

February 2018

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 Board Member Brown sworn in

[J. Robert Brown](#) was sworn in as a Board member of the PCAOB on February 1. Prior to joining the PCAOB, Brown was the Lawrence W. Treece Professor of Corporate Governance and Director of the Corporate and Commercial Law Program at the University of Denver Sturm College of Law. He taught corporate and securities law, with a focus on corporate governance.

Brown has authored numerous articles and books, including a textbook, and several of his articles have been cited by the U.S. Supreme Court. He served as an arbitrator for the Financial Industry Regulatory Authority and as an officer on the SEC's Investor Advisory Committee.

Appointees James Kaiser and Duane DesParte will join the PCAOB in the near future.

SEC

SEC adopts statement and interpretive guidance on public company cybersecurity disclosures

The SEC on February 21 issued a [statement and interpretive guidance](#) to assist public companies in preparing disclosures about cybersecurity risks and incidents. The guidance provides the Commission's views about public companies' disclosure obligations under existing law with respect to matters involving cybersecurity risks and incidents. It also addresses the importance of cybersecurity policies and procedures and the application of disclosure controls and procedures, insider trading prohibitions, Regulation Fair Disclosure (Regulation FD) policies, and selective disclosure prohibitions in the cybersecurity context.

In particular, the guidance builds on the Division of Corporation Finance's (Corp Fin) [CF Disclosure Guidance: Topic No. 2 – Cybersecurity](#), released in 2011, in a number of ways, including the following:

- Clarifies that disclosure controls and procedures should enable registrants to identify cybersecurity risks and incidents, assess and analyze their implications and make timely disclosures;
- Highlights the importance of maintaining insider trading and Regulation FD policies that effectively address the fact that cybersecurity risks and incidents can constitute material, nonpublic information;
- Expands the existing disclosure guidance to address how boards oversee the management of cybersecurity risk, as well as management's discussion and analysis of how cybersecurity incidents affected reportable segments;

- Discusses how materiality, as well as the many laws, rules, regulations and SEC form requirements, must be considered when preparing cybersecurity disclosures; and,
- Elevates the guidance from non-authoritative positions taken by the staff to an interpretation of the Commission.

Moffatt named Chief Accountant in Corporation Finance

The SEC on February 15 announced that [Kyle Moffatt](#) has been named Corp Fin's Chief Accountant. He has served as Corp Fin's Acting Chief Accountant since January 2018. In that role, he has overseen Corp Fin's work to assist companies with the implementation of revenue recognition and to develop Corp Fin's approach to reviewing companies' disclosures. He also led Corp Fin's efforts in evaluating the implications of recent changes to the tax laws and developing guidance for public companies.

Prior to his role as Acting Chief Accountant, Moffatt was an Associate Director overseeing Corp Fin's disclosure review program. In that role, he oversaw the selective review of transactional and periodic filings by issuers in financial services, healthcare, and insurance, and led staff efforts on a variety of auditor and PCAOB matters.

SEC's OCIE announces 2018 examination priorities

On February 7, the SEC's Office of Compliance Inspections and Examinations (OCIE) announced its [2018 examination priorities](#). OCIE publishes its exam priorities annually to improve compliance, prevent fraud, monitor risk, and inform policy. For 2018, OCIE's examination priorities are organized around five themes:

- Compliance and risks in critical market infrastructure;
- Retail investors, including seniors and those saving for retirement;
- Financial Industry Regulatory Authority and Municipal Securities Rulemaking Board;
- Cybersecurity; and,
- Anti-money laundering programs.

FASB

FASB issues ASU on income tax accounting related to the Tax Cuts and Jobs Act

The FASB on February 14 issued [Accounting Standards Update \(ASU\) 2018-02, *Income Statement – Reporting Comprehensive Income \(Topic 220\): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*](#), to help organizations address certain stranded income tax effects in accumulated other comprehensive income (AOCI) resulting from

the Tax Cuts and Jobs Act. The ASU provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded.

The ASU requires financial statement preparers to disclose:

- A description of the accounting policy for releasing income tax effects from AOCI;
- Whether they elect to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act; and,
- Information about the other income tax effects that are reclassified.

The ASU affects any organization that is required to apply the provisions of Topic 220, *Income Statement – Reporting Comprehensive Income*, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by U.S. generally accepted accounting principles.

The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized.

FASB proposes update to list of permissible U.S. benchmark interest rates for hedge accounting

The FASB on February 20 issued [Proposed Accounting Standards Update, *Derivatives and Hedging \(Topic 815\): Inclusion of the Overnight Index Swap Rate based on the Secured Overnight Financing Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*](#).

In the U.S., eligible benchmark interest rates under Topic 815 are interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate swap rate, the Overnight Index swap rate based on the Fed Funds effective rate, and the Securities Industry and Financial Markets Association Municipal swap rate. The proposed ASU would add the Overnight Index swap rate based on the Secured Overnight Financing Rate as a fifth U.S. benchmark interest rate to help companies and other organizations avoid the potential cost and complexity associated with using different cash flows and discount rates to measure the hedged item and the hedging instrument.

The deadline for submitting comments is March 30, 2018.

FASB issues technical corrections to financial instruments standard

The FASB issued [ASU 2018-03, Technical Corrections and Improvements to Financial Instruments – Overall \(Subtopic 825-10\): Recognition and Measurement of Financial Assets and Financial Liabilities](#). The amendments consist of clarifications for six issues that had the potential to create confusion for financial statement preparers.

The technical corrections take effect for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt the amendments until the interim period beginning after June 15, 2018. Public business entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in *ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. For all other entities, the effective date is the same as the effective date in Subtopic 825-10.

International

IASB issues narrow-scope amendments to pension accounting

On February 7, the IASB issued [narrow-scope amendments](#) to International Accounting Standard (IAS) 19, *Employee Benefits*. IAS 19 specifies how a company accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement – takes place, the standard requires a company to re-measure its net defined benefit liability or asset.

The new amendments, *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*, require a company to use the updated assumptions from this re-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

The amendments are effective on or after January 1, 2019.



CAQ

CAQ's Ide: 'Accountants must help companies fight systemic cyber risks'

The accounting profession must help ensure the transparency of company cybersecurity networks and their impact on financial reporting as part of strong internal controls over financial reporting, the CAQ's Catherine Ide told [Bloomberg BNA](#) at the AICPA National Conference on Current SEC and PCAOB Developments in December 2017. Unfortunately, "the breaches we see happening generally are at a network or a perimeter level and not in scope from a financial statement or [internal control over financial reporting] ICFR audit perspective," Ide said.

However, "if there is a material breach, [it is] the auditor's responsibility to assess that impact on the financial statements, especially in consideration of disclosures and internal controls over financial reporting. It's an auditor's responsibility to maintain an understanding of the company's information technology environment as well as the IT impact on the financial statements."

When asked how the accountant's role could evolve in cybersecurity, Ide said, "our core competencies around understanding enterprise-wide risks, as well as management's response to those risks in the form of controls, benefit our ability to provide confidence in that information to the stakeholders at large."

CAQ issues new 'Profession in Focus' video

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

- [Episode 57](#) features Gilly Lord, Head of Audit Strategy & Transformation at PwC UK. Lord discusses the impact of technological evolution on auditing, the skillsets future auditors will need, and how the investment community has benefited from expanded auditor reporting in the United Kingdom.

Upcoming Events

March 8

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

March 19-23

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

March 20

FEI Conference: "New Lease Accounting Standard – Implementation Challenges and Best Practices," New York, NY ([Link](#))

April 23-24

AICPA Cybersecurity Advisory Services Certificate Course, Durham, NC ([Link](#))

April 23-27

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

April 25-26

AICPA SOC for
Cybersecurity Certificate
Course, Durham, NC
([Link](#))

April 26

Center for Capital Markets
Competitiveness Annual
Capital Markets Summit,
Washington, DC ([Link](#))

May 2-4

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

May 15-17

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

May 17-18

PLI Midyear SEC
Reporting & FASB Forum,
Dallas, TX ([Link](#))

May 21-25

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

June 5-6

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

June 7-8

PLI Midyear SEC
Reporting & FASB Forum,
New York, NY ([Link](#))

June 7-8

Webcast: PLI Midyear
SEC Reporting & FASB
Forum, New York, NY
([Link](#))

June 11-13

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

June 18-19

PLI Midyear SEC
Reporting & FASB Forum,
San Francisco, CA ([Link](#))

June 18-22

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

July 16-20

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

August 4-8

American Accounting
Association Annual
Meeting, National Harbor,
MD ([Link](#))

September 17-19

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

September 17-21

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

September 24-25

PLI Midyear SEC
Reporting & FASB Forum
for Mid-sized & Smaller
Companies, Las Vegas,
NV ([Link](#))

September 29-October 2

NACD Global Summit,
Washington, DC ([Link](#))

October 1-2

SIFMA Annual Meeting,
Washington, DC ([Link](#))

October 22-24

AICPA Conference on
Credit Unions, Las Vegas,
NV ([Link](#))

October 22-26

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

November 12-13

PLI Annual SEC Reporting
& FASB Forum, Dallas, TX
([Link](#))

November 12-13

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

November 12-16

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



CAQ

PUBLIC POLICY & TECHNICAL ALERT

November 28-29

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

December 17-18

Webcast: PLI Annual SEC Reporting & FASB Forum ([Link](#))

December 3-4

PLI Annual SEC Reporting & FASB Forum, San Francisco, CA ([Link](#))

December 10-12

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

December 10-14

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

December 17-18

PLI Annual SEC Reporting & FASB Forum, 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.theqaq.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@theqaq.org.



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