



CENTER FOR AUDIT QUALITY

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

CAQ Public Policy and Technical Alert

MAY 2017

As part of the Center for Audit Quality's 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.

In This Issue:

- Highlights from the PCAOB's May SAG meeting
- Clayton sworn in as SEC chairman; Hinman named Director of Corporation Finance
- FASB invites comments on GAAP Financial Reporting Taxonomy
- FASB issues new ASUs
- IASB issues new insurance standard
- CAQ publishes planning alert for broker-dealer auditors
- CAQ releases white paper on the CPA's role in addressing cybersecurity risk
- Investor advocates join CAQ in call to preserve key SOX provision
- CAQ, AAA Auditing Section announce awards for Access to Audit Personnel Program
- CAQ issues new 'Profession in Focus' video
- Upcoming Events

PCAOB

Highlights from the PCAOB's May SAG meeting

The Public Company Accounting Oversight Board's (PCAOB) Standing Advisory Group (SAG) met on May 24-25. The [agenda](#) included discussions of the use of data and technology in conducting audits, and emerging issues that may affect audits, auditors, or the PCAOB. At the meeting, the PCAOB announced an open meeting on [June 1](#) to consider adopting a standard that would provide additional information in the auditor's report. The PCAOB also will consider proposing amendments to standards that will strengthen and enhance requirements for auditing accounting estimates, including fair value measurements, and an auditor's use of the work of specialists. The June PPTA will include details of the PCAOB's decisions made at the June 1 Open Meeting.

SEC

Clayton sworn in as SEC chairman; Hinman named Director of Corporation Finance

Jay Clayton [was sworn in](#) as the 32nd Chairman of the Securities and Exchange Commission (SEC) on May 4. Prior to joining the SEC, Clayton was a partner at Sullivan & Cromwell LLP, where he advised public and private companies on a wide range of matters, including securities offerings, mergers and acquisitions, corporate governance, and regulatory and enforcement proceedings. His term will expire in 2021.

On May 9, the SEC [announced](#) that William Hinman had been named the new director of the Division of Corporation Finance (Corp Fin). Previously, Hinman was a partner at Simpson Thacher & Bartlett LLP, where he advised a wide range of issuers and underwriters in capital-raising transactions and corporate acquisitions. He also advised public companies and their boards on public reporting, governance, and other corporate matters.

FASB

FASB invites comments on GAAP Financial Reporting Taxonomy

The Financial Accounting Standards Board (FASB) on May 10 issued the [Invitation to Comment, U.S. GAAP Financial Reporting Taxonomy – Efficiency and Effectiveness Review \(ITC\)](#). The ITC solicits broad shareholder feedback on which aspects of the GAAP Taxonomy and supporting processes, if any, should be improved and their relative priority. The FASB will develop and report to the SEC its findings and recommendations on the GAAP Taxonomy in approximately six months, as requested by the SEC. The FASB plans to hold a public roundtable meeting to discuss the feedback received on this ITC on Tuesday, July 18, 2017.

The deadline for submitting comments is June 15, 2017.

FASB issues new ASUs

In May, the FASB issued two new Accounting Standards Updates (ASUs):

- [ASU 2017-09, Compensation – Stock Compensation \(Topic 718\): Scope of Modification Accounting](#)

Issued on May 10, the ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718.

The ASU is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued; and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date.

- [ASU 2017-10, Service Concession Arrangements \(Topic 853\): Determining the Customer of the Operation Services](#)

Issued on May 16, the ASU addresses diversity in practice in how an operating entity determines the customer of the operation services for transactions within the scope of Topic 853, *Service Concession Arrangements*.

For an entity that has not adopted Topic 606 before May 16, 2017, the effective date and transition requirements for ASU 2017-10 generally are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*). ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, deferred the effective date of ASU 2014-09 by one year.

For an entity that has adopted Topic 606 before May 16, 2017, the ASU's effective date is as follows:

1. For a public business entity, a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the SEC, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.
2. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

International

IASB issues new insurance standard

The International Accounting Standards Board (IASB) on May 18 [issued](#) International Financial Reporting Standards [\(IFRS\) 17, Insurance Contracts](#). IFRS 17 replaces IFRS 4, which was brought in as an interim standard in 2004. IFRS 17 requires all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.

IFRS 17 becomes effective on January 1, 2021, but early application is permitted. Additional information related to IFRS 17 can be accessed via the IFRS 17 [project page](#) on the IFRS Foundation's website.

On May 18, the IASB also [published for public consultation](#) the proposed *IFRS Taxonomy Update* for IFRS 17. The deadline for submitting comments is September 18, 2017.

CAQ Updates

CAQ publishes planning alert for auditors of brokers and dealers

The Center for Audit Quality (CAQ) on May 18 published [Audit Planning Alert for Auditors of Brokers and Dealers](#) (the Planning Alert). The Planning Alert presents questions for auditors of brokers and dealers to consider as they plan both their audit and attestation engagements. It also presents common

examples of audit deficiencies the PCAOB has described in its [Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers](#).

The questions posed in the Planning Alert are a mixture of (1) questions applicable to all audits of brokers and dealers and (2) questions that may require further action if certain circumstances are present at the broker or dealer. While auditors should consider every question included, the list of questions should not be relied upon as definitive guidance or all-inclusive. The appendices to the alert provide auditors of brokers and dealers with additional reminders and resources that may be useful as they plan their audits.

CAQ releases white paper on the CPA's role in addressing cybersecurity risk

The CAQ on May 24 released the white paper, [The CPA's Role in Addressing Cybersecurity Risk](#). The paper highlights the strengths of audit firms – including the core CPA values of independence, objectivity and skepticism; experience in providing independent evaluations; and multidisciplinary expertise – that audit firms can bring to bear for the benefit of senior management, boards of directors and other key capital markets stakeholders.

The paper also provides perspective on the [American Institute of CPAs' new cybersecurity reporting framework](#), including a set of FAQs that can help senior management, boards of directors, and other key capital markets stakeholders understand the framework's scope, how it is separate and apart from the financial statement and internal control over financial reporting audits, and the extent of related communications, among other topics.

Investor advocates join CAQ in call to preserve key SOX provision

The CAQ, Council of Institutional Investors (CII), and CFA Institute on May 1 [submitted a letter](#) to the Chairman and Ranking Member of the House Financial Services Committee expressing their shared opposition to any legislation that would erode Section 404(b) of the Sarbanes Oxley-Act of 2002 (SOX) or that would revise the definition of accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934. The letter was sent ahead of the House Financial Services Committee's May 2-4 markup of the Financial CHOICE Act.

“We commend efforts to strengthen the U.S. economy and help companies raise capital; however, we do not believe Section 404(b) of SOX is a regulatory burden or impediment to capital formation,” the organizations wrote. “In fact, we refer you to academic research that indicates that any increase in the public float threshold *would not* spur capital formation, and could have the unintended consequence of eroding investor confidence and the quality of public company financial reporting. Additionally...two recent surveys of financial advisors and chief financial officers demonstrate that Section 404(b) is beneficial to our markets and investors.”

CAQ, AAA Auditing Section announce awards for Access to Audit Personnel Program

The CAQ and the Auditing Section of the American Accounting Association (AAA) [announced](#) three awards for the Access to Audit Personnel Program, which connects academics with audit practitioners to participate in research projects. The three projects selected include:

- Joseph Brazel, North Carolina State University, *Evidencing Professional Skepticism in the Time Budget* (with Christine Gimbar, DePaul University; Eldar Maksymov, Arizona State University; and Tammie Schaefer, University of Missouri – Kansas City);

- Cassandra Estep, Emory University, *Mitigating the Unintended Consequences of Material Weakness Reporting on Auditors' Acceptance of Aggressive Client Reporting* (with Anthony Bucaro, Case Western Reserve University; and Tim Bauer, University of Illinois Champaign-Urbana); and
- Tracie Majors, University of Southern California, *Learning from Prior Year Workpapers* (with Sarah Bonner, University of Southern California).

“We’re pleased to assist researchers again this year by linking them with study participants from CAQ member firms,” said CAQ Executive Director Cindy Fornelli. “Academic research is a vital tool for the profession as we work to continuously improve audit quality for the benefit of investors and our capital markets.”

CAQ issues new ‘Profession in Focus’ video

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

- [Episode 45](#) of the CAQ’s “Profession in Focus” video series features CAQ Governing Board Member Brian P. Anderson. A board member at W.W. Grainger Inc., PulteGroup, and James Hardie Industries plc, Anderson discusses the state of audit quality, the “journey” of diversity, the importance of robust communication between boards and shareholders, and why public accounting is one of the best ways to prepare for a successful career.

Upcoming Events

June 6-8

National Association of State Boards of Accountancy Western Regional Meeting, Coeur d’Alene, ID ([Link](#))

June 8

SEC and Financial Reporting Institute Conference, Los Angeles, CA ([Link](#))

June 12-14

AICPA National Advanced Accounting and Auditing Technical Symposium, Las Vegas, NV ([Link](#))

June 18-23

ACFE Global Fraud Conference, Nashville, TN ([Link](#))

June 19-23

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

June 19-23

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

June 27-28

FEI 2017 Accounting Change for Financial Leaders Conference, Philadelphia, PA ([Link](#))

June 27-29

National Association of State Boards of Accountancy Eastern Regional Meeting, Newport, RI ([Link](#))

June 28-July 1

Society for Corporate Governance Professionals National Conference, San Francisco, CA ([Link](#))

July 11-13

International Corporate Governance Network Annual Conference, Kuala Lumpur, Malaysia ([Link](#))

July 20

PCAOB Forum on Auditing in the Small Business Environment, New York, NY ([Link](#))

August 5-9

American Accounting Association Annual Meeting, San Diego, CA ([Link](#))

September 18-22

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

September 24-27

Investment Company Institute Tax and Accounting Conference, San Antonio, TX ([Link](#))

October 20

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

October 29-November 1

National Association of State Boards of Accountancy Annual Meeting, New York, NY ([Link](#))

November 6-8

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

November 13-14

FEI Current Financial Reporting Issues Conference, New York, NY ([Link](#))

November 29-30

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

December 4-6

AICPA Conference on Current SEC and PCAOB Developments, New York, NY ([Link](#))

December 7

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

December 11-15

IAASB Meeting, New York, NY ([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.