



## December 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

### SEC appoints new chairman and board members to PCAOB

The Securities and Exchange Commission (SEC or Commission) on December 12 [announced the appointment](#) of William D. Duhnke III as Chairman of the Public Company Accounting Oversight Board (PCAOB or Board). Duhnke is currently the Staff Director and General Counsel to the U.S. Senate Committee on Rules and Administration. He previously served as Staff Director and General Counsel to the U.S. Senate Committee on Banking, Housing and Urban Affairs and the Senate Committee on Appropriations.

The SEC also named J. Robert Brown, Kathleen M. Hamm, James G. Kaiser, and Duane M. DesParte as PCAOB board members.

- Brown is currently a professor of law at the University of Denver, where he is Director of the Corporate and Commercial Law program and is the Lawrence W. Treece Professor of Corporate Governance. Prior to beginning his teaching career 25 years ago, he served on the staff of the SEC and worked in private practice.
- Hamm is currently the Global Leader of Securities and Fintech Solutions and Senior Strategic Advisor on Cyber Solutions at Promontory Financial Group. She previously worked at the U.S. Department of the Treasury, the American Stock Exchange, and the SEC.
- Kaiser is currently a partner and the Global Assurance Methodology & Transformation Leader at PwC, where he leads the firm's efforts to drive innovation in auditing and has responsibility for the firm's adherence to international auditing standards. He has been with PwC for 38 years and has held numerous leadership roles with the firm.
- DesParte will soon retire as Senior Vice President and Corporate Controller of Exelon Corporation, where he has been employed for the past 14 years. He previously was an audit partner at Deloitte & Touche and, prior to that, Arthur Andersen.

### PCAOB publishes staff guidance on implementing changes to auditor's report

The PCAOB on December 4 (updated as of December 28), published [staff guidance](#) on implementing the new auditing standard, [AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion](#). The guidance applies to requirements of AS 3101 that are effective for audits of fiscal years ending on or after December 15, 2017.

The staff guidance addresses key changes to the auditor's report required this year, such as the form of the auditor's report, disclosure of auditor tenure, a statement on auditor independence, and a required explanatory paragraph on Internal Control Over Financial Reporting in certain circumstances.



The guidance also provides a high-level overview of the requirements regarding Critical Audit Matters (CAMs). Auditor communication of CAMs is permissible on a voluntary basis but will not be required until audits of fiscal years ending on or after June 30, 2019 (for audits of large accelerated filers) or December 15, 2020 (for audits of all other companies to which the requirements apply).

## PCAOB posts standard-setting agenda

The PCAOB's Office of the Chief Auditor on December 29 posted an [updated standard-setting agenda](#), which also includes updates on the research agenda.

The standard-setting projects include:

- *Auditing Accounting Estimates, Including Fair Value Measurements.* This proposal was issued in conjunction with a companion proposal on the auditor's use of the work of specialists. The comment period on both proposals ended on August 30, 2017. The staff has analyzed the comments received and is developing a recommendation for the next Board action.
- *The Auditor's Use of the Work of Specialists.* The staff has analyzed the comments received and is developing a recommendation for the next Board action.
- *Supervision of Audits Involving Other Auditors.* On September 26, 2017, the PCAOB issued a supplemental request for comment on revisions to the proposed amendments and proposed standard that the Board is considering for adoption. The comment period on the supplemental request for comment ended on November 15, 2017. The staff is analyzing comments and determining next steps.
- *Going Concern.* The staff plans to continue its research and outreach activities, including monitoring the effect on audits of the changes to the relevant accounting standards. In the meantime, AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*, and Staff Audit Practice Alert No. 13 continue to provide the applicable requirements and guidance, respectively, for audits under PCAOB standards.

The research projects include:

- Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities.
- Changes in the Use of Data and Technology in the Conduct of Audits.
- Auditor's Role Regarding Other Information and Company Performance Measures, Including Non-GAAP Measures.
- Auditor's Consideration of Noncompliance with Laws and Regulations.



## SEC

### SEC staff provides regulatory guidance for accounting impacts of Tax Cuts and Jobs Act

The SEC's Office of the Chief Accountant and the Division of Corporation Finance on December 22 announced publication of [staff guidance](#) for publicly traded companies, auditors, and others to help ensure timely public disclosures of the accounting impacts of the Tax Cuts and Jobs Act (the Act). Specifically, the staff issued the following interpretations:

- [Staff Accounting Bulletin \(SAB\) No. 118 \(SAB 118\)](#) expresses views of the staff regarding application of U.S. GAAP when preparing an initial accounting of the income tax effects of the Act.
  - SAB 118 addresses certain fact patterns where the accounting for changes in tax laws or tax rates under Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740, *Income Taxes* (ASC 740), is incomplete upon issuance of an entity's financial statements for the reporting period in which the Act is enacted.
  - Under SAB 118, in the financial reporting period the Act is enacted, the income tax effects of the Act (i.e., only for those tax effects in which the accounting under ASC 740 is incomplete) would be reported as a provisional amount based on a reasonable estimate (to the extent a reasonable estimate can be determined), which would be subject to adjustment during a "measurement period" until the accounting under ASC 740 is complete. The measurement period would be limited under the staff's guidance.
  - SAB 118 also describes supplemental disclosures that should accompany the provisional amounts, including the reasons for the incomplete accounting, the additional information or analysis that is needed, and other information relevant to why the registrant was not able to complete the accounting required under ASC 740 in a timely manner.
- [Compliance and Disclosure Interpretation \(C&DI\) 110.02](#) clarifies how registrants making use of the measurement period approach in SAB 118 will be expected to comply with their obligations under 2.06 of Form 8-K with respect to disclosure of material impairments of assets.

### Senate confirms Jackson, Peirce to join SEC

The U.S. Senate on December 22 confirmed Robert Jackson and Hester Peirce as SEC commissioners. Jackson, a professor at Columbia University, and Peirce, a senior research fellow at George Mason University, will join the SEC after they are sworn in. SEC Chairman Jay Clayton and Commissioners Kara M. Stein and Michael S. Piwowar, issued a [statement](#) welcoming the new Commissioners.



## Statement on Cryptocurrencies and Initial Coin Offerings

SEC Chairman Jay Clayton released an [official statement](#) on December 11, which was directed principally to Main Street investors and Market professionals, providing his general views on the cryptocurrency and initial coin offerings (ICOs) markets. The statement reads “...if an opportunity sounds too good to be true, or if you are pressured to act quickly, please exercise extreme caution and be aware of the risk that your investment may be lost.” SEC Chairman Clayton also confirmed that no ICO has been registered with the SEC and none have been approved for listing or trading to date.

## SEC Division of Corporation Finance updates Financial Reporting Manual

The SEC’s Division of Corporation Finance updated the following sections of the [Financial Reporting Manual](#):

- 3250.1(m), 3250.1(n) – Revised guidance related to the pro forma impact of adopting new accounting standards.
- 10230.1 – Revised to address adoption of new accounting standards after EGC status is lost.
- 11100, 11200 – Clarified effective dates for ASU No. 2014-09 and ASU No. 2016-02 for certain public business entities.

## FASB

### FASB issues ASU with codification improvements to Topic 995

The FASB on December 5 issued [Accounting Standards Update \(ASU\) 2017-15, Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995](#).

The amendments in the ASU supersede obsolete guidance in Topic 995 on unrecognized deferred taxes related to certain statutory reserve deposits. If an entity has unrecognized deferred income taxes related to statutory deposits made on or before December 15, 1992, the entity would be required to recognize the unrecognized income taxes in accordance with ASC 740.

The ASU is effective for fiscal years and first interim periods beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period.



## CAQ

### **CAQ tool aims to help audit committees with expanded auditor's report**

The CAQ on December 6 issued a new tool that flags key considerations and questions for audit committees as implementation of the PCAOB's new auditor's reporting standard gets underway. [The Auditor's Report: Considerations for Audit Committees](#) explains changes to the auditor's report and lists key questions on topics including auditor tenure, CAMs and other new requirements. The new auditor's reporting model is to be implemented with a phased approach, and the tool provides a timeline for implementation deadlines.

"While some of the most significant changes to the auditor's report do not go into effect until 2019 for large accelerated filers, audit committees should begin discussions with auditors and management to gain an understanding of the new requirements, which are the first significant changes to the auditor's report in decades," CAQ Executive Director Cindy Fornelli said in a [statement](#).

The tool also flags a set of key questions that the National Association of Corporate Directors has gleaned from audit committee members about the new auditor's report.

### **CAQ updates Audits of Brokers and Dealers resource page**

The CAQ has updated its dedicated resource page, [www.thecaq.org/brokerdealers](http://www.thecaq.org/brokerdealers), on audits of brokers and dealers. Leveraging previously issued CAQ alerts applicable to the audits of brokers and dealers, the updates include:

- A series of broker-dealer alerts on specific topical areas; and,
- A [page of links](#) to useful resources beyond those of the CAQ.

### **CAQ comments on SEC's proposed rule on FAST Act modernization and simplification of Regulation S-K**

On December 18, the CAQ submitted a [comment letter](#) on the SEC's proposed rule, [FAST Act Modernization and Simplification of Regulation S-K](#). Consistent with the SEC's views, the CAQ believes that parts of Regulation S-K require amending to streamline disclosure requirements and modernize how users may access information by incorporating the use of technology. While agreeing with several of the proposed amendments, the CAQ encourages the SEC to improve the clarity of the disclosure objectives in each item of Regulation S-K as it continues to consider other possible rules to amend.



The CAQ also expresses its view that the proposed rule may not fully consider the impact some of the proposed amendments, such as incorporation by reference and hyperlinks, would have on the auditor in complying with the auditing standards of the PCAOB.

## CAQ posts highlights of September 26 SEC Regulations Committee meeting

The CAQ posted [highlights](#) from the September 26, 2017 meeting of the SEC Regulations Committee with SEC staff. The financial reporting matters discussed included the following:

- Waivers per Rule 3-13 of Regulation S-X;
- Update on process for requesting omission of selected financial data;
- Draft registration statement processing;
- Public Business Entity (PBE) July 2017 EITF announcement;
- Pro forma financial information for a business combination under common control or discontinued operation; and,
- The effects of accounting changes by a successor entity on the predecessor period financial statements.

## CAQ issues new ‘Profession in Focus’ video

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

- [Episode 55](#) features Tal Goldhamer, EY Partner and Chief Learning Officer – Americas. Goldhamer discusses keys to successful auditing careers, why professionals need relationship-building skills, and the importance of practice, simulation, and sleep in effective learning.

## Upcoming Events

### January 10

PCAOB Webinar: New Auditor’s Report – Overview of Changes Effective in 2017 ([Link](#))

### January 22-26

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

### February 19-23

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

### March 19-23

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



# CAQ

# PUBLIC POLICY & TECHNICAL ALERT

**April 23-27**

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

**May 2-4**

AICPA CFO Conference, New York, NY ([Link](#))

**May 15-17**

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

**May 21-25**

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

**June 18-22**

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

**July 16-20**

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

**September 17-19**

AICPA National Conference on Banks & Savings Institutions, National Harbor, MD ([Link](#))

**September 17-21**

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

**October 22-23**

AICPA Conference on Credit Unions ([Link](#))

**October 22-26**

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

**November 12-13**

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

**November 12-16**

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

**December 10-14**

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





# CAQ

# PUBLIC POLICY & TECHNICAL ALERT

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).

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](mailto:aschumacher@thecaq.org).



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