



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.

In This Issue:

- PCAOB issues updated staff guidance on Form AP
- Piwowar directs SEC staff to reconsider implementation of conflict mineral, pay ratio disclosure rules
- Trump signs repeal of SEC foreign payments disclosure rule
- FASB releases two new ASUs
- FRC highlights best practices for auditor tendering
- FRC updates assessment of confidence in U.K. audits
- CAQ issues new video vignettes for classroom use
- Highlights of November 2016 IPTF meeting now available
- CAQ issues new 'Profession in Focus' videos
- Fornelli discusses implementing new revenue recognition standard
- Fornelli: What to Know Regarding Fraud Investigations and the SEC
- Upcoming Events

PCAOB

PCAOB issues updated staff guidance on Form AP

The Public Company Accounting Oversight Board (PCAOB) on February 16 issued [updated staff guidance](#) for auditing firms filing the new Form AP. The updated guidance explains how firms should treat professional staff in secondment arrangements.

Piwowar directs SEC staff to reconsider implementation of conflict mineral, pay ratio disclosure rules

In January, Acting Securities and Exchange Commission (SEC) Chairman Michael Piowowar directed the staff to reconsider implementation of the SEC's conflict mineral and pay ratio disclosure rules.

Conflict Minerals Rule. On January 31 Piowowar [directed](#) the staff to reconsider whether the guidance on the conflict minerals rule is still appropriate and whether any additional relief is appropriate. Piowowar also invited interested parties to submit comments.

“The disclosure requirements have caused a de facto boycott of minerals from portions of Africa, with effects far beyond the Congo-adjacent region,” Piowowar said in a [statement](#). “Legitimate mining operators are facing such onerous costs to comply with the rule that they are being put out of business. It is also unclear that the rule has in fact resulted in any reduction in the power and control of armed gangs or eased the human suffering by many innocent men, women, and children in the Congo and surrounding areas. Moreover, the withdrawal from the region may undermine U.S. national security interests by creating a vacuum filled by those with less benign interests.”

Pay Ratio Disclosure Rule. On February 6 Piowowar [directed](#) SEC staff to reconsider implementation of the [pay ratio disclosure rule](#) adopted in August 2015 to implement Section 953(b) of the Dodd-Frank Act. The rule requires a public company to disclose the ratio of the median of the annual total compensation of all employees to the annual total compensation of the chief executive officer. Piowowar also invited public input on any unexpected challenges that issuers have experienced as they prepare for compliance with the rule and whether relief is needed.

“Based on comments received during the rulemaking process,” Piowowar [stated](#), “the Commission delayed compliance for companies until their first fiscal year beginning on or after January 1, 2017. Issuers are now actively engaged in the implementation and testing of systems and controls designed to collect and process the information necessary for compliance. However, it is my understanding that some issuers have begun to encounter unanticipated compliance difficulties that may hinder them in meeting the reporting deadline.”

Piowowar encourages the public to submit input on any unexpected challenges that issuers have experienced as they prepare for compliance with the rule and whether relief is needed. Comments are requested to be submitted within the next 45 days. Piowowar has also directed the staff to reconsider the implementation of the rule based on comments submitted and to determine as promptly as possible whether additional guidance or relief may be appropriate.

Trump signs repeal of SEC foreign payments disclosure rule

President Donald Trump on February 14 signed a [joint House and Senate resolution](#) repealing the SEC's [Rule 13q-1](#) requiring oil, gas and mining companies to annually disclose payments made to a foreign government or the U.S. Federal Government for the commercial development of oil, natural gas and/or minerals. The joint resolution does not repeal Section 1504 of the Dodd-Frank Act, which mandates that the SEC issue such a rule.

FASB releases two new ASUs

In February, the Financial Accounting Standards Board (FASB) released two new Accounting Standards Updates (ASUs):

- [ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets \(Subtopic 610-20\): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*](#)

Issued on February 22, the ASU clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The ASU defines the term “in substance nonfinancial asset,” in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. The ASU also clarifies that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty.

For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

For all other entities, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

- [ASU 2017-06, *Plan Accounting: Defined Benefit Pension Plans \(Topic 960\), Defined Contribution Pension Plans \(Topic 962\), Health and Welfare Benefit Plans \(Topic 965\); Employee Benefit Plan Master Trust Reporting \(a consensus of the FASB Emerging Issues Task Force\)*](#)

Issued on February 27, this ASU relates primarily to the reporting by an employee benefit plan (a plan) for its interest in a master trust. The ASU clarifies presentation requirements for a plan’s interest in a master trust and requires more detailed disclosures of the plan’s interest in the master trust. The ASU also eliminates a redundancy relating to 401(h) account disclosures.

The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.

International

FRC highlights best practices for auditor tendering

The U.K. Financial Reporting Council (FRC) on February 7 published [best practices](#) highlighting how audit committees can approach the process of retendering and rotation of auditors to get the best outcome. The best practices are based on experiences of audit tenders since the requirement was first introduced into the U.K. Corporate Governance Code in 2012. The practices discussed include, among others: timing of a tender, which firms to invite to tender, balancing professional services, investor engagement, getting

the right audit team, and decision-making approaches. Additional information regarding the best practices can be found in the [press release](#) on the FRC website.

FRC updates assessment of confidence in U.K. audits

The FRC on February 14 published an [update](#) to its *Development in Audit* report, which the FRC released in July 2016 to provide background on the continuous improvements and drivers of confidence in the financial statement audit. The update's key findings include those relating to auditor independence and the relationship between audit quality and firm culture, tendering developments, auditor skepticism, root cause analysis and data analytic tools. Additional information regarding the update can be found in the [press release](#) on the FRC website.

CAQ Updates

CAQ issues new video vignettes for classroom use

The Center for Audit Quality (CAQ) on February 17 posted on its website two [new video vignettes](#) for classroom use that provide insights into the types of conversations that occur between audit team members, auditors and preparers. In this latest set of vignettes, an audit team's substantive testing has detected an error in a prepaid insurance account. The videos depict discussions that an audit team might have around the design of the control over the account, how it was operationalized, and why the control failed to detect the error.

This is the second set of videos in a series that the CAQ is developing for audit educators. The first illustrated types of discussions between auditors and preparers around management review controls of a goodwill impairment, highlighting communications and interviewing techniques, professional skepticism, and how to navigate conversations on difficult and sensitive issues.

To help facilitate robust classroom discussion, the CAQ also provides accounting and auditing professors with a set of teaching notes for the vignettes. The [registration form for the teaching notes](#) can be found on the CAQ's website.

Highlights of November 2016 IPTF meeting now available

The CAQ posted on its website [highlights](#) from the November 17, 2016 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: Ukraine, South Sudan, Sudan, Venezuela, Islamic Republic of Iran, Malawi, Argentina, Suriname, and Angola;
- Transition questions related to IFRS 16, *Leases*;
- Use of pre-acquisition and post-acquisition periods to satisfy S-X Rule 3-05 requirements for other than initial registration statements
- Significant equity investee financial statements under S-X Rule 3-09; and
- Use of IFRS XBRL taxonomy by FPIs.

The next IPTF meeting has been scheduled for May 16, 2017.

CAQ issues new 'Profession in Focus' videos

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

- [Episode 40](#) features Ken Bertsch, Executive Director of the Council of Institutional Investors. Bertsch discusses the strong state of corporate governance, his organization's top priorities, the use of non-GAAP measures, and why the Sarbanes-Oxley Act has been "very successful."
- [Episode 41](#) features KPMG LLP Partner Timothy Hedley. KPMG's Global Lead for Fraud Risk Management service offerings, Hedley discusses the keys to robust fraud deterrence and detection, the role of technology in anti-fraud efforts, and the importance of ethical corporate culture.

Fornelli discusses implementing new revenue recognition standard

CAQ Executive Director Cindy Fornelli appeared on the [February 22 episode](#) of *Inside America's Boardroom* to discuss how boards – and particularly audit committees – can successfully discharge their oversight and financial reporting responsibilities in implementing the new revenue recognition standard.

The new standard, which is scheduled to go into effect on January 1, 2018, will affect companies across various functional areas including accounting, investor relations, legal, sales, information technology, human resources, and many more. Because that implementation will require a significant amount of time and resources, the CAQ developed a tool, [Preparing for the New Revenue Recognition Standard: A Tool for Audit Committees](#), to help audit committees assess a company's implementation of the new revenue recognition standard.

Fornelli: What to Know Regarding Fraud Investigations and the SEC

When a company identifies or suspects the existence of fraud, what steps should management and the board of directors take? What are key factors of which to be aware? As a follow-up to a December 2016 [webcast](#) on these questions, CAQ Executive Director Cindy Fornelli posted a [companion commentary](#) at the Global Knowledge Gateway of the International Federation of Accountants.

"Dealing with fraud – particularly if it entails an investigation by government authorities – is usually not a walk in the park," Fornelli writes. To address this challenge, she sets out key points made by the webcast panelists, including having awareness of government cooperation programs, knowing the right time to self-report potential fraud, getting the board engaged, and communicating robustly.

Upcoming Events

March 1-2

International Corporate Governance Network Washington DC Event, Washington, DC ([Link](#))

March 9

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

March 13-17

IAASB Meeting, Lima, Peru ([Link](#))

March 15

FASB Roundtable on Proposed Improvements to Insurance Accounting, Norwalk, CT ([Link](#))

March 17

FASB Roundtable on Decision Process under the Disclosure Framework and Materiality, Norwalk, CT ([Link](#))

March 20-24

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

March 30

U.S. Chamber of Commerce Annual Capital Markets Summit, Washington, DC ([Link](#))

May 3-5

AICPA CFO Conference, Phoenix, AZ ([Link](#))

May 3-5

Investment Company Institute General Membership Meeting, Washington, DC ([Link](#))

May 8-10

AICPA Employee Benefit Plans Conference, Nashville, TN ([Link](#))

May 21-24

CFA Institute Annual Conference, Philadelphia, PA ([Link](#))

May 24-25

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

June 6-8

National Association of State Boards of Accountancy Western Regional Meeting, Coeur d'Alene, ID ([Link](#))

June 12-14

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

June 19-23

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

June 27-29

National Association of State Boards of Accountancy Eastern Regional Meeting, Newport, RI ([Link](#))

June 28-July 1

Society for Corporate Governance Professionals National Conference, San Francisco, CA ([Link](#))

July 11-13

International Corporate Governance Network Annual Conference, Kuala Lumpur, Malaysia ([Link](#))

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 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 29-30

PCAOB Standing Advisory Group Meeting, Washington, DC ([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.