



CENTER FOR AUDIT QUALITY

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

CAQ Public Policy Monitor

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As part of the Center for Audit Quality's ongoing effort to keep members informed on critical public policy matters with the potential to impact the public company audit profession, we are pleased to offer the Public Policy Monitor. Each month, the CAQ Public Policy Monitor highlights and examines the policies and broader political events shaping the public debate on public company auditing, as well as financial reporting and related regulatory and legislative issues.

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PCAOB

PCAOB seeks comments on engagement partner disclosure, AQIs

The Public Company Accounting Oversight Board (PCAOB or Board) on June 30 issued a [supplemental request for comment](#) on whether to require public accounting firms to file a new form – PCAOB Form AP, *Auditor Reporting of Certain Audit Participants* – to disclose the name of the audit engagement partner and information about certain other participants in the audit.

According to PCAOB Chairman [James Doty](#), disclosing the identity of the engagement partner and other firms that conduct an audit to investors is a cornerstone of the Board's "effort to provide investors more information about the audit and the auditors who conduct them...Knowing the identity of the engagement partner plays a key role in investor confidence and capital formation in those jurisdictions where it is

provided to investors. Form AP is a middle-ground approach that would provide investors this disclosure in a manner that responds to auditors' concerns about risk."

Under the proposal:

- Form AP would be filed on the PCAOB website and would be available in a searchable database. Users would be able to search Form APs by engagement partner and by company.
- The basic filing deadline would be 30 days after the date the auditor's report is first included in a document filed with the Securities and Exchange Commission (SEC or Commission), with a shorter deadline of 10 days for IPOs to ensure the information would be available prior to any IPO road show.
- Firms would file Form AP through the PCAOB's existing web-based Registration, Annual, and Special Reporting system using the username and password they were issued in connection with the registration process. The PCAOB would develop a template that would allow firms to submit multiple forms simultaneously using an extensible markup language (XML).
- Disclosure of certain information about non-accounting firm participants in the audit would be required only if, in the current period, the auditor was required to supervise other persons that are not: (1) other accounting firms; (2) the auditor's own employees; or (3) entities that are controlled by or are under common control with the auditor, or employees of such entities.

The deadline for submitting comments on the supplemental request is August 31.

The PCAOB also issued a [concept release](#) on the content and possible uses of a group of potential audit quality indicators (AQIs) – a portfolio of quantitative measures that may provide new insights about how to evaluate the quality of audits and how high quality audits are achieved.

"Today," [Chairman Doty said](#), "important aspects of audits are behind the scenes; little is known other than the name of the firm that conducted it and the fee. In an environment where all audits look alike on paper, it should be no surprise that there is considerable pressure and competition on the basis of fees. With more information about the inputs to audits, I hope to balance that pressure with more competition on quality as well."

The concept release seeks comments on 28 potential AQIs, covering three broad categories:

- *Audit Professionals*: measures dealing with the availability, competence, and focus of those performing the audit;
- *Audit Process*: measures concerning an audit firm's tone at the top and leadership, incentives, independence, investment in infrastructure needed to support quality auditing, and monitoring and remediation activities; and
- *Audit Results*: measures relating to financial statements (such as the number and impact of restatements, and measures of financial reporting quality), internal control over financial reporting, going concern reporting, communications between auditors and audit committees, and enforcement and litigation.

The PCAOB also seeks comments on AQIs' potential availability and value to:

- Audit Committees

- Audit Firms
- Investors
- The PCAOB (and other regulators)

The deadline for submitting comments on the concept release is September 28. The PCAOB also plans to hold a roundtable on the concept release and comments received in the fourth quarter of 2015.

CAQ Point of View:

The CAQ [commended](#) the PCAOB for its ongoing efforts to develop AQIs, to “help audit committees by providing them with context and insight to supplement inspection findings, thus offering a more complete picture of audit quality.”

SEC

SEC Chief Accountant provides update on current issues

The SEC’s Office of the Chief Accountant (OCA) and Division of Corporation Finance (CorpFin) are “actively developing a recommendation to the Commission in the form of a concept release intended to seek feedback regarding how investors currently use the information provided in audit committee disclosures as well as feedback on the usefulness of potential enhancements, including additional disclosures,” Chief Accountant James Schnurr said in a [June 5 speech](#). He anticipates “being in position to recommend that the Commission publish the release for public comment in the near future.”

Schnurr said he is “particularly interested in learning more from investors, audit committees, auditors, and others regarding current audit committee disclosures related to oversight of the independent auditor and whether the disclosures should be refined to provide more insight into the information the audit committee used and the factors they considered in executing their oversight of the external auditor.”

He also discussed the future prospects for International Financial Reporting Standards (IFRS), implementing the new revenue recognition standard, and PCAOB standard setting:

- Schnurr reiterated that SEC staff have heard from preparers, investors, auditors, regulators, and standard setters that, while there is continued support for the objective of a single set of high-quality, globally accepted accounting standards, there is virtually no support for having the SEC mandate IFRS for all registrants, and there is little support for an option allowing U.S. companies to prepare their financial statements using IFRS. For Schnurr, continued collaboration between the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) “is the only realistic path” forward.
- With regard to the new revenue recognition standard, Schnurr said he is “encouraged that preparers, auditors, and standard setters are working together to identify, evaluate and resolve issues in a consistent manner across all industries and transaction types...Evaluating issues across industries and transaction types under the standard is critical because an important objective of the standard was to eliminate industry guidance and practices.” Because of this, “the starting point for the identification of performance obligations might differ from today. We anticipate that the number of performance obligations identified will change relative to existing guidance. In some cases there could be more promises to include, such as marketing incentives, while in other cases there could be fewer.”

- In a [December 2014 speech](#), Schnurr urged the PCAOB to accelerate the pace of standard setting. In the June speech, Schnurr said he is “optimistic that the PCAOB should be able to make significant and meaningful changes that will help improve the quality and pace of its standard setting efforts. Such improvements have strong potential to influence the quality of audits for the benefit of investors.”

SEC seeks comments on proposed PCAOB standards reorganization

The SEC on June 19 [released for public comment](#) the PCAOB’s proposed reorganization of its auditing standards and related changes to its rules and attestation, quality control, and ethics and independence standards. The deadline for submitting comments is July 16.

On March 31, the PCAOB unanimously approved the reorganization of its audit standards into a topical, integrated numbering system that integrates the existing interim and PCAOB-issued auditing standards. Assuming SEC approval, the proposed reorganization and amendments will be effective as of December 31, 2016.

DERA issues additional analysis on proposed pay ratio disclosure rules

The SEC’s Division of Economic and Risk Analysis (DERA) on June 4 released for public comment [additional analysis](#) related to the SEC’s [proposed rules](#) for pay ratio disclosure. The analysis considers the potential effects on the pay ratio calculation of excluding different percentages of employees.

The rules, which the SEC proposed in September 2013, would require public companies to disclose the median of the annual total compensation of all employees; the chief executive officer’s (CEO) annual total compensation; and the ratio of the median of the annual total compensation of all employees to the CEO’s annual total compensation. DERA believes the analysis will be informative for evaluating the potential effects on the accuracy of the pay ratio calculation of excluding different percentages of certain categories of employees, such as employees in foreign countries, part-time, seasonal, or temporary employees as suggested by commenters.

The deadline for submitting comments on the DERA analysis is July 6.

FASB/IASB

FASB, IASB agree on revenue recognition amendments

The FASB and IASB [met on June 22](#) to discuss implementation questions about the guidance on principal versus agent considerations in Topic 606, *Revenue from Contracts with Customers*, and IFRS 15, *Revenue from Contracts with Customers*. The boards tentatively agreed to similar amendments for Topic 606 and IFRS 15, including:

- To amend the guidance on principal versus agent considerations to clarify that a specified good or service is a distinct good or service (or distinct bundle of goods or services);
- To amend the guidance on principal versus agent considerations to clarify the application of the control principle in the context of services;
- To amend the guidance on principal versus agent considerations to clarify the role of the indicators in paragraph 606-10-55-39 of Topic 606 and paragraph B37 of IFRS 15; and

- To amend the principal versus agent examples in Topic 606 and IFRS 15, and to include some additional examples, to clarify the application of the principal versus agent guidance.

The FASB will discuss the topic of estimating gross revenue as a principal at a future Board meeting, and plans to include that issue and principal versus agent considerations in a single Exposure Draft. The IASB will incorporate its tentative decisions about the guidance on principal versus agent considerations within the Exposure Draft of proposed clarifications to IFRS 15 that it plans to publish in July.

FASB issues new, proposed ASUs

The FASB issued one new Accounting Standards Update (ASU) in June:

- [ASU 2015-10](#), *Technical Corrections and Improvements*, includes items raised through the *FASB Accounting Standards Codification's* feedback mechanism and that the FASB concluded met the scope of its project to perpetually update, clarify, and improve the Codification. The Board determined that these changes, while not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities, go beyond those considered maintenance updates and as such should undergo due process. The amendments included in this ASU will apply to all reporting entities within the scope of the affected accounting guidance. Amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The effective date for all other amendments is June 12. The topics amended by the ASU include:
 - Subtopic 205-20, *Presentation of Financial Statements – Discontinued Operations*
 - Subtopic 230-10, *Statement of Cash Flows*
 - Subtopic 255-10, *Changing Prices*
 - Subtopic 274-10, *Personal Financial Statements*
 - Subtopics 310-10, 20, 30, *Receivables*
 - Subtopic 320-10, *Investments – Debt and Equity Securities*
 - Subtopic 325-40, *Investments – Other – Beneficial Interests in Securitized Financial Assets*
 - Subtopic 405-20, *Liabilities – Extinguishments of Liabilities*
 - Subtopic 410-30, *Asset Retirement and Environmental Obligations – Environmental Obligations*
 - Subtopic 460-10, *Guarantees*
 - Subtopic 470-30, *Debt – Participating Mortgage Loans*
 - Subtopic 505-10, *Equity*
 - Subtopic 605-25, *Revenue Recognition – Multiple-Element Arrangements*
 - Subtopic 715-30, *Compensation – Retirement Benefits – Defined Benefit Plans – Pension*
 - Subtopic 715-80, *Compensation – Retirement Benefits – Multiemployer Plans*
 - Subtopic 718-40, *Compensation – Stock Compensation – Employee Stock Ownership Plans*
 - Subtopic 718-740, *Compensation – Stock Compensation – Income Taxes*
 - Subtopics 740-10, 30, *Income Taxes*
 - Subtopics 805-10, 20, *Business Combinations*
 - Subtopics 815-10, 20, 25, *Derivatives and Hedging*
 - Subtopic 820-10, *Fair Value Measurement*
 - Subtopics 860-10, 20, *Transfers and Servicing*
 - Subtopic 944-30, *Financial Services – Insurance – Acquisition Costs*
 - Subtopics 958-10, 205, 605, 805, 810, *Not-for-Profit Entities*

The ASU also includes amendments to certain SEC materials, such as SEC staff announcements made at various Emerging Issues Task Force (EITF) meetings.

The FASB also issued two proposed ASUs:

- [Proposed ASU, Investments – Equity Method and Joint Ventures \(Topic 323\): Simplifying the Equity Method of Accounting](#), would eliminate the requirement to separately account for the basis difference of equity-method investments. Instead, an entity would recognize its equity-method investment at its cost and would no longer determine the acquisition-date fair value of the investee's identifiable assets and liabilities assumed. The deadline for submitting comments is August 4.
- [Proposed ASU, Compensation — Stock Compensation \(Topic 718\): Improvements to Employee Share-Based Payment Accounting](#), would simplify several aspects of accounting for share-based payment transactions, including: income tax consequences; classification of awards as either equity or liabilities; and classification on the statement of cash flows. The deadline for submitting comments is August 14.

IASB publishes review of business combinations standard

The IASB on June 17 published the [Post-implementation Review of IFRS 3, Business Combinations](#). The IASB said its review of academic literature provided evidence that generally supports the business combinations accounting requirements of IFRS 3 and related standards, particularly in relation to the usefulness of reported goodwill, other intangible assets, and goodwill impairment.

Investors, however, expressed mixed views on aspects of the current accounting for goodwill, with some preferring a return to periodic amortization of goodwill. Furthermore, many preparers, auditors, and regulators identified implementation challenges in the requirements, particularly in applying the definition of a business, measuring the fair value of contingent consideration, contingent liabilities and intangible assets, and testing goodwill for impairment on an annual basis.

Based on these findings, the IASB said it has added two projects to its research agenda to explore further the key findings. The projects will focus on: (1) the effectiveness and complexity of testing goodwill for impairment; (2) the subsequent accounting for goodwill; (3) challenges in applying the definition of a business; and (4) identification and fair value measurement of intangible assets such as customer relationships and brand names.

IASB proposes pension accounting amendments

The IASB on June 18 proposed narrow-scope amendments to its pension accounting requirements. The [Exposure Draft, Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan](#), address the accounting when a plan amendment, curtailment, or settlement occurs during a period with the following proposed guidance. The proposed amendments affect IAS 19, *Employee Benefits*, and International Financial Reporting Interpretations Committee (IFRIC) 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The proposals address whether other parties' (for example, pension trustees) power to enhance benefits for plan members or wind up a plan affects the availability of a refund.

The deadline for submitting comments on the Exposure Draft is October 19.

European Commission: IFRS achieving its objective

The European Commission (EC) on June 18 published an [assessment](#) of whether IFRS is achieving its objective of improving the efficient functioning of the European Union (EU) capital markets and the internal market. The evaluation sought to compare the situation under Regulation 1606/2002 (IAS Regulation) – which required that listed EU companies prepare their financial statement in accordance with IFRS – with what would have been the case had IFRS not been adopted.

In general, the EC “found that the IAS Regulation has increased the transparency of financial statements through improved accounting quality and disclosure and greater value-relevance of reporting, leading to more accurate market expectations including analysts’ forecasts. It also led to greater comparability between financial statements within and across industries and countries although some differences persist.” The Commission also “found evidence of improved capital market outcomes: higher liquidity; lower costs of capital; increased cross-border transactions; easier access to capital at EU and global level; improved investor protection and maintenance of investor confidence.”

Specific findings include:

- Companies were mostly positive about their experience with IFRS and said that, in most cases, benefits outweighed costs.
- Financial statement users largely supported IFRS for improving the transparency and comparability of financial statements.
- Most stakeholders said the process through which IFRS become part of EU law works well.

The report also recommended improvements, including:

- “Findings suggested most complexity is unavoidable as it arises from the underlying complexity of business; although standards are not industry specific, they were considered flexible enough to accommodate most business models but there was some concern about their suitability for long-term investors and about the volume of disclosures.”
- Some evidence showed that certain differences in enforcement persist between member states.
- “Some feedback suggested that, more recently, the trade-off between costs and benefits has been adversely affected by frequent changes to standards, their complexity and the increasing volume of disclosures.”
- The EC “urges the IASB to strengthen their impact analyses, to consider the specific needs of investors with different investment time horizons and to provide specific solutions, in particular to long-term investors, when developing their standards.”
- The EC “supports IFRS as global standards and continues to urge the U.S. SEC to adopt IFRS for use by its domestic companies.”

Highlights of SEC Regs Committee meeting now available

The Center for Audit Quality (CAQ) has posted [highlights](#) from the March 31 meeting of the SEC Regulations Committee with SEC staff. Among the topics addressed were:

- Revenue recognition standard
- Reporting implications of FASB's new consolidation standard
- Recent trends related to predecessor financial statements in spinoffs and IPOs
- Auditor change disclosures for mandatory audit firm rotation
- Application of Regulation S-X Rule 3-14 in a registration statement
- Applicability of Item 302(a) of Regulation S-K, *Selected Quarterly Financial Data*, in a non-IPO Form S-1 registration statement

Audit Committee Collaboration releases external auditor assessment tool

The Audit Committee Collaboration on June 2 released a [resource](#) to assist audit committees around the globe in evaluating the external auditor to assess the quality of the audit, or to select or recommend the retention of the audit firm. *External Auditor Assessment Tool: A Reference for Audit Committees Worldwide* (Tool), while comprehensive, avoids a “one size fits all” approach. It is instead a focused yet scalable resource that encourages proactive efforts by audit committees.

The Tool contains 18 sets of sample questions that the audit committee, or its counterpart, could consider asking to gauge the quality of:

- Services and sufficiency of resources provided by the auditor;
- Communication and interaction with the auditor; and
- The auditor's independence, objectivity, and professional skepticism.

The Tool also includes a sample form and rating scale for obtaining input from company personnel about the external auditor, and resources for additional reading that can benefit audit committees and others charged with corporate governance.

The updated [U.S. version](#) of the *External Auditor Assessment Tool*, also published on June 2, contains a detailed appendix that highlights relevant U.S. requirements and standards.

In addition to the CAQ, the Audit Committee Collaboration's members include the Association of Audit Committee Members, Inc.; Independent Directors Council; National Association of Corporate Directors; NYSE Governance Services; and Tapestry Networks.

CAQ releases second 'Profession in Focus' video

The CAQ on June 29 released the [second episode](#) of its new online video series, *Profession in Focus*. In this episode, CAQ Executive Director Cindy Fornelli talks with Nick Land, Chairman of the Audit and Risk Committee at Vodafone Group.

According to Land, new requirements for audit committee and auditor reporting in the United Kingdom have already had a beneficial impact. “From an audit committee point of view, [the new requirements have] made us even more engaged.” They have “made us think much more carefully about how we

interact with the auditor.” He adds that the reaction from investors to the new reporting at Vodafone and elsewhere has been “very positive.”

Land and Fornelli also discuss the development of audit quality indicators (AQIs) in both the United Kingdom and United States. “The work you are doing is very timely,” Land said, referring to the CAQ Approach to Audit Quality Indicators. “I and many of my colleagues chairing audit and risk committees are struggling with how do we, in a more organized and systematic way, assess the effectiveness of the auditor.”

The video series is [archived](#) on the CAQ website.

Upcoming Events

July 5-8

IIA International Conference, Vancouver, Canada ([Link](#))

July 13-14

AICPA National Advanced Accounting and Auditing Technical Symposium, Baltimore, MD ([Link](#))

July 15

U.S. Chamber of Commerce Event, “SEC Enforcement: Recommendations on Current Processes and Practices,” Washington, DC ([Link](#))

July 16

PCAOB Forum on Auditing in the Small Business Environment, New York, NY ([Link](#))

July 16

Anti-Fraud Collaboration Webcast, “Deterring Financial Fraud: What Else Can Be Done?” ([Link](#))

July 20-24

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

September 16-18

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

September 21-25

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

September 24

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

September 26-29

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

September 27-30

ICI Tax and Accounting Conference, Orlando, FL ([Link](#))

September 30-October 2

CII Fall Conference, Boston, MA ([Link](#))

October 6

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

October 6

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

Oct 22-23

PCAOB Conference on Auditing and Capital Markets, Washington, DC ([Link](#))

October 25-28

NASBA Annual Meeting, Dana Point, CA ([Link](#))

October 28

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

October 29

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

November 5

ICI Cybersecurity Forum, Washington, DC ([Link](#))

November 12-13

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

November 16-17

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

December 1

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

December 2

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

December 3-4

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

December 7-8

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

December 7-11

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

December 9-11

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

December 14-15

PLI Annual SEC Reporting and FASB Forum, San Francisco, CA ([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 Monitor 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 CAQ Public Policy Monitor can be addressed to: ppm@thecaq.org.