



## June 2018

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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## SEC

### SEC announces series of investor roundtable discussions

On June 29, the SEC announced a series of [roundtable discussions](#) during which Main Street investors will be able to speak directly with Chairman Jay Clayton and senior SEC staff about the agency's efforts to enhance retail investor protection and promote choice and access to a variety of investment services and products. The roundtable discussions will provide an opportunity for the Chairman and SEC staff to hear first-hand from those who will be directly impacted by the SEC's rules. The discussions also will provide a chance for retail investors to share their views on key questions about their relationship with their investment professional that will help inform the disclosure outlined in the SEC proposed [Regulation Best Interest](#).

### SEC approves final and proposed rules

The SEC on June 28 voted on [five final and proposed rules](#). The Commission approved:

1. *Adoption of amendments to modernize the definition of "smaller reporting company"*: The [new smaller reporting company definition](#) enables a company with less than \$250 million of public float to provide scaled disclosures, as compared to the \$75 million threshold under the prior definition. The final rules also expand the definition to include companies with less than \$100 million in annual revenues if they also have either no public float or a public float that is less than \$700 million. The amendments do not change the threshold in the "accelerated filer" definition that requires, among other things, that filers provide the auditor's attestation of management's assessment of internal control over financial reporting. The rules will become effective 60 days after publication in the *Federal Register*.
2. *Adoption of amendments to require the use of the Inline XBRL format in certain filings*: The [amendments](#), which will go into effect in phases, require the use of Inline XBRL for financial statement information and risk/return summaries. The amendments also eliminate the requirements for operating companies and funds to post XBRL data on their websites.
3. *A proposal to permit certain exchange-traded funds (ETFs) to operate without first obtaining a fund-specific exemptive order from the SEC*: Under the [proposed new rule and form amendments](#), ETFs that satisfy certain conditions would be able to operate within the scope of the Investment Company Act of 1940 and to come to market without applying for individual exemptive orders.



4. *Adoption of amendments related to disclosures of liquidity risk management for open-end funds:* Under the [amendments](#), funds would discuss in their annual or semi-annual shareholder report the operation and effectiveness of their liquidity risk management programs. This requirement replaces a pending requirement that funds publicly provide a quantitative end-of-period snapshot of historic aggregate liquidity classification data for their portfolios on Form N-PORT.
5. *A proposal to amend rules that govern the SEC's whistleblower program:* The [proposed rules](#) would, among other things, provide the SEC with additional tools in making whistleblower awards to ensure that meritorious whistleblowers are appropriately rewarded for their efforts, increase efficiencies in the whistleblower claims review process, and clarify the requirements for anti-retaliation protection under the whistleblower statute.

## SEC seeks comments on FY 2018-2022 draft strategic plan

The SEC on June 19 published a [draft strategic plan](#) that focuses on investors, innovation, and performance as the top strategic goals in coming years. The SEC is seeking public comment on the proposed draft that will guide the SEC's priorities through FY 2022. The plan highlights the SEC's commitment to serving the long-term interests of Main Street investors; becoming more innovative, responsive, and resilient to market developments and trends; and leveraging staff expertise, data and analytics to bolster performance.

The deadline for submitting comments is July 25, 2018.

## FASB

### FASB issues new, proposed ASUs

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

- [ASU 2018-07, Compensation – Stock Compensation \(Topic 718\): Improvements to Nonemployee Share-Based Payment Accounting.](#)

Issued on June 20, the ASU expands the scope of Topic 718, *Compensation – Stock Compensation*, to include share-based payments issued to non-employees for goods or services. Consequently, the accounting for share-based payments to non-employees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, *Equity – Equity-Based Payments to Non-Employees*.



The ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other companies, the amendments 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, but no earlier than a company's adoption date of Topic 606, *Revenue from Contracts with Customers*.

A summary of the ASU is available [here](#).

- [ASU 2018-08, \*Not-for-Profit Entities \(Topic 958\): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made\*](#).

Issued on June 21, the ASU clarifies and improves current guidance about whether a transfer of assets – or the reduction, settlement, or cancellation of liabilities – is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction.

A public company or a not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market would apply the new standard for transactions in which the entity serves as a resource recipient to annual reporting periods beginning after June 15, 2018, including interim periods within that annual period. Other organizations would apply the standard to annual reporting periods beginning after December 15, 2018, including interim periods within that annual period.

If the public company or a not-for-profit organization serves as a resource provider, it would apply the new standards to annual reporting periods beginning after December 15, 2018, including interim periods within that annual period. Other organizations would apply the standard to annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2019.

A summary of the ASU is available [here](#).

The FASB also issued one proposed ASU:

- [Proposed ASU, \*Not-for-Profit Entities \(Topic 958\): Updated the Definition of Collections\*](#).



Issued on June 26, the proposed ASU would modify the definition of the term “collections.” Although accounting for collections is an issue primarily for not-for-profit organizations, the proposed ASU would apply to all entities that maintain collections.

US GAAP currently states that an entity need not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections and meet three conditions. One condition states that an entity must be subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The proposed amendment would modify that condition to allow the proceeds to be used to support the direct care of existing collections in addition to the current requirement.

The deadline for submitting comments is August 10, 2018.

## International

### **IASB consults on accounting for financial instruments with characteristics of equity**

The IASB on June 28 issued the consultation paper, *Financial Instruments with Characteristics of Equity*, to address how companies issuing financial instruments should classify them in their financial statements.

IAS 32, *Financial Instruments: Presentation*, currently sets out how a company that issues financial instruments should distinguish financial liabilities from equity instruments. That distinction is important because the classification of the instruments affects how a company's financial position and performance are depicted. While IAS 32 works well for most financial instruments, continuing financial innovation means that some companies find it challenging to classify some complex financial instruments that combine some features of both debt and ordinary shares. Challenges in classifying these instruments can result in diverse accounting in practice, which in turn makes it difficult for investors to assess and compare companies' financial position and performance.

The consultation paper proposes an approach that would:

- Provide a clear rationale for why a financial instrument would be classified as either a liability or equity without fundamentally changing the existing classification outcomes of IAS 32; and,
- Enhance the information provided through presentation and disclosure.



The deadline for submitting comments is January 7, 2019.

## **FRC's Financial Reporting Lab publishes a report on blockchain and another report on investor perspectives on reporting performance metrics**

The U.K. Financial Reporting Council's (FRC) Financial Reporting Lab on June 19 published a [report](#) on how current developments and use-cases of blockchain technology might impact corporate reporting processes in the future. It concludes that, although cost, complexity, and lack of standardization of blockchains might be inhibiting factors, the growing use of blockchain means that those involved in corporate reporting processes need to consider its potential disruptive impact.

On June 22, the Financial Reporting Lab published a [report](#) on investors' views on the reporting of performance metrics. Investors want to see the metrics that management uses internally to monitor and manage performance, as these give insight into a company's strategy and measure how it is performing against that strategy. In this context, the report says, investors find it important to be given insight into how management links its metrics to its business model and strategy, including why metrics "make sense" for the company and what it is trying to achieve.

## **IFRS Foundation consults on narrow-scope changes to its Constitution**

The Trustees of the IFRS Foundation, which is responsible for the oversight and governance of the IASB, on June 19 [proposed narrow-scope changes](#) to the IFRS Foundation's *Constitution* to increase the maximum tenure of the Trustee Chair and Vice-Chairs.

The proposed amendments would increase the maximum tenure of the Trustee Chair from six to nine years, including any previous period that they may have served as a Trustee. There is also an amendment to provide the option to appoint the Chair either from among the Trustees, or externally. The proposals also would clarify that the Vice-Chairs will be appointed from among the Trustees, and may serve a maximum period of nine years, which includes time served as a Trustee.

The deadline for submitting comments is September 17, 2018.

## **Other Developments**

### **AICPA solicits proposals for assurance-related research**

On June 4, the AICPA's Assurance Research Advisory Group released a [request for proposals](#) on assurance-related research. Approved research proposals can receive up to \$15,000 in



funding and, where relevant, access to personnel, peer reviewers or firm data gathered by the AICPA Peer Review Program with the consent of the firm. The AICPA plans to use the research to inform its private company standard-setting process, along with the AICPA's Enhancing Audit Quality initiative.

To be considered, proposals must be received by September 28, 2018.

## CAQ

### **CAQ comments on IOSCO consultation on good practices for audit committees in supporting audit quality**

The CAQ on June 25 submitted a [comment letter](#) on the International Organization of Securities Commissioners' (IOSCO) [Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality](#).

In the letter, the CAQ expresses its support for IOSCO's view that the quality of financial reports, supported by an independent external audit, is key to confident and informed investors and markets. The letter also highlights a range of good practices for audit committees in supporting audit quality, as well as recent trends in audit committee reporting.

### **IPTF issues discussion document on monitoring inflation in certain countries**

The CAQ International Practices Task Force (IPTF) has developed a [framework for compiling inflation data](#) to assist registrants in monitoring inflation statistics in connection with their determination of the inflationary status of countries in which they have operations. The information may be helpful to management in applying FASB Accounting Standards Codification Topic 830, *Foreign Currency Matters* (ASC 830), in conjunction with its internal controls over financial reporting to reach a conclusion on whether a country's economy should be considered highly-inflationary.

The IPTF compiled cumulative inflation data by country and then categorized the countries based on their cumulative inflation rates and the implementation guidance in ASC 830. The IPTF also identified countries where *projected* cumulative inflation rates would have been categorized into categories considering the guidance in ASC 830 and in circumstances where there was not consistent reliable data, as follows:

- Countries with three-year cumulative inflation rates exceeding 100 percent (ASC 830, Case A);
- Countries with *projected* three-year cumulative inflation rates greater than 100 percent;



- Countries with three-year cumulative inflation rates exceeding 100 percent in recent years, but with three-year cumulative inflation rates between 70 percent and 100 percent in the most recent calendar year (ASC 830, Case B);
- Countries with recent three-year cumulative inflation rates exceeding 100 percent after a spike in inflation in a discrete period (ASC 830, Case C); and,
- Countries with three-year cumulative inflation rates between 70 percent and 100 percent, or with a significant (25 percent or more) increase in inflation during the last calendar year or a significant increase in projected inflation in the current year.

## CAQ announces grants to fund academic research in auditing

The CAQ on June 7 [announced four grants](#) to fund independent academic research on projects of interest to the auditing profession. The CAQ's Research Advisory Board selected the following projects to receive funding:

- "How Can Audit Committee Support Improve Auditors' Application of Professional Skepticism?" by Joseph F. Brazel, North Carolina State University; Anna Gold, Vrije Universiteit Amsterdam; and Tammie Schaefer, University of Missouri – Kansas City.
- "Alexa, Audit Loan Grades': Enhancing Auditor Reliance on Artificial Intelligence Through Anthropomorphism" by Sean Dennis and Benjamin P. Commerford of the University of Kentucky.
- "Encouraging Relational Thinking to Enhance Auditor Use of Audit Data Analytics Output" by Cassandra Estep, Bright Hong, and Kathryn Kadous of Emory University.
- "CAMs and the Spotlight: The Effects of Auditor Disclosure on Auditor Judgments and Decisions" by Michelle McAllister and Brian Fitzgerald of Northeastern University.

## Upcoming Events

### July 9

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

### July 10

PCAOB Forum for Auditors of Broker-Dealers, Denver, CO ([Link](#))

### July 10

NACD 2018 Leading Minds of Governance – West, San Francisco, CA ([Link](#))

### July 16-20

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

### July 18

Anti-Fraud Collaboration Webcast: Non-GAAP Measures – What Do They Say About Fraud Risk? ([Link](#))

### August 1

U.S. Chamber of Commerce Event, "Get Smart on Blockchain," Washington, DC ([Link](#))

**August 4-8**

American Accounting Association Annual Meeting, National Harbor, MD ([Link](#))

**September 17-19**

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

**September 17-21**

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

**September 18**

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

**September 19**

PCAOB Forum for Auditors of Broker-Dealers, Fairfax, VA ([Link](#))

**September 24-25**

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

**September 29-October 2**

NACD 2018 Global Board Leaders' Summit, Washington, DC ([Link](#))

**October 1-2**

SIFMA Annual Meeting, Washington, DC ([Link](#))

**October 18**

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

**October 22-24**

AICPA Conference on Credit Unions, Las Vegas, NV ([Link](#))

**October 22-26**

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

**November 2**

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

**November 8**

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

**November 11-13**

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

**November 12-13**

FEI Current Financial Reporting Issues Conference, New York, NY ([Link](#))

**November 12-13**

PLI Annual SEC Reporting & FASB Forum, Dallas, TX ([Link](#))

**November 12-16**

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

**November 28-29**

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

**December 3-4**

PLI Annual SEC Reporting & FASB Forum, San Francisco, CA ([Link](#))

**December 10-12**

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

**December 10-14**

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

**December 17-18**

PLI Annual SEC Reporting & FASB Forum, New York, NY and Webcast ([Link](#))



# CAQ

# PUBLIC POLICY & 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](http://www.thecaq.org).

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Questions and comments about the PPTA can be addressed to: [aschumacher@thecaq.org](mailto:aschumacher@thecaq.org).



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