

# PUBLIC POLICY & TECHNICAL ALERT



**April 2019**

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 releases 2018 Annual Report

On April 16, the PCAOB released its [2018 Annual Report](#), which summarizes operations and financial results from fiscal year 2018. The report details, by strategic priority, key initiatives pursued by the five Board Members and staff during the previous year.

### SEC

#### President Trump nominates Allison Lee for SEC seat

On April 4, President Donald Trump [nominated Allison Lee](#) to fill the vacant Democratic seat on the Securities Exchange Commission (SEC) for a five year term expiring on June 5, 2022. Lee has more than two decades of experience in securities law and served in several top roles at the SEC between 2005 and 2018. She was previously counsel to former SEC Commissioner Kara Stein, who Lee was nominated to replace, and senior counsel of the SEC's Complex Financial Instruments Unit.

Lee also is a former special assistant U.S. attorney and partner at Denver law firm Sherman & Howard. The nomination requires Senate approval.

#### Corp Fin issues guidance on new rules and procedures for exhibits containing immaterial, competitively harmful information

On April 1, the SEC's Division of Corporation Finance (Corp Fin) [issued guidance](#) for the SEC's [new rules](#) to modernize and simplify certain disclosure requirements in Regulation S-K. The rules, which were mandated by the Fixing America's Surface Transportation Act of 2015, were effective May 2.

Corp Fin intends to review registrant filings for compliance with the new rules. When reviews are done in connection with a regular filing review, Corp Fin will separate its requests for supplemental information, and will request that registrants provide their responses to those requests separately from the regular filing review comment and response process to minimize the risk of inadvertent public disclosure of competitive information.

The guidance did not change a registrant's ability to request confidential treatment pursuant to Rule 406 of the Securities Act of 1933, as amended (Rule 406) or Rule 24b-2 of the Securities Exchange Act of 1934 (Rule 24b-2). Corp Fin will continue to process new applications as well as pending applications that are not withdrawn following established procedures. If a registrant had a confidential treatment request pursuant to Rule 406 or Rule 24b-2 pending at the time the new rule became effective, the registrant may, but is not required to, withdraw its pending application. Registrants who elect to withdraw their confidential treatment applications and rely on the new rules must amend their filing to conform to the new rule requirements.

On April 16, Corp Fin [announced that it had developed a short form application](#) to facilitate and streamline the process of filing an application to extend the time that confidential treatment has been granted. It is a one-page document by which the applicant can affirm that the most recently considered application continues to be true, complete, and accurate regarding the information for which the applicant continues to seek confidential treatment.

## **OCIE risk alert summarizes Regulation S-P compliance issues**

On April 16, the SEC's Office of Compliance Inspections and Examinations (OCIE) issued [Investment Adviser and Broker-Dealer Compliance Issues Related to Regulation S-P – Privacy Notices and Safeguard Policies](#). These issues were identified in recent examinations of SEC-registered investment advisers and broker-dealers. The information in the document is intended to assist advisers and broker-dealers in providing compliant privacy and opt-out notices, and in adopting and implementing effective policies and procedures for safeguarding customer records and information, under Regulation S-P.

## **SEC announces members of Small Business Capital Formation Advisory Committee**

On April 25, the SEC [announced the inaugural members](#) of the Small Business Capital Formation Advisory Committee (Committee). The Committee will hold its first meeting on May 6.

The Committee was established by the *SEC Small Business Advocate Act of 2016* and is designed to provide a formal mechanism for the SEC to receive advice and recommendations on SEC rules, regulations, and policy matters relating to small businesses, including smaller public

companies. The Committee replaces the Advisory Committee on Small and Emerging Companies, whose term expired in 2017.

## FASB

### FASB issues narrow-scope improvements to financial instruments standards

The FASB issued an Accounting Standards Update (ASU) that clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement. The amendments in [ASU 2019-14, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments](#), affect a variety of Topics in the Codification.

### FASB rejects proposal on credit losses standard

On April 3 at the FASB's [Board meeting](#), the Board discussed a proposal submitted by a group of regional banks and [feedback received](#) at its January 2019 public roundtable on [ASU 2016-13, Financial Instruments – Credit Losses \(Topic 326\): Measurement of Credit Losses on Financial Instruments](#) (credit losses standard). The Board decided that the proposed alternative submitted by a group of regional banks on [November 5, 2018](#), and their follow-up letter, which was submitted on [January 11, 2019](#), would not result in incremental improvements to the accounting for expected credit losses. Therefore, the Board did not add a project to its technical agenda to explore modifying the accounting for expected credit losses by requiring that an entity bifurcate expected credit losses in net income and other comprehensive income, as recommended in the proposal.

### FAF Board of Trustees announces leadership changes

On April 1, the Board of Trustees of the Financial Accounting Foundation (FAF) [launched a search](#) for a new chair of the FASB. Current FASB Chair Russell Golden concludes his term on June 30, 2020. In a [video](#), FAF President and CEO Teresa Polley discusses the skills, competencies, and experiences ideal candidates should possess.

On April 19, the FAF's Board of Trustees [announced the appointment of Susan M. Cosper](#) to the FASB. Cosper currently serves as the FASB's technical director and chair of the Emerging Issues Task Force. Her term is effective May 1, 2019, and her appointment runs through June 30, 2024.

Prior to joining the FASB, Cosper served as a partner with PricewaterhouseCoopers LLP (PwC), most recently in PwC's Financial Instruments, Structured Products, and Real Estate Group in New York City.

On April 26, Teresa Polley [announced her decision](#) to resign as FAF President and CEO. She will remain at the FAF until the details of a leadership transition plan are finalized. The FAF Board of Trustees, in accordance with its existing succession plan, has named Vice President and General Counsel [John W. Auchincloss](#) as Acting President and CEO. He will serve upon the conclusion of Polley's tenure as President and CEO, and until a permanent replacement for Polley is named.

## International

### CMA recommends shake-up of UK audit market

On April 18, the UK Competition and Markets Authority (CMA) published its [final report](#) with recommendations to address competition in the audit profession. The report [makes the following recommendations](#):

- Auditors should focus exclusively on producing the most challenging and objective audits, rather than being influenced by their much larger consultancy businesses. Given the difficulties with an immediate global structural split, the CMA is – at this stage – recommending an operational split of the Big 4 firms' UK audit work.
- The CMA recommends mandatory joint audits to increase the capacity of challengers, increase choice in the market, and thereby drive up audit quality. There should be initial limited exceptions to the requirement, based on criteria set by the regulator, focused on the largest and most complex companies.
- The regulator should hold audit committees more vigorously to account. This may include ensuring that audit committees report their decisions as they hire and supervise auditors, and that the regulator issues public reprimands to companies whose audit committees fall short of adequate scrutiny of their auditors.
- The regulator should review the effects of these changes periodically, the first instance being five years from full implementation. This review should consider in particular: the merits of moving to independent appointment for auditors; whether to go beyond the operational split already proposed; and how to fine-tune the joint audit remedy to adapt to market developments.

### ICAEW paper helps stakeholders better understand financial reporting

On April 3, the Institute of Chartered Accountants in England and Wales (ICAEW) published a paper that highlights key considerations to help directors, politicians, policy-makers, and others seeking to better understand the complex relationships in financial reporting in an effort to find

and implement effective solutions. [Financial Reporting: Who Does What?](#) highlights who does what in financial reporting and unpacks the complex relationships between boards, auditors, and shareholders.

The paper provides the backdrop to the launch of ICAEW Audit and Assurance Faculty's new program of thought leadership essays on the future of audit, which will help to inform the various independent reviews of audit and regulation currently in progress. Future topics will include technology, the audit market, internal controls, and expanding the scope of audit in areas such as going concern, the prevention and detection of corporate fraud, and reporting in the "front half" of the annual report and accounts.

## **IFRS Foundation posts April 2019 TRG for IFRS 17 meeting summary**

On April 4, the Transition Resource Group (TRG) for IFRS 17, *Insurance Contracts*, held a meeting and the IFRS Foundation has posted a [meeting summary](#) on its website.

## **IAASB seeks input on audits of less complex entities**

On April 29, the IAASB published a Discussion Paper, [Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the International Standards on Auditing \(ISAs\)](#). The Discussion Paper explores how the IAASB, and others, could further support auditors working in increasingly evolving environments. The IAASB welcomes input from all interested stakeholders as it charts an appropriate way forward.

The deadline for submitting comments is September 12, 2019.

## **IAASB publishes ISA 540 (Revised) implementation support flow charts and diagram**

On April 17, the IAASB [published two flowcharts and a diagram](#) to support the understanding, and effective implementation of ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

The documents cover:

- the flow of the requirements in ISA 540 (Revised);
- an overview of the requirements relating to the three testing approaches, including the linkages between the testing approaches; and

- the interrelationship of the requirements in ISA 540 (Revised) and other ISAs. This information will help auditors understand the key linkages and in applying all relevant requirements in relation to the audit of accounting estimates and disclosures.

## IESBA publishes Strategy and Work Plan 2019-2023

On April 9, the International Ethics Standards Board for Accountants (IESBA) [published its strategy and priorities](#) toward the setting of high-quality, future-ready ethics standards for professional accountants. Building on the newly revised and restructured International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code), which will come into effect in June 2019, the IESBA's Strategy features three inter-related strategic themes:

- advancing the relevance and impact of the Code, through maintaining a global Code fit for purpose in the evolving environment, and further raising the bar on ethics;
- deepening and expanding the Code's influence, through increasing global adoption and effective implementation of the Code; and
- expanding the IESBA's perspectives and inputs, through proactively engaging and seeking cooperative avenues with stakeholders.

## IIRC publishes Q&A on integrated reporting

The International Integrated Reporting Council (IIRC) has published a [set of answers](#) to some of their most frequently asked questions. The publication is part of a two-year program of technical guidance about integrated reporting being published by the IIRC. The program follows a 2017 review into the effectiveness of the International Integrated Reporting Framework, which, while finding strong evidence demonstrating that it is a robust and successful tool for supporting this new approach to reporting, also identified areas where the market needed guidance to develop effective and robust integrated reports.

## Other Developments

### House committee approves SEC Disclosure Effectiveness Testing Act

On March 28, the House Financial Services Committee approved [H.R. 1815](#), *SEC Disclosure Effectiveness Testing Act*. The bill would build on efforts to engage in investor testing by requiring the SEC to conduct usability testing of any new disclosure intended for retail investors. It also would require the SEC to review and test the usability of its existing disclosures for retail investors, such as mutual fund disclosures. Such reviews and tests would be required prior to the SEC adoption of final rules.

## **Federal Reserve Board invites public comment on regulatory framework that would more closely match rules for foreign banks with the risks they pose to U.S. financial system**

The Federal Reserve Board [invited public comment on a regulatory framework](#) that would more closely match the rules for foreign banks with the risks they pose to the U.S. financial system. The changes would maintain the most stringent requirements for firms with the most risk, while reducing compliance requirements for firms with less risk.

Under the proposed framework, foreign banks with \$100 billion or more in U.S. assets would be sorted into categories of increasingly stringent requirements based on several factors. The factors, which reflect a bank's complexity and risk to the financial system, include asset size, cross-jurisdictional activity, reliance on short-term wholesale funding, nonbank assets, and off-balance sheet exposure.

The deadline for submitting comments is June 21, 2019.

### **CAQ Updates**

#### **Julie Bell Lindsay named Executive Director of the CAQ**

[Effective May 6, Julie Bell Lindsay will succeed Cindy Fornelli](#) as the Executive Director of the CAQ. Retiring after 12 years in the Executive Director role, Fornelli will continue at the CAQ through May 2019 to effect a smooth leadership transition.

Lindsay comes to the CAQ from Citigroup, where she was Managing Director and Deputy Head for Global Regulatory Affairs. In March, the CAQ's Governing Board unanimously approved Lindsay's appointment as the next Executive Director of the CAQ.

At Citigroup, Lindsay worked to develop and execute the bank's regulatory policy priorities and strategy, engaging extensively with regulators, international standards setters, trade organizations, and peer institutions. Prior to Citigroup, among other endeavors, she served as counsel to Commissioner Cynthia A. Glassman at the SEC.

#### **CAQ publishes External Auditor Assessment Tool**

On April 2, the CAQ published the [External Auditor Assessment Tool: A Reference for US Audit Committees](#), which is designed to assist audit committees in carrying out their responsibilities of

appointing, overseeing, and determining compensation for the external auditor. The tool contains sample questions to help committees in four specific areas:

- quality of services and sufficiency of resources provided by the engagement team;
- quality of services and sufficiency of resources provided by the audit firm;
- communication and interaction with the external auditor; and
- auditor 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, as well as resources for additional reading.

## CAQ posts new videos on website

In April, the CAQ posted three new videos on its website:

- A free-of-charge [webcast](#) with an expert panel on the early lessons learned as public company auditors prepare to implement the new requirement to communicate critical audit matters in their auditor's report. Among other topics, the webcast covered how audit committees and investors can prepare for the change.
- A [video](#) highlighting audit committee perspectives on how public company auditing will change over the next five years and the impact of technological developments such as artificial intelligence.
- A new [episode](#) of "Inside America's Boardrooms" providing an overview of the updated *External Auditor Assessment Tool: A Reference for US Audit Committees*.

## Upcoming Events

### May 6

SEC Small Business  
Capital Formation  
Advisory Committee  
Meeting, Washington, DC  
([Link](#))

### May 6-8

AICPA Employee Benefit  
Plans Conference, New  
Orleans, LA ([Link](#))

### May 8

PCAOB Webinar:  
Implementing Critical Audit  
Matter Requirements  
([Link](#))

### May 12-15

CFA Institute Annual  
Conference, London, UK  
([Link](#))

### May 13-17

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

### May 15

PCAOB Webinar:  
Implementing Critical Audit  
Matter Requirements  
([Link](#))

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## **June 4**

PLI Conference: Audit Committees and Financial Reporting 2019: Recent Developments and Current Issues, New York, NY and Webcast ([Link](#))

## **June 9-13**

AICPA Advanced Accounting and Auditing Conference, Las Vegas, NV ([Link](#))

## **June 13-14**

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

## **June 17-18**

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

## **June 17-19**

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

## **June 18**

NACD Webinar: Challenges in Changing Technology and Cyber Risk ([Link](#))

## **June 20**

KPMG/NACD Quarterly Audit Committee Webcast ([Link](#))

## **June 23-28**

ACFE Global Fraud Conference, Austin, TX ([Link](#))

## **June 26-29**

Society for Corporate Governance Annual Conference, San Diego, CA ([Link](#))

## **July 16-18**

ICGN Annual Conference, Tokyo, Japan ([Link](#))

## **July 22-26**

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

## **August 10-14**

AAA Annual Meeting, San Francisco, CA ([Link](#))

## **September 12**

KPMG/NACD Quarterly Audit Committee Webcast ([Link](#))

## **September 21-24**

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

## **September 23-24**

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

## **September 23-27**

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

## **October 15-16**

ICGN Conference, Miami, FL ([Link](#))

## **October 21-25**

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

## **November 6-8**

AICPA Women's Global Leadership Summit, San Diego, CA ([Link](#))

## **November 11-12**

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

## **November 18-22**

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

## **November 18-19**

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

## **December 2-3**

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

## **December 5-6**

AICPA Construction & Real Estate Conference, Nashville, TN ([Link](#))

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## December 9-11

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

## December 9-12

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

## December 16-17

PLI Annual SEC Reporting  
& FASB Forum, New York,  
NY and Webcast ([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](http://www.thecaq.org).

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