



To our clients, our colleagues, and our other friends, we wish each of you a joyous and peaceful holiday season and a happy new year.

## 'Twas the Night Before Adoption Highlights of the 2017 AICPA Conference on Current SEC and PCAOB Developments

*by Deloitte & Touche LLP's National Office*

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### Executive Summary

Change was in the air at the 2017 AICPA Conference on Current SEC and PCAOB Developments in Washington, D.C., with the FASB's new standards on revenue recognition, leases, and credit losses (the "new GAAP standards"), and the PCAOB's new auditor reporting model, dominating the conversation.<sup>1</sup>

The new GAAP standards will not only change reported results but also significantly improve the disclosures for investors. Successful implementation of the guidance requires appropriate oversight by audit committees and the keen focus of registrants on identifying and applying appropriate changes to internal control over financial reporting (ICFR).

<sup>1</sup> For a list of speeches that were publicly available as of the date of this publication, see [Appendix B](#).

- [Changing Technology](#)
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In addition to the financial statements themselves, the audit report that accompanies them will be significantly modified over the next few years as the requirements of the final standard on the auditor’s reporting model are phased in. While the new section that describes critical audit matters (CAMs) will not be required for this year-end, audit committees are encouraged to discuss the potential content of that section with their auditors to understand the nature and timing of CAMs that will be disclosed in the future.

Conference speakers also encouraged participants to remain diligent about cybersecurity and the need to keep abreast of technological developments such as distributed ledger (blockchain) technology. And of course no one could ignore the imminent prospect of sweeping U.S. income tax reform and the potential effect it may have on year-end financial reporting.

In their keynote address, SEC Chairman Jay Clayton and SEC Chief Accountant Wesley Bricker discussed the importance of the SEC’s three-pronged mission: (1) investor protection, (2) capital formation, and (3) market integrity. Mr. Clayton noted that efficient capital formation in the U.S. public markets gives the average retail investor — colloquially referred to as Mr. and Mrs. 401(k) — a cost-effective opportunity to invest in the growth of America. Mr. and Mrs. 401(k) are protected by a disclosure regime that is the foundation of our capital markets, and the audited financial statements are the bedrock of that regime. For 15 years, the PCAOB (with oversight by the SEC) has played a central role in improving audit quality. As PCAOB Chairman James Doty reminded conference participants, the mandatory audit “is the linchpin of trust that holds our system of public market capital formation together.”

Instead of delivering separate speeches, the SEC’s chief accountant and deputy chief accountants in the Office of the Chief Accountant (OCA) issued a [joint statement](#) (the “Joint Statement”) describing matters discussed at the deputy chief accountant panel discussion, including the new GAAP standards, interactions with other SEC divisions and offices, PCAOB matters, auditor independence, ICFR, audit committees, international accounting and auditing, and innovation. These and other topics of discussion are summarized throughout this *Heads Up*.

## Accounting and Financial Reporting Topics

### Adoption of New GAAP Standards

As would be expected, adoption of the new accounting standards on revenue recognition, leases, and credit losses is a key priority for preparers, auditors, and regulators. During the session on OCA policy initiatives, Deputy Chief Accountant Sagar Teotia referred to his September 2017 [speech](#) before the San Diego chapter of the Financial Executives Institute, in which he laid out six observations related to implementation of the new GAAP standards. Mr. Teotia noted that these observations, which were reiterated in the Joint Statement, would provide a framework for his comments at the conference.

Mr. Teotia and others at the conference elaborated on these observations as follows:

- *Keep going/get going* — Mr. Teotia’s first observation was that registrants should “keep going” — or, in some cases, “get going.” The effective dates of the new GAAP standards are rapidly approaching, and the SEC staff has consistently stated its belief that companies need to make adoption of the new GAAP standards a high priority to ensure a successful implementation. In the panel discussion on OCA policy initiatives, Mr. Teotia noted that registrants that have had successful implementation projects have had visible buy-in from the CEO, CFO, or CAO.
- *ICFR* — Transition plans should include the identification and implementation of any necessary changes to ICFR. See the [Considerations for Effective ICFR](#) section below for further details regarding internal controls related to new GAAP standards.

- *Transition disclosures (SAB 74)* — The SEC staff has made a number of public remarks on the importance of SAB 74 disclosures in the periods leading up to the adoption of a new standard. In particular, it is expected that these disclosures will become more informative as the effective date nears. In his keynote address, Mr. Bricker observed that these disclosures provide investors the necessary time to develop an understanding of how the financial statements will be affected in the future.

See Deloitte's September 22, 2016, [Financial Reporting Alert](#) for additional information about the expectations for SAB 74 disclosures.

- *New disclosure requirements* — Registrants should not lose sight of the new disclosure requirements in each standard (which in some cases may be significant). It is important to build the assessment of the disclosure requirements into the project plan to ensure that appropriate controls are designed and operating effectively.
- *Reasonable judgment* — Throughout the conference, the SEC staff stated that it will accept reasonable judgments in the application of the new GAAP standards. To make reasonable judgments, companies must put in place a robust implementation process that enables them to apply sound judgment that is supported by an understanding of the facts and a consideration of alternatives.
- *Audit committees* — Mr. Teotia's final observation was that adoption of the new GAAP standards is a collaborative effort in which audit committees play an important role in promoting an environment for management's successful implementation of the new standards. Refer to the [Audit Committees](#) section below for further discussion of audit committees' roles related to implementing the new GAAP standards.

## Adoption-Date Relief for Certain Public Business Entities

At last year's conference, OCA Associate Chief Accountant Jonathan Wiggins observed that when an equity method investee meets the definition of a public business entity (PBE), the registrant may have to adopt certain standards (e.g., the new revenue and leases standards) earlier than expected. During the SEC Division of Corporation Finance (the "Division") panel discussion at this year's conference, Division Deputy Chief Accountant Craig Olinger referred to the July 20, 2017, meeting of the EITF, at which the SEC staff made an announcement that resulted in significant relief for the subset of PBEs "that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC" (e.g., financial statements and financial information required by Regulation S-X, Rule 3-05, or Regulation S-X, Rule 3-10, including Rule 3-10(g)).

Refer to the [SEC Reporting Matters Related to New Accounting Standards](#) section below for further SEC reporting considerations for the new GAAP standards.

See Deloitte's July 20, 2017, [Heads Up](#) for additional information about relief provided in the SEC's PBE announcement.

## Revenue Recognition

OCA Professional Accounting Fellow Joseph Epstein provided observations about two recent prefilings consultations the SEC staff has performed related to the FASB's new revenue standard. He began with a practice issue related to the accounting for preproduction activities and whether entities that perform such activities may or should change their accounting model upon adoption of the new revenue standard.

See Deloitte's September 2017 [Automotive Spotlight](#) (updated November 2017) for a discussion of the accounting for preproduction activities in connection with the adoption of the new revenue standard.

Mr. Epstein also summarized a recent prefiling consultation on whether promises in a contract are separately identifiable. Specifically, the consultation addressed the licensing of a patent portfolio that included both (1) already existing patents and (2) the promise to transfer any additional patents when and if available. The SEC staff objected to the registrant's conclusion that the contract contained only one performance obligation (i.e., the promise to provide access to a portfolio of patents). The basis for the staff's objection was that the existing patents and the when-and-if-available patents were separately identifiable. In sharing the details of this consultation, Mr. Epstein reminded registrants that for promises in a contract to be combined into a single performance obligation, they must "significantly affect each other," which was not the case in the facts and circumstances under consultation.

OCA Associate Chief Accountant Barry Kanczucker also discussed the new revenue standard in his prepared remarks, addressing the topics of principal versus agent and the classification of shipping and handling expenses. Mr. Kanczucker acknowledged that the guidance on principal-versus-agent considerations can be difficult to apply, especially when "transactions often take place within the blink of an eye." He referred to a prefiling consultation the staff had recently completed in the technology industry to demonstrate the types of considerations to be taken into account during such an analysis. Although Mr. Kanczucker acknowledged the challenges that entities may encounter in analyzing the guidance on this topic, he cautioned that just because this is "an area of significant judgment does not mean that the standard permits optionality."

Mr. Kanczucker also observed that the new revenue standard does not address classification of shipping and handling expenses accounted for as activities to fulfill the promise to transfer the good. Accordingly, he noted that the SEC staff would not object to classification of such expenses within cost of sales. He also indicated that because the new revenue standard does not contain guidance on the classification of shipping and handling expenses, the staff would not object if an entity continued to apply its previous policy regarding classification of these expenses, which could potentially be outside of cost of sales. However, he suggested that "a registrant that classifies significant shipping and handling costs outside of cost of sales should consider whether it should disclose the amount of such costs and the line item or items on the income statement that include them."

See Deloitte's [A Roadmap to Applying the New Revenue Recognition Standard](#) for more information.

## Lease Accounting

A common topic during the conference was the FASB's new leasing standard, [ASU 2016-02](#) (codified in ASC 842). Although the standard will not be effective until 2019,<sup>2</sup> most entities should have begun their implementation processes at this point and, in doing so, may have identified practice issues or difficulties related to applying the new standard. Mr. Teotia reiterated the OCA's belief that careful planning, management, and oversight are required for a successful implementation of the new leasing standard. He further noted that most technical inquiries received by the SEC staff pertain to either scope (i.e., whether a contract or portion of a contract meets the definition of a lease) or transition.

Mr. Teotia also pointed out that the SEC has received various comments from companies indicating that they lack the necessary lease systems or software to begin implementation efforts. However, he emphasized that companies should not postpone beginning their implementation for this reason. Specifically, before operational software becomes available, a company can (1) identify all of its contracts that may be or contain leases and (2) identify, research, and analyze any possible accounting questions that arise in the determination of whether those contracts are either wholly or partly within the scope of ASC 842.

OCA Professional Accounting Fellow Michael Berrigan later discussed two recent technical inquiry topics on which the SEC staff had reached a conclusion. The first topic concerns "whether the lessee's initial lease liability recognized in transition [to ASC 842] should include or exclude the portion of the fixed, gross rental payments that represent executory costs, such as insurance, maintenance and/or taxes," which may or may not have been included in an entity's minimum lease payment disclosure table in accordance with ASC 840. He noted that "the staff did not object to registrants consistently applying their historical accounting policy conclusions regarding the composition of minimum lease payments when concluding whether executory costs should be included in remaining minimum rental payments for purposes of establishing the lease liability in transition." The second topic Mr. Berrigan discussed involves an entity's initial measurement of its lease liability during transition. Specifically, a question arose about whether a lessee's "discount rate selected [to measure the lease liability during transition] should be based on the *original* lease term or the *remaining* lease term." The staff concluded that "the selection of either of these rates, that is either the rate based on the original lease term or the remaining lease term, is reasonable and ultimately did not object to a registrant's consistent application of either approach to determine the lessee's lease liabilities in transition."



### Connecting the Dots

In a Q&A session, FASB Technical Director Susan Cosper indicated that there is no plan to defer the effective date of the new leases standard. She emphasized that the Board has instead reached recent tentative decisions that would give preparers further implementation relief, including practical expedients related to transition relief and the lessor's separation of lease and nonlease components.

See Deloitte's December 5, 2017, [Heads Up](#) for more information about the FASB's recent tentative decisions to provide relief for certain aspects of the new leases standard, including transition relief that would allow entities to elect to change their date of initial application to the beginning of the period of adoption rather than restate their comparative periods in transition.

<sup>2</sup> For PBEs (other than those eligible for the relief provided by the SEC's announcement; see the [Adoption-Date Relief for Certain Public Business Entities](#) section), certain not-for-profit entities, and certain employee benefit plans, ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods therein. For all other entities, the ASU is effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted.

## Credit Losses

OCA Professional Accounting Fellow Robert Sledge provided an update on implementation activities related to [ASU 2016-13](#) (also referred to as CECL). He noted that there have been implementation questions that the credit losses TRG discussed at its June 12, 2017, [meeting](#) and that the FASB discussed at its meetings on [September 6, 2017](#), and [October 4, 2017](#). He described specific issues that the OCA has addressed in prefiling consultations related to (1) the application of the general expected credit losses model rather than collateral-dependent models under CECL, (2) the scope of the purchased credit-impaired (PCI) model currently under ASC 310-30, and (3) the scope of the purchased credit-deteriorated (PCD) model under CECL.

If foreclosure on a collateral-dependent financial asset is probable, an entity is required under ASU 2016-13 to measure expected credit losses by using the fair value of the collateral. However, if foreclosure is not probable, an entity may use a practical expedient under the standard to estimate credit losses on the basis of the fair value of the collateral if the borrower is experiencing financial difficulty. Mr. Sledge described a registrant with a portfolio of loans for which the borrowers had filed for bankruptcy but for which foreclosure was determined not to be probable. The registrant determined that it would not elect the collateral-dependent practical expedient, which would have permitted it to measure credit losses by simply using the fair value of the collateral. Instead, it would apply the general expected credit losses model when estimating its allowance for credit losses. Mr. Sledge indicated that the SEC staff did not object to the registrant's approach for measuring expected credit losses.

Mr. Sledge also explained that under existing U.S. GAAP, the SEC staff has not objected to application by analogy of the PCI model under ASC 310-30 to certain fact patterns in the absence of further standard setting. However, he cautioned that companies should not analogize to the PCI model when there is other accounting guidance on point. He cited an example of a registrant that sought to apply the PCI model by analogy when it acquired defaulted unsecured receivables at a significant discount. In this fact pattern, the transfer of the financial assets failed sale accounting under ASC 860, and the registrant therefore accounted for the transaction as an origination of new loans collateralized by the receivables. The SEC staff objected to the application of the PCI model to the collateralized loans because the staff believed that ASC 310-10 and ASC 310-20 provide applicable guidance on originated loans.

Mr. Sledge also discussed a prefiling consultation in which the staff addressed a question regarding the scope of the PCD model in ASU 2016-13. In particular, he described an entity's purchase of consumer installment loans immediately after a lender originates the loans. In this fact pattern, the SEC staff objected to the entity's application of the PCD model because the loans had not experienced credit deterioration since origination. He also described another fact pattern in which a registrant originates loans to retailers collateralized by consumer installment loans. The SEC staff concluded that the registrant would not be able to apply the PCD model to the loans it originates to retailers because the loans are originated and not purchased.

See Deloitte's June 17, 2016, [Heads Up](#) for more information about ASU 2016-13.

## Recognition and Measurement of Financial Assets and Liabilities

During a Q&A session, Mr. Teotia reminded registrants that [ASU 2016-01](#) is effective for PBEs for fiscal years beginning after December 15, 2017. ASU 2016-01 requires equity investments, other than equity method investments or those that are consolidated, to be measured at fair value, with changes recorded in net income, unless those equity investments do not have readily determinable fair values. He also reminded registrants that on November 29, 2017, the SEC issued SAB 117, which states that the guidance in SAB Topic 5.M no longer applies when an entity adopts ASC 321 (added by ASU 2016-01). SAB Topic 5.M requires entities that have not yet adopted ASC 321 to evaluate whether impairment losses on equity securities should be recognized in net income rather than in other comprehensive income.

See Deloitte's January 12, 2016, [Heads Up](#) for additional information about ASU 2016-01.

## Other Matters

During the Q&A session, Mr. Teotia explained that the most frequently identified errors in registrants' financial statements are related to (1) liability versus equity classification and (2) the statement of cash flows. He noted that liability versus equity classification is particularly challenging for registrants in their analysis of the appropriate classification of warrants and that EITF Topic D-98 has not always been applied correctly in registrants' evaluation of redeemable securities. Mr. Teotia also stated that the SEC staff identifies a variety of errors in cash flow statements and encouraged registrants to prioritize their preparation and review of the statement of cash flows.

See Deloitte's [A Roadmap to Distinguishing Liabilities From Equity](#) and [A Roadmap to the Preparation of the Statement of Cash Flows](#) for more information.

## Income Taxes

Both the SEC staff and the FASB staff referred to the potential accounting impacts of tax reform and related challenges. In a Q&A session at the conference, Mr. Teotia said that understanding the potential financial reporting effects and challenges resulting from various tax reform proposals is a top priority for the SEC staff, which is closely monitoring developments. Mr. Teotia emphasized that the final bill has not passed and much could change over the coming weeks. He noted, however, that the SEC staff has already held conversations with a number of stakeholders, including preparers and audit firms, and he encouraged registrants to follow the issue closely and to continue thinking through the potential effects on their year-end filings. He advised stakeholders that they may find it useful when analyzing the final bill to categorize potential issues as either (1) operational (e.g., scheduling the reversal of deferred taxes when rate changes are effective on a deferred basis), (2) legislative (i.e., understanding new or revised provisions of any final bill and how they affect the registrant), or (3) accounting related (i.e., how to apply existing accounting rules to the provisions of any final reform bill). Mr. Teotia emphasized that in addition to continuing to gather information and monitoring developments, the SEC staff will be mindful of the compressed time frame entities will have for evaluating the accounting and reporting effects of any bill enacted before the end of 2017, that it is open to talking through potential issues with registrants, and that it is potentially ready to act. Other representatives from the SEC reminded registrants to carefully consider the potential effects of tax reform while preparing MD&A disclosures.



### Connecting the Dots

Although neither the SEC staff nor the FASB staff has indicated a current plan to issue supplemental guidance or targeted relief,<sup>3</sup> our view is that such an action is at least possible but will depend on how difficult the operational challenges are in a compressed time frame and how much uncertainty there is about how to interpret provisions of the final bill or how to apply ASC 740 to those provisions.

See Deloitte's [A Roadmap to Accounting for Income Taxes](#) for more information about applying ASC 740.

## Shared Responsibilities of the Auditor, Management, and Audit Committee

### Considerations for Effective ICFR

OCA staff members continue to highlight the importance of ICFR and the connection between effective ICFR and management's ability to provide useful and reliable information to investors. During the discussion of current projects, OCA Deputy Chief Accountant Marc Panucci outlined best practices for maintaining an ongoing dialogue between preparers and auditors about ICFR and noted that such a dialogue "works best when it's a robust discussion and it's happening up front." In a manner consistent with observations from last year's conference, Mr. Panucci mentioned that proactively discussing the various aspects of ICFR would ensure that preparers and auditors are aligned regarding risk assessment and the identification of relevant controls. In addition, having these conversations up front is paramount to identifying controls that are able to detect material misstatements individually and in the aggregate. He observed that stress levels rise when discussions about ICFR take place "after the fact [when] it's too late."

### Adopting New Accounting Standards

OCA Professional Accounting Fellow Michal Dusza emphasized the importance of considering Principle 9 of the COSO Framework<sup>4</sup> as part of maintaining effective ICFR, particularly in a period of change, such as when new accounting standards are being implemented. He noted that preparers should establish a robust, ongoing risk assessment process for identifying and monitoring factors that can significantly affect an organization's ability to achieve its objectives. Mr. Dusza noted that adopting new accounting standards is analogous to conducting "significant, complex, or unusual transactions" and suggested that a company's focus on Principle 9 would help it prepare for adoption, including providing appropriate transition disclosures. Further, Mr. Dusza suggested that as companies implement the new accounting standards, they may identify deficiencies in their risk assessment controls that are relevant to financial reporting. If so, they and their auditors must evaluate the severity of those deficiencies and communicate them to investors and audit committees as required under existing standards.

<sup>3</sup> As a point of interest, there is some historical precedent for relief when tax legislation is enacted late in the calendar year. FASB Staff Position FAS 109-2 allowed entities additional time beyond the period of enactment to evaluate the effect of the legislation when applying ASC 740. FSP FAS 109-2 provided for implementation in "stages" as the impacts became determinable and required disclosure of the status of applying ASC 740 to the legislation, amounts recognized each period, unresolved matters, and so forth.

<sup>4</sup> The Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control — Integrated Framework*. Principle 9 states, "[t]he organization identifies and assesses changes that could significantly impact the system of internal control."

## Design Effectiveness

Mr. Dusza and other OCA staff members stressed the importance of identifying relevant risks of material misstatement and designing appropriately responsive controls in connection with the adoption of new accounting standards. He noted the following key points to consider in the evaluation of the design effectiveness of a particular control:

- The control objective (i.e., whether the objective is specific to a financial reporting risk and whether that risk has been clearly identified, or whether the objective is to assess the operation of another control).
- Whether the control is precise enough to accomplish its objective in a timely manner.
- The adequacy of the investigation process (if applicable), including the appropriateness of the threshold used to identify items that may require further investigation.
- The completeness and accuracy of information used in the operation of the control.

See Deloitte's May 9, 2017, [Heads Up](#) for more information about internal control considerations related to adoption of the new revenue recognition standard.

## Auditor Independence

In the Joint Statement, members of the OCA staff reiterated that the impartiality and objectivity of auditors is at the core of investor confidence. Thus, it is critical for auditors to maintain independence in fact and appearance. The staff noted that while there has been a decline in the number of consultation requests received by the OCA, the nature and complexity of the issues being raised continues to evolve as a result of the increasing use of technology and innovation tools by audit firms and because of the "loan provision" rule.<sup>5</sup> The OCA staff continues to monitor consultation requests to identify trends that may warrant staff guidance and recommendations to the SEC.

## Consultations

In a Q&A session, Mr. Panucci highlighted some current consultation themes, including situations in which a company previously did not have to comply with SEC independence rules but, because of certain matters (e.g., initial public offering (IPO) readiness), would be required to file financial statements with the SEC, thus triggering compliance with SEC independence rules. In addition, Mr. Panucci noted that the staff has received requests for consultations related to understanding the definition of an affiliate, particularly related to private equity and mutual funds.

Further, Mr. Panucci reminded participants that the Division of Investment Management has [extended the temporary relief](#) from the loan-provision rule that was provided by a [no-action letter](#) until the rule is amended to address the issues identified in the no-action letter. He also noted that the SEC staff is working toward making a recommendation to the SEC, and he encouraged companies to consult with the OCA if they have questions regarding the rule's application.

<sup>5</sup> SEC Regulation S-X, Rule 2-01(c)(1)(ii)(A).

## Best Practices

During the discussion of current projects, Mr. Panucci identified best practices for complying with auditor independence requirements. He emphasized the importance of auditors' working collectively with management to understand their responsibilities related to compliance with SEC and PCAOB independence rules. He also noted that such work starts with education and with having the appropriate policies and monitoring mechanisms in place. In addition, he encouraged auditors, preparers, and audit committees to be proactive in dealing with independence matters by planning ahead, particularly in predecessor-successor auditor situations. For example, when there are mandatory auditor rotations in certain international jurisdictions or recasted prior-year financial statements because of the adoption of the new accounting standards, it would be important to have a plan up front regarding which audit firm would audit the recasted financial statements.

Mr. Panucci further noted that auditors and management need to be mindful of the general standard in SEC Regulation S-X, Rule 2-01, and consider the four principles described in that rule's preliminary note.<sup>6</sup> Those principles are especially important when new accounting standards are being adopted because auditors may be asked to provide feedback on revisions to accounting policies, processes, and controls. Therefore, management and auditors need to have processes and a framework in place to avoid scope creep that may impair auditor independence.

## Audit Committees

With this year marking the 15th anniversary of the Sarbanes-Oxley Act of 2002, Mr. Clayton and Mr. Bricker shared their views on some of the more critical aspects of the Act in relation to the capital markets. Mr. Clayton discussed his observations regarding how the dynamic created between the audit committee and the external auditor it oversees has had a positive impact on promoting high-quality financial reporting. In addition, Mr. Clayton and Mr. Bricker provided perspectives on audit committees' current topics of focus and considerations for strengthening their effectiveness.

## New Accounting Standards

Audit committees play an integral role in overseeing the financial reporting process, including the implementation of new accounting standards. Mr. Bricker identified new accounting standards as a topic of intense focus for audit committees going into this year-end. In the Joint Statement, the OCA staff mentioned that as a best practice, audit committees and management are encouraged to set the tone at the top. Specifically, audit committees may establish expectations for dialogue between the auditor and management and for understanding management's response to any auditor concerns. In addition to focusing on the various aspects of the implementation, including the identification of risks and relevant controls, audit committees should focus on disclosures that are consistent in describing the company's business to its investors. Mr. Bricker specifically mentioned implementation of the new revenue standard as an opportunity to drive consistency between the financial statements and MD&A.

<sup>6</sup> The preliminary note states, in part, "The rule does not purport to, and the Commission could not, consider all circumstances that raise independence concerns, and these are subject to the general standard in § 210.2-01(b). In considering this standard, the Commission looks in the first instance to whether a relationship or the provision of a service: creates a mutual or conflicting interest between the accountant and the audit client; places the accountant in the position of auditing his or her own work; results in the accountant acting as management or an employee of the audit client; or places the accountant in a position of being an advocate for the audit client."

## Advancing the Effectiveness of Audit Committees

Mr. Bricker emphasized several ways to continue strengthening audit committee effectiveness. Specifically, he encouraged audit committees to think about the following:

- *Training and awareness* — Mr. Bricker encouraged preparers and auditors to communicate regularly with audit committees to ensure that members are kept abreast of the latest information given the pace of change in today's environment. This is an opportunity for auditors, management, and other advisers to make sure that audit committees have the right knowledge and are focused on key issues. The OCA staff reiterated this point in the Joint Statement, citing the auditor's "unique position to provide feedback to the audit committee about management, the company's processes, accounting policies, and ICFR."
- *Composition of the audit committee* — Mr. Bricker noted that the composition of the audit committee is important to ensure its effectiveness. Mr. Clayton underscored this by saying that there is not a "one size fits all answer." In addition, Mr. Clayton noted that the composition of the audit committee should be based on what is best for the company under its particular facts and circumstances.
- *Focusing on the important issues* — Mr. Bricker emphasized that audit committees need to leave sufficient time for meaningful interaction with auditors and management. He also commented that audit committees should assess whether they are focusing on the right issues beyond just acknowledging certain required communications. He noted that it is imperative for audit committees to maintain a dialogue with auditors and management to reach a consensus on the most important issues.

## International Interest in Audit Committees

OCA Interim Deputy Chief Accountant Jenifer Minke-Girard referenced the international securities regulators' interest in promoting audit quality through audit committee effectiveness. She noted that a committee of the International Organization of Securities Commissions (IOSCO) has an active project to issue a report on best practices among the audit committees in promoting and supporting audit quality. The committee is specifically focused on:

- Audit committees' interaction with auditors in terms of selecting an auditor, monitoring an auditor's performance, and setting audit fees.
- Evaluation of auditor independence.
- Audit committees' communication with auditors on important audit matters, including key risks and issues requiring significant judgment.

## SEC Reporting Topics

### Focus on Capital Formation

Building on comments in Mr. Clayton's keynote address, Division Director William Hinman emphasized the high priority the SEC has placed on capital formation. Acknowledging the significant effort required for regulatory compliance, he and other members of the Division discussed recent efforts to improve the attractiveness of our capital markets, as summarized below.

## Nonpublic Review of Draft Registration Statements

Division Associate Director Cicely LaMothe discussed the Division's [announcement](#) (the "Announcement") that beginning in July 2017, the SEC would allow all companies to voluntarily submit draft registration statements for IPOs<sup>7</sup> to the SEC staff for nonpublic review before the companies' public filings. These benefits are similar to those that had previously been available only to emerging growth companies (EGCs) and certain foreign private issuers (FPIs). She also explained that the Announcement includes a provision that certain annual and interim financial statements may be omitted for historical periods that currently must be included in a draft registration statement. Companies may omit those financial statements if they reasonably believe that including them will not be required at the time of their first public filing (the "omission provision"). Further, Mr. Olinger clarified that the omission provision also allows an FPI to omit from a draft registration statement the more current published information<sup>8</sup> that would otherwise be required by SEC rules and forms as long as the company reasonably believes that such information will not be required to be included in the registration statement at the time of public filing. These benefits are intended to reduce the burden for issuers without lessening the information that will be available for investors upon the first public filing.

In addition, Ms. LaMothe provided the following processing considerations that companies may find helpful when taking advantage of the accommodations for initial registration statements set forth in the Announcement:

- Draft registration statements should be otherwise "substantially complete"<sup>9</sup> when submitted for SEC review.
- A company is required to publicly file such drafts and any related amendments with the SEC no later than 15 days before (1) its road show or (2) its requested effective date, if no road show is planned.
- A company is required to confirm, in a cover letter to the SEC accompanying the initial draft registration statement, that it will publicly file its registration statement and draft submissions within that prescribed time.

Ms. LaMothe also emphasized the importance of informing the assigned reviewers of a company's draft registration statement of (1) the company's anticipated timeline and (2) any significant changes, trends, or transactions related to any required periods that have not yet been included in the draft registration statement in advance of the public filing. She indicated that the SEC staff will accommodate reasonable requests for expedited reviews and that early and continuous communications with the staff will allow the staff to plan accordingly in an effort to accommodate a registrant's timing.



### Connecting the Dots

While the SEC provided these accommodations to help increase IPO activity, a registrant should consider the potential effects of omitting the appropriate interim financial statements before choosing to do so. For example, even with outreach to the assigned reviewers, such omission could prolong the review process when a company submits its registration statement with updated financial information or could give rise to additional comments late in the review process, potentially affecting the timing of the IPO.

<sup>7</sup> The Announcement applies to (1) initial registration statements under the Securities Act of 1933 and Section 12(b) of the Securities Exchange Act of 1934 for a class of securities (e.g., Form 10) and (2) registrants' secondary offerings within one year of their initial registration statements.

<sup>8</sup> [Paragraph 6220.6](#) of the SEC Financial Reporting Manual (FRM) indicates that financial information for an annual or interim period that is more current than otherwise required by Form 20-F, Item 8, should be included in a registration statement if that information is made available to shareholders, exchanges, or others in any jurisdiction.

<sup>9</sup> Question 7 of the SEC's [FAQs](#) on the Jumpstart Our Business Startups Act indicates that a substantially complete registration statement includes a "signed audit report of the registered public accounting firm covering the fiscal years presented in the registration statement and exhibits."

See Deloitte's July 11, 2017, [Heads Up](#) (updated August 24, 2017) for additional information about the confidential review of draft registration statements.

## Interpretive Guidance on CEO Pay Ratio Disclosures

The SEC staff highlighted the Commission's recently issued interpretive guidance on its [CEO pay ratio disclosure rule](#). Provided in response to concerns raised about the implementation of the CEO pay ratio disclosure requirements, the following interpretive guidance gives registrants flexibility in their compliance efforts while reducing the costs associated with preparing the disclosures:

- [Commission Guidance on Pay Ratio Disclosure](#) (the "interpretive release").
- A revised set of [Compliance and Disclosure Interpretations](#) on the CEO pay ratio disclosure rule (the "C&DIs").
- [Staff Guidance on Calculation of Pay Ratio Disclosure](#) (the "SEC staff guidance").



### Connecting the Dots

Registrants must adopt the CEO pay ratio disclosure rule for their first fiscal year beginning on or after January 1, 2017. Therefore, a registrant with a fiscal year that ends on December 31 must provide its initial pay ratio disclosure (computed on the basis of 2017 compensation totals) in its 2018 proxy statement. While the interpretive guidance on pay ratio disclosures gives registrants flexibility in preparing the disclosures, the application of the rule may require significant judgments and estimates as well as aggregation of a large amount of data. Accordingly, registrants will want to consider the presentation of these disclosures well in advance of the upcoming proxy season.

See Deloitte's October 17, 2017, [Heads Up](#), which summarizes the key components of the SEC's CEO pay ratio disclosure rule as clarified by the interpretive release, C&DIs, and SEC staff guidance and includes helpful implementation pointers.

## Rule 3-13 Waivers

Throughout the conference, the SEC staff encouraged registrants to seek modifications to their financial reporting requirements under SEC Regulation S-X, Rule 3-13, particularly when the requirements are burdensome but may not be material to the total mix of information available to investors. Rule 3-13 has historically given the SEC staff the authority to permit the omission or substitution of certain financial statements otherwise required under Regulation S-X "where consistent with the protection of investors," and the SEC staff is placing a high priority on such requests.

Examples of waiver requests under Rule 3-13 include:

- Provision of abbreviated financial statements (e.g., statement of revenues and direct expenses) in lieu of full financial statements for a recently acquired business under Regulation S-X, Rule 3-05.
- Omission of one or more years of historical financial statements for a recently acquired business subject to Rule 3-05.
- Omission of certain financial statements of an equity method investment under Regulation S-X, Rule 3-09.

Division Chief Accountant Mark Kronforst reminded registrants that to help facilitate the processing of a waiver request, the SEC staff is available to discuss potential waiver fact patterns by phone<sup>10</sup> in advance of a registrant's submission of a written request. When a registrant prepares a prefiling letter to request a waiver from the Division, the SEC staff recommends that the registrant (1) be concise and focus on relevant facts and circumstances, (2) propose solutions and adequate support for the proposals, (3) include support related to why the waiver request is consistent with the protection of investors, and (4) involve its auditors early in the process and have them weigh in before sending the prefiling letter. In addition, the best method to request a waiver is to submit the prefiling letter via [e-mail](#). Responses from the SEC staff are generally received within 10 business days; however, routine requests may be addressed sooner.

See Appendix B of Deloitte's [SEC Comment Letters — Including Industry Insights](#) for additional information about best practices for submitting Rule 3-13 waivers.

## Disclosure Effectiveness

The SEC staff discussed continued progress on its disclosure effectiveness initiative, a broad-based staff review of the disclosure requirements in SEC rules as well as the presentation and delivery of those disclosures. The staff highlighted the SEC's recent [proposed rule](#) to modernize and simplify Regulation S-K. The proposed rule would make targeted revisions to certain aspects of Regulation S-K, including, but not limited to, (1) MD&A, (2) description of property, (3) risk factors, (4) redaction of confidential information, (5) hyperlinks, and (6) cross-references.

The SEC staff also discussed the significant progress made over the past year on projects related to the disclosure effectiveness initiative, noting that the SEC is developing recommendations to finalize rule amendments that would eliminate redundant, overlapping, outdated, or superseded disclosure requirements. The staff also referenced the ongoing advancement of several projects, including (1) changes to Regulation S-X related to requirements for financial statements of entities other than the registrant covered in Regulation S-X, Rules 3-05, 3-10, and 3-16; (2) changes to industry-specific disclosure requirements in industry guides applicable to mining<sup>11</sup> and bank holding companies;<sup>12</sup> and (3) evaluation of the definition of a foreign business.<sup>13</sup> Stay tuned for future developments on these initiatives.

See [Appendix A](#) for a summary of the ongoing disclosure effectiveness projects as well as Deloitte resources that provide additional information about each project.

## SEC Reporting Matters Related to New Accounting Standards

The staff highlighted some recent updates to the [FRM](#) regarding the adoption of new accounting standards, including the following:

- *Section 3250, "In Business Combinations"* — The guidance in paragraph 3250.1(m) was updated to indicate that the staff "will consider requests for relief" from the requirement that a registrant must conform the transition dates and adoption methods for new accounting standards for an acquired business to those of the registrant when preparing pro forma financial information.

<sup>10</sup> To discuss questions about potential relief, see the contact information along with the names of the individual SEC staff members and their respective subject matter in the [FRM](#).

<sup>11</sup> SEC Industry Guide 7.

<sup>12</sup> SEC Industry Guide 3.

<sup>13</sup> See [paragraph 6110.4](#) of the FRM.

- *Section 10230, “Accounting Standards Transition Period Accommodation”* — Paragraph 10230.1(f) was added to provide guidance on the transition requirements for EGCs that lose EGC status after the date on which they would have had to adopt a standard had they not taken advantage of the extended transition provisions. In such circumstances, registrants should adopt the standard in the filing they submit after they lose EGC status. Registrants are encouraged to discuss other alternatives with the staff if they anticipate being unable to comply with these requirements.

## Non-GAAP Measures and Key Performance Indicators

### Non-GAAP Measures

As a result of the SEC’s increased focus on non-GAAP financial measures after the issuance of updated [C&DIs](#) in May 2016, such measures became the number one topic of SEC comment for the year ended July 31, 2017.<sup>14</sup> However, many registrants have modified and improved their disclosures in response to the guidance in the C&DIs, to public remarks by various SEC staff members, and (in certain cases) to SEC comments. Mr. Kronforst acknowledged the improvement, indicating at the conference that the volume of recent comments on non-GAAP measures has dropped to pre-2016 levels. While Mr. Kronforst hopes this trend continues, he noted that because of the market’s interest in these measures, the SEC staff will continue to closely monitor their use and issue comments.

During a panel discussion of SEC comment letters, Division Associate Director Kyle Moffatt remarked about non-GAAP measures whose titles are confusingly similar to those used for GAAP measures. He provided an example of a non-GAAP measure used commonly in the insurance industry that was labeled “operating income” or “operating earnings.” Mr. Moffatt advised registrants to instead label such measures as “adjusted” or “non-GAAP” operating earnings or income. While the example was provided in the context of the insurance industry, it may apply more broadly to other industries.

### Key Performance Indicators

A registrant may include in its SEC filings certain ratios or statistical measures such as “same-store sales” or “number of likes” — often referred to as key performance indicators (KPIs), key operating metrics, or simply metrics — to illustrate, for example, the size and growth of its business. In a discussion of disclosure effectiveness, a panelist noted that the SEC staff will often closely review the use of KPIs, especially in IPOs, and advised registrants to consider the following when using KPIs to describe their business or results of operations:

- Clearly defining the KPIs and what they are used to measure.
- Tying the KPIs to the registrants’ strategy.
- Explaining to investors why the KPIs are important (i.e., the purpose and use of the KPIs).



### Connecting the Dots

As an additional means of familiarizing investors with their metrics, registrants may consider (1) describing any important assumptions and limitations associated with the metrics (e.g., whether they are “hard” amounts or estimates), (2) describing how they are related to current or future results of operations, and (3) presenting the metrics within a balanced discussion, including a description of material changes in the metrics from period to period.

<sup>14</sup> Comment letter trend information is based on data provided by Audit Analytics for the 12 months ended July 31, 2017.

See Deloitte's [A Roadmap to Non-GAAP Financial Measures](#) for more information about non-GAAP measures and KPIs.

## Cybersecurity

Cybersecurity was discussed by a number of speakers and panelists, including Mr. Hinman, who highlighted that Mr. Clayton has considered the topic to be very important since his first day in office. While Mr. Hinman believes that the Division's principles-based guidance issued in 2011 on cybersecurity ([CF Disclosure Guidance: Topic No. 2](#)) is still relevant and helpful, the SEC is considering refreshing it in light of recent significant cyber breaches.

Mr. Hinman also emphasized that registrants should consider whether their:

- Disclosure controls and procedures (DCPs) address cyber incidents related to the identification and escalation of a breach to the appropriate levels within an organization, which would include ensuring that all relevant parties, including a company's IT and business functions, are involved in assessing the potential effect of the breach and related disclosure requirements.
- Insider trading policies take into account cyber risks and are in sync with escalation procedures for significant cyber incidents.

Mr. Hinman acknowledged that there may be certain limitations on what a registrant can disclose in the early stages of a cyber breach since there may be little information available when the company is initially investigating the incident, evaluating the risks, and cooperating with law enforcement. Nevertheless, as information becomes available, registrants are responsible for making appropriate disclosures to keep investors informed and must balance the need for timely disclosure with the level of detail they can provide about such incidents. Mr. Hinman emphasized that a registrant's "disclosure obligations will trump [its] obligations with respect to a law enforcement investigation."

## SEC Comment Letter Process

In a panel discussion on SEC comment letters, the panelists discussed the SEC comment letter process, including comment trends and best practices for working with the SEC staff. The SEC staff noted that registrants should be mindful that the scope of the staff's review encompasses information beyond the review of specific filings, such as Forms 10-K, 10-Q, and 8-K, to include information outside of filings, such as press releases, the company's Web site, analyst calls, and investor presentations. The staff's review of this other information may trigger a comment aimed at obtaining a better understanding of the information or asking a registrant to consider whether additional disclosure should be included in a filing. A consistent theme expressed during the panel discussion and throughout the conference was the effectiveness of an open dialogue with the SEC staff. Mr. Hinman noted that the SEC staff is "open for business," and he discussed the "collaborative nature" of the staff. The SEC staff encourages registrants to contact it orally or in writing, as appropriate, to ask questions, seek interpretive advice, address timing considerations, or raise other issues.

During a separate panel discussion on reporting with global operations, Mr. Olinger indicated that financial statement presentation is a topic on which FPIs that report under IFRSs tend to receive more comments. He stated that this is most likely attributable to the guidance in IAS 1 on presenting subtotals on the face of the financial statements, which provides greater flexibility.

Given the significant impact of a registrant's adoption of the new revenue standard, the SEC staff will be focusing on registrants' accounting and disclosures upon adoption of that guidance. In a manner consistent with Mr. Teotia's remarks about aspects of the new revenue standard that require judgment, the staff indicated that it will accept reasonable judgments and will work with the OCA to resolve material revenue recognition issues that arise. The staff added that it will review a registrant's disclosures and will comment if material disclosures are not included in a filing.

See Deloitte's [SEC Comment Letters — Including Industry Insights](#) for more information about (1) the recent trends in SEC staff comments; (2) the SEC staff's review process; and (3) best practices for working with the SEC staff, including those related to resolving comment letters and preparing other requests.

## International Reporting Matters

### Cross-Border Acquisitions

Mr. Olinger discussed several challenges that may be encountered in connection with a cross-border acquisition, including the difficulties that may arise when a registrant and a target use different accounting standards to prepare their financial statements.

For example, a domestic registrant may acquire a nonpublic foreign target that prepares its financial statements in accordance with standards other than U.S. GAAP, such as IFRSs or its home-country GAAP, which may require reconciliation to U.S. GAAP.<sup>15</sup> Further, a domestic registrant must use the U.S. GAAP results of the foreign target when performing the significance tests under SEC Regulation S-X, Rule 1-02(w).<sup>16</sup> Any related pro forma financial information presented in accordance with SEC Regulation S-X, Article 11, would also need to include pro forma adjustments that convert the historical financial statements of the foreign target to the accounting basis of the domestic registrant.<sup>17</sup>

In addition to using different accounting standards, a nonpublic foreign target may not have prepared financial statements that were audited in accordance with U.S. GAAS as required by the SEC.<sup>18</sup>



#### Connecting the Dots

Businesses that are not incorporated in the United States and that do not conduct the majority of their operations there often do not prepare their financial statements in accordance with U.S. GAAP. As a result of the reporting complexities emphasized by Mr. Olinger related to cross-border acquisitions, registrants may wish to consult with their advisers to identify potential financial reporting requirements as early as possible. Registrants may also consider consultation with the SEC staff to discuss any complex matters.

<sup>15</sup> See [paragraphs 6410.6\(d\)](#) and [6410.9](#) of the FRM. As noted in paragraph 6410.9 and in a manner consistent with other SEC staff remarks made during the conference about Rule 3-13 waiver requests, registrants may consider submitting a prefiling letter to request a waiver of the requirement to provide the reconciliation from IFRSs to U.S. GAAP.

<sup>16</sup> See [paragraphs 6350.2](#) and [2015.3](#) of the FRM.

<sup>17</sup> See [paragraph 6360.1](#) of the FRM.

<sup>18</sup> See [paragraph 4210.3](#) of the FRM.

## IPO Considerations for Foreign Private Issuers

During the panel discussion on reporting with global operations, Mr. Olinger reminded participants that the expanded benefits resulting from the Announcement and the ability to request a waiver under SEC Regulation S-X, Rule 3-13, also apply to FPIs. He also mentioned several reporting issues that an FPI that reports under IFRSs may encounter when preparing for its IPO, including those related to changes in the reporting entity as a result of a reorganization of entities under common control, situations involving predecessor entities, and carve-out financial statements of a larger entity. Mr. Olinger reminded participants that the SEC staff is available to discuss the complex reporting challenges associated with evaluating such arrangements under the IFRS framework.

## Accounting Standard Setting

### Remarks of Russell Golden, FASB Chairman

FASB Chairman Russell Golden remarked on the number of recently issued accounting standards and the significant amount of change that has been introduced into the financial reporting system. He acknowledged stakeholder feedback that the FASB should “take a vacation” from issuing new standards and indicated that the Board’s focus in 2018 will be on helping constituents implement the new guidance. He also noted that the Board’s recently established [implementation Web portal](#), which “brings together all of the implementation resources on a given standard,” is available to help stakeholders in their adoption efforts.

In response to constituents’ concerns about how audits will be performed under the FASB’s new credit losses standard and its potential effect on capital reserve requirements, Mr. Golden emphasized that the Board is “committed to continuing to work with the SEC, PCAOB, and banking regulators to ensure a smooth and timely adoption.”

Mr. Golden also highlighted the Board’s new projects on the following topics, which were added to the technical agenda this year: (1) distinguishing liabilities and equity, (2) disaggregation of performance reporting, and (3) aggregation criteria and disclosures associated with segment reporting. Further, the Board will focus in 2018 on completing (1) its various work streams related to the disclosure framework, including its disclosure review projects on defined benefit plans, fair value measurement, income taxes, and inventory disclosures and (2) its insurance accounting project, which is intended to improve the guidance on long-duration contracts.

### Remarks of Susan Cospers, FASB Technical Director

Ms. Cospers gave an update of the Board’s current standard-setting activities and reminded participants that resources are available to help stakeholders implement the new guidance on revenue, leases, credit losses, and hedge accounting. One such resource is the FASB’s TRG on credit losses, which is expected to continue to address implementation issues in 2018. She also referred to the Board’s ongoing project on nonemployee share-based payments, which will be discussed at the FASB’s December 13, 2017, meeting.

See Deloitte’s March 10, 2017, [Heads Up](#) for more information about the FASB’s project on nonemployee share-based payments. See also Deloitte’s [A Roadmap to Accounting for Share-Based Payment Awards](#).

## Remarks of Sue Lloyd, IASB Vice-Chair

IASB Vice-Chair Sue Lloyd discussed the IASB's current focus on establishing transition resource groups to help preparers implement certain of the new accounting standards. She also noted that after considering stakeholder feedback, the IASB has shifted its focus from recognition and measurement in the financial statements to the manner in which financial statement information is communicated. She described three projects associated with the Board's shift in focus: (1) improving performance reporting by determining what metrics entities should report on the income statement, (2) improving disclosure effectiveness, and (3) continuing to develop the IFRS Taxonomy so that companies can electronically tag their financial statements.

## Auditing Developments

### PCAOB Developments

In his keynote address, Mr. Doty reflected on the foundation of capital markets and the role that independent audits play in enhancing investor confidence, reducing the cost of capital, and facilitating capital formation. He emphasized the critical importance of investor trust in audits and the PCAOB's vital role in bolstering that trust by promoting the integrity and transparency of the audit. He also discussed the projects on the PCAOB's standard-setting agenda and current-year proposals (summarized below), which he believes will enhance the performance of the audit.

In addition, Mr. Doty highlighted recent PCAOB activities, including the Board's focus on:

- Implementing a new standard-setting process (including interdivisional collaboration and research) to enhance the development of PCAOB auditing standards.
- Building capabilities in research and economic analysis with respect to standard setting.
- Forming a new task force on data and technology to explore how auditors use technologies (e.g., data analytics) and how they can and should audit issuers' use of new technologies (e.g., blockchain).
- Conducting its first post-implementation review of an existing PCAOB standard on engagement quality review, the results of which he believes will provide important insights into changes in engagement quality review processes and audit quality over time, as well as a wealth of information that will enrich future analysis of the impact of PCAOB oversight.

Mr. Doty also touched on the importance of the PCAOB's inspection and enforcement role (including with respect to non-U.S. accounting firms registered with the PCAOB) to promote the integrity of the audit process, which "contributes to public trust in the standards of U.S. practice."

### PCAOB Standard Setting and Related Activities

Throughout the conference, the PCAOB and SEC staffs discussed developments in PCAOB standard setting and the PCAOB's research agenda, with continued focus on the recently adopted changes to the auditor's report and the impact it will have on stakeholders. PCAOB Board Member Jeanette Franzel noted that the PCAOB "has implemented changes to its standard-setting process after studying the strengths and weaknesses of the previous approach." Such changes include research, prioritization of issues, and engagement with other regulators and standard setters. PCAOB Chief Auditor and Director of Professional Standards Martin Baumann focused his remarks on the topics discussed below.

## Recently Adopted Auditing Standards and Related Amendments

### ***Auditor's Reporting Model***

In June 2017, the Board adopted [a new standard and related amendments](#) that change the auditor's report issued on financial statements. The SEC issued an [order](#) granting approval of the standard and amendments in October 2017. While retaining the current type of auditor opinions (unqualified, qualified, adverse, disclaimer), the new standard includes several significant modifications that are intended to increase the informational value, usefulness, and relevance of the auditor's report. Mr. Baumann expressed his belief that the new auditor's report will now "convey to investors useful information about the audit — information that will help investors better consume the underlying financial information reported by management." The key aspect of this change is the requirement for auditors to communicate "critical audit matters"<sup>19</sup> in the auditor's report.

Mr. Clayton and Mr. Bricker both weighed in on the new standard and expressed their support. Mr. Clayton further stated that if done right, CAMs will result in enhanced quality reporting and that if CAMs result in boilerplate language that does not convey meaningful information specific to the audit, he would be disappointed. Throughout the conference, speakers highlighted a number of activities that the profession is undertaking to implement the new standard in a thoughtful manner that will be beneficial for stakeholders (e.g., developing pilot programs and educating audit committees and management regarding the new requirements). Mr. Bricker commented that this year is an opportunity for a "dry run" and for audit committees to have discussions with auditors about the new requirements. Mr. Panucci also encouraged management and audit committees to engage with their auditors now with respect to the new requirements to begin thinking about how the auditor's report will change, what the CAMs could look like, how many CAMs could be known up front, and any close calls that may not be disclosed as CAMs.

See Deloitte's June 20, 2017, [Heads Up](#) for more information about the PCAOB's changes to the auditor's report.

Additional perspectives were highlighted by different stakeholders throughout the conference regarding the changes to the auditor's report. Panelists from the preparer, audit committee, and investor communities were generally supportive of the new standard since it is intended to bring a meaningful improvement to stakeholders' understanding of the audit and drive investor confidence. However, concerns were raised about the potential for original information to be provided by auditors within CAMs as well as potential confusion about the meaning of the CAMs and implications of reporting audit firm tenure. Panelists also encouraged audit committees, preparers, and auditors to begin the dialogue now with respect to CAMs.<sup>20</sup>

Because of the phased implementation dates,<sup>21</sup> there will be an opportunity for auditors, audit committees, and management to learn from initial implementation and reporting of CAMs. Both Mr. Doty and Mr. Baumann noted that they will begin their post-implementation review of the new standard after the initial adoption phase of CAMs to evaluate whether the objectives of the changes are being met, assess the economic impact of the standard, and determine whether any further guidance is needed.

<sup>19</sup> CAMs are matters arising from the audit of the financial statements that were communicated or required to be communicated to the audit committee, are related to accounts or disclosures that are material to the financial statements, and involve especially challenging, subjective, or complex auditor judgment.

<sup>20</sup> See the CAQ's December 2017 [publication](#) on considerations and questions for audit committees to consider regarding changes to the auditor's report.

<sup>21</sup> Effective dates are as follows:

- *New auditor's report format, tenure, and other information* — Audits for fiscal years ending on or after December 15, 2017.
- *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.

## ***Improving the Transparency of Audits***

In December 2015, the PCAOB adopted new rules and amendments to require audit firms to (1) name the engagement partner who led the audit for the most recent period and (2) provide the names, locations, and extent of participation (as a percentage of the total audit hours) of other public accounting firms that took part in the audit (above a 5 percent threshold based on total audit hours). This information is now disclosed in a PCAOB form, Form AP, which is filed with the PCAOB by registered public accounting firms, and the information is available in a searchable database on the PCAOB's Web site. The engagement partner name disclosure requirement became effective for auditors' reports issued on or after January 31, 2017, and the requirements related to other accounting firms became effective for auditors' reports issued on or after June 30, 2017.

## **Status of Proposed PCAOB Auditing Standards**

In June 2017, the PCAOB proposed changes to its performance standards related to auditing accounting estimates, including fair value measurements, and the auditor's use of the work of specialists. Mr. Baumann explained that these two proposals were developed in tandem so that the proposed rules can be applied together, for example, when the work of a specialist is used to audit an accounting estimate.

These and other key PCAOB proposals can be summarized as follows:

- *Auditing accounting estimates, including fair value measurements* — The PCAOB proposed amendments to its auditing standards to strengthen and enhance the requirements for auditing accounting estimates by establishing a single standard. The new proposed standard sets forth a uniform, risk-based approach and emphasizes the need for the auditor to apply professional skepticism and devote greater attention to potential management bias when auditing accounting estimates. Comments submitted by stakeholders were generally supportive of the proposed standard and included strong support for retaining the three existing approaches and for more specifically addressing financial instruments, including the use of pricing services.
- *The auditor's use of the work of specialists* — The PCAOB proposed amendments to two of its existing auditing standards to (1) strengthen requirements for the auditor to evaluate the work of a company's specialist by establishing a uniform, risk-based approach to using the work of a company's specialist as audit evidence and (2) apply a risk-based approach to supervising and evaluating the work of both auditor-employed and auditor-engaged specialists. Commenters supported separating the requirements for using the work of a company's specialists and using the work of the auditor's specialists; however, several commenters expressed concerns about the new standard primarily because of the burden it could impose on smaller audit firms and smaller companies.

See Deloitte's June 12, 2017, [Audit & Assurance Update](#) for more information about the PCAOB's proposed changes to its auditing standards related to auditing accounting estimates, including fair value measurements, and the auditor's use of the work of specialists.

- *Supervision of audits involving other auditors* — In April 2016, the PCAOB proposed amendments to its auditing standards to strengthen requirements that apply to auditors that are not part of the accounting firm that issues the audit report (i.e., “other auditors”). The proposal also includes a new standard that would apply when the lead auditor divides responsibility with another firm (e.g., when the lead auditor needs to rely on the work of an equity method investee’s auditor). The amendments are designed to improve the quality of audits involving other auditors and to align with the PCAOB’s risk-based standards. The PCAOB received comments seeking clarifications to some provisions and changes to others. On September 26, 2017, the PCAOB issued a supplemental request for comment (SRC) to address questions raised in comment letters on the 2016 proposed amendments. Comments on the SRC were due by November 15, 2017. Mr. Baumann explained that the PCAOB is in the process of evaluating the comments received.

See Deloitte’s December 9, 2016, [Audit & Assurance Update](#) for a summary of the comments the PCAOB received on the initial proposal.

Mr. Baumann noted that the PCAOB expects to move forward with the above projects and adopt related new standards in 2018.

## Changes in the Use of Data and Technology

While the PCAOB currently has four major projects on its research agenda, Mr. Baumann focused his remarks on its project on changes in the use of data and technology in the conduct of audits. In recent years, there have been significant advances in technology, including data analysis tools, and the PCAOB is exploring whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions in light of auditors’ increased use of new technology-based tools in the conduct of audits. As announced at the November 29–30, 2017, meeting of the PCAOB’s Standing Advisory Group (SAG), the PCAOB has approved the establishment of a data and technology SAG task force. The task force will support the work of the PCAOB staff by providing more specific information about data analytics and certain emerging issues, including how standards are applied and the information needs of audit committees and investors.

## Auditing the Adoption of the New Revenue Standard

Mr. Baumann commented briefly on auditing implications of the new revenue standard. In his remarks, he observed that “the implementation of the new revenue accounting rules may be, for many companies, the most significant accounting event addressed in many years. . . . For most audits, revenue is a significant account which often involves significant risks that warrant special audit consideration.” In October 2017, the PCAOB issued [Staff Audit Practice Alert 15](#), which discusses significant matters relevant to auditing the implementation of the new revenue recognition standard.

## Cybersecurity

In a panel discussion on cybersecurity, speakers commented on the AICPA’s [Cybersecurity Risk Management Reporting Framework](#). That framework contains:

- Description criteria for use by “management in explaining its cybersecurity risk management program in a consistent manner,” and by CPAs in reporting on management’s description.
- Control criteria for use by “CPAs providing advisory or attestation services to evaluate and report on the effectiveness” of an entity’s controls.

The speakers stressed the importance of understanding an organization's objectives associated with identifying and implementing cybersecurity controls and effectively managing cybersecurity risk. They emphasized that risk management, including identifying and responding to vulnerabilities as they arise, must be proactive.

The AICPA's cybersecurity reporting framework focuses on all three categories of objectives contained in the COSO Framework, including operations, reporting (both internal and external), and compliance. Such focus is different from and broader than that of auditors regarding cybersecurity in the context of an audit of external financial reporting, ICFR, or both. However, as stressed in a Q&A session, if there is a cybersecurity breach of an operational system, registrants still need to consider its root cause and whether the potential exists for a similar deficiency related to the financial reporting information systems, in which case it could be concluded that the deficiency was relevant for ICFR.

## International Audit Standard-Setting Initiatives

OCA Associate Chief Accountant Nigel James and Ms. Minke-Girard both discussed the importance of international audit standard setting given the significant investment of the U.S. investor in international markets. Mr. James discussed the recently issued [consultation paper](#) by the Monitoring Group that solicits feedback from stakeholders on various topics related to enhancing the governance and oversight of international audit standard setting. The SEC staff encouraged stakeholders to provide feedback by submitting a comment letter.

## PCAOB Registration, Inspection, and Enforcement

PCAOB Director of Registration & Inspections Helen Munter provided an update on PCAOB inspections of registered audit firms. Liking the integrity of an audit to that of a building, she noted that the key to quality audits lies in the foundation of the audit and the firm that performs it. Audit deficiencies vary from year to year and have generally improved over the past few years; however, findings have seemed to plateau, and the level of findings is still too high. She expressed some concern about the current level of findings and suggested the need for continued strengthening of an audit firm's system of quality control as the environment in which the firm operates evolves over time (e.g., new technology, new standards). Audit firms should consider innovative approaches to improving their systems of quality control, including focusing on identifying and monitoring risks, obtaining and retaining qualified talent, and adapting to change. The PCAOB staff will be focused on an audit firm's quality control systems and each element in the quality control system, scaled for the size of the firm. Ms. Munter expressed the view that audit firms that take a proactive approach to risk will be better prepared to prevent problems and respond to issues when they arise.

## Observations From the 2017 Inspection Cycle

Ms. Munter provided an update on recent inspections results, noting that some of the common audit deficiencies have been recurring problems in the following areas:

- *Assessing and responding to risks of material misstatement* — This was a focus of the PCAOB staff during the 2016 inspection cycle and included discussion of risk assessment with engagement teams and national offices. An understanding of the company, the flow of transactions, risk, and controls is critical to designing a quality audit. Teams need to continue ensuring that all risks are appropriate for the issuer that they are auditing and are not from a standard list of common risks.
- *ICFR* — This remains on the list of challenging areas, although the PCAOB staff has seen improvements. Procedures related to controls with a review element remain challenging. Ms. Munter noted that auditors are not required to reperform a review to test the control but are required to understand what the performer did, what was documented, and what follow-up resulted as part of the review.

- *Accounting estimates, including fair value measurements* — This area also remains challenging, although the PCAOB staff has seen improvements. Estimates still warrant more audit attention because of their complexity. To appropriately audit an estimate, the auditor needs to understand the basis for the estimate and what the estimate represents.

## Areas of Focus in the 2018 Inspection Cycle

Ms. Munter discussed areas of focus in 2018. As it did in 2017, the PCAOB will focus on both individual engagements and the audit firm's system of quality control. Important aspects that were discussed include tone at the top, client acceptance and continuance, training and assignments of engagement members, and monitoring. With respect to monitoring, the PCAOB has seen several firms adding systematic functionality to improve quality control and respond to findings by the Board; however, Ms. Munter reminded audit firms that they should exercise caution to avoid over-relying on the information provided through the systematic functionality and to ensure that the goal of the functionality is being accomplished. Areas of focus in 2018 will be (1) implementation of the new accounting standards (e.g., revenue recognition, leases) and related disclosures (even if the standards are not yet adopted), (2) implementation of new PCAOB requirements (e.g., Form AP and Auditor's Reporting Model), and (3) data analytics and technology. Regarding data analytics and technology, additional emphasis will be placed on how confidential and sensitive information is protected and to what extent cyberattacks have affected the audited financial information (including controls) as well as software audit tools (e.g., data analytics, artificial intelligence). It is important to consider processes related to the development and use of the software audit tools, including controls that are in place. The PCAOB staff will also focus on audit areas affected by economic trends, natural disasters, and policy changes. Multinational audits will continue to be another focus of the PCAOB staff as it works jointly with international regulatory bodies.

## Changing Technology

The current unprecedented rate of social and technological changes was a frequent topic of conversation at the conference. Many speakers discussed the effects that blockchain and digital currency technologies as well as data analytics may have on the business environment.

### Blockchain

Blockchain technology, also known as distributed ledger technology, was discussed frequently at the conference. Many speakers remarked about the potential effects of this technology on financial reporting and auditing. In her welcoming address, AICPA Chairman Kimberly Ellison-Taylor described how companies are exploring the use of such technology to support their financial reporting, auditing, and tax functions. She commented that the AICPA has joined the Wall Street Blockchain Alliance and is leading its tax and accounting working group. OCA Deputy Chief Accountant Julie Erhardt also discussed the technology and encouraged stakeholders to devote time to understanding it (as well as digital coins and tokens). She acknowledged that stakeholders have had a number of accounting and auditing questions related to blockchain technology.

During a panel discussion of auditing in the future, participants noted that many blockchain applications are in the early development stages. However, the panelists also indicated that stakeholders will need to consider how financial reporting and auditing will be affected by emerging blockchain technologies and the increasing application of machine learning tools. Mr. Baumann described how blockchain technology could fundamentally change companies' financial systems, including payment processing and procurement, which could affect audit procedures. He explained that the PCAOB will focus on changes in technology and consider whether the PCAOB should develop auditing standards related to technological advances and associated audit risks.

## Digital Currencies

Many conference presenters also discussed digital currencies and tokens. While not legal tender, digital currencies can be used to pay for various goods or services. Tokens, which are typically issued by a company during a funding campaign, can be used by the holder in the future to pay for a good or service provided by the issuing company. Mr. Clayton cautioned companies to consider whether virtual offerings of tokens would represent securities and therefore would be subject to U.S. securities regulations. For example, some companies are soliciting funding by conducting virtual offerings of tokens with the prospect of increases in the value of such tokens in a manner similar to shares of stock. Mr. Clayton stated that a company will need to carefully consider whether an offered token represents a security. Mr. Clayton's comments were consistent with a July 2017 [press release](#) in which the SEC cautioned companies that U.S. securities laws may apply to interests in virtual organizations. In addition, Mr. Clayton observed that a company's responsibilities related to knowledge of its customer apply regardless of whether the customer pays in cash or with a digital currency.

A number of speakers noted that the current accounting literature does not directly address the accounting for digital currencies. Ms. Cospers explained that while accounting for digital currencies is not currently on the FASB's standard-setting agenda, the Board has received a request to establish such a project. The FASB staff is currently conducting research and will present its findings to the Board regarding whether to add such a project at a future agenda prioritization meeting. During a Q&A session, Ms. Lloyd noted that the IASB is monitoring developments related to digital currencies but that the issue is currently not on the IASB's standard-setting agenda.

During the Q&A session, Mr. Bricker observed that issuers need to consider internal controls related to the custody of digital assets, including digital currency.

See Deloitte's [Break Through With Blockchain](#) for more perspective on blockchain technology.

## Data Analytics

Speakers at several conference sessions and representatives from each of the regulatory bodies discussed data analytics and its potential impact on the business environment. This technology can take many forms, including data mining, visualizations, and artificial intelligence. Ms. Ellison-Taylor noted that data analytics can transform the way a company operates and can make an audit more effective and efficient. The CAQ emphasized the need for innovation and the importance of data analytics in the audit of the future. The PCAOB, as mentioned above, is exploring whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions in light of auditors' increased use of new technology-based tools in the conduct of audits, and it has added data and technology to its research

agenda. Mr. Doty noted that data analytics brings new challenges, threats, and opportunities. Ms. Franzel further discussed the topic; she spoke about new questions and concerns that have arisen, such as the understanding of basic terminology, procedures for items of interest, the nature and type of audit evidence, how the technology is integrated into quality control processes, and how to maintain skepticism.

The AICPA is also considering data analytics and its applicability in an audit. It is working jointly with academia to gain a better understanding of the technology's possibilities and is releasing a foundational, nonauthoritative guide on data analytics to further the conversation. The guide will cover a variety of topics, including (1) the use of data analytics in risk assessment, (2) substantive analytical procedures, (3) test of details, (4) accuracy and reliability, and (5) examples. In addition, the AICPA plans to release a mapping document featuring typical procedures currently performed, possible data analytics for accomplishing the same goal, and references to current standards that support the appropriateness of the procedures.

## Appendix A — SEC’s Disclosure Effectiveness Initiative: Project Summaries and Deloitte Resources

The table below (1) summarizes certain projects that are directly or indirectly related to the SEC’s disclosure effectiveness initiative and (2) provides relevant Deloitte resources that contain additional information about the projects. For more information, see the [SEC Spotlight](#) and Deloitte’s August 26, 2014, [Heads Up](#) on the initiative.

Disclosure Effectiveness Initiative	
Project	Summary and Relevant Deloitte Resources
<a href="#">Request for Comment on the Effectiveness of Financial Disclosures About Entities Other Than the Registrant</a> (September 2015)	<p><b>Summary:</b> Assessment of the effectiveness of financial disclosure requirements in SEC Regulation S-X that apply to certain entities other than the registrant (i.e., acquired businesses, equity method investees, guarantors, and issuers of guaranteed securities and affiliates whose securities collateralize registered securities).</p> <p><b>Deloitte Resources:</b> October 6, 2015, <a href="#">Heads Up</a> and November 23, 2015, <a href="#">comment letter</a>.</p>
<a href="#">Business and Financial Disclosure Required by Regulation S-K</a> (Concept Release, April 2016)	<p><b>Summary:</b> Potential modernization of certain of SEC Regulation S-K’s business and financial disclosure requirements.</p> <p><b>Deloitte Resources:</b> April 18, 2016, <a href="#">Heads Up</a> and July 15, 2016, <a href="#">comment letter</a>.</p>
<a href="#">Modernization of Property Disclosures for Mining Registrants</a> (Proposed Rule, June 2016)	<p><b>Summary:</b> Proposed modernization of the property disclosure requirements for mining properties to align them with current industry and global standards and regulatory requirements.</p> <p><b>Deloitte Resource:</b> June 17, 2016, <a href="#">news article</a>.</p>
<a href="#">Disclosure Update and Simplification</a> (Proposed Rule, July 2016)	<p><b>Summary:</b> Proposed amendments to disclosure requirements that may be redundant, duplicative, or outdated, or may overlap with other SEC, U.S. GAAP, or IFRS disclosure requirements.</p> <p><b>Deloitte Resources:</b> July 18, 2016, <a href="#">Heads Up</a> and October 5, 2016, <a href="#">comment letter</a>.</p>
<a href="#">Request for Comment on Subpart 400 of Regulation S-K Disclosure Requirements Relating to Management, Certain Security Holders and Corporate Governance Matters</a> (August 2016)	<p><b>Summary:</b> Assessment of the disclosure requirements in SEC Regulation S-K, Subpart 400, related to compensation as well as requirements related to corporate governance matters.</p> <p><b>Deloitte Resource:</b> August 26, 2016, <a href="#">news article</a>.</p>
<a href="#">Exhibit Hyperlinks and HTML Format</a> (Proposed Rule, August 2016)	<p><b>Summary:</b> Proposed requirements to make filings more navigable and require registrants to include hyperlinks to exhibits listed in the index of certain filings.</p> <p><b>Deloitte Resource:</b> August 31, 2016, <a href="#">news article</a>.</p>
SEC Actions Complementing the Disclosure Effectiveness Initiative	
<a href="#">Form 10-K Summary</a> (Interim Final Rule, June 2016)	<p><b>Summary:</b> Revisions to requirements that permit, but do not require, registrants to provide a summary of business and financial information in Form 10-K as long as the summary contains cross-references with hyperlinks to the related disclosures in Form 10-K.</p> <p><b>Deloitte Resource:</b> June 2, 2016, <a href="#">journal entry</a>.</p>
<a href="#">Order Granting Limited and Conditional Exemption Under [the Exchange Act]</a> (June 2016)	<p><b>Summary:</b> Order allowing certain companies to use inline XBRL to voluntarily file structured financial statement data through March 2020.</p> <p><b>Deloitte Resource:</b> June 13, 2016, <a href="#">news article</a>.</p>

(Table continued)

## SEC Actions Complementing the Disclosure Effectiveness Initiative

Project	Summary and Relevant Deloitte Resources
<i>Amendments to Smaller Reporting Company Definition</i> (Proposed Rule, June 2016)	<p><b>Summary:</b> Proposal to increase the public float threshold from the current \$75 million to less than \$250 million to expand the number of companies that qualify for this classification and therefore take advantage of certain scaled disclosure requirements in Regulation S-X and Regulation S-K.</p> <p><b>Deloitte Resources:</b> June 29, 2016, <a href="#">journal entry</a> and August 23, 2016, <a href="#">comment letter</a>.</p>
<i>Report on Modernization and Simplification of Regulation S-K</i> (November 2016)	<p><b>Summary:</b> Report on certain specific SEC staff recommendations regarding ways to streamline and improve disclosures.</p> <p><b>Deloitte Resource:</b> November 29, 2016, <a href="#">news article</a>.</p>
<i>Request for Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies)</i> (March 2017)	<p><b>Summary:</b> Request for comments on existing disclosure requirements for bank holding companies and other registrants in the financial services industry, including potential new or revised disclosures, the possible elimination of certain existing redundant disclosure requirements, the scope and applicability of Guide 3, and the impact of regulation on bank holding companies.</p> <p><b>Deloitte Resources:</b> March 1, 2017, <a href="#">news article</a> and June 1, 2017, <a href="#">comment letter</a>.</p>
<i>Inline XBRL Filing of Tagged Data</i> (March 2017)	<p><b>Summary:</b> Proposed rule that would require the use of Inline XBRL format for the submission of operating company financial statement information and mutual fund risk/return summaries.</p> <p><b>Deloitte Resources:</b> March 2, 2017, <a href="#">news article</a> and May 5, 2017, <a href="#">comment letter</a>.</p>
<i>FAST Act Modernization and Simplification of Regulation S-K</i> (Proposed Rule, October 2017)	<p><b>Summary:</b> Proposed rule that would simplify certain disclosure requirements in SEC Regulation S-K and related rules and forms. The changes would affect requirements related to MD&amp;A, descriptions of property, risk factors, redaction of confidential information, hyperlinks, and cross-references.</p> <p><b>Deloitte Resources:</b> October 12, 2017, <a href="#">news article</a> and October 16 2017, <a href="#">Heads Up</a>.</p>

## Appendix B — Selected Speakers

The table below lists speeches that were publicly available as of the date of this publication.

Speakers
<b>FASB Chairman Address</b> <a href="#">Russell Golden, Chairman, FASB</a>
<b>PCAOB</b> <a href="#">James Doty, Chairman, PCAOB</a> <a href="#">Jeanette Franzel, Board Member, PCAOB</a> <a href="#">Martin Baumann, Chief Auditor, PCAOB</a>
<b>SEC Joint Statement and OCA Current Projects</b> <a href="#">Joint Statement</a> <a href="#">Michael Berrigan, Professional Accounting Fellow, SEC</a> <a href="#">Michal Dusza, Professional Accounting Fellow, SEC</a> <a href="#">Joseph Epstein, Professional Accounting Fellow, SEC</a> <a href="#">Nigel James, Associate Chief Accountant, SEC</a> <a href="#">Barry Kanczucker, Associate Chief Accountant, SEC</a> <a href="#">Robert Sledge, Professional Accounting Fellow, SEC</a> <a href="#">Ryan Wolfe, Senior Associate Chief Accountant, SEC</a>
<b>Center for Audit Quality Update</b> <a href="#">Cynthia Fornelli, Executive Director, CAQ</a>
<b>IASB Vice-Chair Address</b> <a href="#">Sue Lloyd, Vice-Chair, IASB</a>

# Appendix C — Glossary of Standards and Other Literature

The standards and literature below were cited or linked to in this publication.

## 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).
  - FASB Staff Position No. FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision Within the American Jobs Creation Act of 2004*
  - EITF Topic D-98, "Classification and Measurement of Redeemable Securities"

## SEC Literature

- Regulation S-X
  - Rule 1-02, "Definitions of Terms Used in 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 3-16, "Financial Statements of Affiliates Whose Securities Collateralize an Issue Registered or Being Registered"
  - Article 11, "Pro Forma Financial Information"
- Staff Accounting Bulletins (SABs)
  - SAB Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Equity Securities"
  - SAB No. 74, "Disclosures Related to New Accounting Standard on Revenue" (codified in SAB Topic 11.M, "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period")
  - SAB No. 117
- Releases
  - Final Rule 34-78041, *Order Granting Limited and Conditional Exemption Under Section 36(a) of the Securities Exchange Act of 1934 From Compliance With Interactive Data File Exhibit Requirement in Forms 6-K, 8-K, 10-Q, 10-K, 20-F and 40-F to Facilitate Inline Filing of Tagged Financial Data*
  - Final Rule 33-10425, *FAST Act Modernization and Simplification of Regulation S-K*
  - Final Rule 33-10323, *Inline XBRL Filing of Tagged Data*
  - Final Rule 33-10321, *Request For Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies)*
  - Final Rule 33-10198, *Request for Comment on Subpart 400 of Regulation S-K Disclosure Requirements Relating to Management, Certain Security Holders and Corporate Governance Matters*

- Final Rule 33-9877, *Pay Ratio Disclosure*
- Concept Release No. 33-10064, *Business and Financial Disclosure Required by Regulation S-K*
- Interpretive Release No. 33-10415, *Commission Guidance on Pay Ratio Disclosure*
- Interim Final Rule 34-77969, *Form 10-K Summary*
- Proposed Rule 33-10201, *Exhibit Hyperlinks and HTML Format*
- Proposed Rule 33-10110, *Disclosure Update and Simplification*
- Proposed Rule 33-10107, *Amendments to Smaller Reporting Company Definition*
- Proposed Rule 33-10098, *Modernization of Property Disclosures for Mining Registrants*
- Release No. 34-81916, *Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules on the Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, and Departures From Unqualified Opinions and Other Reporting Circumstances, and Related Amendments to Auditing Standards*
- Release No. 33-9929, *Request for Comment on the Effectiveness of Financial Disclosures About Entities Other Than the Registrant*
- Financial Reporting Manual
  - Topic 2, "Other Financial Statements Required"
  - Topic 3, "Pro Forma Financial Information"
  - Topic 4, "Independent Accountants' Involvement"
  - Topic 6, "Foreign Private Issuers & Foreign Businesses"
  - Topic 10, "Emerging Growth Companies"
- Other Literature
  - *CF Disclosure Guidance: Topic No. 2, Cybersecurity*
  - *Report on Modernization and Simplification of Regulation S-K, November 2016*
  - Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*
  - Industry Guide 7, *Description of Property by Issuers Engaged or to Be Engaged in Significant Mining Operations*

## PCAOB Literature

- Release No. 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*
- Auditing Standard 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*
- Staff Audit Practice Alert No. 15, *Matters Related to Auditing Revenue From Contracts With Customers*

## CAQ Tool

*The Auditor's Report: Considerations for Audit Committees*

## International Standard

IAS 1, *Presentation of Financial Statements*

## IOSCO Publication

IOSCO Monitoring Group Consultation: *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*

## Appendix D — Abbreviations

Abbreviation	Description
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>ASC</b>	FASB Accounting Standards Codification
<b>ASU</b>	FASB Accounting Standards Update
<b>C&amp;DI</b>	SEC Compliance and Disclosure Interpretation
<b>CAM</b>	critical audit matter
<b>CAO</b>	chief accounting officer
<b>CAQ</b>	Center for Audit Quality
<b>CEO</b>	chief executive officer
<b>CECL</b>	current expected credit loss
<b>CFO</b>	chief financial officer
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission
<b>CPA</b>	certified public accountant
<b>DCPs</b>	disclosure controls and procedures
<b>EGC</b>	emerging growth company
<b>EITF</b>	Emerging Issues Task Force
<b>FAQ</b>	frequently asked question
<b>FAS</b>	FASB Statement of Financial Accounting Standards
<b>FASB</b>	Financial Accounting Standards Board
<b>FAST Act</b>	Fixing America's Surface Transportation Act
<b>FPI</b>	foreign private issuer
<b>FSP</b>	FASB Staff Position
<b>GAAP</b>	generally accepted accounting principles
<b>GAAS</b>	generally accepted auditing standards

Abbreviation	Description
<b>HTML</b>	HyperText Markup Language
<b>IAS</b>	International Accounting Standard
<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>IT</b>	information technology
<b>KPI</b>	key performance indicator
<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>OCA</b>	SEC's Office of the Chief Accountant
<b>PBE</b>	public business entity
<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>PCD</b>	purchased credit-deteriorated
<b>PCI</b>	purchased credit-impaired
<b>Q&amp;A</b>	question and answer
<b>SAB</b>	SEC Staff Accounting Bulletin
<b>SAG</b>	PCAOB's Standing Advisory Group
<b>SEC</b>	U.S. Securities and Exchange Commission
<b>SRC</b>	supplemental request for comment
<b>TRG</b>	transition resource group
<b>XBRL</b>	eXtensible Business Reporting Language

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