



CENTER FOR AUDIT QUALITY

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

CAQ Public Policy and Technical Alert

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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 updates standard-setting agenda

The Public Company Accounting Oversight Board (PCAOB) posted on its website an [updated standard-setting agenda](#) which included updates on the standard-setting agenda and on the research agenda.

The standard-setting projects include:

- *Auditor's Reporting Model.* The standard, adopted on June 1, is awaiting Securities and Exchange Commission (SEC) approval. See SEC section below.
- *Auditing Accounting Estimates, Including Fair Value Measurements.* On June 1, the PCAOB issued for public comment a proposed standard. The deadline for submitting comments is August 30.

- *The Auditor's Use of the Work of Specialists.* On June 1, the PCAOB issued for public comment proposed amendments to auditing standards for auditor's use of the work of specialists. The deadline for submitting comments is August 30.
- *Supervision of Audits Involving Other Auditors.* In April 2016, the PCAOB issued for public comment amendments to improve the auditing standards that govern the supervision of audits involving other auditors and a new auditing standard for situations in which the auditor divides responsibility for the audit with another accounting firm. The staff is drafting a supplemental request for comment on revisions to the proposed amendments and proposed standard for Board action in the third quarter of 2017.
- *Going Concern.* The PCAOB staff plans to continue its research and outreach activities, including monitoring the effect on audits of the changes to the relevant accounting 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
- The 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 opens comment period on auditor's reporting model standard

The SEC on July 21 [posted a notice of filing](#) of the PCAOB's proposed new standard on the auditor's reporting model. This proposed new standard was posted to the [Federal Register](#) on July 28. The deadline for submitting comments to the SEC is August 18, 2017.

Christopher R. Hetner to remain as senior advisor to SEC chairman on cybersecurity policy

Christopher R. Hetner will continue to serve as Senior Advisor to SEC Chairman Jay Clayton for Cybersecurity Policy, the SEC [announced](#) on July 18. He previously served in the same role under Chair Mary Jo White and Acting Chairman Michael Piwowar.

Hetner joined the SEC in January 2015 as the Cybersecurity Leader for the Technology Control Program in the Office of Compliance Inspections and Examinations. Prior to joining the SEC, he led Ernst & Young's Wealth and Asset Management Sector Cybersecurity practice and was the Chief Information Security Officer at GE Capital.

FASB

FASB issues new ASU 2017-11

On July 13, the Financial Accounting Standards Board (FASB) issued one new Accounting Standards Update (ASU):

- [ASU 2017-11, Earnings Per Share \(Topic 260\), Distinguishing Liabilities from Equity \(Topic 480\), Derivatives and Hedging \(Topic 815\): \(I\) Accounting for Certain Financial Instruments with Down Round Features, \(II\) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception](#)

The ASU consists of two parts:

- **Part I – Accounting for Certain Financial Instruments with Down Round Features**

The amendments in Part I change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments.

- **Part II – Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception**

The amendments in Part II recharacterizes the indefinite deferral of certain Topic 480, *Distinguishing Liabilities from Equity* provisions that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect.

For public business entities, the amendments in Part I are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

Part II does not require transition guidance because those amendments do not have an accounting effect.

CAQ Updates

CAQ, SEC Historical Society release video series exploring SOX at 15-year mark

The CAQ and the SEC Historical Society, on July 26 [released a series of videos](#) commemorating the 15th anniversary of the Sarbanes-Oxley Act (SOX). Passed with overwhelming bipartisan support in July 2002, SOX implemented comprehensive financial reforms to better protect investors, improve financial disclosures, and deter financial reporting fraud.

The series, which is available at the CAQ's [website](#) and coming soon to the [virtual museum](#) and archive of the SEC Historical Society, is divided into six concise chapters to showcase how SOX impacted various players in the financial reporting supply chain, capital markets, and academia. The videos feature

interviews with more than a dozen experts, including current and former regulators, academics, audit professionals, and investor representatives.

“These videos tell the success story of the Sarbanes-Oxley Act and how it transformed financial reporting to benefit investors and our capital markets,” said CAQ Executive Director Cindy Fornelli in a [statement](#). “We’re proud to say that audit quality, investor confidence, and financial reporting are stronger today thanks in large part to this landmark legislation.”

CAQ issues new ‘Profession in Focus’ videos

The CAQ issued two new episodes of its online series, *Profession in Focus*:

- [Episode 48](#) features Christine Ann Botosan, Board Member, FASB. She discusses implementation of the new revenue recognition standard (set to take effect for many public companies on January 1, 2018), including disclosure considerations and helpful resources available through FASB. An award-winning professor and researcher, Botosan also provides insights on how the public company auditing profession and academia can work together to equip accounting students for success as they enter the workforce and over the course of their careers.
- [Episode 49](#) features Kathleen M. Hamm, Global Leader of Securities and Fintech Services at Promontory Financial Group. Hamm, who recently served at the U.S. Treasury Department as counselor to the deputy secretary, provides insights on the important interplay between private and public sectors on cybersecurity, along with her recommendations to companies grappling with this challenging and evolving issue.

Upcoming Events

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 1-4

NACD Global Board Leaders’ Summit, National Harbor, MD ([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 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, Washington, DC ([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.