect to the threats and responses by the corporate community to the evolving cybersecurity landscape.
- **The audit profession's strong foundation:** The profession draws upon the fundamental principles and standards of performance that have defined it for over 125 years. These principles include independence, objectivity, skepticism, due professional care, and compliance with an established professional code of conduct. Additionally, auditors have experience in assessing an entity's privacy and security practices through other attest engagements that are trusted and accepted in the marketplace
- **Principles for better cybersecurity outcomes:** The CAQ suggests several principles that "must be embedded in the public policy dialogue around these and future enhancements to adequately address cybersecurity." These include avoiding "blaming the victim" of cybersecurity attacks, as well as enabling private-sector solutions to cybersecurity challenges.

CAQ's highlights of SEC Regulations Committee's June 2016 meeting

The CAQ posted on its website [highlights](#) from the June 14 meeting of the SEC Regulations Committee with SEC staff. Among the topics discussed were:

- Non-GAAP Financial Measures;
- Industry Guide 3 and revised FDIC insurance coverage disclosures;
- Changes in ICFR in preparation for the adoption of a new accounting standard;
- Requirement to provide restated financial statements when a Form S-3 registration statement is filed after the registrant has filed its first Form 10-Q reflecting full retrospective adoption of the new revenue standard;
- Transition Questions Related to the New Leasing Standard;
- Differing adoption dates for ASU No. 2014-09, *Revenue from contracts with customers*; and
- Implications of General Instruction A.4 of Form 10-K on Form S-3.

CAQ's latest Main Street Investor Survey displays robust investor confidence

The CAQ on September 29 released the [10th Annual Main Street Investor Survey: A Decade of Investor Confidence](#). The survey found that 79 percent of American investors are confident in U.S. capital

markets, and 81 percent have confidence investing in U.S. publicly traded companies. Investors also display healthy levels of confidence in public company auditors (81 percent), independent audit committees (77 percent), audited financial statements (75 percent), and financial advisors (75 percent).

Survey respondents named growing national debt, global political unrest, cybersecurity threats to personal information and the capital markets, and a possible terrorist attack on the U.S. as the greatest risks to the U.S. economy. Forty-two percent of investors have confidence in capital markets outside the United States. Fifty-seven percent of investors think the next U.S. president will significantly impact their investment decisions.

CAQ issues new 'Profession in Focus' videos

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

- [Episode 30](#) features Karla Johnstone, EY Professor in Accounting at the University of Wisconsin – Madison School of Business. Johnstone discusses the top challenges facing the public company auditing profession, including coordinating and communicating around ICFR, as well as attracting the best and brightest to the profession. She also shares views on how she teaches professional skepticism to today's tech-savvy students.
- [Episode 31](#) features Maria Castañón Moats, PwC's U.S. Assurance Leader, who discusses the importance of inclusion for talent retention, the role of technology in an evolving auditing profession, and the auditor's role in cybersecurity.

#AuditorProud social media blitz encourages youth to explore careers in audit, celebrates profession

On September 22, the CAQ and its members led a second annual social media “blitz” highlighting the benefits of a career in auditing and the important role auditors play in capital markets. Using #AuditorProud, individuals and organizations posted thousands of messages, pictures, and videos about what a career in auditing can offer. Shared across social networks, these messages reached a potential audience of nearly 71 million people across the globe. For more on the blitz, including an interactive chart of #AuditorProud tweets worldwide, visit www.DiscoverAudit.org.

Upcoming Events

October 16-18

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

October 17

FASB Webcast: “FASB Proposed Accounting Standards Update on Hedging” ([Link](#))

October 17-21

IASB Board Meeting, London, UK ([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 14-15

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

November 16

USC Marshall Corporate Directors Symposium, Los Angeles, CA ([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 5-9

IAASB Meeting, New York, NY ([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 and Technical Alert (PPTA) 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 PPTA can be addressed to: aschumacher@thecaq.org.