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# Highlights of the 2020 AICPA Conference on Current SEC and PCAOB Developments Hot Topics in a COVID-19 Environment

## Executive Summary

Each year, key stakeholders gather in Washington, D.C., for the AICPA Conference on Current SEC and PCAOB Developments to discuss issues and trends affecting accounting, financial reporting, auditing, and other related matters. Although the event was fully virtual this year in light of the COVID-19 pandemic, it was no less informative.

While the pandemic's effects were a theme at this year's conference, much of the conversation stayed grounded in topics that are typically top-of-mind to stakeholders: (1) implementation and application of complex accounting standards; (2) the potential impact of reference rate reform; (3) SEC reporting matters and rulemaking; (4) audit-related topics, including audit quality, auditor independence, and critical audit matters (CAMs); and (5) environmental, social, and governance (ESG) practices and disclosures. An ongoing message was the importance of transparency, cooperation, and communication among auditors, practitioners, and regulators, especially given the unique challenges of the current environment.

AICPA Chairman Tracey Golden described how the current environment has expedited change in the accounting profession. However, the core tenets of the profession remain firm: shared dedication to quality and commitment to protecting the public interest. Ms. Golden highlighted the key trends shaping the industry: technology innovations, nonfinancial information, an accountant's lifelong-learning mindset, diversity and inclusion, and flexibility in the workplace. She also highlighted her views on the evolution and purpose of the profession, including transforming CPA licensure via the [CPA Evolution](#) initiative.

In a keynote session, SEC Chief Accountant Sagar Teotia provided remarks alongside his [statement](#) issued in connection with the conference. Mr. Teotia discussed 2020 and the proactive approach the SEC took in supporting stakeholders as they respond to the effects of the COVID-19 pandemic. He also touched on other areas of focus, including oversight of the FASB and PCAOB; international accounting and auditing governance; rulemaking, including recent efforts to amend and modernize independence rules; internal control over financial reporting (ICFR); implementation of new accounting standards; and audit committee outreach. He emphasized the SEC staff's focus on being candid and transparent in its engagement with stakeholders.

Representatives from the SEC's Division of Corporation Finance (the "Division") also provided important updates on recent rulemaking as well as their expectations regarding financial statement disclosures associated with the impact of COVID-19, along with other areas of focus.

During the PCAOB panel discussion, Chairman William D. Duhnke III described how the PCAOB was able to safely carry out its mission to promote audit quality despite the operational challenges associated with COVID-19, including conducting inspections in an entirely remote environment and performing inspections of interim reviews for the first time. Currently, in the second year of the Board's inspection transformation, the PCAOB has also focused on baseline quality-control systems, early successes in the reformatted inspection reports, and audit committee outreach. Looking ahead to 2021, Mr. Duhnke stated that the PCAOB has three priorities: (1) timeliness of inspection reports, (2) enhancement of external engagement, and (3) continued commitment to the implementation of PCAOB standards, including CAMs.

These and other topics of discussion are summarized throughout this *Heads Up*. For additional details, see the [published speeches](#) from the conference.

## Accounting and Financial Reporting

### Revenue Recognition

ASC 606 continues to be a focus of the SEC staff and is the most frequent topic of consultation. In his conference [statement](#), Mr. Teotia acknowledged that the Office of the Chief Accountant (OCA) has continued to address both implementation issues and ongoing questions involving the application of the guidance on revenue recognition.

The session on current OCA projects included remarks from OCA professional accounting fellows Kevin Cherrstrom, Geoff Griffin, and Jillian Pearce, who provided observations about recent consultations related to the identification of performance obligations and whether an entity is a principal or an agent in a transaction. The consultations were summarized as follows:

- *Identification of performance obligations* — The consultation shared by Mr. Cherrstrom involved a registrant that licenses data analytics software to its customers. The software's core functionality is to enable real-time analysis of data aggregated from multiple sources, including third-party systems. To maintain the software's functionality, the software must be updated periodically in response to changes in the new data sources, hardware added to a customer's IT environment, and external changes, such as updates to third-party software. Accordingly, the registrant's promises to its customer include providing required updates on an as-needed, ongoing basis, and the frequency of these updates varies depending on each customer's unique IT environment.

The SEC staff did not object to the registrant's conclusion that the software license and related updates should be combined into a single performance obligation because the software license and updates are highly interdependent or interrelated given that they significantly affect one another and there is considerable two-way dependency between them.



## Connecting the Dots

In this fact pattern, the SEC staff's conclusion was not focused on the frequency of software updates but rather on how the software functioned without them.

- *Principal-versus-agent guidance: facilitating an advertiser's purchase of advertising space from a publisher* — The consultation shared by Mr. Griffin involved a registrant that operates a platform facilitating an advertiser's purchase of advertising space from a publisher. The registrant identifies a specific advertiser's digital advertisement and then bids on potential advertising space through an auction process. Upon winning an auction, the registrant obtains an exclusive right to the potential advertising space and immediately preloads the identified advertiser's ad to the publisher's site. If a valid user reaches the stage in the publisher's app at which the potential ad would be displayed, the preloaded ad is displayed in the advertising space and a revenue transaction occurs.

The registrant asserted that because of certain constraints, the registrant was unable to direct the use of the potential advertising space to an ad other than the preloaded ad in the seconds between winning the auction and the time the ad was displayed on the publisher's site. Accordingly, despite obtaining momentary title to the advertising space, the registrant concluded that it did not have the ability to direct the use of and obtain substantially all of the remaining benefits from the publisher's advertising space and thus did not control the advertising space before transferring it to the customer.

As part of its assessment, the registrant also considered the indicators of control and determined that it was not primarily responsible for fulfillment and did not have inventory risk, but did have discretion over pricing since the publisher could not set or influence the price charged to advertisers. The registrant also noted that the terms and conditions of its contract only obligate it to provide an advertiser with access to the platform that facilitates the customer's purchase of advertising space from publishers since the registrant does not explicitly or implicitly promise to its customer the delivery of advertising space.

The SEC staff did not object to the registrant's conclusion that it was an agent in the transaction and should recognize revenue on a net basis.

- *Principal-versus-agent guidance: sale of a commodity produced by a related party* — The consultation shared by Ms. Pearce involved a registrant that sells a commodity produced by a related party. The registrant can determine how to source the commodity to fulfill its contracts with customers (i.e., whether to source the commodity from its own production, from production by the related-party facility, or from a third party). When the registrant sources the commodity from the related-party facility, the registrant takes possession and legal title of the product and, subject to certain geographic restrictions, has the right to redirect the product to different customers during transportation. The registrant receives payment from the end customer, retains a fixed-percentage commission, and remits the remainder to the producer.

The registrant proposed to account for its commodity sales sourced from the related-party producer on a net basis in accordance with its view that it did not control the product and was acting as an agent in the transaction. Although the registrant did not believe that any of the indicators of control were determinative, it argued that inventory risk was mitigated by an insurance policy covering the risk of damage or loss and ultimately concluded that because of the fixed-percentage commission, it did not receive substantially all of the benefits from the sale of the commodity.

On the basis of the total mix of information presented, the SEC staff objected to the registrant's conclusion that it did not have the right to direct the use of and obtain substantially all of the remaining benefits of the product from the producer and therefore concluded that the registrant was the principal in the transaction.

See [Chapters 5 and 10](#) of Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard* for more information about identifying performance obligations and principal-versus-agent determinations.

In addition, see Deloitte's *Technology Alert* series [Challenges Associated With Applying the New Revenue Standard](#) for more information.

During the panel session on Division developments, the Division staff discussed incentive programs, especially for entities that manage a platform that connects suppliers to end users. Sometimes, incentives under these programs are paid to the end user in such a way that a registrant may conclude that the guidance on consideration payable to a customer is not applicable and that the incentives should be recognized as an expense. The Division staff emphasized the importance of providing clear disclosures in MD&A about these types of arrangements, including both qualitative and quantitative information.

The Division staff also observed that companies may enter into arrangements with customers in which payments to the customers exceed the consideration received from them, resulting in negative revenue. In such cases, companies may present the negative revenue within revenue or as sales and marketing expense. Given the importance of communicating the impact of negative revenue on a company's operations, the Division staff stated that entities that classify material negative revenue as sales and marketing expense should discuss such classification in their MD&A.



### Connecting the Dots

While the Division's comments addressed technology companies, its conclusions can be applied more broadly to other arrangements that have a material effect on the information in the income statement.

## Lease Accounting

The new leasing standard continues to be a focus of the SEC staff. During the session on OCA policy initiatives, Deputy Chief Accountant John Vanosdall commented that the staff continues to see a steady stream of lease-related consultation activity, including activity related to the standard's scope and transition. Mr. Vanosdall and Mr. Teotia indicated that the SEC staff continues to work closely with the FASB staff to address lease accounting issues, which in the current year included certain related impacts of the effects of COVID-19.

During the session on current OCA projects, Mr. Griffin discussed observations about a recent lease consultation involving a registrant that decided to abandon specific leased assets in the future but before the end of the lease term.



### Connecting the Dots

We assume that in the consultation discussed above, it is appropriate for the lessee to consider the lease abandoned. We generally believe that a lessee can conclude that a lease will be abandoned when it will no longer use the asset and does not have the intent and ability to sublease it. For further discussion, see the [Leases \(ASC 842\) — Right-of-Use Assets](#) section of Deloitte's *Financial Reporting Alert*, "Financial Reporting Considerations Related to COVID-19 and an Economic Downturn."

Because the associated right-of-use (ROU) assets were part of a larger asset group, the registrant assessed the impairment of this group in accordance with the existing impairment and disposal guidance on long-lived assets in ASC 360 and noted that it was not impaired. Further, the registrant determined that its decisions to abandon the specific leased assets did not result in a change to the asset group.



### Connecting the Dots

We believe that both of these facts are relevant to the conclusion reached by the SEC staff.

The registrant observed that the guidance does not prescribe how an entity should amortize ROU assets in the event of an abandonment plan. The registrant proposed that it should reevaluate the economic life of the associated ROU assets and amortize the remaining ROU assets ratably over the period between the date the decision was made regarding the abandonment and the actual abandonment date, though the registrant acknowledged that there may be multiple acceptable alternatives. The SEC staff did not object to the registrant's proposed treatment.



### Connecting the Dots

See [Q&A 8-11A](#) in [Section 8.4.4](#) of Deloitte's *A Roadmap to Applying the New Leasing Standard* for discussion of a similar fact pattern. As indicated in this Q&A, we believe that the remaining life of the ROU asset should be revised (i.e., shortened) in such a scenario. With respect to amortization of the ROU asset over the shortened useful life, we would accept different approaches, including the ratable approach described above. Our Q&A describes another approach that allows for retention of an overall straight-line expense profile for the remaining life of the ROU asset, which we also find acceptable.

## Reference Rate Reform

During the session on current OCA projects, Ms. Pearce shared the SEC staff's observations on the accounting implications of the expected discontinuation of LIBOR.

Ms. Pearce discussed a recent consultation regarding the evaluation of whether certain SOFR-based interest rate reset features within a debt agreement meet the definition of an embedded derivative and, if so, whether they must be bifurcated and accounted for separately in accordance with ASC 815. In the fact pattern presented by the staff, the entity evaluated whether four SOFR-based interest rate reset features represent terms of the host debt contract and therefore are not subject to evaluation under the guidance on embedded derivatives.



### Connecting the Dots

In the United States, the Alternative Reference Rates Committee (ARRC) has designated SOFR as the recommended alternative rate for U.S. dollar-based LIBOR. Unlike LIBOR, which is a term benchmark interest rate that is published with various tenors, SOFR is a daily overnight borrowing rate. Although it is possible that a term SOFR market may develop, some market participants expect to determine SOFR rates on the basis of compounding or averaging daily SOFR rates over a relevant period. Depending on the nature of the instrument, various compounding methods are expected to be used in the market.

For example, a borrower may pay interest on a variable-rate note on the basis of three months of daily SOFR compounded in arrears (i.e., compounding the daily SOFR rate over the three-month period before the associated payment date).

The four SOFR-based interest rate conventions considered by the SEC staff in this consultation were (1) term SOFR, (2) compound SOFR in arrears, (3) compound SOFR in advance, and (4) average SOFR in advance.

The registrant supported its assertion that the interest rate reset features are part of the debt host contract by highlighting certain unique aspects of the features. For example, the entity asserted that the purpose of including SOFR interest rates in contracts is due to the discontinuance of LIBOR rather than to an effort to provide a leveraged return to investors. The registrant also noted that these reset features may be required for certain lending products as a result of consumer protection laws under which lenders must notify borrowers in advance of interest rate changes. The registrant concluded that the aforementioned features represent normal market conventions. If the features were not considered normal market conventions, an entity would need to consider the double-double test in evaluating whether the features meet the definition of an embedded derivative; if they do, bifurcation may be required.



### Connecting the Dots

If an entity were required to bifurcate the SOFR interest rate features in accordance with the guidance in ASC 815-15 on embedded derivatives, the entity would be required to record the feature at fair value on a stand-alone basis in each reporting period.

The SEC staff did not object to the registrant's conclusion that the SOFR-based interest rate reset features are part of the terms of the debt host rather than a potential embedded derivative. The staff noted that its conclusion is based on expectations regarding market response to reference rate reform and that entities will need to evaluate any new interest rate features as markets develop and circumstances change.

See Section 8.4.1.3.4 of Deloitte's [A Roadmap to the Issuer's Accounting for Debt](#) for more information about the double-double test in an entity's bifurcation analysis for an embedded derivative.

For more information about the accounting impacts of reference rate reform, see Deloitte's [March 23, 2020](#), and [November 6, 2020](#), *Heads Up* newsletters.

Visit Deloitte's [LIBOR Transition Resources Web site](#) and [subscribe](#) to our monthly LIBOR transition newsletter to stay up to date on the latest U.S. regulatory and market developments related to the transition away from LIBOR.

In addition to the OCA consultation, the SEC staff discussed LIBOR transition more broadly. Division Chief Accountant Lindsay McCord emphasized that the Division will continue to focus on LIBOR transition in its 2021 reviews. Ms. McCord stressed the importance of clear and transparent disclosures regarding a registrant's transition and plan.

## Customer's Accounting and Statement of Cash Flow Presentation for Consideration Received From a Vendor

The session on current OCA projects included remarks from OCA professional accounting fellows related to consideration received from a vendor. Damon Romano addressed customers' accounting, and Mr. Cherrstrom discussed statement of cash flow presentation. Their remarks are summarized as follows:

- *Customer's accounting* — In the fact pattern shared by Mr. Romano, the registrant had purchased fixed assets from a vendor and had a noncancelable contractual obligation to purchase additional fixed assets in the future from that vendor. As a result of

significant issues with the fixed assets, the vendor made repairs and provided the registrant with additional cash compensation. The contractual agreements did not obligate the vendor to make payments for the issues identified.

The registrant considered the guidance in ASC 705-20-25-1, which indicates that consideration received from a vendor should be accounted for as a reduction of the purchase price of a good or service unless certain criteria are met. The registrant asserted that the vendor made the cash payment, among other reasons, to retain the registrant as a customer. The consideration was not (1) received in exchange for a distinct good or service, (2) a reimbursement of costs incurred by the registrant to sell the vendor's products, or (3) for sales incentives. As a result, the registrant concluded that it would be appropriate to reflect the cash consideration from the vendor as a reduction of the purchase price of both previously purchased fixed assets and the fixed assets that the registrant was firmly committed to purchase from the vendor.

The SEC staff did not object to the registrant's conclusion.

- *Cash flow presentation* — The fact pattern shared by Mr. Cherrstrom addressed whether cash outflows to a vendor may be presented net of cash inflows received from that vendor. In this case, the cash outflows are related to payments for the purchase of fixed assets from the vendor and are classified as investing activities in the statement of cash flows. The registrant concluded that these payments and receipts can be presented net within investing activities. According to Mr. Cherrstrom, the registrant indicated that certain aspects of the transaction are similar to the specific scenarios described in GAAP where net reporting is deemed acceptable. For example, the registrant argued that (1) "turnover is quick" because the entity has contracts to purchase additional fixed assets in amounts in excess of the cash receipts, (2) "the amounts are large," and (3) the maturities are irrelevant since the payments do not have stated maturity dates.

The SEC staff objected to the registrant's conclusion that net presentation is appropriate.



### Connecting the Dots

ASC 230-10-45-26 states, in part, that "[e]xcept for items described in paragraphs 230-10-45-8 through 45-9, both investing cash inflows and outflows and financing cash inflows and outflows shall be reported separately in a statement of cash flows."

See [Section 3.2](#) of Deloitte's *A Roadmap to the Preparation of the Statement of Cash Flows* for more information on reporting cash flows on a gross or net basis.

## Equity Method Investments

During the session on current OCA projects, OCA Professional Accounting Fellow Jeffrey Nick discussed a recent consultation related to whether the equity method should be applied to a registrant's investment in a corporation. ASC 323-10-15-8 states, in part, that "an investment of less than 20 percent of the voting stock of an investee shall lead to a presumption that an investor does not have the ability to exercise significant influence unless such ability can be demonstrated."

In the consultation described by Mr. Nick, the registrant held less than 20 percent of the outstanding voting stock of an investee. However, the registrant also (1) had access to nonpublic information about the corporation as a result of various informal arrangements with the corporation, (2) shared with the corporation certain managerial personnel, and (3) "was a party to a contractual agreement with certain other investors to vote in concert with respect to electing members to the board of directors." The contractual agreement to conform

votes gave the participating investors, as a group, the ability to unilaterally appoint specified individuals to the board of directors, including an individual from the registrant, who would collectively constitute the majority of the board of directors. The investors participating in the contractual agreement would not have had sufficient votes to guarantee the appointment of the specific board members without the registrant's voting interest.



### Connecting the Dots

On the basis of the facts as described by the SEC staff, we assume that the registrant only needed to vote in concert with others to appoint the specified individuals to the board of directors but that the contractual agreement did not require the specified individuals on the board to vote as a group on matters at board meetings. That is, we assume that each appointed director would be permitted to vote in his or her best interest.

The registrant concluded that it did not have the ability to exercise significant influence over the investee and that it therefore was not required to apply the equity method to its investment. However, the SEC staff objected to that conclusion.



### Connecting the Dots

The determination of whether an investor has the ability to exercise significant influence over an investee's reporting and financial policies should not be limited to the evaluation of voting rights given that significant influence may be exhibited through other means. Representation on the board of directors (through contractual agreement or otherwise) allows an investor to influence the operating and financial policies of an investee by virtue of its presence and participation at meetings of the board of directors. Therefore, any board representation is an indicator of significant influence notwithstanding an investor's ownership in the legal entity, even if the amount of board representation is mathematically less than 20 percent of the board of directors.

See [Table 3-1](#) in [Section 3.2](#), and [Section 3.3](#) (including [Table 3-2](#)) of Deloitte's *A Roadmap to Accounting for Equity Method Investments and Joint Ventures* for more discussion of these concepts.

## Consolidation

During the session on current OCA projects, Mr. Nick and Mr. Romano provided observations about recent pre-filing consultations related to consolidation under the voting interest entity model and the variable interest entity (VIE) model. The consultations are summarized as follows:

- *Assessing participating rights under the voting interest entity model* — Under the voting interest entity model for legal entities that are not limited partnerships, a controlling financial interest typically exists when a reporting entity owns more than 50 percent of the outstanding voting shares of another entity unless a noncontrolling shareholder can substantively participate in significant financial and operating decisions of the legal entity.

Mr. Nick described a consultation involving a registrant that held equity ownership, along with one other investor, in a limited liability corporation that was not similar to a limited partnership. The registrant held a majority voting interest through its equity ownership of the limited liability company, but for certain significant financial and operating decisions, the consent of the other investor was required. If the two parties disagreed on a significant decision for which the other investor's consent was required

and they were unable to reconcile their differences, both parties could exercise a buy/sell clause that allowed either investor to purchase the other party's equity interest at fair value.

According to the registrant, the buy/sell clause gave the parties the ability to break a deadlock unilaterally because the registrant believed that the other investor would not jeopardize its ownership in the legal entity by withholding its consent and subjecting its equity to the buy/sell clause. Therefore, the registrant concluded that the other investor's participating rights were not substantive and that it should consolidate the legal entity under the voting interest entity model. However, the SEC staff objected to the registrant's conclusion.

See [Sections D.2.2](#) and [D.2.3](#) of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest* for further discussion of participating rights in the assessment of the effect of noncontrolling rights on the consolidation of voting interest entities.

- *Determining the primary beneficiary under the VIE model* — Mr. Romano observed that determining whether a registrant is the primary beneficiary of a VIE continues to be a common consultation topic for the SEC staff given that when making this determination, a reporting entity must use judgment and carefully consider (1) the purpose and design of the VIE and (2) the variability that the VIE was designed to create and pass along to its variable interest holders.

Mr. Romano discussed a consultation involving a registrant that invested in a VIE with another investor that held an interest in the VIE since its inception. The VIE was in the process of winding down its activities, which included completing a contract for its only customer. The registrant entered into a fixed-price buyout agreement with the other investor to purchase the investor's total interest once the VIE operations terminated.

Mr. Romano noted that all of the decisions for the activities that most significantly affected the VIE's economic performance required approval from both the registrant and the other party. Since each party could block actions proposed by the other, the registrant concluded that it shared power with the other party.

In the fact pattern presented, the registrant also evaluated whether the fixed-price buyout agreement created a de facto agency relationship between the counterparties as an arrangement akin to a loan.



### Connecting the Dots

If power is shared among related parties and the related-party group has potentially significant economic exposure under ASC 810-10-25-38A(b), the registrant would be required to perform the related-party tiebreaker test. In that scenario, the party within the related-party group deemed to be the most closely associated with the VIE would consolidate the VIE.

The SEC staff did not object to the registrant's conclusion that (1) the registrant and the other investor shared power over the VIE and (2) the other investor was not a related party, including the registrant's belief that there was no de facto agency relationship. Therefore, the SEC staff did not object to the registrant's determination that it was not the primary beneficiary of the VIE and therefore should not consolidate it.

See [Section 7.2.7.1](#) of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest* for more information about shared power. Also, see [Sections 8.2](#) and [8.3](#) of the Roadmap for more information about the impact of related parties and de facto agents on the VIE consolidation analysis.

## Segment Reporting

The Division staff has seen an increase in certain entity-wide disclosures in which revenue information is presented in a manner that is inconsistent with GAAP. For example, a company may have presented revenue exclusive of discounts, returns, allowances, and other concessions that it must, under GAAP, recognize as a deduction from revenue. Since ASC 280 requires companies to align entity-wide disclosures with the corresponding amounts in the GAAP financial statements, excluding certain adjustments from revenue may not be appropriate.

Further, the segment measure of profit or loss may be determined under ASC 280 on a basis that differs from consolidated operating profit as defined in GAAP. However, some companies are presenting more than one measure that has not been calculated in accordance with GAAP. The Division staff has questioned the rationale for presenting multiple measures that do not comply with GAAP.

The Division staff also noted that companies may be applying a recognition or measurement principle to income or expense line items for their segments that differs from the accounting principle used for recognition and measurement in the GAAP financial statements. For example, the staff discussed a registrant's presentation of (1) net income by segment as its segment measure of profitability and (2) segment revenue that reflected an add-back for certain promotional expenses. The segment revenue was not consistent with the recognition and measurement principles in GAAP, and the promotional expenses were not broken out by segments. In this fact pattern, the staff objected to the company's segment revenue presentation.

## COVID-19 Accounting Impacts

Various presenters spoke about the effects of COVID-19 on financial reporting in multiple sessions throughout the conference. For example, they addressed challenges associated with forecasting and valuation, the lack of precedent for dealing with such an environment, the rapidly increasing pace of change, and resource constraints and other impacts to the workforce. Deloitte Partner Curt Weller moderated a panel on accounting and financial reporting considerations that may be affected by the COVID-19 pandemic. The speakers discussed the potential impact of the pandemic on several accounting topics; many of these involved modifications of existing arrangements, such as modifications to revenue contracts with customers, leases, compensation arrangements, and financing arrangements. Deloitte Partner Ashley Carpenter also shared his views on how various transactions might be affected by the uncertainty created by the pandemic, including TDRs, debt extinguishment, and accounting for hedges of forecasted transactions.

For more information about the accounting and financial reporting impacts of the pandemic, see Deloitte's [COVID-19 resources](#), which include the following publications:

- [Financial Reporting Alert](#), "Financial Reporting Considerations Related to COVID-19 and an Economic Downturn."
- [Financial Reporting Alert](#), "COVID-19 and Financial Reporting Trends — Accounting for the Pandemic in the Current Quarter."
- [Financial Reporting Alert](#), "COVID-19 Financial Reporting Trends — Different News or More of the Same?"
- [Heads Up](#), "Highlights of the CARES Act."

## SEC Reporting

### Update on SEC Rulemaking

The Division staff discussed recent SEC rulemaking, including the following final rules:

- [Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities](#) — Craig Olinger, senior advisor to the Division chief accountant, noted that the SEC staff released a [no-action letter](#) on November 10, 2020, stating that issuers of certain trust-preferred securities may continue to omit their separate financial statements after the amendments to Regulation S-X, Rule 3-10, become effective. He also discussed an implementation question received regarding foreign private issuers (FPIs). He noted that the final rule is not intended to change how an FPI applies Regulation S-K, Item 512(a)(4), when updating financial statements in delayed or continuous offerings. He explained that if an FPI is required to update its financial statements with unaudited interim financial statements, the summarized financial information required under Regulation S-X, Rule 13-01, should also be updated regardless of whether such disclosures are included in the financial statements or MD&A.

See Deloitte's March 10, 2020, [Heads Up](#) and Deloitte's [A Roadmap to SEC Reporting Considerations for Guarantees and Collateralizations](#) for more information about the final rule.

- [Modernization of Regulation S-K Items 101, 103, and 105](#) — Ms. McCord commented on the expanded human capital disclosure requirement in Regulation S-K, Item 101(c). She explained that when considering this disclosure requirement, a registrant should (1) determine whether the human capital measures or information would be material to understanding the business and (2) tailor its disclosures to its unique circumstances. Ms. McCord also noted that the SEC staff issued [FAQs](#) regarding certain transitional matters related to the final rule.

See Deloitte's [September 3, 2020](#), and [November 3, 2020](#), [Heads Up](#) newsletters for more information about the final rule and human capital disclosures, respectively.

- [Management’s Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information](#) — The final rule will become effective 30 days after the date of its publication in the *Federal Register* and must be applied in a registrant’s first fiscal year ending on or after the date that is 210 days after this publication date. Ms. McCord explained that early application is permitted on an item-by-item basis after the effective date only if all aspects of that item (e.g., Regulation S-K, Item 303) are adopted.



### Connecting the Dots

Whether a calendar-year registrant may early apply the amendments in its Form 10-K for the year ending December 31, 2020, depends on when the final rule is published in the *Federal Register*. For example, if the final rule is published in the *Federal Register* on December 15, 2020, a calendar-year registrant may be permitted to early apply the amendments on an item-by-item basis in its Form 10-K for the year ending December 31, 2020, filed on or after January 14, 2021. Provided that a registrant files its Form 10-K on its respective due date (not earlier), the latest publication dates in the *Federal Register* that would permit a calendar-year registrant to early apply the amendments in its Form 10-K for the year ending December 31, 2020, are as follows:

- Large accelerated filer: January 29, 2021.
- Accelerated filer: February 12, 2021.
- Nonaccelerated filer: March 1, 2021.

See Deloitte’s November 24, 2020, [Heads Up](#) for more information about the final rule.

## Acquisitions and Dispositions of Businesses

Mr. Olinger provided an overview of the SEC’s May 20, 2020, [final rule](#) that amends the financial statement requirements for acquisitions and dispositions of businesses, including real estate operations, and related pro forma financial information. The final rule amends Regulation S-X, Rules 3-05 and 3-14, which require registrants, including entities undergoing an IPO, to file the separate preacquisition financial statements for significant acquired or to be acquired businesses and real estate operations, respectively (referred to herein as acquirees). The final rule also amends Regulation S-X, Article 11, which requires a registrant to provide pro forma financial information depicting the impact of a significant acquisition or disposition.

In a panel discussion, Todd Hardiman and Jessica Barberich, Division associate chief accountants, addressed implementation matters related to the final rule. Given the final rule’s complexity, we encourage registrants to consider the guidance in Deloitte’s June 2, 2020, [Heads Up](#) for assistance in understanding how the rule’s requirements apply to the following:

- *Investment test*:
  - *Determining the aggregate worldwide market value (AWMV) of the registrant’s common equity* — Convertible preferred stock and nontraded classes of common stock exchangeable into traded classes of common stock should be excluded from the calculation of the AWMV because such securities do not represent traded common equity until the actual conversion or exchange occurs. Total assets must be used in lieu of the AWMV if the registrant’s common equity is not traded (e.g., a nontraded REIT or a company undergoing an IPO).

- *Equity method investments (EMIs)* — If a registrant has traded common equity, it should use AWMV to measure the significance of the acquisition or disposition of an EMI. This approach applies to all acquisitions or dispositions of EMIs, including EMIs for which a registrant has elected to apply the fair value option as permitted by ASC 323. However, a registrant should continue to use total assets to measure significance when assessing whether it must provide (1) separate financial statements of the EMI in certain SEC filings (under Regulation S-X, Rule 3-09), (2) summarized financial information of the EMI in its financial statement footnotes (under Regulation S-X, Rule 4-08(g)), or (3) both.
- *Highly leveraged registrants* — All registrants that have traded common equity, including highly leveraged companies, must use AWMV in the investment test to measure significance for the acquisition and disposition of a business even though such measurement may result in a level of significance that is higher than the level that would result from using total assets in the investment test.
- *Pro rata spin-offs* — In a pro rata spin-off transaction, a registrant receives no consideration; therefore, the registrant should apply existing requirements (see the notes to [paragraph 2130.2](#) of the SEC Financial Reporting Manual (FRM)) by comparing the carrying value of the spinnee with the registrant's total assets when measuring its significance.
- *Income test:*
  - *Revenue component* — In most cases, it should be readily apparent whether a registrant and an acquiree have material revenues in each of the two most recently completed fiscal years. Therefore, a detailed analysis of materiality in accordance with [SAB Topic 1.M](#) would not be required. However, when determining whether the revenue component applies, the registrant should evaluate whether its or the acquiree's revenue is so low that the revenue component would be meaningless in the assessment of the significance of the acquiree.
  - *Revenue component: acquirees with a noncontrolling interest* — The revenue component should not be adjusted to exclude noncontrolling interests in the acquiree. Since there is no differentiation under U.S. GAAP or IFRS® Standards as issued by the International Accounting Standards Board (IASB®) between controlling and noncontrolling interests for revenue, the revenue component should be based on the registrant's proportionate interest in the consolidated revenue of the acquiree.
  - *Individually insignificant acquirees* — When a registrant is required to assess the aggregate significance of individually insignificant acquirees (i.e., for a registration or proxy statement), it must evaluate acquirees with pretax income separately from those with pretax losses and assess the income and revenue component for both groups separately. Under this approach, the revenue component may or may not apply to each group. If both the income and revenue components (if applicable) exceed 50 percent significance for either group, both groups are considered to be significant.
  - *Related businesses* — In the evaluation of the aggregate significance of related businesses as defined in Rule 3-05(a)(3), the revenue component would apply if the group of related businesses, taken as a whole, has material aggregate revenues for each of the two most recently completed fiscal years. We understand that a registrant would similarly evaluate the income component on the basis of aggregate income and losses for the related business (i.e., it would not evaluate related acquirees with pretax income separately from those with pretax losses as would be required for individually insignificant acquirees).

- *Acquiree financial statements:*
  - *Registration statements, including IPOs* — Registrants may omit the financial statements of a significant acquisition, once the postacquisition results are included in the registrant's audited results, for 9 or 12 months, depending on significance. The SEC staff emphasized that these durations (i.e., 9 or 12 months) are “bright lines”; however, registrants may consider requesting relief under Regulation S-X, Rule 3-13, on the basis of their unique facts and circumstances. The staff also clarified that registrants are no longer permitted to provide a combination of preacquisition and postacquisition results (with no gap or overlap in the audited financial statements) to satisfy the requirements of Rule 3-05 (e.g., as they could have done for an IPO registration statement before adoption of the final rule; see [paragraph 2030.4](#) of the FRM).
  - *Abbreviated financial statements* — Registrants are permitted to present abbreviated financial statements for an acquiree without seeking permission from the SEC staff when, among other qualifying conditions, the acquiree was not a separate “operating segment” (as defined in ASC 280 or IFRS 8, as applicable) of the seller during the periods for which acquiree financial statements would be required. The operating segment condition applies to all acquired businesses, regardless of whether they were part of a public or private company before the acquisition. However, the registrant may still request permission through a waiver request to use abbreviated financial statements in circumstances in which the final rule's qualifying conditions are not met.
- *Acquired real estate operations subject to triple net leases* — For acquisitions of real estate operations subject to triple net leases, registrants may no longer provide financial statements of a significant tenant in lieu of Rule 3-14 financial statements of the acquired real estate operation. However, registrants must continue to assess whether they are required to provide a tenant's separate financial statements on an annual basis after the acquisition if the triple net lease represents a significant asset concentration (see [Section 2340](#) of the FRM).
- *Pro forma financial information: scope of transaction accounting adjustments* — Transaction accounting adjustments must reflect the accounting for the transaction in accordance with U.S. GAAP or IFRS Standards as issued by the IASB, as applicable (e.g., an acquisition recognized in accordance with ASC 805). A registrant's acquisition of a business may be accompanied by related transactions, such as those involving new financing to fund the acquisition. While the related transactions may not be part of the accounting for the acquisition, if pro forma financial information reflecting such “other transactions” would be material to investors, Regulation S-X, Rule 11-01(a)(8), requires registrants to make adjustments that reflect such transactions.
- *Effective date and transition:*
  - *Pro forma financial information* — The final rule's requirements must generally be applied to pro forma financial information included in a registration statement that will be declared effective after the final rule's mandatory compliance date (i.e., the beginning of the registrant's fiscal year that starts after December 31, 2020). However, the SEC staff will not object to a registrant's application of the old requirements for pro forma financial information included in a registration statement after the mandatory compliance date if (1) the required pro forma financial information is related solely to a transaction that was consummated before the mandatory compliance date and (2) the pro forma financial information for the transaction was filed before the mandatory compliance date.

- *Measuring the significance of EMIs* — A registrant performs significance tests to determine whether it must present (1) separate financial statements of the EMI (under Rule 3-09), (2) summarized financial information of the EMI in its financial statement footnotes (under Rule 4-08(g)), or (3) both. The amended significance tests must be performed for **all** periods presented in annual reports on Form 10-K filed after the final rule's mandatory compliance date. For example, a calendar-year-end registrant must apply the amended significance tests to all periods included in its Form 10-K for the year ended December 31, 2020 (i.e., 2020, 2019, and 2018).
- *Foreign acquisitions: omission of comparative interim period information* — Under IAS 34, entities must present comparative information for an interim financial report; however, depending on significance, Rule 3-05 may only require the presentation of preacquisition interim financial statements for the current-year interim period. While the SEC staff does not generally accept qualified audit or review opinions, it will do so if such opinions are qualified solely with respect to the omission of a comparative period not required by Rule 3-05. At the 2019 AICPA Conference on Current SEC and PCAOB Developments, the SEC staff addressed a similar question related to the omission of comparative annual periods.

For a comprehensive discussion of the final rule's requirements, see Deloitte's June 2, 2020, [Heads Up](#).

## COVID-19 Disclosures

Throughout the conference, presenters spoke about COVID-19 and its effects on financial reporting. In his remarks, Division Deputy Chief Accountant Patrick Gilmore noted that registrants have generally considered and applied CF Disclosure Guidance [Topics 9](#) (issued March 25, 2020) and [9A](#) (issued June 23, 2020) when preparing their disclosures. He encouraged registrants to continue to apply this guidance when updating their disclosures, particularly as circumstances evolve. Noting that the extent of disclosures will depend on a company's specific facts and circumstances, he stated that a registrant should specifically consider disclosure of (1) the effects that COVID-19 had on the company, (2) management's expectations relative to the future impact, (3) how management is responding to evolving events, and (4) how the registrant is planning for uncertainties related to COVID-19. In addition, he clarified that as the pandemic continues, the Division expects to see updates to the liquidity sections of a company's disclosures as part of the year-end reporting process.

Mr. Gilmore noted that the Division will continue to focus on these disclosures and may question registrants that (1) use boilerplate disclosures or (2) focus on short-term forward-looking information without also considering long-term forward-looking disclosures. For example, if a company draws down debt because of liquidity concerns, it should provide company-specific disclosures about the long-term impact this debt will have, including how the company expects to repay the debt in the future. Further, Mr. Gilmore observed that some registrants have had lengthy COVID-19 discussions on earnings calls, the substance of which was not included in their SEC filings. He reemphasized that companies should consider whether information discussed in earnings calls is material and therefore should be disclosed in their periodic reports.

Mr. Gilmore also addressed the use of adjustments related to COVID-19 in non-GAAP measures, which is discussed in the Non-GAAP Measures and Metrics section below.

For additional information about disclosure considerations related to COVID-19, see Deloitte's [Financial Reporting Alert](#), "Financial Reporting Considerations Related to COVID-19 and an Economic Downturn."

## Non-GAAP Measures and Metrics

### ***Impact of COVID-19***

Mr. Gilmore advised registrants that are considering whether to reflect adjustments associated with the impact of COVID-19 in their non-GAAP measures to be mindful of the various requirements and interpretations in the SEC's non-GAAP rules<sup>1</sup> and related SEC staff [Compliance and Disclosure Interpretations](#) (C&DIs). He highlighted certain considerations regarding the evaluation of the appropriateness of a COVID-19-related adjustment, including whether the adjustment is:

- Directly attributable to COVID-19 or the associated economic downturn.
- Incremental to normal operations.
- Objectively quantifiable, as opposed to an estimate or hypothetical amount.

Further, Mr. Gilmore encouraged registrants to continually evaluate whether an adjustment is truly incremental to normal operations. For example, additional expenses for cleaning and sanitation may be considered incremental in the current year, but if they become part of the registrant's normal operations in future periods, an adjustment may cease to be appropriate. Additional compensation paid to employees to perform their normal duties (e.g., hazard pay) would be acceptable if the amount was something the registrant had not previously provided. However, examples of adjustments that would not be considered incremental to normal operations, and therefore could be inappropriate, include (1) payments made to employees that are temporarily idled (e.g., "compassion pay") if the amounts are not incremental to their normal salary and (2) costs related to facilities that are temporarily idled (e.g., rent payments made for retail space in a mall that is currently closed).

In addition, Mr. Gilmore noted that it would not be appropriate to make adjustments for lost revenue because such modifications would be based on hypothetical amounts had COVID-19 not occurred rather than on known amounts.

Adjustments attributable to COVID-19 should be consistently applied from period to period, and registrants should avoid "cherry picking" adjustments. For example, if a registrant obtains a grant (or other similar benefit) and also chooses to include adjustments for COVID-19 costs in its non-GAAP measure(s), it should consider adjusting its non-GAAP measure(s) for both the costs and corresponding grant income.

Mr. Gilmore encouraged registrants to contact the SEC staff if they have questions about non-GAAP adjustments.

See Deloitte's [Financial Reporting Alert](#), "COVID-19 and Non-GAAP Measures," for further guidance and additional considerations related to COVID-19 adjustments and non-GAAP measures. See also Deloitte's [A Roadmap to Non-GAAP Financial Measures and Metrics](#).

<sup>1</sup> SEC Regulation G; SEC Regulation S-K, Item 10(e).

## Adjustments to Revenue

The SEC staff has observed an increase in the number of registrants making non-GAAP adjustments to revenue. Building on remarks made at last year's conference, Mr. Gilmore emphasized that revenue is "special" and that the staff continues to challenge any adjustments to GAAP revenue. For example, the SEC would object to the presentation of gross or adjusted revenue that adds back sales discounts, return allowances, or other concessions to revenue as an adjusted gross sales measure because this presentation would be a substitute for a GAAP accounting recognition and measurement method. Mr. Gilmore observed that a registrant may disclose certain operational metrics if such amounts are not labeled as revenue or sales metrics. For example, a metric labeled "booking" or "billing" that includes invoiced amounts before discounts and allowances may be acceptable.



### Connecting the Dots

[Question 100.04](#) of the C&DIs on non-GAAP measures notes that a registrant is prohibited from presenting a non-GAAP performance measure that is a substitute for a GAAP accounting recognition and measurement method. At the 2018 AICPA Conference, the SEC staff indicated that adjustments that change the accounting policy or the method of recognition of an accounting measure may be misleading and may therefore not be permitted. The staff has acknowledged that entities often have difficulty identifying individually tailored accounting principles.

See [Section 4.3.3](#) of Deloitte's *A Roadmap to Non-GAAP Financial Measures and Metrics* for further guidance on individually tailored accounting principles.

Mr. Gilmore also highlighted certain considerations related to the presentation of a non-GAAP measure labeled "net revenue" in which certain costs of sales are subtracted from GAAP revenue. He cautioned registrants that the labeling of such measures could be misleading if the measures refer to revenue or sales, emphasizing that the SEC staff is likely to ask questions if a registrant identifies something as revenue that is not, in fact, revenue. He explained that it may be acceptable to refer to such measures as "Adjusted Gross Profit" or "Contribution Margin"; however, he reminded registrants that the GAAP measure that is most comparable to an adjusted gross profit or contribution margin is generally a "fully loaded" GAAP gross margin. GAAP gross margin should be used as the starting point of the non-GAAP reconciliation of contribution margin and should be disclosed even if it is not otherwise presented on the face of the GAAP income statement.

See [Section 3.2.1](#) of Deloitte's *A Roadmap to Non-GAAP Financial Measures and Metrics* for further guidance on the presentation of contribution margin.

## Segment Measures

Ms. McCord acknowledged that there are circumstances in which a non-GAAP measure of segment profit or loss is permitted under GAAP; however, the SEC staff has questioned presentations in which a registrant has voluntarily expanded its segment footnote in the financial statements to provide multiple non-GAAP measures of profit or loss.

See the [Segment Reporting](#) discussion for information about the presentation of segment measures of revenue that are not in accordance with GAAP.

## Metrics

In an [interpretive release](#) issued in January 2020, the SEC formalized its guidance on disclosures about KPIs and metrics. Accordingly, a registrant should (1) clearly define metrics used and how they are calculated, (2) disclose why they are useful to investors, and (3) describe how management uses them in operating the business. While the disclosure guidance in the interpretive release applies specifically to MD&A, Mr. Gilmore stated that providing the relevant required disclosures in an earnings release that included such metrics would be a good practice.

See [Section 2.4](#) of Deloitte's *A Roadmap to Non-GAAP Financial Measures and Metrics* for guidance on the required disclosures for metrics included in MD&A.

## SEC Reporting Considerations for Special-Purpose Acquisition Company Transactions

A special-purpose acquisition company (SPAC) is a newly created shell company that raises cash in an IPO and then looks to acquire an operating company within the period specified in its governing documents (e.g., 24 months).

The Division staff noted the significant increase in the amount of proceeds raised in SPAC IPOs in recent months as well as the increased attention in such transactions from various market participants. Mr. Olinger stated that the SEC staff's review process for both the IPO registration statement of a SPAC and its subsequent merger proxy or registration statement is consistent with the review process for a traditional IPO.

Mr. Olinger addressed the SEC's September 21, 2020, C&DI related to the Form S-3 eligibility requirements that apply after a SPAC merges with a private operating company. Specifically, as noted in [Question 115.18](#) of the C&DIs on Securities Act Forms, the resulting combined company in a SPAC transaction may meet the registrant requirements to use Form S-3 if it has at least 12 calendar months of Exchange Act reporting history after the business combination transaction. Mr. Olinger also noted that the Division staff recently updated the FRM to clarify that the private operating company financial statements included in a SPAC's merger proxy or registration statement must be audited in accordance with PCAOB standards. See [paragraphs 1140.5, 2200.7, and 4110.5](#) of the FRM for guidance.

See Deloitte's *A Roadmap to Initial Public Offerings* and October 2, 2020, *Financial Reporting Alert* for more information about accounting and SEC reporting considerations related to SPAC transactions.

## Accounting Standard Setting

### Remarks of FASB Chairman Richard Jones and FASB Technical Director Hillary Salo

Mr. Jones [discussed](#) his priorities for the FASB and emphasized the importance of "actively listening" to stakeholders. He acknowledged the FASB's responsibility to justify changes to accounting standards and provided his perspective on the primary reasons for making such changes:

- First, to provide investors with better, more useful information that will directly influence their decisions and behavior,
- Second, to remove unnecessary cost and complexity from the system,
- And third, to maintain and improve the Codification.

Mr. Jones also announced that as part of the FASB's commitment to hearing from stakeholders, the Board began agenda consultation outreach this month (the FASB's previous agenda-consultation project was completed in 2016). The Board plans to share feedback it receives with the Financial Accounting Standards Advisory Council in the spring and issue an Invitation to Comment (or discussion paper) during mid-2021.

In closing, Mr. Jones acknowledged that COVID-19 continues to be "top of mind" and affirmed the Board's plan to help stakeholders address their current and future financial reporting challenges related to the pandemic. He encouraged stakeholders to visit the FASB's [COVID-19 page](#), which provides educational resources.

Ms. Salo offered additional details on the status of the FASB's priorities and projects, including the postimplementation review (PIR) the Board has begun for the recently adopted leasing and credit losses standards.

## **PIR Projects**

### **Current Expected Credit Losses**

Since issuing the current expected credit losses (CECL) standard (ASU 2016-13, codified in ASC 326) in 2016, the FASB has published numerous resources, including educational papers and implementation guidance. Ms. Salo highlighted the FASB's continued outreach and noted that the staff continues to perform additional research on both the accounting for purchased financial assets that do not qualify for purchased credit-deteriorated accounting treatment and the troubled debt restructuring (TDR) model for entities that have adopted CECL.

See Deloitte's [A Roadmap to Accounting for Current Expected Credit Losses](#) for more information about the accounting model for purchased credit-deteriorated assets and for considerations related to TDRs under ASC 326.

### **Leasing**

Ms. Salo discussed PIR activities related to the leasing standard (which was codified in ASC 842). In October 2020, the FASB issued a [proposed ASU](#) that would make certain targeted improvements to the standard and has sought additional feedback on the usefulness of certain disclosures, the incremental borrowing rate, and the standard's modification guidance.

### **Recently Issued ASUs and Current Projects**

Ms. Salo summarized the Board's recently issued ASUs, including ASU 2020-04 (on reference rate reform) and ASU 2020-06 (on financial instruments with characteristics of liabilities and equity). She also summarized the status of current standard-setting projects, which include updates to the leasing standard and clarifications to the guidance on reference rate reform as well as those associated with goodwill, the recognition and measurement of revenue contracts under ASC 805, asset acquisition versus business combination accounting, interim reporting, and segment reporting.

For more information about ASU 2020-04 and ASU 2020-06, see Deloitte's [March 23, 2020](#), and [August 5, 2020](#), *Heads Up* newsletters, respectively.

## Remarks of Sue Lloyd, IASB Vice Chair

Ms. Lloyd commented on the IASB's proactive approach to supporting the IFRS Standards community during the pandemic, which has included publishing educational materials on financial instruments (IFRS 9) and leases (IFRS 16) that describe how to apply the existing requirements in the current environment as well as issuing targeted amendments to IFRS 16 on rent concessions related to COVID-19. In addition to discussing certain recently issued amendments to standards on insurance contracts and interest rate benchmark reform, she identified the following current IASB priorities:

- Proposing improvements to the way in which information is communicated in financial statements, including new subtitles in the income statement and required disclosures about management performance measures.
- Continuing to investigate possible improvements to the accounting for goodwill and disclosures related to business combinations.

Ms. Lloyd also indicated that climate-related matters and sustainability reporting would be priorities for the IASB in the coming year. In addition, she discussed a current project that involves revising guidance on management commentary (similar to MD&A) to enable a company to identify and report on items, such as ESG matters, that are material to investors.

## PCAOB Developments and Other Auditing Matters

### PCAOB Developments

Members of the PCAOB board and staff discussed a number of topics at the conference, including the PCAOB's activities and strategic initiatives, current research and standard-setting projects, inspections, and impacts of the ongoing COVID-19 pandemic on audit engagements.

### *Activities and Strategic Initiatives*

During the PCAOB's keynote panel discussion, speakers reflected on the past year and the 2020–2024 [strategic plan](#). Chairman Duhnke and staff members discussed the Board's transparency and its outreach to auditors, investors, audit committees, academics, and preparers. They also highlighted the PCAOB's continued focus on improving audit quality, which has included targeted communications for [audit committees](#) and [auditors](#) as well as the launch of the Board's new branding and redesigned Web site. The PCAOB expects to release additional communications and guidance in the coming months.

### *Research and Standard-Setting Projects Update*

This fall, the Board realigned its agenda to focus on projects with public milestones (e.g., a final standard, a proposed standard, or staff guidance) that are expected to be achieved within the next 12–18 months. PCAOB Acting Chief Auditor Barbara Vanich provided details about the standard-setting projects related to quality control and to the supervision of audits involving other auditors. She noted that the PCAOB is currently analyzing comments received on those projects and is determining next steps.

She also acknowledged that many audit firms conduct audits under more than one set of standards and that commenters supported a quality-control approach that is based on the International Auditing and Assurance Standards Board's (IAASB's) soon-to-be-issued [International Standard on Quality Management 1](#), which will address quality management for firms that audit or review financial statements or perform other assurance services, with certain modifications to address U.S.-specific jurisdictional matters. With respect to the supervision of audits involving other auditors, Ms. Vanich mentioned that the Board is (1) considering information collected from its quality control and other activities and (2) continuing to monitor the IAASB's exposure draft [Proposed International Standard on](#)

[Auditing 600 \(Revised\)](#), which addresses special considerations related to audits of group financial statements.

Ms. Vanich also gave an update on the Board's research projects related to data and technology and audit evidence. She noted that the current standards do not prescribe or prohibit the use of technology (e.g., data analytics) in the performance of an audit. However, she observed that technology tools can assist auditors with risk assessment, inform their consideration of fraud, and provide substantive evidence about relevant assertions. Technology may also be used to enhance audit quality in circumstances when it facilitates communication between parties on an audit engagement and enhance supervision of the engagement team. With respect to its audit evidence research project, Ms. Vanich noted advances in this area by other standard-setting bodies. Currently, the PCAOB is exploring the (1) increased use of technology by auditors and preparers, (2) increased use of external data in audit procedures and the financial reporting process, and (3) evaluation of the relevance and reliability of sources of information that are external to the company.

### ***PCAOB Inspections***

During the PCAOB's keynote panel discussion, Chairman Duhnke explained that the Board adjusted its 2020 inspections program in response to the pandemic by performing inspections remotely as well as by:

- *Extending the inspection period of audits of issuers with year-ends through June 30, 2020* — The typical inspection period covers audits of fiscal years ending April 1 through March 31. The change allowed the PCAOB to review audits that were potentially affected by COVID-19 as a result of the timing and onset of the pandemic.
- *Performing inspections of interim reviews from the first and second quarters of 2020* — The Board conducted these first-time inspections of quarterly reviews, which encompassed inquiries and the review of interim documentation, to understand how COVID-19 affected the performance of procedures by auditors.
- *Increasing focus on areas of a firm's system of quality control* — The Board redefined planned quality-control procedures to gain insight into areas that may have been affected as a result of the pandemic.

The observations from these inspections were highlighted in the PCAOB's [Spotlight: Staff Observations and Reminders During the COVID-19 Pandemic](#).

In her discussion of the 2021 inspections cycle, PCAOB Board Member Megan Zietsman indicated that the effects of the pandemic, particularly on industries that have experienced significant disruptions, would be an inspection focus. She noted that the PCAOB plans to continue to select roughly the same number of audits to review as in prior years as well as concentrate primarily on the largest issuers, from a market cap perspective. However, she indicated that there would be two changes to the inspections approach in 2021: (1) the number of audits selected randomly will be increased, thereby introducing an element of unpredictability, and (2) more nontraditional focus areas will be selected. The ultimate objective would be to raise audit quality overall.

During the session on PCAOB inspection updates, PCAOB Division of Registration and Inspections Director George Botic elaborated on key areas of emphasis for 2021, which will include inspections of (1) a firm's system of quality control, (2) audit areas most likely to be affected by COVID-19 (e.g., goodwill and intangible assets, going concern, inventory, and fraud procedures), and (3) the implementation of new auditing standards and recurring inspection deficiencies. Inspections for broker-dealer audits will focus on the custody and control of customer funds and securities.

Mr. Botic also outlined common themes from the 2020 inspection cycle, including ICFR, revenue recognition, allowance for loan losses and other accounting estimates (including fair value measurements), CAMs, and auditor independence.

### **Impacts of COVID-19**

The following five key takeaways were highlighted by the PCAOB board and staff for auditors to take into account when performing their audit engagements in a remote work environment and when considering the impacts of COVID-19:

- Maintain due professional care and professional skepticism in completing audit work.
- Perform robust risk assessments and thoroughly understand the company's business.
- Focus on fraud procedures.
- Establish materiality levels appropriate for the circumstances.
- Supervise engagement teams.

In her discussion of the impact of COVID-19 on audit engagements that are performed in accordance with PCAOB auditing standards, Ms. Vanich reiterated the PCAOB's observations in its [April 2020](#) publication by highlighting that the pandemic's ongoing effects and related economic uncertainty can complicate the auditor's evaluation of previously identified risks or result in the identification of new risks. As a result, auditors may need to revisit their initial risk assessment, including their fraud risk assessment, understand and test additional controls, reevaluate materiality and tolerable misstatement, and modify planned procedures accordingly.

Ms. Vanich further noted that the extent of supervision and review of the engagement team may need to be adjusted for audit areas that may have increased in complexity as a result of the current environment. Throughout the conference, various panelists commented on the importance of considering the effects of remote working, including the inability to interact and ask questions in person.

Mr. Botic similarly emphasized the need for auditors to consider the ongoing ramifications of COVID-19 when performing audits of financial statements. He highlighted the importance of considering areas that might be more susceptible to error or fraud and the need to exercise due professional care and professional skepticism. In addition, he noted that there may be a heightened risk of fraud in the current environment related to the following two areas: (1) the reevaluation of estimates that are largely based on the forecast of future events and (2) management override of controls for entities that have seen headcount adjustments, amendments to reporting processes, or other changes that may affect the segregation of duties.

### **The Auditor's Communication of CAMs**

The requirement to communicate CAMs took effect for audits of large accelerated filers in June 2019 and will apply for audits of all other filers in December 2020.<sup>2</sup> Throughout the conference, panelists recognized the postimplementation efforts undertaken by the PCAOB staff to date, including the [interim analysis report](#) and accompanying white papers<sup>3</sup> that were released after extensive outreach. Postimplementation findings have indicated that audit firms made significant investments to support the initial implementation of CAMs. In addition, the PCAOB staff noted that although awareness is still growing, investors have found CAMs to be beneficial and more valuable when they are tailored to the unique circumstances of the audit engagement.

<sup>2</sup> Effective dates are as follows:

- Communication of CAMs for audits of large accelerated filers: Audits for fiscal years ending on or after June 30, 2019.
- Communication of CAMs for audits of all other companies: Audits for fiscal years ending on or after December 15, 2020.

<sup>3</sup> Specifically, the October 2020 PCAOB staff white papers [Stakeholder Outreach on the Initial Implementation of CAM Requirements](#) and [Econometric Analysis on the Initial Implementation of CAM Requirements](#).

During the session on current OCA projects, OCA Professional Accounting Fellow Jeffrey Joseph emphasized that using entity-specific information in the auditor's report when communicating CAMs is particularly meaningful to users of financial statements. His remarks were echoed by PCAOB board member J. Robert Brown, who commented during the PCAOB board discussion that including generic disclosures in CAMs is unlikely to provide useful information to shareholders and other investors.

During the session on PCAOB inspection updates, Mr. Botic noted that the determination and communication of CAMs was a common theme of the 2020 inspection cycle. Specifically, the PCAOB staff observed that (1) auditors did not evaluate all matters communicated to the audit committee that were related to material accounts or disclosures when determining CAMs and (2) there were inconsistencies in wording between the CAMs communicated in the auditor's report and the underlying audit working papers.

## Internal Control Over Financial Reporting

In a panel discussion, Deputy Chief Accountant Diana Stoltzfus described the OCA's continued emphasis on robust internal controls as part of high-quality financial reporting. She noted that the ongoing pandemic has affected entities' day-to-day operations and has brought changes to the working environment. Ms. Stoltzfus cautioned that the move to a remote workforce may have introduced additional business risks to entities, necessitating a reassessment of their processes and controls.

Ms. Stoltzfus further emphasized the importance of evaluating whether changes in the working environment and to business risk will affect ICFR and whether enhanced disclosures are necessary. Note that in Mr. Teotia's remarks, he indicated that entities must disclose in their quarterly or annual filings any changes to internal controls that materially affect, or are reasonably likely to materially affect, their ICFR in Item 4 of Form 10-Q or in Item 9A of Form 10-K (or in Item 15 of Form 20-F for foreign private issuers).<sup>4</sup> In light of the current environment, it is important for management to perform thorough evaluations to determine whether changes in internal control are material and, if so, should be disclosed in the entity's filing.

See Deloitte's March 5, 2020, [Financial Reporting Alert](#) for more details related to changes in internal controls that have materially affected, or are reasonably likely to materially affect, entities' ICFR.

## International Engagement and Collaboration

Engaging with stakeholders and obtaining their insights on a wide range of issues both domestically and internationally is an ongoing priority of the OCA. It is increasingly important for all stakeholders to actively participate in international matters given the global nature and interconnectedness of the capital markets. The OCA's involvement in a number of international bodies, including the International Organization of Securities Commissions (IOSCO)<sup>5</sup> and associated Monitoring Group,<sup>6</sup> the IAASB, and the International Ethics Standards Board for Accountants, serves to further the SEC's commitment to promote international audit quality to strengthen confidence in the audits of financial statements globally.

<sup>4</sup> See the Securities Exchange Act of 1934, Rules 13a-15(d) and 15d-15(d), and Regulation S-K, Item 308(c).

<sup>5</sup> As described on its [Web site](#), IOSCO is "the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector."

<sup>6</sup> As described on IOSCO's [Web site](#), the Monitoring Group is "is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard setting and audit quality."

In July 2020, the Monitoring Group, of which Mr. Teotia is currently a co-chairman, [published](#) the results of its review of the effectiveness of the international audit and ethics standard-setting process. The recommendations focused on increasing the responsiveness of the standard-setting process to the public interest by using a multistakeholder approach to developing international standards that will drive and enhance global audit quality. Mr. Teotia emphasized that the OCA will be “working with the Monitoring Group and other stakeholders to support implementation of the recommended reforms.”

SEC Deputy Chief Accountant Paul Munter also indicated that the OCA's involvement in IOSCO gives the OCA the opportunity to work together with other international securities regulators to improve financial reporting and audit quality worldwide.

## Auditor Independence

Throughout the conference, auditor independence was a focus of the SEC staff and PCAOB board members and staff in their comments related to rulemaking and enforcement. OCA Professional Accounting Fellow Sheena Lam noted that independence is crucial to audit quality and is “foundational to the credibility of financial statements.” Mr. Teotia also emphasized that the responsibility for auditor independence does not lie with the auditor alone; instead, it remains “a shared responsibility among audit committees, management, and their auditors,” especially given the impact that any independence violations may have on current or future SEC regulatory filings.

In October 2020, the SEC adopted [final amendments](#) to certain requirements in Regulation S-X, Rule 2-01, to modernize its independence requirements and focus the analysis on relationships and services that are more likely to affect an auditor’s objectivity and impartiality.

The final amendments:

- Modify the definitions of “affiliate of the audit client” and “investment company complex” to address certain affiliate relationships, including entities under common control, by adding a dual materiality threshold with respect to the entity under audit and “sister” entities under common control.
- Update the Business Relationships Rule (Rule 2-01(c)(3)) to replace the reference to “substantial stockholders” with the concept of beneficial owners with significant influence over the entity under audit (in conformity with the revisions to Rule 2-01(c)(1)(ii)(A), the “Loan Rule”).
- Modify the definition of the “audit and professional engagement period” to shorten the look-back period for domestic first-time filers (IPOs and SPACs) to one year, which conforms with the independence requirements of foreign private issuers.
- Provide a transition framework to address inadvertent independence issues that result from corporate events, such as merger and acquisition transactions, and that are identified before the effective date of the transaction.
- Add student loans and de minimis consumer loans to the categorical exclusions from independence-impairing lending relationships.

The final amendments will become effective on June 9, 2021. Early adoption is permitted.

In addition, in November 2020 the PCAOB adopted [targeted amendments](#) to its interim independence standards and rules to align its independence requirements with the SEC’s final amendments. These targeted amendments are intended to “avoid confusion, differences, and duplication between PCAOB and SEC independence requirements.”<sup>7</sup>

<sup>7</sup> See the PCAOB’s news release [PCAOB Adopts Amendments to Align Independence Requirements With SEC Rules](#) on the PCAOB’s Web site.

Subject to approval by the SEC, the PCAOB's conforming amendments will be effective on the same date as the SEC's final amendments to Rule 2-01.

## Other Accounting and Auditing Topics

### Accounting and Auditing Aspects of Blockchain and Digital Assets

The co-chairs of the AICPA's Digital Assets Working Group, which includes Deloitte Partner Amy Steele, gave an update on the working group's activities since last year's conference. They highlighted the issuance of (1) the Practice Aid [Accounting for and Auditing of Digital Assets](#), which provides nonauthoritative guidance for preparers and auditors to consider when accounting for and auditing digital assets, and (2) the [Blockchain Universal Glossary](#), which provides key definitions of blockchain and digital-asset-related terms.

The Practice Aid will be continually updated as the working group develops more content on how to apply U.S. GAAP and U.S. GAAS to this evolving area, which includes topics such as revenue recognition of mining, digital asset lending, AICPA System and Organization Controls (SOC) considerations, processes and controls, and risk assessment. For more information, see the AICPA's [Digital Asset Resources page](#).

As noted in the SEC's recent [press release](#) and emphasized during the panel session on Division developments, the SEC's Strategic Hub for Innovation and Financial Technology, which typically engages in evolving areas such as distributed ledger technology and digital assets, will become a stand-alone office after previously being part of the Division.

See Deloitte's [2020 Global Blockchain Survey](#) and its co-authored paper [Blockchain and Internal Control: The COSO Perspective](#) for more insights into the evolving digital assets and blockchain ecosystem.

### Environmental, Social, and Governance Reporting

CAQ Executive Director Julie Bell Lindsay discussed (1) investor requests for more transparent and accessible sustainability disclosures, (2) the challenge of assessing a company's ESG practices without broadly adopted ESG reporting standards and frameworks, and (3) the auditor's role in providing assurance over the sustainability information.

Ms. Golden also emphasized the rise of ESG reporting in response to increasing stakeholder expectations and highlighted the value of consistency in a global approach to sustainability accounting standards. AICPA President and CEO Barry Melancon echoed that sentiment, noting that much has been written on ESG reporting both globally and in the United States and that there needs to be a rational approach that is as universal as possible.

Further, Ms. Lindsay, Ms. Golden, and Mr. Melancon each highlighted one or more of the following recent ESG standard-setting developments:

- The International Federation of Accountants' [call](#) for the IFRS Foundation to establish a global sustainability standard setter.
- The release of the IFRS Foundation trustees' [Consultation Paper on Sustainability Reporting](#) for public comment to assess demand for global sustainability standards and what role the IFRS Foundation might play.
- The [announcement](#) of the International Integrated Reporting Council and the Sustainability Accounting Standards Board that they plan to merge into a unified organization that will work toward comprehensive corporate reporting.

See Deloitte's September 22, 2020, [Heads Up](#), which discusses (1) various ESG developments in the marketplace as a result of the growing call on companies to disclose or improve the transparency of ESG topics, (2) steps that companies can take to enhance the quality of their ESG reporting, and (3) the importance of external assurance.

## Diversity, Equity, and Inclusion

During the opening session of the conference, Ms. Golden addressed the future of work in the CPA profession — specifically, how the future success of firms and accounting organizations will depend on a commitment to fostering diversity and inclusivity. In a session on auditing in a period of transformation, Ms. Lindsay expressed similar sentiments in her discussion of the next generation of talent. Further, Ms. Golden and Ms. Lindsay discussed the AICPA report [2019 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits](#).<sup>8</sup>

Ms. Golden indicated that the [CEO Action for Diversity & Inclusion](#) pledge has been signed by 78 firms and accounting organizations, including the AICPA. She also observed that the AICPA's [2019 CPA Firm Gender Survey](#) offers insights into how to achieve greater diversity, equity, and inclusion and reports that formal advancement programs, such as mentoring and sponsorship, offer substantial benefits to audit firms.

Ms. Lindsay described how audit firms are taking actions such as committing funds to historically black colleges and universities and pledging to organizations that advocate for social justice. In addition, Ms. Lindsay noted that the governing board of the CAQ chartered a working group to analyze and eliminate barriers to entering the profession. She specifically cited the working group's efforts to identify alternative means for individuals to obtain the additional 30 credit hours necessary to meet the 150-hour requirement for a CPA license.

<sup>8</sup> The AICPA identifies trends in accounting program enrollments at U.S. universities every two years.

## Appendix A — Summary of Recent SEC Final Rules and Relevant Deloitte Resources

The table below summarizes recent SEC final rules related to financial reporting and provides links to relevant Deloitte resources that contain additional information about them.

Final Rules	Summaries and Relevant Resources
<a href="#">Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information</a> (effective 30 days after the final rule's publication in the <i>Federal Register</i> and must be applied in the first fiscal year ending on or after the date that is 210 days from such publication date)	<p><b>Summary:</b> The final rule eliminates from Regulation S-K Item 301 (on selected financial data); streamlines Regulation S-K, Item 302 (on supplementary financial information); and amends certain aspects of Regulation S-K, Item 303 (on MD&amp;A).</p> <p><b>Deloitte Resources:</b> November 24, 2020, <a href="#">Heads Up</a>.</p>
<a href="#">Update of Statistical Disclosures for Bank and Savings and Loan Registrants</a> (effective for fiscal years ending on or after December 15, 2021)	<p><b>Summary:</b> The final rule amends the statistical disclosure requirements for bank and savings and loan registrants and eliminates disclosure requirements that overlap with the SEC's rules, U.S. GAAP, or IFRS Standards. The amendments also add disclosure requirements related to certain credit ratios and bank deposits, including uninsured amounts.</p> <p><b>Deloitte Resources:</b> October 8, 2020, <a href="#">Heads Up</a>.</p>
<a href="#">Modernization of Regulation S-K Items 101, 103, and 105</a> (effective for filings on or after November 9, 2020)	<p><b>Summary:</b> The final rule amends the disclosure requirements related to a registrant's description of its business, legal proceedings, and risk factors. The amendments expand the use of a principles-based approach that gives registrants more flexibility to tailor their disclosures with respect to the description of their business and the risk factors. The final rule also adds human capital disclosures to the business section and requires risk factors to be organized under relevant headings.</p> <p><b>Deloitte Resources:</b> September 3, 2020, <a href="#">Heads Up</a>.</p>
<a href="#">Amendments to Financial Disclosures About Acquired and Disposed Businesses</a> (effective for fiscal years starting after December 31, 2020)	<p><b>Summary:</b> The final rule amends the financial statement requirements for acquisitions and dispositions of businesses, including real estate operations and related pro forma financial information. The amendments are intended to improve the information that investors receive regarding businesses that are acquired or disposed of, reduce the complexity and costs of preparing the required disclosures, and facilitate timely access to capital.</p> <p><b>Deloitte Resources:</b> June 2, 2020, <a href="#">Heads Up</a>.</p>
<a href="#">Amendments to the Accelerated Filer and Large Accelerated Filer Definitions</a> (effective for annual reports filed on or after April 27, 2020)	<p><b>Summary:</b> The final rule amends the accelerated filer and large accelerated filer definitions to exclude issuers with both annual revenues of less than \$100 million and public float of less than \$700 million. The amendments expand the number of issuers that qualify as nonaccelerated filers and are thus eligible to take advantage of certain reporting accommodations offered to such issuers. The most significant of these accommodations is an exemption from the requirement that an issuer obtain an audit report on ICFR from its independent auditor, as required under Section 404(b) of the Sarbanes-Oxley Act of 2002.</p> <p><b>Deloitte Resources:</b> March 19, 2020, <a href="#">Heads Up</a>.</p>
<a href="#">Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities</a> (effective for fiscal periods ending after January 4, 2021)	<p><b>Summary:</b> The final rule amends and simplifies certain disclosure requirements in Regulation S-X, Rules 3-10 and 3-16.</p> <p><b>Deloitte Resources:</b> March 10, 2020, <a href="#">Heads Up</a>.</p>

## Appendix B — Titles of Standards and Other Literature

### AICPA Literature

*2019 CPA Firm Gender Survey*

*2019 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits*

*Blockchain Universal Glossary*

*Practice Aid, Accounting for and Auditing of Digital Assets*

### FASB Literature

For titles of *FASB Accounting Standards Codification* references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification.](#)"

See the FASB's Web site for the titles of citations to:

- [Accounting Standards Updates.](#)
- [Proposed Accounting Standards Updates](#) (exposure drafts and public comment documents).
- [Superseded Standards](#) (including FASB Interpretations, Staff Positions, and EITF Abstracts).

### PCAOB Literature

Release No. 2020-002, *Interim Analysis Report — Evidence on the Initial Impact of Critical Audit Matter Requirements*

*Econometric Analysis on the Initial Implementation of CAM Requirements*

*Spotlight: COVID-19: Reminders for Audits Nearing Completion*

*Spotlight: Staff Observations and Reminders During the COVID-19 Pandemic*

*Stakeholder Outreach on the Initial Implementation of CAM Requirements*

*Strategic Plan 2020–2024*

*The PCAOB's Use of Economic Analysis and Stakeholder Input in Standard Setting*

### SEC Literature

#### **CF Disclosure Guidance**

Topic No. 9, "Coronavirus (COVID-19)"

Topic No. 9A, "Coronavirus (COVID-19) — Disclosure Considerations Regarding Operations, Liquidity, and Capital Resources"

#### **Final Rules**

No. 33-10762, *Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities*

No. 33-10786, *Amendments to Financial Disclosures About Acquired and Disposed Businesses*

No. 33-10825, *Modernization of Regulation S-K Items 101, 103, and 105*

No. 33-10835, *Update of Statistical Disclosures for Bank and Savings and Loan Registrants*

No. 33-10890, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*

No. 34-88365, *Accelerated Filer and Large Accelerated Filer Definitions*

## **FRM Topics**

Topic 1, "Registrant's Financial Statements"

Topic 2, "Other Financial Statements Required"

Topic 4, "Independent Accountants' Involvement"

## **Interpretive Release**

No. 33-10751, *Commission Guidance on Management's Discussion and Analysis of Financial Condition and Results of Operations*

## **Regulation S-K**

Item 10, "General"

Item 101, "Description of Business"

Item 103, "Legal Proceedings"

Item 105, "Risk Factors"

Item 301, "Selected Financial Data"

Item 302, "Supplementary Financial Information"

Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations"

Item 308, "Internal Control Over Financial Reporting"

Item 512, "Undertakings"

## **Regulation S-X**

Rule 2-01, "Qualifications of Accountants"

Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired"

Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered"

Rule 3-13, "Filing of Other Financial Statements in Certain Cases"

Rule 3-14, "Special Instructions for Real Estate Operations to Be Acquired"

Rule 3-16, "Financial Statements of Affiliates Whose Securities Collateralize an Issue Registered or Being Registered"

Rule 4-08, "General Notes to Financial Statements"

Article 11, "Pro Forma Financial Information"

Rule 11-01, "Presentation Requirements"

Rule 13-01, "Guarantors and Issuers of Guaranteed Securities Registered or Being Registered"

## **SAB Topic**

No. 1.M, "Materiality"

## **Securities Exchange Act of 1934**

Rule 13a-15, "Controls and Procedures"

Rule 15d-15, "Controls and Procedures"

## **IFRS Literature**

IFRS 8, *Operating Segments*

IFRS 9, *Financial Instruments*

IFRS 16, *Leases*

IAS 34, *Interim Financial Reporting*

## **Other Literature**

IFRS Foundation *Consultation Paper on Sustainability Reporting*

Proposed International Standard on Auditing 600 (Revised), *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*

## Appendix C — Abbreviations

Abbreviation	Description
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>ARRC</b>	Alternative Reference Rates Committee
<b>ASC</b>	FASB Accounting Standards Codification
<b>ASU</b>	FASB Accounting Standards Update
<b>AWMV</b>	aggregate worldwide market value
<b>C&amp;DI</b>	SEC Compliance and Disclosure Interpretation
<b>CAM</b>	critical audit matter
<b>CAQ</b>	Center for Audit Quality
<b>CECL</b>	current expected credit loss
<b>CEO</b>	chief executive officer
<b>COVID-19</b>	coronavirus disease 2019
<b>CPA</b>	certified public accountant
<b>EMI</b>	equity method investments
<b>ESG</b>	environmental, social, and governance
<b>FASB</b>	Financial Accounting Standards Board
<b>FAQ</b>	frequently asked question
<b>FPI</b>	foreign private issuer
<b>FRM</b>	SEC Division of Corporation Finance Financial Reporting Manual
<b>GAAP</b>	generally accepted accounting principles
<b>GAAS</b>	generally accepted auditing standards
<b>IAASB</b>	International Auditing and Assurance Standards Board

Abbreviation	Description
<b>IASB</b>	International Accounting Standards Board
<b>ICFR</b>	internal control over financial reporting
<b>IFRS</b>	International Financial Reporting Standard
<b>IOSCO</b>	International Organization of Securities Commissions
<b>IPO</b>	initial public offering
<b>KPI</b>	key performance indicator
<b>LIBOR</b>	London Interbank Offered Rate
<b>MD&amp;A</b>	Management's Discussion & Analysis
<b>OCA</b>	SEC Office of the Chief Accountant
<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>PIR</b>	postimplementation review
<b>Q&amp;A</b>	question and answer
<b>REIT</b>	real estate investment trust
<b>ROU</b>	right of use
<b>SAB</b>	SEC Staff Accounting Bulletin
<b>SEC</b>	Securities and Exchange Commission
<b>SOC</b>	AICPA System and Organization Controls
<b>SOFR</b>	Secured Overnight Financing Rate
<b>SPAC</b>	special-purpose acquisition company
<b>TDR</b>	troubled debt restructuring
<b>VIE</b>	variable interest entity

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