

August 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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Upcoming Events

PCAOB

Doty to remain during search for successor

Securities and Exchange Commission (SEC or Commission) Chairman Jay Clayton on August 11 [announced](#) that James Doty has agreed to continue to serve as Chairman of the PCAOB as the SEC begins the process for appointing Doty's successor and new PCAOB Board members. The Sarbanes-Oxley Act provides that the PCAOB is governed by a Board of five members — two of whom must be certified public accountants, and three of whom must not be — serving for staggered five-year terms. Clayton noted that, of the five PCAOB Board seats, one is vacant, two are held by members whose terms have expired, and one is held by a member whose term will expire in two months.

PCAOB issues annual report on 2016 inspections of broker-dealer auditors showing continued high level of audit deficiencies

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](#). The report focuses on the audits and related attestation engagements covered by the inspections during 2016 and describes independence findings and audit, attestation, and other deficiencies observed from these inspections. In addition, the report:

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

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

PCAOB publishes Staff Inspection Brief providing information about 2017 inspections of auditors of public companies

The PCAOB Division of Registration and Inspections on August 30 published a [Staff Inspection Brief](#) providing information about the 2017 PCAOB inspections of registered audit firms and their audits of issuers. The brief is intended to help investors, auditors, and others understand the areas of significant audit risks targeted by PCAOB inspectors, and encourage auditors to work to improve audit quality.

The Staff Inspection Brief identifies the following key areas of focus for inspectors in 2017:

- Audit areas where inspectors have identified deficiencies in the past, such as assessing and responding to risks of material misstatement;

- Audit areas affected by recent economic developments, including the high rate of merger and acquisition activity and fluctuations in oil and natural gas prices;
- Financial reporting areas that require significant judgment, including going concern considerations and income tax disclosures;
- An audit firm's compliance with new transparency rules ;
- Preparation for new accounting standards issued by the Financial Accounting Standards Board (FASB) related to revenue recognition and lease accounting;
- Work by other auditors on multinational audits;
- The auditor's use of information technology, particularly software audit tools; and,
- The audit firm's system of quality control.

The appendix to the Staff Inspection Brief also contains additional information on the inspection program, industry sector and market capitalization demographics, and inspection data for public company audits from the 2014 through 2016 inspections.

SEC

SEC and SEC staff issue updates to interpretive guidance on revenue recognition

On August 18 the SEC [issued](#) two releases and the SEC staff released a Staff Accounting Bulletin to update interpretive guidance regarding the FASB's Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*:

- [Commission Guidance Regarding Revenue Recognition for Bill-and-Hold Arrangements](#). This interpretive release updates existing guidance for bill-and-hold arrangements by stating that upon adoption of ASC Topic 606, registrants should no longer rely on the guidance in Securities Exchange Act Release No. 23507 and Accounting and Auditing Enforcement Release No. 108, *In the Matter of Stewart Parness* (AAER 108), to recognize revenue for such arrangements. Until a registrant adopts ASC Topic 606, it should continue referring to the guidance included in Securities Exchange Act Release No. 23507 and AAER 108.
- [Updates to Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement into the Pediatric Vaccine Stockpile or the Strategic National Stockpile](#). This release states that consistent with ASC Topic 606, manufacturers should recognize revenue for vaccines that are placed into the Vaccines for Children Program and the Strategic National Stockpile. The release states that until a registrant adopts ASC Topic 606, it should continue referring to the guidance included in the original 2005 guidance.
- [Staff Accounting Bulletin No. 116](#). Staff Accounting Bulletin (SAB) No. 116 brings existing SEC staff guidance into conformity with ASC Topic 606. The SAB modifies SAB Topic 13, *Revenue Recognition*; SAB Topic 8, *Retail Companies*; and Section A, *Operating-Differential Subsidies* of SAB Topic 11, *Miscellaneous Disclosure*. SAB No.116 applies upon a registrant's adoption of ASC Topic 606. Until such time, registrants should continue referring to prior staff guidance on revenue recognition.

SEC Division of Corporation Finance updates C&DIs

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

- **Fixing America's Surface Transportation (FAST) Act** (Updated 8/17/17)
 - [Updated C&DI Question 1](#)
- **Securities Act Forms** (Updated 8/17/17)
 - Section 101. Securities Act Forms Generally
 - [New C&DI Question 101.04](#)
 - [New C&DI Question 101.05](#)

SEC Division of Corporation Finance updates Financial Reporting Manual

The Division of Corporation Finance on August 25 updated the following sections of the [Financial Reporting Manual](#):

- New section – Describes communications with the Division of Corporation Finance's Office of Chief Accountant (CF-OCA) and provides contact information.
- 2065, Index – Revisions to clarify that questions about applying the guidance on abbreviated financial statements to a predecessor entity should be directed to CF-OCA.
- 10220.1, 10220.5 – Revisions to clarify the guidance on the omission of financial information from draft and filed registration statements.

SEC publishes report on access to capital and market liquidity

The SEC's Division of Economic and Risk Analysis on August 8 published the report, [Access to Capital and Market Liquidity](#), describing trends in primary securities issuance and secondary market liquidity, and assessing how those trends relate to post-crisis regulatory reforms. The report was requested by Congress as part of the fiscal year 2016 appropriations process.

The report includes a survey and analysis of recent academic literature, as well as original analyses drawn from publicly available databases and non-public regulatory filings. It examines the issuance of debt, equity, and asset-backed securities, as well as activity and liquidity in U.S. Treasuries, corporate bonds, single-name credit default swaps, and bond funds. Specifically, the report identifies trends for unregistered offerings, such as those under Regulation D and Regulation Crowdfunding, as well as fixed income transactions, fixed income quotations, and broker-dealer financial positions.

FASB

FASB issues new, proposed ASUs

In August, the FASB issued one new Accounting Standards Update (ASU) and one proposed ASU:

- [ASU 2017-12, *Derivatives and Hedging \(Topic 815\): Targeted Improvements to Accounting for Hedging Activities*](#)

Issued on August 28, the ASU better aligns hedge accounting with an organization's risk management activities in the financial statements. The ASU also simplifies the application of hedge accounting guidance in areas where practice issues exist. In particular, the ASU intends to improve accounting for hedging activities by:

- Expanding hedge accounting for nonfinancial and financial risk components and amending measurement methodologies to more closely align hedge accounting with a company's risk management activities;
- Decreasing the complexity of preparing and understanding hedge results through eliminating the separate measurement and reporting of hedge ineffectiveness;
- Enhancing transparency, comparability, and understandability of hedge results through enhanced disclosures and changing the presentation of hedge results to align the effects of the hedging instrument and the hedged item; and,
- Reducing the cost and complexity of applying hedge accounting by simplifying the manner in which assessments of hedge effectiveness may be performed.

For public business entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early application is permitted in any interim period after issuance of the ASU for existing hedging relationships on the date of adoption and the effect of adoption should be reflected as of the beginning of the fiscal year of adoption (that is, the initial application date).

A [FASB In Focus](#) provides an overview of the new ASU.

- [Proposed ASU, *Not-For-Profit Entities \(Topic 958\): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*](#)

Issued on August 3, the proposed ASU intends to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations.

A [FASB in Focus](#) provides an overview of the proposed amendments. The deadline for submitting comments is November 1, 2017.

International

Publication compares IAASB, PCAOB auditor reporting standards

The International Auditing and Assurance Standards Board's (IAASB) Auditor Reporting Implementation Working Group on August 1 published *The New Auditor's Report: A Comparison Between the IAASB and the US PCAOB Standards*. The publication illustrates the key similarities and differences between the IAASB's new and revised auditor reporting standards issued in January 2015, and the PCAOB's proposed standard, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. It focuses primarily on the IAASB's concept of Key Audit Matters (KAMs) and the PCAOB's concept of Critical Audit Matters (CAMs). The comparison is presented in two formats: long form, which describes the similarities and differences between the standards, and a table, which provides a summary.

International standards boards outline observations for enhancing professional skepticism

On August 14, the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) published *observations* by their Professional Skepticism Working Group regarding exercising professional skepticism in an audit.

The publication provides the following key observations:

- Increased attention to business acumen is central to the exercise of professional skepticism;
- Environmental factors can influence the ability to exercise professional skepticism;
- Awareness of personal traits and biases is essential;
- Building in professional skepticism from the outset is key;
- There is more that the three standard-setting boards can do, both in the immediate term and the longer term;
- Beyond audit, aspects of the concepts underlying professional skepticism may be relevant to all professional accountants; and,
- Standard setting alone will not be enough.

The document, *Toward Enhanced Professional Skepticism*, also highlights actions of the three boards regarding professional skepticism as it relates to auditors.

CAQ Updates

CAQ submits comment letter to the IAASB on auditing accounting estimates

The Center for Audit Quality (CAQ) on August 1 submitted a [comment letter](#) to the IAASB regarding its Proposed International Standard on Auditing 540 (Revised), [Auditing Accounting Estimates and Related Disclosures](#). Expressing its broad support for the IAASB's efforts, the CAQ provides a range of specific recommendations for changes to enhance the clarity of the proposed standard.

The full list of comment letters is available [here](#).

CAQ submits comment letter to the SEC on proposed changes to auditor's report

The CAQ on August 18 submitted a [comment letter](#) to the SEC on [SEC Release No. 34-81187](#), PCAOB; *Notice of Filing of Proposed Rules on the Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Departures from Unqualified Opinions and Other Reporting Circumstances, and Related Amendments to Auditing Standards* the PCAOB's proposed rules on the auditor's report. The CAQ supports the PCAOB's efforts to enhance the auditor's reporting model to provide additional information to stakeholders in an increasingly complex business environment.

In its comment letter, the CAQ recommends that the SEC approach the implementation in a collaborative way with all members of the financial reporting supply chain to help manage the implementation process and related expectations of preparers, auditors and investors. It also provides the SEC with its views on activities that could promote a collaborative implementation of the standard, once approved by the SEC.

The full list of comment letters is available [here](#).

CAQ submits comment letter to the PCAOB on auditing accounting estimates, including fair value measurements

On August 30, the CAQ submitted a [comment letter](#) to the PCAOB on the PCAOB's Proposed Auditing Standard, [Auditing Accounting Estimates, Including Fair Value Measurements](#). In the letter, the CAQ supports the PCAOB's efforts to strengthen auditing practices in this area and provides a range of recommendations, drawing on both past CAQ comment letters and its 2015 framework, [Auditing Accounting Estimates and Fair Value Measurements: A Framework](#).

The full list of comment letters is available [here](#).

CAQ submits comment letter to the PCAOB on auditor's use of the work of specialists

Also on August 30, the CAQ submitted a [comment letter](#) to the PCAOB on the PCAOB's [Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists](#). In the letter, the CAQ supports the PCAOB's efforts to consider ways to further investor protection by strengthening the requirements for evaluating the work of a company's employed or engaged specialist and applying a risk-based supervisory approach to both auditor-employed and auditor-engaged specialists. The CAQ provides a range of recommendations focused on the areas where the CAQ believes additional clarity could be provided for the roles of specialists in the audit.

The full list of comment letters is available [here](#).

CAQ posts highlights of May 2017 IPTF meeting

The CAQ posted on its website [highlights](#) from the May 16, 2017 meeting of the International Practices Task Force (IPTF). The IPTF is a task force of the CAQ's SEC Regulations Committee. The issues discussed during the meeting include:

- Monitoring inflation in certain countries, including: South Sudan, Ukraine, Venezuela, Malawi, Sudan, Argentina, Libya, Suriname, Angola, Yemen, Egypt, and Mozambique;
- FAST Act amendments to the Jumpstart our Business Startups (JOBS) Act and reporting under International Financial Reporting Standards as Issued by the International Accounting Standards Board (IFRS);
- IFRS Taxonomy for Foreign Private Issuers That Prepare Their Financial Statements in Accordance with IFRS; and,
- Non-GAAP Financial Measures under IFRS.

The next IPTF meeting has been scheduled for November 21, 2017.

CAQ, AAA Auditing Section issue call for research proposals as part of Access to Audit Personnel Program

The CAQ and American Accounting Association (AAA) Auditing Section on August 24 [issued a call for research proposals](#) as part of their [Access to Audit Personnel Program](#). Launched in 2012, Access to Audit Personnel is a program designed to connect academics with audit practitioners who can participate in research projects.

Applicants must submit a proposal that outlines the theory and hypotheses to be tested in the experiment along with a data collection protocol that is in an advanced stage of development. A review committee of well-respected senior academics and audit partners assess the proposals based on methodological soundness, potential contribution to academic literature, and ability to address important research questions that are relevant to practice. The deadline for submitting proposals is February 1, 2018.

CAQ welcomes Chris Alabi as Professional Practice Fellow

Chris Alabi has joined the CAQ as a Professional Practice Fellow, the CAQ [announced](#) on August 4. In this role, Alabi will help guide the CAQ's professional practice and public policy activities.

Alabi joins the CAQ from PwC, where he was a senior manager in the firm's national office charged with developing and maintaining the firm's methodology, policies, tools, and templates. Prior to this role, he served in PwC's assurance practices in San Jose, California and PwC UK. With more than 12 years of experience serving public and privately owned companies in the US and Europe, Alabi has led multinational audits under US GAAP, UK GAAP, and IFRS.

CAQ issues new 'Profession in Focus' video

The CAQ issued one new episode of its online series, *Profession in Focus*:

- [Episode 50](#) features a conversation on cybersecurity with Rear Admiral (Ret.) David G. Simpson. With decades of information and communications technology experience supporting the Department of Defense and other federal agencies, Simpson provides cybersecurity advice and insights, including a view on why companies must stay proactive and organized in the face of cybersecurity threats.

Upcoming Events

September 11

FASB Webcast: Proposed Improvements to Not-for-Profit Grant and Contribution Accounting ([Link](#))

September 11-13

AICPA National Conference on Banks and Savings Institutions, Washington, DC ([Link](#))

September 18-22

IAASB Meeting, New York, NY ([Link](#))

September 24-27

Investment Company Institute Tax and Accounting Conference, San Antonio, TX ([Link](#))

September 25

FASB Webcast: Accounting Standards Update on Hedging ([Link](#))

October 1-4

NACD Global Board Leaders' Summit, National Harbor, MD ([Link](#))

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October 11-12

AICPA and SIFMA FMS National Conference on the Securities Industry, New York, NY or Webcast ([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 26-27

American Law Institute Conference: Accountants' Liability 2017, Emerging Challenges Facing the Profession, 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, New York, NY ([Link](#))

December 7

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

December 11-15

IAASB Meeting, New York, NY ([Link](#))

CAQ Public Policy and 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.

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.

