

August 2019

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 publishes report on interim inspection program related to broker-dealer audits

The PCAOB posted to its website the [2018 Annual Report on the Broker-Dealer Interim Inspection Program](#). The report includes observations from PCAOB inspections performed during 2018, insights into applicable standards, and examples of effective procedures. It also includes two appendices with information about the selection of firms and engagements for inspection and historical results from inspections under the interim program.

In 2018, the PCAOB observed that the percentage of deficiencies for audit and attestation engagements remained high and continued improvement is needed. It believes significant positive impact on audit quality can be achieved if:

- Auditors focus on improving their systems of quality control;
- Auditors advance their knowledge and understanding of PCAOB standards; and
- Auditors focus on improving their performance in testing internal controls when employing controls-reliance audit strategies and for examination engagements.

## **PCAOB staff provides guidance for new requirements on auditing estimates and the auditor's use of the work of specialists**

The PCAOB [released four staff guidance documents](#) to raise awareness and assist auditors in advance of the effective date of new estimates and specialists audit requirements. The requirements are effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

The staff guidance consists of:

- Auditing Accounting Estimates
- Auditing the Fair Value of Financial Instruments
- Supervising or Using the Work of an Auditor's Specialist
- Using the Work of a Company's Specialist

The first two documents highlight aspects of the new standard and enhancements made to integrate the PCAOB's risk assessment requirements when auditing accounting estimates, including fair value measurements. The other two documents highlight aspects of new requirements that apply when auditors use the work of specialists in an audit and when an auditor uses the work of a company's specialist as audit evidence.

## **SEC**

### **SEC proposes to modernize disclosures of description of business, legal proceedings, and risk factors under Regulation S-K**

The SEC [proposed amendments](#) to modernize the description of business, legal proceedings, and risk factor disclosures that registrants are required to make pursuant to Regulation S-K.

The proposed amendments would revise Items 101(a) (description of the general development of the business), 101(c) (narrative description of the business), and 105 (risk factors) to emphasize a more principles-based approach because businesses differ in terms of which aspects of these disclosures are material to them. Such a flexible approach, as opposed to prescriptive requirements, may elicit more relevant disclosures about these items. The proposed amendment of Item 103 (legal proceedings) would continue the current prescriptive approach because that requirement depends less on the specific characteristics of registrants.

The deadline for submitting comments is October 22, 2019.

## SEC issues corrections to FAST Act Modernization and Simplification of Regulation S-K

The SEC [issued technical corrections](#) to certain amendments to SEC disclosure rules and forms adopted in [Release No. 33-10618](#), which was published in the *Federal Register* on April 2, 2019.

Specifically, the document reinstates certain item headings in registration statement forms under the Securities Act of 1933 that were inadvertently changed, relocates certain amendments to the correct item numbers in these forms and reinstates text that was inadvertently removed. Also, the document corrects a portion of the exhibit table in Item 601(a) of Regulation S-K to make it consistent with the regulatory text of the amendments and corrects certain typographical errors and a cross-reference in the regulatory text of the amendments.

## SEC Division of Corporation Finance updates C&DIs

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

- Interactive Data: [New questions 101.01-101.09 added 8/20/19](#).

## SEC clarifies investment advisers' proxy voting responsibilities and application of proxy rules to voting advice

The SEC [provided guidance to assist investment advisers](#) in fulfilling their proxy voting responsibilities. The guidance discusses, among other matters, the ability of investment advisers to establish a variety of different voting arrangements with their clients and matters they should consider when they use the services of a proxy advisory firm.

The SEC also issued an interpretation that proxy voting advice provided by proxy advisory firms generally constitutes a "solicitation" under the federal proxy rules and provided related guidance about the application of the proxy antifraud rule to proxy voting advice. Both actions explain the SEC's view of various non-exclusive methods entities can use to comply with existing laws or regulations or how such laws and regulations apply.

## SEC increases fee rates for FY 2020

The SEC [announced](#) that it is increasing the fees it charges issuers to register their securities in fiscal year 2020, which begins October 1, 2019. The Section 6(b) fee rate applicable to the registration of securities, the Section 13(e) fee rate applicable to the repurchase of securities, and the Section 14(g) fee rates applicable to proxy solicitations and statements in corporate control transactions will increase to \$129.80 per million dollars from \$121.20 per million dollars.

## FASB

### **FASB proposes improvements related to distinguishing liabilities from equity**

The FASB issued Proposed Accounting Standards Update (ASU), *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*.

The proposed ASU would reduce the number of accounting models for convertible debt instruments and convertible preferred stock. It would revise the derivatives scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events. The proposed ASU also would improve and amend the related disclosure and earnings-per-share guidance.

The deadline for submitting comments is October 14, 2019.

### **FASB proposes to delay effective dates of Credit Losses, Derivatives and Hedging, and Leases for private and certain public companies and organizations**

The FASB issued Proposed ASU, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which would grant private companies, not-for-profit organizations, and certain small public companies additional time to implement FASB standards on current expected credit losses, leases, and hedging.

The proposed ASU describes a new FASB philosophy that extends and simplifies how effective dates for major standards are staggered between larger public companies and all other entities. Those other entities include private companies, smaller public companies, not-for-profit organizations, and employee benefit plans. Under this philosophy, a major standard would first be effective for larger public companies. For all other entities, the FASB would consider requiring an effective date staggered at least two years later. Generally, it is expected that early application would continue to be permitted for all entities.

The deadline for submitting comments is September 16, 2019.

### **FASB proposes effective date delay for all insurance companies applying standard on long-duration contracts**

The FASB issued Proposed ASU, *Financial Services – Insurance (Topic 944): Effective Date*, which would grant all insurance companies that issue long-duration contracts, such as life

insurance and annuities, additional time to apply a standard that addresses this area of financial reporting.

For SEC filers, excluding entities eligible to be smaller reporting companies as defined by the SEC, the amendments in Topic 944 would be effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.

For all other entities, the amendments in Topic 944 would be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.

Early application of the amendments in Topic 944 would be permitted.

The deadline for submitting comments is September 20, 2019.

## International

### **IASB proposes amendments to IFRS standards to improve accounting policy disclosures**

The IASB [proposed narrow-scope amendments](#) to International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, and IFRS Practice Statement 2, *Making Materiality Judgements*, to help companies provide useful accounting policy disclosures to users of financial statements.

IAS 1 requires companies to disclose their “significant” accounting policies. The IASB is proposing to replace the reference to “significant” with a requirement to disclose “material” accounting policies to clarify the threshold for disclosing information. The proposed amendments state that information about an accounting policy is material if, when considered together with other information included in a company’s financial statements, it can influence financial statement users’ decisions about the company.

The IASB also is proposing to add guidance to IAS 1 to help companies understand what makes an accounting policy material and to update IFRS Practice Statement 2 by adding further explanations and examples to help companies apply the concept of materiality in making decisions about accounting policy disclosures.

The deadline for submitting comments is November 29, 2019.

## IASB adds phase two of its project on interest rate benchmark reform to the work plan

The IASB [added the second phase](#) of its project focused on potential financial reporting implications linked to the interest rate benchmark reform to its work plan. Phase one of the project focuses on financial reporting issues in the period before the current interest rate benchmark is replaced with an alternative rate. Phase two focuses on potential issues that might affect financial reporting once the existing rate is replaced with an alternative rate.

## IFRS Foundation publishes draft Q&A on the IFRS for SMEs standard

The IFRS Foundation [invited stakeholders to comment](#) on its draft Q&A on the application of the *IFRS for Small and Medium-Sized Entities (SMEs)* standard. The draft Q&A responds to a question from stakeholders about the application of the undue cost or effort exemption for investment property on the date of transition to the *IFRS for SMEs* standard.

The deadline for submitting comments is October 7, 2019.

## AICPA

### AICPA issues credit loss standard working drafts

The AICPA Financial Reporting Executive Committee [issued working drafts](#) of accounting issues related to FASB's new credit losses standard. The drafts propose helpful considerations for depository and lending institutions and insurance companies and consist of:

- [Issue No. 21: Advances of Taxes and Insurance](#);
- [Issue No. 23: Zero Expected Credit Losses Factors for Financial Assets Secured by Collateral](#); and
- [Issue No. 28: Scope Exception for Loans and Receivables Between Entities Under Common Control](#).

The deadline for submitting comments is October 15, 2019.

### AICPA issues ITC and discussion paper on determining materiality for non-quantitative subject matters

The AICPA [issued an invitation to comment \(ITC\) and discussion paper](#), *Materiality Considerations for Attestation Engagements Involving Aspects of Subject Matters That Cannot Be Quantitatively Measured*.

The discussion paper, which was prepared by a Materiality Working Group established by the AICPA Assurance Services Executive Committee, provides information for preparers as they address materiality challenges and provides examples for common engagements such as System and Organization Controls examinations, examinations or reviews of sustainability information, and examinations or reviews of compliance with contractual or other requirements.

The deadline for submitting comments is October 31, 2019.

### **AICPA proposes standard on auditing accounting estimates**

The AICPA Auditing Standards Board (ASB) issued Proposed Statement on Auditing Standards (SAS), [Auditing Accounting Estimates and Related Disclosures](#).

The proposed SAS is intended to address the challenges that auditors face when auditing accounting estimates by providing risk assessment requirements and further audit procedures that:

- Are more specific to estimates; and
- Address the increasingly complex business environment and complexity in financial reporting frameworks.

The deadline for submitting comments is November 22, 2019.

### **AICPA proposes standard on auditor reporting**

The ASB issued [Proposed SAS, Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134](#). The proposed SAS is designed to align the following AU-C sections with the changes in auditor reporting introduced by SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, and other recently issued standards:

- AU-C Section 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*;
- AU-C Section 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*; and
- AU-C Section 810, *Engagements to Report on Summary Financial Statements*.

The deadline for submitting comments is October 28, 2019.



## Coalition launched to protect professional licensing

The AICPA and the National Association of State Boards of Accountancy have [helped found a new coalition](#) of advanced professions focused on educating policymakers and the public about the importance of rigorous professional licensing standards. The Alliance for Responsible Professional Licensing will advocate for licensing practices within professions that deliver uniform qualifications, standards, safety, and consistency, while also providing individuals with a clear career path and fair opportunities to pursue and maintain that career.

## Other Developments

### FDIC and OCC approve Volcker Rule reforms

The [Federal Deposit Insurance Corporation](#) (FDIC) and the [Office of the Comptroller of the Currency](#) (OCC) approved an interagency final rule to simplify and tailor requirements relating to Section 619 of the Dodd-Frank Act, commonly known as the “Volcker Rule.” The Volcker Rule generally prohibits banking entities from engaging in proprietary trading and from owning or controlling hedge funds or private equity funds.

The final rule will:

- Tailor the rule’s compliance requirements based on the size of a firm’s trading assets and liabilities, with the most stringent requirements applied to banking entities with the most trading activity;
- Retain the short-term intent prong of the “trading account” definition from the 2013 rule only for banking entities that are not, and do not elect to become, subject to the market risk capital rule prong;
- Replace the rebuttable presumption that instruments held for fewer than 60 days are covered under the short-term intent prong with a rebuttable presumption that instruments held for 60 days or longer are not covered;
- Clarify that banking entities that trade within internal risk limits set under the conditions in this final rule are engaged in permissible market making or underwriting activity;
- Streamline the criteria that apply when a banking entity seeks to rely on the hedging exemption from the proprietary trading prohibition;
- Limit the impact of the rule on the foreign activities of foreign banking organizations; and
- Simplify the trading activity information that banking entities are required to provide to the agencies.

Upon its publication in the *Federal Register*, the final rule will have an effective date of January 1, 2020, and a compliance date of January 1, 2021. However, a banking entity may voluntarily comply, in whole or in part, with the changes to the rule prior to January 1, 2021.

## CAQ Updates

### CAQ posts highlights of June 25 SEC Regulations Committee meeting

The CAQ posted on its website [highlights](#) from the June 25 meeting of the SEC Regulations Committee. The financial reporting matters discussed included the following:

- Use of averaging for purposes of testing significance when registrant has applied the full retrospective method of adopting Accounting Standards Codification 606, *Revenue From Contracts With Customers* but has not re-casted the earliest two periods;
- Emerging Growth Company transition issues;
- Application of amended management discussion and analysis (MD&A) provisions that permit the omission of the earliest period of MD&A in a filing in circumstances where there has been a retrospective change to the financial statements, including error corrections and changes in accounting principle, among others;
- Interim periods required for changes in stockholders' equity in a registration or proxy statement; and
- Non-GAAP measures.

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

The CAQ issued one new video in its Profession in Focus series. [This edition](#) provides insights on regulatory developments and investor protection from Catherine Ide, CPA, Senior Managing Director of Professional Practice and Member Services at the CAQ. Ide explains the significance of companies' filing statuses, particularly regarding requirements related to audits of internal control over financial reporting. She also discusses the SEC's 2019 proposal to alter the definition of "accelerated filer," a proposal that has implications for investors and markets.

## Upcoming Events

<b>September 12</b> KPMG/NACD Quarterly Audit Committee Webcast ( <a href="#">Link</a> )	<b>September 18</b> AICPA Conference: Blockchain Implications for Audit & Assurance Services, Chicago, IL ( <a href="#">Link</a> )	<b>September 21-24</b> NACD Global Board Leaders' Summit, Washington, DC ( <a href="#">Link</a> )
<b>September 16-18</b> CII Fall 2019 Conference, Minneapolis, MN ( <a href="#">Link</a> )	<b>September 19</b> SEC Investor Advisory Committee Meeting, Washington, DC ( <a href="#">Link</a> )	<b>September 23-24</b> PLI 15 <sup>th</sup> Annual SEC Reporting & FASB Forum for Mid-sized & Smaller Companies, Las Vegas, NV ( <a href="#">Link</a> )

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<b>September 23-27</b> IASB Board Meeting, London, UK ( <a href="#">Link</a> )	<b>October 24</b> NACD Webcast: Why Data Privacy Matters in a Public World ( <a href="#">Link</a> )	<b>December 2-3</b> PLI 35 <sup>th</sup> Annual SEC Reporting & FASB Forum, San Francisco, CA ( <a href="#">Link</a> )
<b>September 24</b> House Financial Services Committee Hearing: SEC Oversight, Washington, DC ( <a href="#">Link</a> )	<b>November 6-8</b> AICPA Women's Global Leadership Summit, San Diego, CA ( <a href="#">Link</a> )	<b>December 5-6</b> AICPA Construction & Real Estate Conference, Nashville, TN ( <a href="#">Link</a> )
<b>September 25-26</b> PCAOB Small Business and Broker-Dealer Auditor Forum, Chicago, IL ( <a href="#">Link</a> )	<b>November 11-12</b> PLI 35 <sup>th</sup> Annual SEC Reporting & FASB Forum, Dallas, TX ( <a href="#">Link</a> )	<b>December 9-10</b> AICPA Employee Benefit Plans Accounting, Auditing and Regulatory Update Online Conference ( <a href="#">Link</a> )
<b>October 2-3</b> PCAOB Small Business and Broker-Dealer Auditor Forum, Jersey City, NJ ( <a href="#">Link</a> )	<b>November 11-12</b> AICPA Oil & Gas Conference, Denver, CO ( <a href="#">Link</a> )	<b>December 9-11</b> AICPA Conference on Current SEC and PCAOB Developments, Washington, DC ( <a href="#">Link</a> )
<b>October 15-16</b> ICGN Conference, Miami, FL ( <a href="#">Link</a> )	<b>November 11-12</b> FEI Corporate Financial Reporting Insights Conference, New York, NY ( <a href="#">Link</a> )	<b>December 9-12</b> IASB Board Meeting, London, UK ( <a href="#">Link</a> )
<b>October 16-17</b> AICPA/SIFMA FMS National Conference on the Securities Industry, New York, NY and Webcast ( <a href="#">Link</a> )	<b>November 18-22</b> IASB Board Meeting, London, UK ( <a href="#">Link</a> )	<b>December 16-17</b> PLI 35 <sup>th</sup> Annual SEC Reporting & FASB Forum, New York, NY and Webcast ( <a href="#">Link</a> )
<b>October 21-25</b> IASB Board Meeting, London, UK ( <a href="#">Link</a> )	<b>November 18-19</b> SIFMA Annual Meeting, Washington, DC ( <a href="#">Link</a> )	

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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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