



# CENTER FOR AUDIT QUALITY

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

## CAQ Public Policy and Technical Alert

AUGUST 2016

*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 issues annual report on inspections of broker-dealer auditors

The Public Company Accounting Oversight Board (PCAOB) on August 18 issued the [Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers](#) (Annual Report). This report provides:

- Information about registered public accounting firms and the audits and the related attestation engagements covered by the inspections during 2015 and describes independence findings and deficiencies observed from these inspections;

- A summary of firms and engagements inspected pursuant to the interim inspection program since its inception in 2011 through December 31, 2015, and a summary of the inspection results; and
- Describes actions needed by firms and next steps of the interim inspection program.

A [Fact Sheet](#) is also available.

## **PCAOB enters into cooperative agreement with new German Auditor Oversight Body**

The PCAOB on August 24 announced a [cooperative agreement](#) with the German Auditor Oversight Body (AOB), effective immediately. The agreement allows for cooperation between the PCAOB and the AOB in the oversight of audit firms subject to the regulatory jurisdictions of both regulators.

## **SEC**

### **SEC seeks public comments on disclosure requirements in, amendments to, Regulation S-K**

The Securities and Exchange Commission (SEC) on August 25 issued [Request for Comment on Subpart 400 of Regulation S-K Disclosure Requirements Relating to Management, Certain Security Holders and Corporate Governance Matters](#). This request is part of an initiative by the SEC's Division of Corporation Finance to review the disclosure requirements in Regulation S-K to consider ways to improve them for the benefit of investors and registrants. Comments are due October 31.

On August 31, the SEC issued a proposed rule [Exhibit Hyperlinks and HTML Format](#) that would require registrants that file registration statements and periodic and current reports that are subject to the exhibit requirements under Item 601 of Regulation S-K, or that file on Forms F-10 or 20-F, to include a hyperlink to each exhibit listed in the exhibit index of these filings. To enable the inclusion of such hyperlinks, the proposed amendments also would require that registrants submit all of these filings in HyperText Markup Language (HTML) format. The deadline for submitting comments will be 45 days following publication in the *Federal Register*.

## **FASB/IASB**

### **FASB issues Invitation to Comment on agenda consultation**

The Financial Accounting Standards Board (FASB) on August 4 issued an [Invitation to Comment](#) (ITC) to solicit feedback about the financial reporting topics that the FASB should consider adding to its agenda.

Based on the results of consultations with its advisory groups and other stakeholders, the FASB identified four financial reporting topics to include in the ITC:

- Intangible assets, including research and development;
- Pensions and other postretirement benefit plans;
- Distinguishing liabilities from equity; and
- Reporting performance and cash flows, including income statement, segment reporting, other comprehensive income, and statement of cash flows.

The FASB is seeking stakeholder input on the following questions:

- Are the financial reporting issues described in the ITC areas for which there is potential for significant improvement?
- What is the priority of addressing each issue?
- What approach should the FASB take to address each issue?
- Are there other major areas of financial reporting not described in the ITC that the FASB should consider adding to its agenda?

The FASB would like broad stakeholder feedback before it makes decisions about which issues, if any, should be added to the agenda and in what order. The deadline for submitting comments on the ITC is October 17.

## **FASB proposes concepts for presenting items in a financial statement**

On August 11, the FASB issued the Proposed Statement of Financial Accounting Concepts, [\*Concepts Statement 8 – Conceptual Framework for Financial Reporting – Chapter 7: Presentation\*](#) (proposed Chapter 7). The proposal is part of the FASB’s larger conceptual framework project, which is also addressing measurement and disclosure concepts.

Proposed Chapter 7 would provide the FASB with a framework for developing standards that summarize and communicate information in financial statements in a way that enhances the relevance of the information and helps ensure that it is faithfully represented. It also would provide the FASB with a framework for developing standards in meeting the objective of financial reporting that enhance the understandability of information to existing and potential investors, lenders, donors, and other resource providers of a reporting entity.

A [two-page summary](#) is also available.

The deadline for submitting comments on the proposal is November 9.

## **FASB issues new, proposed ASUs**

The FASB issued two new Accounting Standards Updates (ASUs) in August:

[ASU 2016-14](#), *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, issued on August 18, requires new disclosures that will provide more transparent information that will enable financial statement users to have a better understanding of how a not-for-profit manages its liquid available resources and its liquidity risks.

The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application is permitted. (A [summary](#) explaining the ASU’s provisions as well as a discussion of the relating [costs and benefits](#) are available on the FASB website.)

[ASU 2016-15](#), *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (a consensus of the FASB Emerging Issues Task Force), issued on August 26, addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice:

- Debt prepayment or debt extinguishment costs;

- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing;
- Contingent consideration payments made after a business combination;
- Proceeds from the settlement of insurance claims;
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies;
- Distributions received from equity-method investees;
- Beneficial interests in securitization transactions; and
- Separately identifiable cash flows and application of the predominance principle.

The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period.

The FASB also issued one proposed ASU in August:

[Proposed ASU, \*Not-for-Profit Entities – Consolidation \(Subtopic 958-810\)\*](#), issued on August 3, would clarify when a not-for-profit entity that is a general partner should consolidate a for-profit limited partnership or similar legal entity once [ASU 2015-02, \*Consolidation \(Topic 810\): Amendments to the Consolidation Analysis\*](#), becomes effective. Comments are due October 3.

## CAQ Updates

### CAQ comments on proposed enhancements to auditor’s reporting model

The Center for Audit Quality (CAQ) on August 15 submitted a [comment letter](#) on the PCAOB’s proposed Auditing Standard, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, and Related Amendments to PCAOB Standards* (Proposal). The letter presents the CAQ’s observations and suggestions on the Proposal in the following categories: critical audit matters, additional improvements to the auditor’s report, applicability, and effective date.

#### Critical Audit Matters (CAMs)

- Narrowing the source of CAMs to those matters communicated, or required to be communicated to the audit committee will assist auditors in identifying matters that involved especially challenging, subjective, or complex auditor judgment in the audit in an effective and efficient manner.
- Including materiality in the definition of a CAM will focus the auditor on those matters that are most critical to the financial statements. However, the CAQ believes the proposed definition of a CAM does not fully align with the PCAOB’s intent that the auditor not be the source of original information about the company in the determination of a CAM. The CAQ provided the PCAOB with recommendations as to further ensure that the auditor is not the original source of information about the company.
- Enhanced auditor reporting will inevitably increase the risk of litigation over liability. The PCAOB should recognize the potential for adverse impact on auditors and on communication between auditors, companies and audit committees, and it should design the standard to avoid or reduce that impact where possible.

- The CAQ supports introductory language preceding the description of CAMs in the auditor's report to make clear that the communication of a CAM does not imply that the auditor is providing a separate opinion on the CAM or the accounts or disclosures to which it relates. The letter includes recommendations for enhancing the introductory language.

### **Additional Improvements to the Auditor's Report**

- The CAQ encourages the PCAOB to adopt additional improvements to the auditor's report consistent with International Auditing and Assurance Standards Board (IAASB) standards, including expanded descriptions of the responsibilities of management and those charged with governance, as well as the auditor's responsibilities, in separate sections of the report.
- The CAQ does not support including auditor tenure in the auditor's report as this would create the false impression that a correlation exists between auditor tenure and audit quality and would give undue prominence to this information.

### **Applicability**

- The CAQ supports not requiring the identification, communication, and documentation of CAM's in auditor reports for non-issuer brokers and dealers, investment companies (that are not business development companies), and employee benefit plans. The Proposal should, however, apply to emerging growth companies.

### **Effective Date**

- The CAQ recommends a two-phase adoption of the Proposal. The first phase would be applicable to large accelerated filers with an effective date for audit periods ending two years after the SEC approves the final standard. The second phase would be applicable to all other accelerated and non-accelerated filers one year after the phase one effective date in order to allow for firms to benefit from the experience of audits of large accelerated filers.

### **CAQ, CII comment on proposed amendments to smaller reporting company definition**

On August 30, the CAQ and the Council of Institutional Investors (CII) submitted a [joint comment letter](#) on the SEC's proposed *Amendments to Smaller Reporting Company Definition*. The letter expresses the two organizations' strong support for the SEC's proposed amendment to the accelerated filer definition, which would maintain the current accelerated filer public float threshold.

The letter also registers opposition to any amendments that would erode Section 404(b) or increase the accelerated filer public float threshold. The CAQ and CII believe that any amendment that erodes Section 404(b) would substantially impact the quality of financial reporting by public companies to the detriment of investors and capital markets more generally.

### **CAQ, AAA expand program to connect academics with audit practitioners**

The CAQ and American Accounting Association (AAA) on August 10 [announced](#) an expansion of their joint annual program, Access to Audit Personnel. The CAQ and AAA Auditing Section launched the program in 2012 to provide access to audit firm personnel for doctoral students and assistant professors seeking tenure so they could conduct behavioral research studies on issues related to audit practice. This year, eligibility has been expanded to tenured faculty in addition to PhD and tenure-track professors.

The CAQ and AAA also have begun [accepting proposals](#) for the 2017 Access to Audit Personnel program. The deadline for submitting proposals is February 1, 2017.

## CAQ issues new 'Profession in Focus' videos

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

- [Episode 28](#) features Michelle Edkins, Managing Director and Global Head of Investment Stewardship at BlackRock. Edkins provides views on the appropriate use of non-GAAP measures, the evolution of audit committee disclosure, the benefits of enhanced reporting, and the implications of the Brexit vote.
- [Episode 29](#) features Richard F. Chambers, the President and Chief Executive Officer of the Institute of Internal Auditors. Chambers discusses the evolving expectations of internal auditors, the importance of communication between internal and external audit, and the right way to think about cybersecurity.
- [The Cybersecurity Episode](#) discusses the nature of cybersecurity risk as well as the auditor's role in this critical and evolving area. This episode presents views from guests who have appeared on previous *Profession in Focus* episodes. Hear from Robert E. Moritz, Chairman of PricewaterhouseCoopers International Ltd.; Barry Melancon, President and Chief Executive Officer at the American Institute of CPAs; Richard F. Chambers, President and Chief Executive officer of The Institute of Internal Auditors; and Lynn Paine, John G. McLean Professor and Senior Associate Dean at Harvard Business School.

## Upcoming Events

### September 14

PCAOB Teleconference: Using Technology to Submit Form AP ([Link](#))

### September 15

FASB/IASB Webcast: Revenue from Contracts with Customers ([Link](#))

### September 17-20

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

### September 19-23

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

### September 19-23

IAASB Board Meeting, Hong Kong ([Link](#))

### September 21-23

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

### September 22

PCAOB Forum for Auditors of Broker-Dealers, Jersey City, NJ ([Link](#))

### September 22-23

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

**September 26-27**

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

**September 28-30**

CII 2016 Fall Conference, Chicago, IL ([Link](#))

**October 4**

NACD Forum: “The Current Regulatory Landscape: What Inquiring Boards May Wish to Know,” New York, NY ([Link](#))

**October 16-18**

American Bankers Association Annual Convention, Nashville, TN ([Link](#))

**October 18**

PCAOB Forum for Auditors of Broker-Dealers, Tampa, FL ([Link](#))

**October 19**

PCAOB Forum on Auditing in the Small Business Environment, Tampa, FL ([Link](#))

**October 24-26**

AICPA Conference on Credit Unions, Orlando, FL ([Link](#))

**October 30-November 2**

NASBA Annual Meeting, Austin, TX ([Link](#))

**November 14-15**

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

**November 16**

USC Marshall Corporate Directors Symposium, Los Angeles, CA ([Link](#))

**November 16-18**

AICPA Health Care Industry Conference, Nashville, TN ([Link](#))

**November 29**

Ensuring Integrity: The 11<sup>th</sup> Annual Audit Conference ([Link](#))

**November 30-December 1**

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

**December 5-6**

AICPA Employee Benefit Plans Accounting, Auditing and Regulatory Update, Washington, DC ([Link](#))

**December 5-7**

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

**December 7**

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

**December 8**

PCAOB Forum on Auditing in the Small Business Environment, Las Vegas, NV ([Link](#))

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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).*

*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).*