

## September 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.

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## PCAOB

### PCAOB seeks additional public comment on proposed requirements for lead auditor's use of other auditors

The Public Company Accounting Oversight Board (PCAOB) on September 26 issued a [supplemental request for comment](#) on proposed amendments relating to the supervision of audits involving other auditors and on the proposed auditing standard, *Dividing Responsibility for the Audit with Another Accounting Firm*. (The 2016 [proposed amendments to PCAOB standards and the proposed standard](#) (2016 Proposal) were released in April 2016.)

In light of the views and information contained in comments on the 2016 Proposal, the PCAOB is considering for adoption certain revisions to the amendments it proposed in 2016. The supplemental request for comment: (1) discusses significant comments received on the 2016 Proposal; (2) presents the revisions to the proposed amendments that the PCAOB is considering for adoption (described as “considering revising” or “considering revisions” throughout the supplemental request); and (3) requests comment on those revisions and related matters. The PCAOB also is reopening the comment period for the 2016 Proposal for additional comments from the public on any other aspects of the 2016 Proposal.

The deadline for submitting comments on the supplemental request is November 15, 2017.

## SEC

### White House nominates Robert Jackson Jr. to fill SEC vacancy

The White House on September 5 nominated [Robert J. Jackson Jr.](#) to be a Member of the Securities and Exchange Commission (SEC or Commission). If confirmed by the Senate, Jackson would fill the vacancy left by Mary Jo White's resignation. His term would expire on June 5, 2019.

Jackson, according to his [Columbia Law School bio](#), is a Professor of Law and director of the school's Program on Corporate Law and Policy. His research emphasizes empirical study of executive compensation and corporate governance matters.

### SEC Division of Corporation Finance updates C&DIs

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

- **Securities Act Rules**
  - Section 182, Rules 251 to 263 (Updated 9/14/17)
    - [New C&DI 182.21](#)
    - [New C&DI 182.22](#)

- [New C&DI 182.23](#)
- [Updates throughout Sections 141, 254-258, 260 and 541](#) (Updated 9/20/17)
- [Sections 259 and 659 withdrawn](#) (Updated 9/20/17)
- **Regulation S-K** (Updated 9/21/17)
  - [Revised Question 128C.01](#)
  - [Withdrawn Question 128C.05](#)
  - [New Question 128C.06](#)

## **SEC Chairman Clayton issues statement on cybersecurity**

On September 20, SEC Chairman Jay Clayton issued a [statement](#) highlighting the importance of cybersecurity to the agency and market participants, and detailing the agency's approach to cybersecurity as an organization and as a regulatory body. The statement is part of an ongoing assessment of the SEC's cybersecurity risk profile that Chairman Clayton initiated upon taking office in May. Components of this initiative have included the creation of a senior-level cybersecurity working group to coordinate information sharing, risk monitoring, and incident response efforts throughout the agency.

The statement provides an overview of the Commission's collection and use of data and discusses key cyber risks faced by the agency, including a 2016 intrusion of the Commission's EDGAR test filing system. In August 2017, the Commission learned that an incident previously detected in 2016 may have provided the basis for illicit gain through trading. Specifically, a software vulnerability in the test filing component of the Commission's EDGAR system, which was patched promptly after discovery, was exploited and resulted in access to nonpublic information. It is believed the intrusion did not result in unauthorized access to personally identifiable information, jeopardize the operations of the Commission, or result in systemic risk. An internal investigation was commenced immediately at the direction of the Chairman.

The statement also outlines the management of internal cybersecurity risks, including the incorporation of cybersecurity considerations in disclosure-based and supervisory efforts, coordination with other government entities, and the enforcement of the federal securities laws against cyber threat actors and market participants that do not meet their disclosure obligations.

## **SEC adopts interpretive guidance on pay ratio disclosure rule**

The SEC on September 21 approved [interpretive guidance](#) to assist companies in their efforts to comply with the pay ratio disclosure requirement mandated by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under the SEC's rule implementing the pay ratio requirement, companies are required to begin making pay ratio disclosures in early 2018.

In particular, the interpretive guidance:

- States the SEC's views on the use of reasonable estimates, assumptions and methodologies, and statistical sampling permitted by the rule;
- Clarifies that a company may use appropriate existing internal records, such as tax or payroll records, in determinations about the inclusion of non-U.S. employees and in identifying the median employee; and,
- Provides guidance as to when a company may use widely recognized tests to determine whether its workers are employees for purposes of the rule.

The Division of Corporation Finance also issued [guidance](#), including hypothetical examples, to assist companies in determining how to use statistical sampling methodologies and other reasonable methods.

### **SEC announces enforcement initiatives to combat cyber-based threats and protect retail investors**

The SEC on September 25 announced [two new initiatives](#) that will build on the Enforcement Division's ongoing efforts to address cyber-based threats and protect retail investors.

The Cyber Unit will focus the Enforcement Division's substantial cyber-related expertise on targeting cyber-related misconduct, such as: market manipulation schemes involving false information spread through electronic and social media; hacking to obtain material nonpublic information; violations involving distributed ledger technology and initial coin offerings; misconduct perpetrated using the dark web; intrusions into retail brokerage accounts; and cyber-related threats to trading platforms and other critical market infrastructure.

The Retail Strategy Task Force will develop proactive, targeted initiatives to identify misconduct impacting retail investors. The task force will apply the lessons learned from previous enforcement cases and leverage data analytics and technology to identify large-scale misconduct affecting retail investors. The task force will include enforcement personnel from around the country and will work with staff across the SEC, including from the SEC's National Exam Program and the Office of Investor Education and Advocacy.

### **SEC provides regulatory relief and assistance for hurricane victims**

On September 28, the SEC announced that it is providing regulatory relief to publicly traded companies, investment companies, accountants, transfer agents, municipal advisors and others affected by Hurricane Harvey, Hurricane Irma, and Hurricane Maria. To address compliance issues caused by Hurricane Harvey, Hurricane Irma, and Hurricane Maria, the Commission [issued an order](#) that conditionally exempts affected persons from certain requirements of the federal securities laws for periods following the weather events. The Commission also adopted [interim final temporary rules](#) that extend the filing deadlines for specified reports and forms that companies must file pursuant to Regulation Crowdfunding and Regulation A.

The exemptive relief and rules are structured for a broad class of companies and others affected by the hurricanes and their respective aftermaths. Some companies and other affected persons may require additional or different assistance in their efforts to comply with the requirements of the federal securities laws. The Commission staff will address these and any disclosure-related issues on a case-by-case basis in light of their fact-specific nature. Those affected by the hurricanes that require additional assistance are encouraged to contact Commission staff for individual relief or interpretive guidance.

## FASB

### FASB proposes 2018 GAAP Financial Reporting Taxonomy

The Financial Accounting Standards Board (FASB) on September 5 released the [proposed 2018 GAAP Financial Reporting Taxonomy](#) (GAAP Taxonomy) for public review and comment. The proposed GAAP Taxonomy contains updates for accounting standards and other recommended improvements since the 2017 Taxonomy as used by issuers filing with the SEC.

The FASB also issued, new for 2018, the [proposed 2018 Shared Reporting Taxonomy](#) (SRT). The SRT contains elements of the GAAP Taxonomy needed by International Financial Reporting Standards (IFRS) filers for SEC-specific disclosure requirements. This will eliminate the need for these filers to import the GAAP Taxonomy.

More information on the proposed taxonomies, including information on a webinar, *IN FOCUS: 2018 GAAP Financial Reporting Taxonomy/Shared Reporting Taxonomy Proposed Improvements and SEC Update*, can be found in the FASB's [news release](#).

The deadline for submitting comments on both documents is October 31, 2017. The taxonomies are expected to be accepted as final by the SEC in early 2018.

### FASB launches webpage for new standards implementation

The FASB on September 13 launched a new webpage, [Implementing New Standards](#), that addresses why and when the FASB positions organizations for a successful and smooth transition to new financial accounting and reporting standards. The webpage focuses on how the FASB:

- Conducts outreach with stakeholders;
- Establishes and operates transition resource groups; and,
- Offers a technical inquiry service for implementation questions.

The webpage also acts as a “one-stop-shop” for educational materials and implementation guidance for FASB’s major standards.

## FASB issues proposed ASUs

In September, the FASB issued four proposed Accounting Standards Updates (ASU):

- [Proposed ASU, \*Consolidation \(Topic 812\): Reorganization\*](#)

Issued on September 20, the proposed ASU would affect the organization of the consolidation guidance and would clarify certain items within that guidance. Specifically:

- The consolidation guidance currently in Topic 810 would be reorganized into a new Topic (Topic 812), with separate Subtopics for variable interest entities and voting interest entities (Subtopics 812-20, *Consolidation – Variable Interest Entities*, and 812-30, *Consolidation – Voting Interest Entities*, respectively).
- The guidance for “Consolidation of Entities Controlled by Contract” currently in Topic 810 would be moved to Topic 958, *Not-for-Profit Entities*, because that guidance is applicable only for not-for-profit entities.
- The guidance currently in Subtopic 810-30 for research and development arrangements would be superseded.
- Certain areas of the guidance would be clarified to make the consolidation guidance easier to understand without the intent of (a) changing analyses performed or (b) outcomes currently reached by stakeholders.

The deadline for submitting comments is December 4, 2017.

- [Proposed ASU, \*Leases \(Topic 842\): Land Easement Practical Expedient for Transition to Topic 842\*](#)

Issued on September 25, the proposed ASU would:

- Clarify that land easements should be evaluated under Topic 842; and,
- Address stakeholder concerns about the costs and complexity of complying with the transition requirements in Topic 842 for land easements not previously assessed under Topic 840, *Leases*, by providing an optional transition expedient.

The deadline for submitting comments is October 25, 2017.

- [Two Proposed ASUs, \*Technical Corrections and Improvements to Recently Issued Standards: I. ASU No. 2016-01, \*Financial Instruments—Overall \(Subtopic 825-10\): Recognition and Measurement of Financial Assets and Financial Liabilities\* and II. ASU No. 2016-02, \*Leases \(Topic 842\)\*\*](#)

Issued on September 27, the proposed ASUs would clarify certain aspects of the guidance issued in ASU 2016-01 and ASU 2016-02 that were brought to the FASB’s attention by stakeholders.

The deadline for submitting comments is November 13.

## International

### IASB proposes clarifications on distinguishing accounting policies from accounting estimates

The International Accounting Standards Board (IASB) on September 12 released the Exposure Draft, *Accounting Policies and Accounting Estimates: Proposed Amendments to IAS 8*, for public comment. The proposed amendments would clarify:

- How accounting policies and accounting estimates relate to each other, by:
  - explaining that accounting estimates are used in applying accounting policies; and
  - making the definition of accounting policies clearer and more concise;
- That selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate; and,
- That, in applying IAS 2, *Inventories*, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

The deadline for submitting comments is January 15, 2018.

### IASB issues guidance on materiality judgments

The IASB on September 14 issued *IFRS Practice Statement 2: Making Materiality Judgements* (Practice Statement 2) to provide companies with guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.

IFRS Standards require companies to make materiality judgments in decisions about recognition, measurement, presentation and disclosure. Practice Statement 2:

- Provides an overview of the general characteristics of materiality;
- Presents a four-step process companies may follow in making materiality judgments when preparing their financial statements; and,
- Provides guidance on how to make materiality judgments in specific circumstances; namely, how to make materiality judgments about prior-period information, errors and covenants, and in the context of interim reporting.

Practice Statement 2 is not mandatory. It does not change or introduce any requirements in IFRS and companies are not required to comply with it to state compliance with IFRS. Companies are permitted to apply the guidance in Practice Statement 2 to financial statements prepared any time after September 14, 2017.

## Other Developments

### COSO releases updated ERM framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) on September 6 released [Enterprise Risk Management – Integrating with Strategy and Performance](#). The new document updates its predecessor, *Enterprise Risk Management – Integrated Framework* and addresses the evolution of enterprise risk management (ERM) and the need for organizations to improve their approach to managing risk to meet the demands of an evolving business environment.

The updated document highlights the importance of considering risk in both the strategy-setting process and in driving performance. The first part of the update offers a perspective on current and evolving concepts and applications of ERM. The second part is organized into five components that accommodate different viewpoints and operating structures and enhance strategies and decision-making.

## CAQ

### CAQ posts highlights of Ninth Annual CAQ Symposium breakout discussions

Top practitioners from the public company auditing profession gathered with leading academics at the [Ninth Annual CAQ Symposium](#), held this year on August 6 in San Diego. The event is a key part of the CAQ's ongoing dialogue with the academic community on how research can inform audit practice.

As in past years, the 2017 Symposium included two panel discussions on critical issues confronting the profession, as well as breakout sessions to further explore those issues. On September 19, the CAQ posted on its website [highlights](#) of the breakout sessions.

Each breakout group, comprised of research academics and senior public company audit practice leaders, was assigned a set of questions to address with respect to issues raised in the two panel presentations:

- **Challenges and Opportunities: Auditor Risk Assessment**

Participants addressed several key issues with respect to auditor risk assessments, including the challenges inherent in multi-location audits and documentation of audit risks. The discussions also covered opportunities for improving the risk assessment process using data analytics, raising awareness of judgment traps, and how risk assessment concepts are covered in the graduate and undergraduate curriculum.



- **Innovative Approaches to Learning and Development**

The breakout groups started with sets of questions focused mainly on two areas of concern for both firms and academics. The first area focused on how academics and the profession can develop and enhance the critical thinking skills of both students and auditors. The second area dealt with the impact on the profession of new technologies, like data analytics and data visualization. Academics were asked to explain how they are covering these technological developments in the classroom in a way that both prepares the students as well as keeps them engaged.

### CAQ issues new 'Profession in Focus' video

On September 18, the CAQ issued a new episode of its online series, *Profession in Focus*:

- [Episode 51](#) features Jeff Burgess, national managing partner of Audit Services for Grant Thornton LLP. Burgess discusses what it means to be part of a global accounting network, the importance of training in a global environment, and how his firm is enhancing its ability to identify issues that could be indicators of fraud.

### Third annual #AuditorProud social media blitz celebrates the profession

On September 28, the CAQ and its members led the [third annual social media blitz](#) highlighting the benefits of a career in auditing and the important role auditors play in capital markets. Using #AuditorProud, auditors and others around the world took to social media channels to share personal stories of why they chose a career in auditing, what they love about the profession, and what makes them proud to be an auditor. More details on the blitz—as well as resources for auditors, educators, and high school and college students—are available at [DiscoverAudit.org](#).

## Upcoming Events

### October 11-12

AICPA and SIFMA FMS National Conference on the Securities Industry, New York, NY or Webcast ([Link](#))

### October 12

SEC Investor Advisory Committee Meeting ([Link](#))

### October 18

PCAOB Webinar: Complying with Form AP Rules ([Link](#))

### October 20

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

**October 23-24**

SIFMA Annual Meeting: The Capital Markets Conference, Washington, DC ([Link](#))

**October 24**

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

**October 23-25**

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

**October 23-25**

AICPA Conference on Credit Unions, New Orleans, LA ([Link](#))

**October 26-27**

American Law Institute Conference: Accountants' Liability 2017: Emerging Challenges Facing the Profession, Washington, DC ([Link](#))

**October 29-November 1**

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

**November 5-8**

SIFMA Internal Auditors Society Annual Conference, Fort Lauderdale, FL ([Link](#))

**November 6-8**

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

**November 8-10**

PLI 49<sup>th</sup> Annual Institute on Securities Regulation, New York, NY ([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 7-8**

AICPA Construction & Real Estate Conference, Las Vegas, NV ([Link](#))

# CAQ

## Public Policy and Technical Alert

**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](http://www.thecaq.org).

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