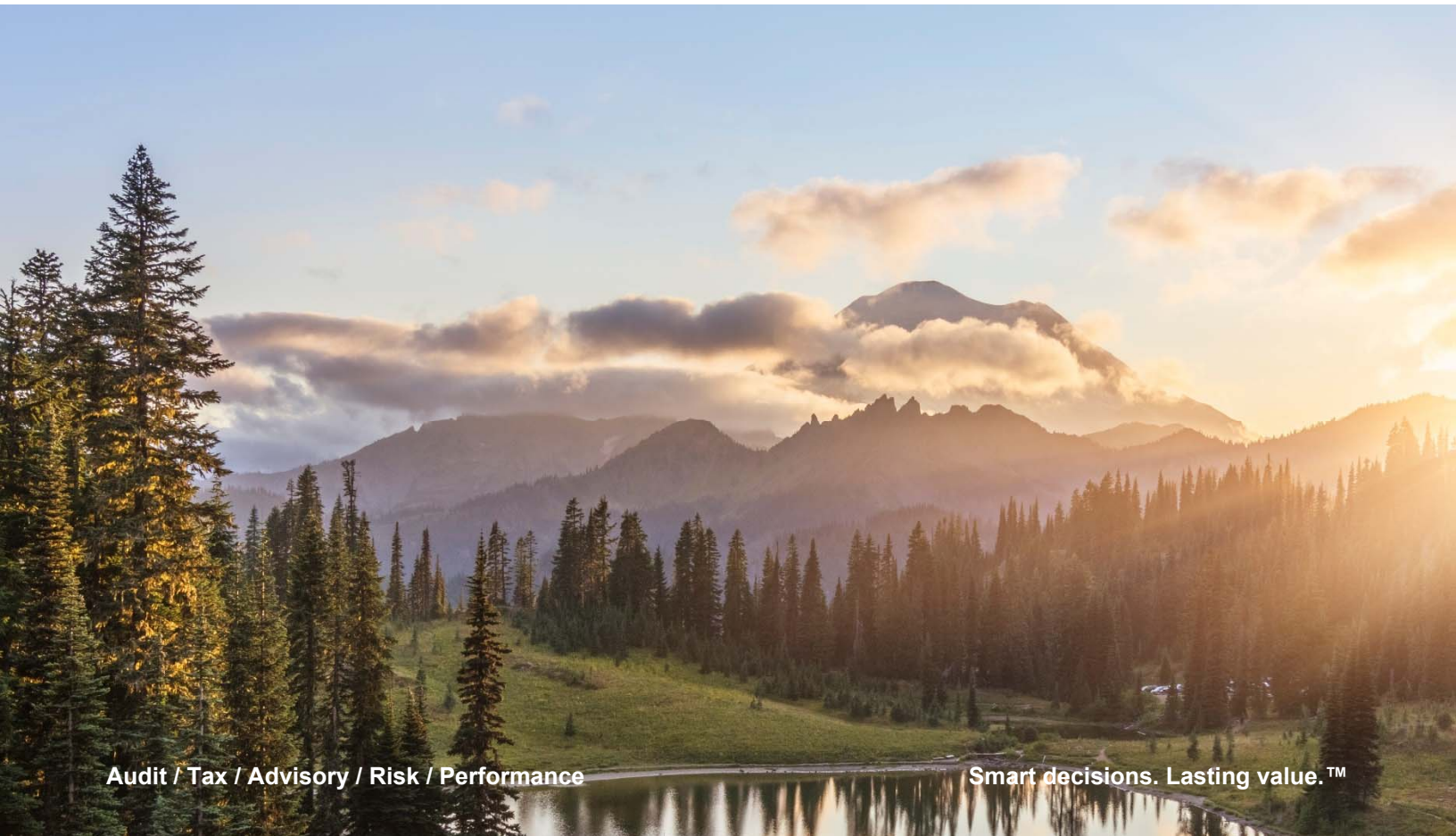




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# Annual SEC, PCAOB, and Other Updates for Public Companies

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## From the Author

In this update, we share recent financial reporting developments from the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), and the Center for Audit Quality (CAQ). We also include select updates from other groups that might affect financial reporting by public companies.

The latest headlines from the SEC cover implementation of the major accounting standards (on revenue recognition, leases, and credit losses) from the Financial Accounting Standards Board (FASB), including what disclosures should be made now to enlighten investors on the impact that the new standards will have on a company's financial statements once adopted. Application of the first of the major standards begins with the revenue standard in the first quarter of 2018 for calendar year-end public business entities (PBEs), unless the PBE is an emerging growth company or qualifies for the adoption date deferral that the SEC announced in July 2017.

The new SEC chair, Jay Clayton, has emphasized a goal of simplifying capital formation, and it seems that the SEC's existing disclosure effectiveness initiative continues to be in line with that goal. This project originally evolved out of the *Jumpstart Our Business Startups Act* (JOBS Act) requirement (passed in 2012) to evaluate ways to modernize and simplify the registration process and reduce the costs and burdens of the Regulation S-K requirements for emerging growth companies. Subsequently, in 2015, the *Fixing America's Surface Transportation Act of 2015* (FAST Act) was passed and created an opportunity to streamline the SEC's overall disclosure framework. The SEC has proposed to update and simplify a voluminous amount of disclosure requirements that are outdated or overlap with U.S. generally accepted accounting principles (GAAP) or other authoritative requirements.

The SEC chair also is focused on cybersecurity and other technology matters, and late in December, with the passage of the federal income tax bill, the SEC issued guidance on financial reporting for income taxes. See more on these SEC topics in the section "From the SEC."

Also during 2017, the PCAOB finalized and the SEC approved the auditing standard on the auditor's reporting model, the first phase of which is effective for audits of Dec. 31, 2017, annual financial statements for calendar year-end public companies.

We hope you find this information useful, and we welcome your feedback.

Sydney K. Garmong

Partner, Crowe LLP

## From the SEC

### Leadership

#### New Chair and Commissioners

On May 4, 2017, [Jay Clayton](#) was [sworn in](#) as the new SEC chair. Clayton comes from the law firm Sullivan & Cromwell LLP, where he was a partner advising clients on capital-raising and trading matters in the United States and abroad.

On Dec. 21, 2017, the U.S. Senate confirmed two [new SEC commissioners](#), Hester Peirce and Robert J. Jackson Jr., which means that all seats at the commission are full for the first time since 2015.

#### New Staff

On March 30, 2017, the SEC [named](#) Sagar S. Teotia as a deputy chief accountant in the Office of the Chief Accountant (OCA). He will lead the activities of OCA's accounting group, which include consultations with public companies on accounting matters. Teotia previously served as a professional accounting fellow in OCA.

On May 9, 2017, Clayton [announced](#) William H. Hinman as the new director of Corp Fin. Hinman recently retired as a partner at Simpson Thacher & Bartlett LLP, where he advised public and private companies, including issuers and underwriters, on capital-raising transactions and acquisitions.

On Nov. 30, 2017, the SEC [announced](#) that after more than four years as the Corp Fin chief accountant and 13 years at the SEC, Mark Kronforst left the agency in January 2018. Upon Kronforst's departure, the acting Corp Fin chief accountant is Kyle Moffatt. Prior to this assignment, Moffatt served as an associate director in Corp Fin's disclosure operations.

### SEC Speeches at the 2017 AICPA Conference on SEC and PCAOB Developments

On Dec. 4 through 6, 2017, a number of representatives from the SEC, including the chair and the chief accountant, participated in the annual AICPA Conference on Current SEC and PCAOB Developments. The SEC's participation in the conference is summarized in the Crowe article ["Headline Speeches From the 2017 AICPA Conference on SEC and PCAOB Developments,"](#) released on Dec. 11, 2017.

### Federal Income Tax Reform

#### Staff Guidance

With H.R. 1, known as the *Tax Cuts and Jobs Act* (tax reform law), signed into law by President Donald Trump on Dec. 22, 2017, the SEC's OCA and Corp Fin staff [issued](#) interpretive guidance for public companies, auditors, and other stakeholders to consider as they contemplate disclosures for investors related to the accounting impacts of the tax reform law.

The interpretive guidance includes a new Staff Accounting Bulletin (SAB) and a new Compliance and Disclosure Interpretation (C&DI).

- SAB No. 118 addresses the following:
  - Fact patterns where the accounting for changes in tax laws or tax rates under Accounting Standards Codification (ASC) Topic 740 is incomplete upon issuance of an entity's financial statements for the reporting period in which the tax reform law is enacted (that is, reporting periods that include Dec. 22, 2017)

- Permission by the SEC staff to use a provisional amount based on a reasonable estimate for the reporting period that includes Dec. 22, 2017, to the extent that the accounting under ASC Topic 740 for tax effects is incomplete, and guidance for public companies that take advantage of this approach
  - The provisional amount is subject to adjustment during a measurement period, until the accounting under ASC 740 is complete.
  - The measurement period for the provisional amount should not extend beyond one year from the tax reform law's enactment date (Dec. 22, 2017).
  - Supplemental disclosures accompanying the provisional amounts should include the reasons for the incomplete accounting, the additional information that needs to be collected or analysis that still needs to occur, and other information relevant to why the registrant was not able to complete the accounting required under ASC 740 in a timely manner.
- Question 110.02 was added to the C&DIs for Item 2.06 ("Material Impairments") on Form 8-K, and addresses the following:
  - Whether the obligation to file under Item 2.06 of Form 8-K is triggered due to the remeasurement of a deferred tax asset (DTA) in order to incorporate the effects of the newly enacted tax rates or other provisions of the tax reform law, and how use of the measurement period approach in SAB 118 affects this filing obligation

#### Crowe Resources

On Jan. 23, 2018, Crowe released an article, ["Financial Reporting for Tax Reform: The SEC and FASB Weigh In,"](#) to highlight the guidance issued separately by the SEC and the FASB staff in response to the implementation challenges faced by entities as a result of the tax reform law.

Also, on Dec. 28, 2017, the Crowe article ["Securities and Exchange Commission \(SEC\) Provides Clarity and Assistance on Income Tax Reform"](#) was released.

## Implementation of Major Accounting Standards

### **Transition Disclosures (SAB 74)**

#### 2017 Baruch College Financial Reporting Conference, Mark Kronforst, May 4, 2017

At the 2017 Baruch College Financial Reporting Conference, Corp Fin Chief Accountant Mark Kronforst addressed disclosure of recently issued accounting standards. He noted that Corp Fin has begun issuing comments on the topic of SAB 74 requirements pertaining to the disclosure of recently issued accounting standards, including revenue recognition. SAB 74 disclosures should include not only cumulative effects of adoption of the standards but also changes to disclosures and new material information that will be provided in the financial statements as a result of the standards' adoption.

#### Guidance on Transition Disclosures (SAB 74)

At the Sept. 22, 2016, Emerging Issues Task Force (EITF) meeting, an SEC staff member made an announcement about the recent major accounting standards (for credit losses, leases, and revenue recognition) that have not yet been adopted. The staff member referred to SAB Topic 11.M (also known as SAB 74), which relates to disclosure of the impact that recently issued accounting standards is expected to have on a registrant's financial statements when adopted.

The staff member stated that if a registrant does not know or cannot reasonably estimate the impact that adoption of the recent major accounting standards is expected to have on the financial statements, then in addition to making a statement to that effect, the registrant should consider additional qualitative financial statement disclosures to help the reader assess the significance of the impact that the standard will have on the registrant's financial statements when adopted. The additional disclosures to be considered include these:



- A description of the effect of the accounting policies that the registrant expects to apply, if determined
- A comparison to the registrant's current accounting policies
- A description of the status of the registrant's process to implement the new standards
- The significant implementation matters yet to be addressed

With the issuance of Accounting Standards Update (ASU) 2017-03, "[Accounting Changes and Error Corrections \(Topic 250\)](#) and [Investments – Equity Method and Joint Ventures \(Topic 323\)](#): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings," the FASB codified this SEC staff announcement in ASC 250-10-S99-6.

### **Revenue and Lease Accounting Standards – Adoption Date Deferral for Certain PBEs**

At the FASB EITF meeting held on July 20, 2017, the SEC staff made an announcement specifically related to providing relief for PBEs that otherwise would not meet the definition of a PBE, except for a requirement to include its financial statements or financial information in another entity's filing with the SEC (certain PBEs). Common examples of SEC rules that trigger a requirement to include one entity's financial statements or financial information in another entity's SEC filing include rules 3-05 (significant business acquisitions), 3-09 (separate financials of an entity that is a significant nonconsolidated equity method investment), or 4-08(g) (summarized financial information of a significant group of nonconsolidated equity method investments) of Regulation S-X.

The SEC essentially is deferring the effective date for certain PBEs by one year: the SEC will not object if certain PBEs adopt the revenue recognition and lease accounting standards using the non-PBE effective dates, which are as follows:

- Revenue recognition (Topic 606), for annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities
- Lease accounting (Topic 842), for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020, which first applies to Dec. 31, 2020, annual financial statement for calendar year-end entities

The deferral is applicable only to certain PBEs for the revenue recognition and lease accounting standards. It does not apply to the credit loss standard because that standard already contains staggered effective dates for PBEs that are not SEC filers.

The FASB codified this SEC announcement in ASU 2017-13, "[Revenue Recognition \(Topic 605\)](#), [Revenue From Contracts With Customers \(Topic 606\)](#), [Leases \(Topic 840\)](#), and [Leases \(Topic 842\)](#): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments."

### **Elimination and Revision of Guidance on Revenue Recognition**

On Aug. 18, 2017, the SEC staff issued three updates to conform its guidance to the FASB's revenue recognition guidance in ASC Topic 606, as follows:

- SAB 116, on revenue recognition. Upon the adoption of Topic 606, the new SAB eliminates guidance in SAB Topic 13, "Revenue Recognition," because its interpretations and criteria for applying the previous revenue recognition model under GAAP (that is, ASC Topic 605) will no longer be applicable. In addition, SAB 116 eliminates SAB Topic 8 for department store retailers because the presentation and recognition guidance for leased or licensed store space will be superseded.
- Release No. 33-10402, to eliminate existing revenue recognition guidance (specifically, Accounting and Auditing Enforcement Release 108, "In the Matter of Stewart Parness") for bill-and-hold arrangements (that is, arrangements when delivery has not occurred). Under ASC Topic 606, revenue will be recognized on bill-and-hold arrangements when, as prescribed by the guidance, control has been transferred and other criteria are met.

- Release 33-10403, to revise guidance 2005 “Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement Into the Pediatric Vaccine Stockpile or the Strategic National Stockpile.”

In November 2017, the FASB released ASU 2017-14, “Income Statement – Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue From Contracts With Customers (Topic 606),” to codify SAB 116 and the SEC releases on revenue recognition. Once the guidance in ASC Topic 606 is adopted, reference to the previous SEC guidance that is rescinded or revised by ASU 2017-14 no longer will be appropriate.

### Speeches on Major Accounting Standards

Over recent months, SEC staff members have focused their speeches on implementation of major standards, most importantly the revenue recognition standard, which is effective in the first quarter of 2018 for calendar year-end public companies.

#### Financial Executives International 36th Annual Current Financial Reporting Issues Conference, Wesley Bricker, Nov. 14, 2017

SEC Chief Accountant Wesley R. Bricker addressed the FEI conference, where he discussed “Effective Financial Reporting in a Period of Change.” His topics related to the implementation of the revenue, leases, and credit losses accounting standards as well as the recently SEC-approved auditor’s reporting model audit standard from the PCAOB.

Discussing the revenue standard, Bricker cautioned preparers to consider internal controls and documentation that address management’s judgments and estimates required for implementation and application. He encouraged audit committees to pay close attention to the status of implementation reported to them by management and by the auditors. He also announced his expectation that companies should be in a position, through third- and fourth-quarter reporting, to disclose “the anticipated impact, at least qualitatively and directionally, of adoption of the revenue standard.”

For leases, Bricker emphasized the need for preparers to begin identifying and working through accounting questions for lease arrangements, and he highlighted a best practice to concurrently (rather than sequentially) implement the leases and revenue standards.

Related to credit losses, Bricker covered factors that the FASB considered in developing the standard, such as these:

- Bias-free financial reporting that is transparent in all market cycles
- Credit loss estimates that include forward-looking information and timelier recognition
- Total economics of lending transactions, including both credit losses and interest income (which will continue to be separately reported in the financial statements)
- Financial statement preparation costs – noting that many loss-estimation methods used today will be appropriate under the new standard, accompanied by changes to inputs and assumptions

Bricker closed the discussion on credit losses by mentioning the Fed’s decision that financial institutions should exclude the effect of the credit losses standard from both the 2019 Dodd-Frank Wall Street Reform and Consumer Protection Act stress testing (DFAST) and the 2019 Comprehensive Capital Analysis and Review (CCAR).

Turning to the PCAOB ARM standard – in particular, the requirement to disclose critical audit matters (CAMs) during the second phase of implementation, which is effective for large accelerated filers in audits of fiscal years ending on or after June 30, 2019 – Bricker recommended a few questions that audit committees could ask when planning for implementation of the audit standard:

- “What would the critical audit matters be this year?”
- “What would be the close calls?”

- “When could those matters have been raised, and which ones could have been identified at the start of the audit cycle?”
- “What does the auditor expect to say about those matters?”
- “When would we expect to see a draft report or at least a draft of the critical audit matters?”

Bricker ended his remarks by encouraging the accounting profession to understand distributed ledger (or blockchain) technology and the potential risks for investors. He noted that the SEC’s OCA is investing time to understand the technology under the framework of the SEC’s rules and regulations. More on this technology can be found in the SEC’s [“Investor Bulletin: Initial Coin Offerings.”](#)

San Diego Chapter of the Financial Executives Institute, Sagar Teotia, Sept. 21, 2017

Teotia focused on implementation of the major standards (revenue recognition, leases, and credit losses) during his [remarks](#). Broadly, he offered observations for implementation of the major standards in the following areas:

- Keep going, get going – focus on implementation
- Internal control over financial reporting
- Transition disclosures
- Disclosures within the new GAAP standards
- Importance of reasonable judgment
- Role of audit committees in the implementation of the new GAAP standards

For revenue recognition, he noted adoption is only a few months away. The SEC will accept well-reasoned judgments, but those generally take time to develop. The SEC is available to answer questions, and the time to ask is now. Teotia also stressed the importance of the accompanying disclosures and noted that it takes time to develop how the disclosures will be made and time to implement system and internal control changes to gather and present the data.

Turning to leases, he encouraged companies to consider beginning their leases implementation efforts. The standard will require several steps including identifying relevant legal contracts, evaluating whether an arrangement is or contains a lease, and applying the standard to contracts within its scope. These steps can be time-consuming so getting started sooner rather than later is a best practice. He pointed to a few “lessons learned” from revenue recognition including making sure companies have the appropriate resources to evaluate the lease arrangements and setting the right “tone at the top.”

For credit losses, Teotia shared observations from the SEC’s monitoring activities. He stressed the importance of coordination among all stakeholders – namely preparers and auditors moving in parallel so that one group does not significantly get ahead of the other. He suggested registrants should bring interpretative concerns to the SEC and encouraged stakeholders to refer challenging issues to the FASB’s Credit Losses Transition Resource Group (TRG).

AICPA National Conference on Banks and Savings Institutions, Wesley Bricker, Sept. 11, 2017

In his [remarks](#), Bricker discussed the FASB’s standard for measuring current expected credit loss (CECL) and the improvements it offers, including earlier recognition of credit losses and transparency of a financial asset portfolio’s credit quality. Regarding CECL implementation, he reminded the audience that portions of Financial Reporting Release (FRR) 28 and SAB 102 will continue to apply and that existing practices are a good starting point for transitioning to the standard. Bricker also highlighted important judgments to consider related to selecting a methodology, identifying data, and developing assumptions. Finally, he emphasized the importance of internal control over financial reporting (ICFR) in adopting the standard, including the importance of the tone at the top, technology, and documentation.

He also answered a question from the audience related to SAB 74, and his advice was that registrants should describe the relevant information about what the company does know, and companies should not disclose what they do not know about the anticipated effect, whether quantitative or qualitative.



USC 36th Annual SEC and Financial Reporting Institute Conference, Wesley Bricker, June 8, 2017  
Bricker addressed major standards and implementation during his remarks, covering the following topics:

- The importance of oversight and governance of international audit standards in delivering high-quality audits internationally
- The new accounting standard on revenue recognition, including involvement by the audit committee and auditor during implementation, and reminders of the importance of the new required disclosures and transition disclosures as described in SAB 74
- The new accounting standards on leases, classification and measurement of financial instruments, and credit losses, including an emphasis on the scoping exercise for each of those standards and a recommendation to perform implementation activities for these major standards concurrently instead of doing it sequentially
- The importance of ICFR, including in the implementation periods for the new major accounting standards

Bloomberg BNA Conference on Revenue Recognition, Sylvia E. Alicea, May 8, 2017

Sylvia E. Alicea, professional accounting fellow in the SEC's OCA, delivered the keynote address at the Bloomberg BNA Conference on Revenue Recognition on May 8, 2017. She covered matters related to implementation of the new revenue recognition standard, including:

- Observations from recent consultations about application of the standard
- Reminders on transition disclosures
- Responsibilities of management and audit committees related to ICFR when implementing new GAAP standards

Alicea's observations included the need to identify and evaluate all relevant contractual terms when identifying the contract, because the terms may affect accounting conclusions. She also noted that identifying "performance obligations" is a new concept under the revenue standard. Highlighting the new disclosure requirements, she stated, "The pertinent facts and related reasonable judgments related to a registrant's contracts with customers, including the significant judgments made in applying the principles of the new revenue standard, should be disclosed to better inform investors' decisions."

Regarding transition disclosures, Alicea reminded preparers of the SAB 74 disclosure guidance. The design process for those controls should contemplate the nature and objective of the transition disclosures as well as the status of the company's implementation efforts. She emphasized that the new disclosures might be material even if the dollar impact to the balance sheet or income statement is not material. Disclosure on the impact of the new standard should reflect consideration of recognition, measurement, presentation, and disclosure. She clarified that the SAB 74 reference to financial statements also covers the notes to the financial statements.

2017 Baruch College Financial Reporting Conference, Wesley Bricker, May 4, 2017

In his remarks, Bricker discussed implementation of the major accounting standards, including internal control considerations. He urged preparers not to delay implementation efforts for the new disclosures required under the revenue recognition standard, and he cautioned preparers that the disclosures may be among the most challenging tasks in adopting the standard.

University of Tennessee's C. Warren Neel Corporate Governance Center, Wesley Bricker, March 24, 2017

In a speech to audit committee members, Bricker addressed the critical role of today's audit committee in overseeing the quality of the audit and financial reporting processes, and he called on audit committees to consider a number of actions. Specific to implementation of major accounting standards, he stressed the importance of educating members on developments in accounting and financial reporting and evaluating their company's implementation progress.

#### Annual Life Sciences Accounting & Reporting Congress, Wesley Bricker, March 21, 2017

In a speech on March 21, 2017, Bricker addressed the Annual Life Sciences Accounting & Reporting Congress. He discussed implementation of the revenue recognition standard, including themes related to the new gross versus net presentation guidance. He highlighted the need for disclosure of details related to a principal versus agent assessment in order to assist investors in understanding the arrangement.

Additionally, Bricker reminded the audience that the scope of the new standard includes not only recognition, measurement, and presentation but also disclosure. He guided entities to consider the impact of changes to disclosure when they are evaluating the extent of the impact of the new standard.

In his remarks about ICFR, he mentioned areas that may be affected by the transition to the new standard, including attracting and retaining competent personnel, management's tone at the top, changes to established business practices and information reporting systems, and comprehensive and timely risk assessments.

### **Additional Implementation Resources**

#### From the Center for Audit Quality

On June 28, 2017, the Center for Audit Quality (CAQ) issued Alert 2017-03, on SAB Topic 11.M, "A Focus on Disclosures for New Accounting Standards," to assist in evaluating the adequacy of management's disclosure of the potential effects of recently issued accounting standards when adopted in a future period.

#### Corp Fin Financial Reporting Manual

Corp Fin has updated Topic 11 in its Financial Reporting Manual to address specific reporting issues that may arise in the transition to the revenue recognition, lease accounting, and short-duration contract (for insurance entities) accounting standards.

## Non-GAAP Measures

### Speeches

Mark Kronforst, at the 36th Annual SEC and Financial Reporting Institute Conference on June 8, 2017, and at the 2017 Baruch College Financial Reporting Conference on May 4, 2017, discussed the status of the non-GAAP disclosure requirements and their implementation by SEC registrants. He noted in his remarks that implementation of Corp Fin's May 2016 Compliance & Disclosure Interpretations (summarized in the next section, "Compliance and Disclosure Interpretations (C&DIs)") are considered to be a success.

Kronforst noted that the SEC's focus in reviewing non-GAAP measures remains on verifying that non-GAAP measures presented by companies are not materially misleading to the users of the financial statements. He struck an optimistic note, observing that companies have made substantial progress in addressing problems involving non-GAAP measures but should expect continued scrutiny on the following areas:

- Tailored accounting principles, with the main focus on accelerated revenues
- Financial statement presentation that consolidates equity investees and controlled entities on a theory of proportionate consolidation, which is a particular problem in the REIT (real estate investment trust) industry
- Backing out normal, recurring, cash operating expenses, such as marketing and litigation expenses
- Cherry-picking by disclosing one-time gains but not losses in non-GAAP measures
- Prominence – noting that the GAAP number always should come first, including in the earnings release and the GAAP reconciliation
- Per share liquidity measures, which are prohibited
- Non-GAAP forward-looking earnings per share guidance
- Calculation and presentation of income tax effects – so that if the non-GAAP disclosures present an alternative calculation of net income, the non-GAAP disclosures should include the income tax effects on that amount

Kronforst emphasized the importance of establishing controls related to decisions on non-GAAP measures and adjustments, including disclosure controls and procedures. In addition, he stressed the importance of the audit committee's role in being more vigilant in overseeing management's use of non-GAAP measures to avoid bias and ensure compliance with the requirements.

Kronforst also noted that, although non-GAAP disclosures are outside of the scope of the audit, auditors should read and consider the non-GAAP disclosures to verify that certain information is consistent with the audited financial statements. Auditors should sit down with the audit committee, internal audit, and management to talk about controls, comparability, transparency, and consistency of applying the non-GAAP measures.

### Compliance and Disclosure Interpretations (C&DIs)

On May 17, 2016, Corp Fin released updated C&DIs for non-GAAP measures that define certain non-GAAP measures and presentations of measures that can be misleading, including these:

- Adjustments such as "a performance measure that excludes normal, recurring, cash operating expenses necessary to operate a registrant's business" (see question 100.01)
- Inconsistencies in the calculation of a non-GAAP measure from period to period (see question 100.02)
- Inconsistencies in the treatment of gains and losses that are similar in nature (that is, nonrecurring losses added back to GAAP equivalent measure but nonrecurring gains not deducted) (see question 100.03)

- Non-GAAP measures that use “individually tailored” accounting principles, such as a non-GAAP policy that accelerates the recognition of revenue when it should be deferred under GAAP (see question 100.04)
- Non-GAAP performance measures that look like liquidity measures and are presented on a per share basis, even if management presents the measure as a performance measure (see question 102.05)
- Explicit examples of prohibited presentations that present the non-GAAP measure more prominently than they present the comparable GAAP measure (see question 102.10)

The updated C&DIs also include examples of how tax effects for both non-GAAP liquidity measures and performance measures should be included in a non-GAAP measure (see question 102.11).

In addition, on Oct. 17, 2017, Corp Fin updated the C&DIs for non-GAAP measures by adding two questions related to business combinations:

- Question 101.01 clarifies that financial measures included in forecasts provided to a financial adviser and used in connection with a business combination transaction are not non-GAAP financial measures if they meet certain criteria identified in the C&DI.
- Question 101.02 clarifies that the exemption from Regulation G and Item 10(e) of Regulation S-K for non-GAAP measures disclosed in communications relating to a business combination transaction does not extend to the same non-GAAP measures disclosed in registration statements, proxy statements, and tender offer statements.

## Other Recent Speeches and Statements

### Cyber Matters

#### Chairman, Jay Clayton, on Cryptocurrencies and Initial Coin Offerings (ICOs)

On Dec. 11, 2017, Clayton issued a “Statement on Cryptocurrencies and Initial Coin Offerings,” to highlight the rapid growth in the cryptocurrency and ICO markets. In his statement, Clayton shared that, to date, no ICOs have been registered with the SEC, and no exchange-traded products (such as exchange-traded funds) holding cryptocurrencies or other assets related to cryptocurrencies have been approved for listing and trading by the SEC. He also emphasized securities law matters that should be considered by market professionals (such as lawyers, accountants, and consultants) when evaluating transactions in the cryptocurrency and ICO markets. Finally, he provided some sample questions for investors to consider when evaluating a cryptocurrency or ICO investment opportunity.

Subsequent to this statement, on Jan. 4, 2018, Clayton and two commissioners issued “Statement of Chairman Jay Clayton and Commissioners Kara M. Stein and Michael S. Piwowar on ‘NASAA Reminds Investors to Approach Cryptocurrencies, Initial Coin Offerings and Other Cryptocurrency-Related Investment Products With Caution’ by NASAA.” This statement commends and discusses the North American Securities Administration Association’s (NASAA) release which addresses issues and concerns related to cryptocurrencies, ICOs and other cryptocurrency-related products.

#### Division of Enforcement Co-director on Cybersecurity

On Oct. 26, 2017, Stephanie Avakian, co-director in the SEC’s Division of Enforcement, delivered a speech to discuss enforcement priorities for retail investors (spearheaded by the newly created Retail Strategy Task Force) and cyber-related matters (the focus of the newly formed Cyber Unit).

Specifically on the issue of public company disclosure of cyber matters, Avakian discussed Corp Fin's reminders to registrants that material information regarding cyber risk may be required disclosure in Management's Discussion and Analysis (MD&A) and Risk Factors. She went on to say:

*In an era where nearly every company is dependent on computer systems to operate their business, it is frequently necessary to provide meaningful and timely disclosures regarding cyber risks and incidents. These disclosures are often material on their own or necessary in order to make other disclosures, in light of the circumstances under which they are made, not misleading. [CF Disclosure Guidance: Topic No. 2: Cybersecurity, Oct. 13, 2011] The guidance issued by the Corp Fin staff in 2011 is principles based and remains an important indication of how issues related to cybersecurity should be disclosed in SEC filings. We recognize this is a complex area subject to significant judgment, and we are not looking to second-guess reasonable, good faith disclosure decisions, though we can certainly envision a case where enforcement action would be appropriate.*

#### Chairman on Cybersecurity

On multiple occasions recently, Clayton emphasized his concerns about cybersecurity risks, including that investors may not currently have the information they need to understand those risks that issuers are facing and that more disclosure on cybersecurity is warranted. He has reminded issuers of Corp Fin's existing disclosure guidance on cybersecurity risks and incidents, "[CF Disclosure Guidance: Topic No. 2](#)."

Clayton has stated that the SEC is examining the cybersecurity disclosures of public companies, including after a breach has occurred. He has cautioned issuers to carefully consider disclosure obligations for material cybersecurity risks and events in periodic and current reports.

The chair's recent statements include the following:

- [Remarks](#) before the Senate Committee on Banking, Housing, and Urban Development on Sept. 26, 2017
- [Public statement](#) on cybersecurity on Sept. 20, 2017
- [Remarks](#) at the Economic Club of New York on July 12, 2017

#### Chief Accountant Wesley Bricker on Initial Coin Offerings, Sept. 11, 2017

In his remarks before the 2017 AICPA National Conference on Banks and Savings Institutions on Sept. 11, 2017, Bricker discussed initial coin offerings (or token sales) and the recent SEC report clarifying that federal securities laws apply to these digital token sales or offerings purchased using either traditional currency or virtual currency. He emphasized that the digital token offerings are subject to SEC oversight and registration whether the entity is a traditional company or not. He also illustrated financial reporting considerations for both issuers and holders of these digital tokens.

#### Report on Initial Coin Offerings

The SEC issued a [report](#) on July 25, 2017, related to offers and sales of digital assets by a virtual entity (or a decentralized autonomous organization) that exists in the form of computer code (that is, in a virtual environment). The SEC determined that offerings of such digital assets are subject to federal securities laws and must be registered with the SEC unless a lawful exemption applies.

Recently, virtual entities have raised capital through offerings of digital assets called "initial coin offerings" or "token sales." Typically, the digital assets are purchased by investors using virtual currency (that is, currency that does not represent the legal tender of any particular country or jurisdiction, such as bitcoin and Ethereum).

The SEC concluded that, unless an exemption applies, digital asset issuers are subject to the same presentation and disclosure requirements as traditional issuers of securities as well as to other regulations that promote investor protection. For these entities, consultation with securities counsel is encouraged.



## Financial Statement Waiver Requests

On June 8, 2017, Kronforst participated on a panel at the 36th annual SEC and Financial Reporting Institute Conference where, among other topics, financial statement waiver requests were discussed. In this regard, he encouraged companies to submit requests to Corp Fin for consideration of facts and circumstances where the omission or substitution of certain financial statements might be appropriate.

In addition, in Clayton's first [speech](#) as SEC chairman, on July 12, 2017, at the Economic Club of New York, he discussed eight principles that will guide his leadership at the SEC, and then he discussed five places where he would put those principles into practice. In the latter, he included capital formation and reminded issuers of Rule 3-13 of Regulation S-X with the following statement:

*My last point on capital formation is a reminder. There are circumstances in which the Commission's reporting rules may require publicly traded companies to make disclosures that are burdensome to generate, but may not be material to the total mix of information available to investors. Under Rule 3-13 of Regulation S-X, issuers can request modifications to their financial reporting requirements in these situations. I want to encourage companies to consider whether such modifications may be helpful in connection with their capital raising activities and assure you that SEC staff is placing a high priority on responding with timely guidance.*

## Auditor Independence

On June 8, 2017, Bricker addressed the 36th annual SEC and Financial Reporting Institute Conference. In addition to covering implementation of major standards, he also addressed auditor independence. In the context of an audit committee selecting a successor auditor, he discussed the need to consider whether the successor auditor would be independent under SEC rules if the successor auditor were engaged to audit prior-period financial statements (for example, in the event of a restatement) or whether the predecessor auditor's independence would be impaired by relationships entered into after the end of the engagement period.

## COSO Framework, Operating Metrics, and Auditor Independence

In his [remarks](#) at the 2017 Baruch College Financial Reporting Conference on May 4, 2017, Bricker discussed operating metrics, auditor independence, and implementation of the major accounting standards.

On internal controls over financial reporting, he asked those who use the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework to adopt the updated 2013 "Internal Control – Integrated Framework" issued by COSO if they have not already done so. He also requested that COSO monitor the evolution of business and operating environments to determine whether further updates are necessary.

He mentioned operating metrics and forecasts and stated that lessons learned on the presentation of non-GAAP measures could be applied to reporting of other types of financial information. He offered the following recommendations:

- Understand how the financial information is defined.
- Ensure that robust disclosure controls and procedures are in place.
- Consider insight from outside the finance and investor relations functions of the company.

Finally, on the topic of auditor independence, he mentioned a recent consultation about an auditor proposing (prior to dismissal) on prohibited nonaudit services to be performed after the end of the audit and professional engagement period, and he noted the SEC staff's view that this potentially could impair an auditor's independence. In addition, he noted that while the firm is still the auditor, the proposal could adversely affect the auditor's professional skepticism.

## The Role of Audit Committees

In a March 24, 2017, [speech](#) to audit committee members at the University of Tennessee's C. Warren Neel Corporate Governance Center, Bricker addressed the critical role of today's audit committee in overseeing the quality of the audit and financial reporting processes, and he called on audit committees to consider a number of actions, including:

- Developing an understanding of the business operating environment of the company that a member serves
- Evaluating the risk of audit committee work overload
- Because of the importance of the audit committee's role in the tone at the top of an organization and its effect on a company's control environment, assessing the tone at the top when a company's control environment is evaluated
- Educating members on developments in accounting and financial reporting and evaluating their company's implementation progress on new accounting standards
- Evaluating non-GAAP measures, including disclosure controls and procedures for accurate and consistent measures
- Overseeing the external auditor relationship and considering voluntary audit committee reporting, including the disclosures outlined in the 2015 SEC concept release "[Possible Revisions to Audit Committee Disclosures](#)" related to the evaluation and approval of the auditor's compensation.

## Other Rule-Making and Public Announcements

### Pay Ratio Disclosure Rule

On Sept. 21, 2017, the SEC [adopted](#) interpretive guidance in [Release No. 33-10415](#) to assist companies that are required to make the pay ratio disclosure (that is, the ratio of the compensation of the principal executive officer to the median employee's compensation) beginning in 2018. The interpretive guidance addresses the following related to developing the disclosure:

- Use of reasonable estimates, assumptions, and methodologies and statistical sampling
- Use of existing internal records
- Use of widely recognized test under another area of the law to determine which workers are employees

Simultaneous with the SEC's release of interpretive guidance, Corp Fin released [staff guidance](#) in the form of questions and answers to cover acceptable methodologies for developing the pay ratio disclosure and provide examples of reasonable methodologies.

### Capital Formation Simplifications

#### Financial Reporting Manual Update

Corp Fin updated its [Financial Reporting Manual](#) (FRM) on Dec. 1, 2017. The revisions to the FRM include:

- An acknowledgment that Corp Fin staff will consider waiver requests for pro forma financial information in which the registrant and a significant acquired business adopt a new accounting standard as of a different date
- An example to address the timing of when a new accounting standard should be applied to pro forma financial information
- A general view that when an issuer loses its emerging growth company (EGC) status, it should adopt accounting standards in its next filing if it would have had to adopt the standards absent the extended transition accommodation for EGCs

### Regulation S-K Simplification

The SEC released, on Oct. 11, 2017, a proposal, "[FAST Act Modernization and Simplification of Regulation S-K](#)," for public comment. Requirements of the *Fixing America's Surface Transportation Act of 2015* present the SEC with an opportunity to streamline its entire disclosure framework. Among the proposed changes to Regulation S-K, registrants would no longer be required to provide, under certain circumstances, a discussion of the earliest year when three years are presented in Item 303, MD&A.

The proposal would make the confidential treatment process more efficient for registrants and SEC staff without changing the responsibilities of registrants with regards to personally identifiable information as well as immaterial and competitively harmful information contained in exhibits. Registrants would no longer be required to first seek approval for confidential treatment from the SEC on specified matters.

In addition, a description of property would no longer be required if the premises or facilities are not material to the registrant, and material contracts outside the ordinary course of business that were entered into within a two-year window of filing a registration statement or report would be required only for new registrants rather than for all registrants.

In order to eliminate various incorporation by reference provisions in SEC rules and regulations, registrants would be required to include hyperlinks in current filings to the incorporated information that was previously filed on the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

In the required exhibit that includes a list of the registrant's subsidiaries, the proposal would require disclosure of legal entity identifiers (LEIs) for the registrant and its subsidiaries to the extent the LEI has been obtained. LEIs are alphanumeric codes used across markets and jurisdictions to track entities and understand entities' corporate structure.

Comments were due Jan. 2, 2018.

Previously, on April 13, 2016, the SEC issued concept release 33-10064, "[Business and Financial Disclosure Required by Regulation S-K](#)," which, as part of the disclosure effectiveness project led by Corp Fin, sought public comment on business and financial disclosures that are required in SEC filings by Regulation S-K in an effort to improve disclosure requirements for the benefit of investors and SEC registrants. Crowe views on the concept release were submitted to the SEC in a July 21, 2016, letter that is available on the SEC [website](#).

### Confidential Draft Registration Statements for Initial Public Offerings (IPOs)

On June 29, 2017, Corp Fin announced that beginning on July 10, 2017, it will permit all companies to submit draft registration statements relating to IPOs for review on a nonpublic (or confidential) basis. This accommodation was previously provided to certain foreign private issuers and emerging growth companies. A company will be permitted to submit registration statements to the SEC in order to commence the SEC staff's review of an IPO filing before the company announces to the public that it is pursuing an IPO.

### Financial Statement Relief in Confidential Draft Registration Statements

Corp Fin on Aug. 17, 2017, updated its C&DIs to reflect staff policy that companies may omit certain financial information from confidential registration statements. If a company reasonably believes that interim or annual financial statements will not be required at the time of the contemplated offering (for EGCs), or at the time of publicly filing the registration statement (for non-EGCs), those financial statements are not required in the confidential submission.

### Financial Statement Relief Communications

On Aug. 25, 2017, Corp Fin added a section in its [Financial Reporting Manual](#) on how to communicate with Corp Fin's Office of the Chief Accountant (CF-OCA) and whom to contact regarding financial statement relief in filings with the SEC under Rule 3-13 of Regulation S-X. For example, companies might request relief from Rule 3-05 for financial statements of an acquired entity. These types of formal requests should be [emailed](#) to the CF-OCA staff, and relief, if appropriate, would be granted in the form of a waiver letter from the staff.

### T+2 Trade and Settlement Cycle

The SEC, on March 22, 2017, adopted an amendment to shorten the standard settlement cycle for most broker-dealer securities transactions by one business day. The standard settlement cycle for these transactions previously was three business days, also known as T+3. The amended rule reduces the settlement cycle to two business days, T+2.

The amendment is designed to improve efficiency and reduce settlement risk. Compliance was required on Sept. 5, 2017.

### Bank Holding Company Industry Guide

On March 1, 2017, the SEC published "Request for Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies)." The request seeks input on the statistical disclosures called for by Industry Guide 3 and asks for comments on new types of disclosures that would help modernize Guide 3.

The guide was originally published in 1976, and the last substantive revision was in 1986. Since that time, the financial services industry has changed significantly. The SEC encouraged responders to consider and comment on whether Guide 3 should continue to be applicable for registrants other than bank holding companies that have material lending and deposit activities as well as foreign registrants.

Comments were due July 7, 2017. A comment letter from Crowe is available on the SEC's website.

### Hyperlinks to Exhibits

When registration statements and periodic reports are filed with the SEC, the filings often include a list of previously filed exhibits in an index. Investors and other users of the filings must search through previous filings in order to find and access those exhibits.

In what acting SEC Chair Michael Piwowar called a "commonsense solution," the SEC approved, on March 1, 2017, a final rule requiring companies to insert hyperlinks to each exhibit listed in the exhibit index. The rule seeks to improve access to information contained in exhibits for investors and other market participants seeking that information.

The rule applies to registrants that file registration statements or reports subject to the exhibit requirements under Item 601 of Regulation S-K. They must continue to submit such registration statements and reports on the EDGAR system, but the format must be in HyperText Markup Language (HTML), because the text-based American Standard Code for Information Interchange (ASCII) format cannot support functional hyperlinks. Registrants may continue to file, in ASCII format, any schedules or forms that are not subject to the exhibit filing requirements under Item 601.

The rule was effective on Sept. 1, 2017, for all filers except nonaccelerated filers and smaller reporting companies that submit filings in ASCII; those will be required to comply on Sept. 1, 2018.

### XBRL Data in Filings

As part of the SEC's disclosure modernization initiative, on March 1, 2017, the SEC voted to propose amendments to require the use of the Inline XBRL (extensible business reporting language) format for the submission of public company financial statement information. A benefit of Inline XBRL is that it would allow registrants to embed XBRL data directly in their filings, which would eliminate the current practice of filing XBRL data as a separate "Interactive Data File" exhibit. In addition, the proposal, "Inline XBRL Filing of Tagged Data," would eliminate the requirement for filers to post XBRL data on their websites.

Comments were due May 15, 2017.

### Previous SEC Releases on Capital Formation Simplifications

We continue to monitor the progress of SEC releases issued in prior years as they relate to capital formation simplifications and those are summarized in this section.

#### *Disclosure Simplification*

As part of the disclosure effectiveness project, the SEC sought comment on proposals approved for release on July 13, 2016, to eliminate a number of disclosure requirements that are redundant or outdated in light of changes in SEC rules, U.S. GAAP, International Financial Reporting Standards, technology, or the business environment. Areas identified as potentially redundant include certain disclosures with respect to bank holding companies, insurance entities, consolidation, income taxes, foreign currency, earnings per share, contingencies, related parties, and certain interim reporting requirements. Other areas of overlap that the SEC proposed to integrate with existing disclosure requirements include foreign currency restrictions, restrictions on dividends, and certain geographic disclosures.

The SEC also sought comment on whether it should modify or eliminate certain disclosure requirements that overlap with U.S. GAAP and whether to refer others to the FASB for potential incorporation into U.S. GAAP. Areas of potential overlap include consolidation, segments, seasonality, repurchase agreements, derivatives, and certain interim reporting requirements. Areas of potential FASB referral include legal proceedings, consolidation, income taxes, and certain interim reporting requirements.

Comments originally were due on Oct. 3, 2016; the comment period was extended to Nov. 2, 2016. Crowe responded to the SEC's request for comment.

#### *Redefining Smaller Reporting Companies (SRCs)*

Approved for release on June 27, 2016, an SEC-proposed rule, "Amendments to Smaller Reporting Company Definition," would increase thresholds for companies to qualify as an SRC and result in more companies qualifying for SRC scaled disclosure requirements by:

- Raising the public float threshold from less than \$75 million to less than \$250 million
- Raising – if the company has no public float – the revenue threshold from less than \$50 million to less than \$100 million

The proposal would not increase the \$75 million threshold in the "accelerated filer" definition, and as a result, companies with \$75 million up to \$250 million of public float would continue to be subject to the accelerated filer requirements, including these:

- Timing of filing periodic reports remains 75 days after year-end for Form 10-K and 40 days after quarter-end for Form 10-Q instead of the extended time periods available to nonaccelerated filers.
- The auditor's attestation of management's assessment of ICFR continues to be required by Section 404(b) of the Sarbanes-Oxley Act of 2002.

Comments were due on Aug. 30, 2016.



## From the PCAOB

### Leadership

On Dec. 12, 2017, the SEC appointed a new board of four members and a chairman, William D. Duhnke III, to the PCAOB. Duhnke is currently the staff director and general counsel to the U.S. Senate Committee on Rules and Administration, and he previously served as staff director and general counsel to the U.S. Senate Committee on Banking, Housing, and Urban Affairs and the Committee on Appropriations.

The four new board members include:

- J. Robert Brown, currently a professor of law at the University of Denver, where he is director of the corporate and commercial law program and is the Lawrence W. Treece professor of corporate governance
- Kathleen M. Hamm, currently the global leader of securities and financial technology solutions and senior strategic adviser on cyber solutions at Promontory Financial Group
- James G. Kaiser, currently a partner and the global assurance methodology and transformation leader at PricewaterhouseCoopers
- Duane M. DesParte, soon to retire as senior vice president and corporate controller of Exelon Corporation, previously an audit partner at Deloitte & Touche and, prior to that, Arthur Andersen

### 2017 AICPA Conference on Current SEC and PCAOB Developments

On Dec. 4 through 6, 2017, a number of representatives from the PCAOB including board members participated in the annual AICPA Conference on Current SEC and PCAOB Developments. Their participation in the conference is summarized in the Crowe article "Headline Speeches From the 2017 AICPA Conference on SEC and PCAOB Developments," released on Dec. 11, 2017.

### Auditor's Reporting Model

On Oct. 23, 2017, the SEC approved the PCAOB's new auditing standard, AS 3101, "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion," which previously was adopted by the PCAOB on June 1, 2017. The final standard retains the pass-fail reporting model, but it will require auditors to provide additional information in their reports for audits conducted in accordance with PCAOB standards.

In the first phase, the auditor's report will include:

- Disclosure of the auditor's tenure
- A statement on independence
- Addition of the phrase "whether due to error or fraud" with regards to whether the financial statements are free of material misstatements
- A standardized form that contains the auditor's opinion in the first section and section titles
- Requirement that the report be addressed to at least the company's shareholders and board of directors or equivalents

The first phase applies to audit reports issued on financial statements for fiscal years ending on or after Dec. 15, 2017, which first applies to Dec. 31, 2017, annual financial statements for calendar year-end public companies.

In the second phase, the auditor is required to comply with the most significant change to the auditor's report, which is to communicate CAMs arising during the current period audit. A CAM is defined as a matter that has these elements:

- Was communicated or was required to be communicated to the audit committee
- Relates to accounts or disclosures that are material to the financial statements
- Involves especially challenging, subjective, or complex auditor judgment

The communication of each CAM in the auditor's report will include:

- The identification of the CAMs
- A description of the principal considerations that led the auditor to determine that the matter was a CAM
- A description of how the CAM was addressed
- A reference to the relevant financial statements accounts and disclosures

For large accelerated filers, the second phase is effective for fiscal years ending on or after June 30, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end large accelerated filers. For all other entities, the second phase is effective for fiscal years ending on or after Dec. 15, 2020, which first applies to Dec. 31, 2020, annual financial statements for calendar year-end public companies that are not large accelerated filers.

The standard does not require communication of CAMs for audits of emerging growth companies, broker-dealers, investment companies other than business development companies, and employee stock purchase, savings, and similar plans.

## Resources

### From the PCAOB

On Dec. 4, 2017 (and updated on Dec. 28, 2017), the PCAOB [published](#) staff guidance describing the key changes to the auditor's report that are effective for audits for fiscal years ending on or after Dec. 15, 2017, as follows:

- Form of the auditor's report
- Addressees
- Auditor independence
- Auditor tenure
- Auditor reporting regarding ICFR
- Explanatory and emphasis paragraphs
- Information about certain audit participants

In addition, it provides an overview of the requirements for CAMs, which are not required to be reported until the second phase of implementation.

### From the CAQ

On Dec. 6, 2017, the CAQ distributed a new tool, ["The Auditor's Report: Considerations for Audit Committees,"](#) that public company audit committees can use to understand the changes in and implementation timing of the new auditor's reporting model. For both implementation phases, the CAQ tool identifies the changes to the auditor's report and provides questions for audit committees to consider as they discuss those changes with auditors and other stakeholders.

Previously, on Oct. 24, 2017, the CAQ issued Alert 2017-06, ["The Auditor's Report – New Requirements for 2017,"](#) a summary of the new auditor reporting requirements.

## Revenue Standard Guidance

On Oct. 5, 2017, the PCAOB released Staff Audit Practice Alert No. 15, ["Matters Related to Auditing Revenue From Contracts With Customers,"](#) to provide guidance for auditors to consider during their interim reviews and annual audits of financial statements with regards to the revenue recognition standard.

The practice alert addresses the following topics:

- Management's transition disclosures in the notes to the financial statements
- Transition adjustments
- ICFR
- Fraud risks
- Revenue recognition in conformity with the financial reporting framework
- Revenue disclosures

## Naming the Engagement Partner and Other Audit Firms

The PCAOB adopted, on Dec. 15, 2015, and the SEC later approved, on May 9, 2016, rules to provide investors with more information about participants in public company audits. In accordance with the rules, auditors are required to file a PCAOB Form AP, "Auditor Reporting of Certain Audit Participants," for each issuer audit. Information to be disclosed includes:

- Engagement partner name
- Names, locations, and extent of participation of other accounting firms that took part in the audit and whose work constituted 5 percent or more of the total audit hours
- Number and aggregate extent of participation of all other accounting firms that took part in the audit whose individual participation was less than 5 percent of the total audit hours

The standard deadline for filing Form AP is 35 days after the date the auditor's report is first included in a publicly filed SEC document. However, for initial public offerings, the Form AP filing deadline is 10 days after the auditor's report is first included in a publicly filed SEC document.

The disclosure requirement for naming the engagement partner was effective for auditor's reports issued on or after Jan. 31, 2017, and the requirement to disclose other audit firms participating in the audit was effective for reports issued on or after June 30, 2017.

The PCAOB provides more guidance on its website for ["Form AP: Auditor Reporting of Certain Audit Participants,"](#) including staff guidance updated on Feb. 16, 2017.

## Resources

On June 20, 2017, the CAQ issued, ["Form AP – Auditor Reporting of Certain Audit Participants: A Tool for Audit Committees,"](#) which can help audit committees participate in the dialogue about the role of audit participants and the new disclosures. Previously, on Dec. 19, 2016, the CAQ issued Alert 2016-03, ["Form AP, Auditor Reporting of Certain Audit Participants,"](#) to serve as a resource and reminder of considerations related to the new Form AP reporting. The alert includes a number of frequently asked questions on the reporting and disclosure requirements of the new form.

## From the Center for Audit Quality (CAQ)

### Audit Committee Transparency Barometer

The CAQ distributed its fourth annual, “[Audit Committee Transparency Barometer](#)” report on Nov. 1, 2017. The report includes audit committee disclosure examples, and it shows that since 2014 a larger percentage of public companies are voluntarily including more robust disclosure of their audit committee’s external auditor oversight activities in proxy statements, particularly for the following:

- Considerations in recommending the appointment of the audit firm
- Criteria considered when evaluating the audit firm
- Length of the audit firm engagement
- The audit committee’s responsibility for fee negotiations
- The audit committee’s involvement in selecting the audit engagement partner
- The rotation of the engagement partner every five years

Although the percentage of companies disclosing whether the external auditor is evaluated at least annually has increased, the report highlights this area as one where improvement could be made.

### Tool for Audit Committees to Assess the External Auditor

On April 18, 2017, the CAQ released an updated tool (last issued in June 2015), “[External Auditor Assessment Tool: A Reference for US Audit Committees](#),” to assist audit committees, particularly those serving public companies, in evaluating the external auditor. The tool includes the following:

- Sample questions in three specific areas:
  - Quality of services and sufficiency of resources provided by the auditor
  - Quality of communication and interaction with the auditor
  - Auditor’s independence, objectivity, and professional skepticism
- A sample form and rating scale for obtaining input from company personnel about the external auditor
- Changes in accounting standards and potential risk areas, such as implementation of the new revenue recognition standard
- Use of non-GAAP financial information
- Ongoing cybersecurity concerns

### Recommendations for Highly Subjective and Complex Accounting Areas

On March 16, 2017, the CAQ released an article, “[Addressing Challenges for Highly Subjective and Complex Accounting Areas](#),” that addresses recommendations on improving accounting policies, internal controls, and staffing for highly subjective and complex areas, including a specific focus on revenue recognition. A primary objective of the article is to share recommendations that will deter financial reporting misstatements due to error or fraud. The article was developed as part of workshops hosted by the [Anti-Fraud Collaboration](#), comprised of the CAQ, FEI, the National Association of Corporate Directors, and the Institute of Internal Auditors.

The CAQ and other members of the Anti-Fraud Collaboration hosted a [webcast](#), “What Is Your Role? When Accounting Policy Meets ICFR,” on July 11, 2017, to share recommendations on how companies can improve accounting policies and internal controls in order to detect and deter fraud and reduce the number of financial restatements.

## Other Updates

### From the AICPA – Proposed Changes to the Auditor’s Report

On Nov. 29, 2017, the AICPA’s Auditing Standards Board (ASB) issued three exposure drafts; one of particular interest to private entities is the proposed alignment of the form and content of the auditor’s reporting under AICPA standards with the International Auditing and Assurance Standards Board (IAASB) standards and, in many ways, with the PCAOB standards.

The exposure draft, “Proposed Statements on Auditing Standards – Auditor Reporting” and “Proposed Amendments – Addressing Disclosures in the Audit of Financial Statements,” includes the following changes:

- The opinion section must be presented first in the auditor’s report, followed by the basis for opinion, which must include an affirmative statement about the auditor’s independence and fulfillment of other ethical responsibilities.
- Communication of key audit matters (KAMs) would not be required for audits of nonissuers unless the terms of the audit engagement include reporting KAMs.
- The description of the responsibilities of management for the preparation and fair presentation of the financial statements is expanded, including a requirement to identify those responsible for the oversight of the financial reporting process if different from those responsible for the preparation.
- The description of the responsibilities of the auditor and key features of an audit is expanded.

Comments are due May 15, 2018, and the proposal would be effective no earlier than for audits of financial statements for periods ending on or after June 15, 2019.



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