



# CENTER FOR AUDIT QUALITY

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

## CAQ Public Policy and Technical Alert

JANUARY 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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### PCAOB

#### PCAOB updates standard-setting agenda

The Public Company Accounting Oversight Board (PCAOB) posted on its website an [updated standard-setting agenda](#). There are two changes from the previous update (see the [October 2016 PPTA](#)):

- The PCAOB plans to draft a final standard and adopting release for Board action in the first quarter of 2017.

- The PCAOB now plans to issue proposed standards on “Auditing Accounting Estimates, Including Fair Value Measurements” and “The Auditor’s Use of the Work of Specialists” in the second quarter of 2017.

### **PCAOB releases updated staff guidance on Form AP**

The PCAOB on January 26 issued updated [staff guidance](#) “Form AP, *Auditor Reporting of Certain Audit Participants and Related Voluntary Audit Report Disclosure Under AS 3101, Reports on Audited Financial Statements.*” Under the guidance, the engagement partner must report his or her name consistently on all Forms AP unless the partner has changed his or her name. The firm also is required to disclose the Partner ID, a unique, 10-digit identifier that will be assigned by the firm to each partner who serves as an engagement partner on public company audits.

## **SEC**

### **Trump nominates Jay Clayton as next SEC Chairman**

President-elect Donald Trump on January 4 [announced](#) that Jay Clayton is his nominee for chairman of the Securities and Exchange Commission (SEC).

Clayton, currently a Partner at Sullivan & Cromwell LLP, advises on public and private mergers and acquisitions transactions, capital markets offerings, regulatory and enforcement proceedings, and cybersecurity. In addition to numerous awards recognizing him as one of the top corporate lawyers in America, Clayton has also authored multiple publications on regulatory law, and has been an adjunct professor at the University of Pennsylvania School of Law. Clayton received a B.S. in engineering from the University of Pennsylvania in 1988 and a B.A. in economics from the University of Cambridge in 1990. He received his J.D. from the University of Pennsylvania School of Law in 1993.

“Jay Clayton is a highly talented expert on many aspects of financial and regulatory law, and he will ensure our financial institutions can thrive and create jobs while playing by the rules at the same time,” Trump said. “We need to undo many regulations which have stifled investment in American businesses, and restore oversight of the financial industry in a way that does not harm American workers.”

The Senate Banking Committee has yet to schedule a confirmation hearing.

### **SEC’s Office of Compliance Inspections and Examinations publishes its priorities for 2017**

On January 12, the [Office of Compliance Inspections and Examinations \(OCIE\) released priorities for 2017](#). These priorities focus on electronic investment advice, money market funds, and financial exploitation of senior investors. In addition, the priorities “reflect a continuing focus on protecting retail investors, including individuals investing for their retirement, and assessing market-wide risks.”

These focus of these priorities is to reflect certain practices, products, and services that OCIE perceives to present potentially heightened risk to investors and/or the integrity of the U.S. capital markets.

## Michael Piwowar appointed as SEC Acting Chairman

Michael S. Piwowar was [designated Acting Chairman of the SEC](#) by President Donald Trump on January 23, 2017. Dr. Piwowar was first appointed to the Commission by President Barack Obama and was sworn in on August 15, 2013.

Previously, Dr. Piwowar was the Republican chief economist for the U.S. Senate Committee on Banking, Housing, and Urban Affairs. He was the lead Republican economist on the four SEC-related titles of the Dodd-Frank Act and the JOBS Act. Dr. Piwowar also worked on a number of important SEC-related oversight issues under the jurisdiction of the Committee, such as securities, over-the-counter derivatives, investor protection, market structure, and capital formation.

## FASB

### FASB releases new, proposed ASUs

In January, the Financial Accounting Standards Board (FASB) issued four new and two proposed Accounting Standards Updates (ASUs):

- [ASU 2017-01, \*Business Combinations \(Topic 805\): Clarifying the Definition of a Business\*](#)

Issued on January 5, this ASU clarifies the definition of a business and affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The amendments in the ASU provide a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, stakeholders indicated that analyzing transactions is inefficient and costly and that the definition does not permit the use of reasonable judgment. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable.

For public companies, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. For all other companies and organizations, the ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

A [FASB in Focus](#) provides overview of the new guidance.

- [ASU 2017-02, \*Not-for-Profit Entities – Consolidation \(Subtopic 958-810\): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity\*](#).

Issued on January 12, the amendments in the ASU clarify when a not-for-profit entity (NFP) that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, become effective.

The ASU is effective for NFPs for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period.

- [ASU 2017-03, Accounting Changes and Error Corrections \(Topic 250\) and Investments – Equity Method and Joint Ventures \(Topic 323\)](#)

Issued on January 24, the ASU includes amendments to SEC paragraphs pursuant to staff announcements at the September 22, 2016 and November 17, 2016 meetings of the FASB’s Emerging Issues Task Force.

- [ASU 2017-04, Intangibles – Goodwill and Other \(Topic 350\): Simplifying the Test for Goodwill Impairment](#)

Issued on January 26, the ASU eliminates Step 2 from the goodwill impairment test in order to simplify the subsequent measurement of goodwill. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

A public business entity that is an SEC filer should adopt the amendments for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. All other entities, including not-for-profit entities, that are adopting the amendments should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

- [Proposed ASU, Inventory \(Topic 330\): Disclosure Framework – Changes to the Disclosure Requirements for Inventory](#)

Issued on January 10, the proposed amendments would require additional disclosures regarding inventory for all reporting organizations. Companies and other organizations that report some or all of their inventory using the retail inventory method (RIM) also would be required to provide qualitative and quantitative disclosure of the critical assumptions used to measure that inventory. For companies and organizations applying the last-in, first-out (LIFO) method of measuring inventory, the proposed ASU includes disclosure of the excess of replacement cost or current cost over the LIFO inventory amount and the effect on net income of any LIFO liquidations. In addition, entities that are subject to disclosing segment information in Topic 280, *Segment Reporting*, would be required to disclose, in both annual and interim periods, inventory in total and by major component for each reportable segment to the extent that information is regularly provided to the chief operating decision maker. The proposed is part of the FASB’s broader [disclosure framework project](#) to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of a reporting organization’s financial statements.

The deadline for submitting comments is March 13.

- [Proposed ASU, Debt \(Topic 470\): Simplifying the Classification of Debt in a Classified Balance Sheet \(Current Versus Noncurrent\)](#)

Issued on January 10, the proposed amendments introduce a principle for determining whether a debt arrangement, or other instrument within the scope of the Proposed ASU, should be classified as a noncurrent liability as of the balance sheet date. Specifically, the proposal “would replace the

existing, fact-specific guidance with an overarching, cohesive principle for debt classification that focuses on a borrower's contractual rights and obligations that exist as of the reporting date. The amendments in this proposed ASU would apply to all entities that enter into a debt arrangement.

The deadline for submitting comments is May 5.

## International

### IASB proposes clarifications to IFRS standards

The International Accounting Standards Board (IASB) on January 12 proposed amendments to three International Financial Reporting Standards (IFRS) as part of its annual improvements process. The [exposure draft](#) contains proposed amendments to:

- IAS 12, *Income Taxes* – to clarify that an entity should account for all income tax consequences of dividends in the same way, regardless of how the tax arises;
- IAS 23, *Borrowing Costs* – to clarify which borrowing costs are eligible for capitalization as part of the cost of an asset in particular circumstances; and
- IAS 28, *Investments in Associates and Joint Ventures* – to clarify that an entity should apply IFRS 9, *Financial Instruments*, to long-term interests in an associate or joint venture to which it does not apply the equity method.

The deadline for submitting comments is April 12.

## U.S. Congress

### Huizenga to chair Capital Markets Subcommittee

House Financial Services Committee Chairman Jeb Hensarling (R-Texas) on January 6 [announced](#) that Rep. Bill Huizenga (R-Mich.) will chair the Subcommittee on Capital Markets, Securities and Investment during the 115<sup>th</sup> Congress. The subcommittee has jurisdiction over legislation in the House pertaining to the SEC and all matters related to capital markets activities including the PCAOB and FASB. In a [statement](#), Huizenga said his goal as subcommittee chair will be “to use free market principles to enact substantive yet commonsense reforms that will increase efficiency within the financial system, ensure proper liquidity in the markets, and strengthen market structure.”

### House passes SEC Regulatory Accountability Act

The House of Representatives on January 12 passed [H.R. 78](#), the SEC Regulatory Accountability Act, on a 243-184 vote. The bill, which was introduced by Rep. Ann Wagner (R-Mo.) on January 3, would amend the Securities Exchange Act of 1934 to direct the SEC to:

- Before issuing a regulation under the securities laws, identify the nature and source of the problem that the proposed regulation is designed to address;
- Adopt a regulation only upon a reasoned determination that its benefits justify its costs; including consideration of the regulation's impact on investor choice, market liquidity, and small businesses;
- Identify and assess available alternatives to any regulation;

- Ensure that any regulation is accessible, consistent, written in plain language, and easy to understand;
- Periodically review existing regulations to determine if they are outmoded, ineffective, insufficient, or excessively burdensome; and in accordance with such review, modify, streamline, expand, or repeal them; and
- When adopting or amending a rule that is “major” (in terms of economic impact), state in the adopting release: (1) the regulation’s purposes and intended consequences, (2) metrics for measuring the regulation’s economic impact, (3) the assessment plan to be used to assess whether the regulation has achieved its stated purposes, and (4) any foreseeable unintended or negative consequences of the regulation.

The bill has been referred to the Senate Banking Committee.

## CAQ Updates

### CAQ comments on enhanced cyber risk management standards for financial institutions

The Center for Audit Quality (CAQ) on January 17 provided auditing profession views on cybersecurity to the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The [letter](#) responds to an advance notice of proposed rulemaking from those agencies regarding enhanced cyber risk management standards for large interconnected entities under their supervision and those entities’ service providers. The CAQ offers perspective on cyber risk governance, cybersecurity resources and expertise, the compliance environment, and the value of a principles-based approach to regulation of cybersecurity risk management.

### CAQ issues new ‘Profession in Focus’ videos

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

- [Episode 38](#) features Karen N. Horn, Senior Managing Director at Brock Capital Group and Chair of the National Association of Corporate Directors’ (NACD) Board of Directors. Horn discusses the importance of long-term value creation and why boardroom diversity is “not just a niche issue anymore.”
- [Episode 39](#) features Kenneth Daly, Chief Executive Officer of the NACD. Daly, who in September 2016 announced he would retire at the end of January 2017, reflects on his proudest accomplishments, the top issues facing today’s corporate directors, and the evolution of financial reporting and corporate governance.

### CAQ publishes 2016 Year in Review

The CAQ has published its [2016 Year in Review](#), which covers the CAQ’s key activities and accomplishments in support of public company audit quality. Among other topics, the *Year in Review* highlights the CAQ’s work to help public company auditors improve their effectiveness, its support for independent research, its collaborative efforts around fighting financial reporting fraud and working with audit committees, and its engagement with regulators on many key issues, including audit quality

indicators, effective disclosure, and the auditor's reporting model. To request a hard copy of the report, please contact Cherissa Cruz at [ccruz@thecaq.org](mailto:ccruz@thecaq.org).

## **CAQ celebrates 10 years of serving public company auditors, investors, and the markets**

Public company auditors, current and former policymakers, and representatives from stakeholder groups throughout accounting and financial reporting gathered in Washington, DC on January 30 to mark the 10th anniversary of the CAQ's [formation](#) in January 2007.

"The story of the CAQ is really about a profession: public company auditing," said CAQ Executive Director Cindy Fornelli in [remarks to open the event](#). "And the underlying story of that profession is that it is a force for good that greatly benefits our capital markets, our economy, and investors."

At the event, participants focused on 10 key values that characterize and define both public company auditing and the work of the CAQ: advocacy, celebration, collaboration, connection, evolution, independence, innovation, objectivity, skepticism, and transparency. For more on the event, including policymaker and stakeholder comments, please see [this January 31 item from Accounting Today](#).

## **Upcoming Events**

### **February 20-24**

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

### **March 1-2**

International Corporate Governance Network Washington DC Event, 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 Board's Decision Process under the Disclosure Framework and Materiality, Norwalk, CT ([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](#))

**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](#))

**November 6-8**

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

**December 11-15**

IAASB Meeting, New York, NY ([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).*

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