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Highlights from the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments

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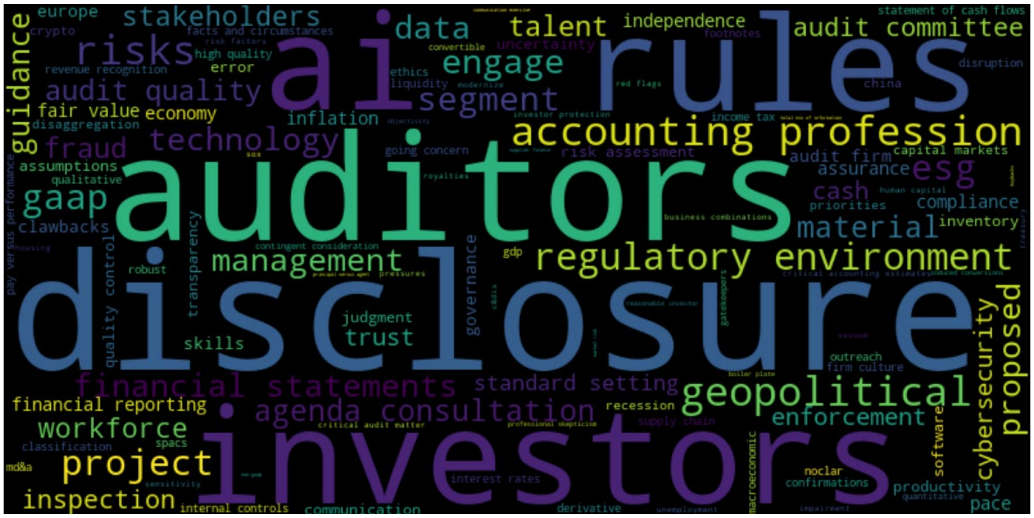
The American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA) held the 2023 Conference on Current SEC and PCAOB Developments on Dec. 4 through Dec. 6 at the Marriott Marquis in Washington, D.C. The U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), the Financial Accounting Standards Board (FASB), and stakeholders from the audit and accounting profession provided insights.



This word cloud provides a visual of the focus of discussions at this year's conference. Other themes from this year's conference include:

- Investor information needs are top of mind for regulators and standard-setters.
- Engagement of all stakeholders is needed to support high-quality financial reporting.
- The accounting profession fosters public trust and protects our capital markets.

The following covers key messages from the conference.

From the SEC

Paul Munter, chief accountant

SEC Chief Accountant Paul Munter emphasized that financial reporting is a communication exercise, noting:

- The current economic environment is uncertain – citing interest rates, supply chain disruptions, and geopolitical matters – and those responsible for financial reporting must ensure investors have transparent disclosure to understand risks and make informed investment decisions.
- Continued stakeholder engagement is necessary for standard-setting to be responsive to investor information needs.

On the same day as his remarks, Munter released "The Statement of Cash Flows: Improving the Quality of Cash Flow Information Provided to Investors," addressing how the statement of cash flows provides critical investor information and reminding preparers and auditors to evaluate the statement of cash flows with the same rigor and attention as other financial statements.statements.

Munter shared his perspectives on accounting firm culture, noting that a culture of professionalism must cascade throughout the firm and be "embedded in its DNA." He also said the entire professional staff of a firm, not just the audit practice, must be committed to the public interest, audit quality, and independence. Finally, Munter shared the following remarks on the accounting profession:

- Accountants all play an integral role in serving the public interest, which requires a commitment to lifelong learning.
- Attracting and retaining talent requires a coordinated approach to best convey the profession's value proposition.

Office of the Chief Accountant

Office of the Chief Accountant (OCA) senior associate chief accountants Anita Doutt, Nigel James, and Gaurav Hiranandani; Shehzad Niazi, deputy chief counsel; and Carlton Tartar, associate chief accountant, shared insights on accounting developments, auditor independence, financial reporting in the current economic environment, and the SEC's role in international standard-setting.

Accounting developments

Panelists delivered remarks on various accounting topics, including the FASB's recently issued Accounting Standards Updates (ASUs) on segment reporting, fair value matters, and other accounting topics.

Segment reporting

In light of the issuance of ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," the staff shared reminders for registrants:

- The standard requires an entity to disclose at least one measure of segment profit or loss that the chief operating decision-maker (CODM) uses to allocate resources and assess performance, and if the CODM uses multiple measures, the disclosed measure must be the measure that is most consistent with U.S. GAAP. Accounting Standards Codification (ASC) 280 also allows disclosure of additional segment profit and loss measures that the CODM uses to allocate resources and assess performance.
- The staff believes that consolidated net income is the measure of segment profit or loss required to be disclosed for an entity with a single reportable segment when the entity is managed on a consolidated basis. An entity with a single reportable segment can disclose additional measures in accordance with the standard.

The following day, Division of Corporation Finance (Corp Fin) staff expanded on the OCA's discussion of segments:

- **Non-GAAP.** Any measures presented in addition to the one measure most consistent with U.S. GAAP would be considered non-GAAP if the additional measures are not calculated consistent with U.S. GAAP. Therefore, registrants need to consider non-GAAP disclosure rules and regulations (for example, Regulation G and Item 10(e) of Regulation S-K). A registrant considering early adoption of ASU 2023-07 that plans to present measures not calculated consistent with U.S. GAAP in segment disclosures should consider consulting with Corp Fin staff. staff.
- **The meaning of regular.** Determining operating segments under U.S. GAAP requires evaluating what financial information is regularly reviewed by the CODM. Additional segment disclosures must be provided for information either regularly reviewed by or provided to the CODM. However, the frequency of regular is not defined. The staff remarked that they expect quarterly to satisfy the ASC 280 regular threshold. However, the staff remarked that a lesser frequency might be regular, and a careful evaluation of regular is important because it can affect the determination of operating segments, segment disclosures, reporting units for goodwill testing, and other disclosures (for example, management discussion and analysis [MD&A]).
- **Revenue from external customers.** Corp Fin observed ASC 280 requires disclosure of revenue from external customers if it is included in the measure of segment profit or loss regularly reviewed by the CODM or if it is regularly provided to the CODM. The staff noted it often

comments on amounts labeled "segment revenue" if the amount is not calculated consistent with the measurement and recognition principles in ASC Topic 606, "Revenue From Contracts With Customers," or applicable International Financial Reporting Standards (IFRS).
- **SAB 74.** For accounting standards not yet adopted, the staff indicated that it expects Staff Accounting Bulletin (SAB) 74 disclosures to include a qualitative description of the impact of adoption with a comparison to current policies, the status of implementation, and significant implementation issues.

Fair value matters

OCA panelists observed that fair value is an area of focus in today's uncertain economic environment and provided the following commentary:

- **Crypto assets.** The FASB ASU on crypto assets requires holdings of certain crypto assets to be measured at fair value. OCA staff discussed challenges in applying guidance under ASC Topic 820, "Fair Value Measurement," when identifying the principal or most advantageous market for crypto assets due to the unique, complex nature of cryptocurrencies and encouraged registrants to be thoughtful when applying Topic 820.
- **Collateral dependent loans.** Under ASC Topic 326, "Credit Losses," entities can elect to estimate the allowance for a collateral dependent loan using the fair value of the underlying collateral if two conditions are met: 1) the borrower is experiencing financial difficulty, and 2) repayment is expected primarily through the sale or operation of that collateral. The staff also reminded registrants that fair value measurement is required if foreclosure of that collateral is probable. In either case, the OCA cautioned registrants to apply market participant assumptions and to exercise reasonable and appropriate judgments, particularly in instances where the collateral might be illiquid.
- **Fair value inputs.** The OCA emphasized that valuation techniques are affected by numerous variables, including the availability and reliability of inputs. Additionally, panelists reminded registrants of the requirement in ASC 820-10-35-24C to calibrate a valuation technique when the transaction price is fair value at initial recognition and the valuation technique will use significant unobservable inputs in subsequent measurements of fair value. Calibration allows an entity to determine if its technique reflects current market conditions or if an adjustment to the technique is necessary.
- **Fair value disclosure.** To achieve the objectives of fair value reporting and ensure investors are provided with transparent disclosure, the OCA urged registrants to carefully consider the appropriate amount of information and the appropriate level of detail, in particular for level three fair value disclosures, so that investors can evaluate the entity's valuation techniques and assess the financial statement effect of recurring fair value measurements.
- **Critical accounting estimates.** Panelists reminded registrants that fair value considerations apply to disclosing critical accounting estimates (CAE) under the requirements of Item 303 of Regulation S-K. The OCA encouraged registrants making such disclosures to transparently disclose important judgments made by management and how such judgments affect the fair value measure. Jonathan Wiggins, deputy chief accountant, during the end-of-day question-and-answer session, suggested registrants consider the following when drafting CAE disclosures:
    - Is it clear to investors why the estimate is critical, and does the disclosure include both qualitative and quantitative information?
    - Can an investor understand the estimation uncertainty without quantification?
    - Does the disclosure communicate information that supplements the financial statement accounting policy disclosure?
    - Can an investor understand past variability of the estimate?
    - Does the disclosure include quantitative and qualitative information that communicates whether and how the estimate is sensitive to changes in assumptions and methods?

  Wiggins also remarked that a material change in estimate requires financial statement footnote disclosure under ASC 250.

OCA staff also reminded auditors to exercise professional skepticism when auditing fair value measurements and estimates. Panelists noted that it is the responsibility of the lead audit partner to establish a culture that empowers the engagement team to exercise professional skepticism and thoughtfully challenge management's judgments.

Other accounting topics

- **SPAC/de-SPAC transactions.** OCA panelists explained that the current economic environment has resulted in the emergence of novel financing arrangements to effectuate transactions (for example, "backstop" agreements). They explained that the full substance of the arrangement must be analyzed to achieve the proper accounting treatment and provided an example of the staff objecting to a registrant's ASC Topic 480, "Distinguishing Liabilities From Equity," conclusion.
- **Deferred offering costs.** Representatives discussed that certain offering costs may be deferred and netted against transaction proceeds as outlined in SAB 5A. However, OCA staff reminded registrants that deferred offering costs do not include management salaries or the cost associated with the initial preparation and auditing of financial statements for an IPO because obtaining audited financial statements may be done for reasons besides the IPO.
- **Investment companies.** OCA panelists discussed that investment companies generally account for financial and nonfinancial investments at fair value. However, they reminded registrants of the need to consider ASC 946-10-15-6(a)(2), which states that a fundamental characteristic of an investment company is that it commits to its investors that its business purpose and only substantive activities are investing funds solely for returns from capital appreciation, investment income, or both. OCA staff provided an example fact pattern where a real estate fund undertook other activities (for example, construction or property management) that allowed investors to participate in returns beyond capital appreciation or investment income, and the OCA objected to the fund using investment company accounting.

Auditor ethics and independence

The OCA discussed the importance of auditors maintaining an ethical mindset as well as auditor independence. Staff said it continues to receive consultations on complex independence fact patterns such as the business relationships rule (including the exceptions in Rule 2-01(c)(3) of Regulation S-X) and whether otherwise permissible nonaudit services (for example, due diligence) later would be "subject to audit" and thus impair independence. The staff encouraged audit firms to thoroughly consider individual facts and circumstances and to carefully evaluate whether the results of a nonaudit service would be subject to audit, including possible future scenarios that might bear on independence. OCA staff also advised participants to remember that materiality is not a factor when assessing "subject to audit."

Financial reporting in the current economic environment

OCA staff discussed the challenges of financial reporting in the current economic environment. Panelists said assumptions can change rapidly in a volatile economic environment, which can cause estimation uncertainty. In the interest of investor protection, they advised registrants to:

- Transparently disclose information about assumptions and management judgments to help investors understand significant risks
- Analyze how changes in circumstances could affect reliability of previous assumptions and consider whether any revisions to assumptions or valuation models (for example, to consider multiple scenarios and possible outcomes) are needed

Panelists also discussed the auditor's role in the current economic environment, highlighting a recently issued statement by chief accountant Munter on risk assessment.

Monitoring international standard-setting

OCA staff summarized its efforts and participation in international standard-setting related to accounting, auditing, regulation, and sustainability.

Division of Corporation Finance

Division of Corporation Finance (Corp Fin) Director Erik Gerding was joined by Corp Fin staff members Lindsay McCord, chief accountant; Craig Olinger, senior adviser to the chief accountant; Sarah Lowe, deputy chief accountant; and Melissa Rocha, deputy chief accountant, to discuss recent Corp Fin developments and focus areas including disclosure considerations in the current economic environment, segments, non-GAAP measures, observations on recent final rules, and other matters.

Disclosure considerations in the current economic environment

Expanding on the message of investor protection, Gerding opened his remarks with a discussion on the challenge of considering the next information needs for investors and how to map those needs to existing disclosure rules in the face of new and emerging risks. Gerding recommended registrants consider whether MD&A and risk factor disclosures are adequately tailored to the registrant's circumstances to address risks like inflation and other macroeconomic factors because boilerplate disclosures are "the investor's enemy." Based on market events throughout 2023, Gerding explained that the staff is focused on interest-rate risk and liquidity disclosures for banks, noting investors find information on the following useful:

- **Interest-rate risk.** Disclosure of sensitivity analyses, including robust discussion of significant assumptions (for example, future balance sheet composition, asset prepayments, loan and deposit repricing, deposit withdrawals, and any impact of derivatives)
- **Liquidity.** Discussion of available liquidity sources, potential costs or challenges of accessing liquidity, and actions taken to address liquidity (for example, balance sheet repositioning, accessing new sources of liquidity, or using brokered deposits)

Non-GAAP

Corp Fin observed that non-GAAP continues to be a leading comment letter topic and noted that the non-GAAP compliance and disclosure interpretations (C&DIs) issued concurrent with the 2022 conference have satisfied their intended objective. The staff provided the following observations:

- **Normal recurring operating expenses.** The staff might comment on measures that exclude recurring items from a performance measure (for example, allowances for inventory, startup costs, losses on purchase commitments, and others). In evaluating whether an operating expense is recurring, the staff evaluates expenses for the registrant as a whole, not for individual locations.
- **Tailored accounting principles.** The staff provided new examples of measures that might reflect tailored accounting principles and not be acceptable (for example, a performance measure that changes the accounting for inventory to the amount reported to management on an internal basis or revenue measures that deduct transaction costs as if the company acted as an agent when U.S. GAAP requires a gross presentation).

The staff remarked that it is important for non-GAAP disclosures to provide investors with clear, transparent information to understand the nature of the measures presented and why adjustments are included in the reconciliation to the corresponding GAAP measure.

Observations on recent final rules

Corp Fin provided perspectives on recently issued final rules including:

- **Erroneously awarded incentive-based compensation.** The staff highlighted that the respective listing standards require companies to adopt a recovery policy as of Dec. 1, 2023. Additionally, Corp Fin addressed various questions relating to the new checkboxes on the front of Form 10-K. The first checkbox should be checked when the prior period financial statements include the correction of an error (for example, a "Big R," "little r," or voluntary correction of an error). Out of period adjustments recorded in the current period, retrospective adoption of new accounting standards, or reclassifications to conform to the current period presentation do not require the first checkbox to be checked because these are not error corrections as that term is defined in U.S. GAAP. The second checkbox is checked only if a clawback analysis is required due to a "Big R" or "little r" restatement.
- **Pay versus performance.** Corp Fin noted that 2023 was the first year of pay-versus-performance disclosures and pointed to C&DIs that have been refreshed in response to implementation questions.questions.
- **Cybersecurity.** The staff provided perspectives on materiality, noting that the Form 8-K disclosure is four business days after determining the event is material (instead of four days after the incident occurs), and noted that the term materiality is consistent with the existing definition used throughout the federal securities laws.
- **Issuer share repurchase.** The staff discussed that the rule is currently stayed based on a ruling by the 5th U.S. Circuit Court of Appeals calling for the SEC to correct certain defects contained in the final rule. The staff encouraged registrants to monitor the SEC's website for further developments. On Dec. 19, 2023, the 5th Circuit vacated the rule.

Other matters

Corp Fin also addressed waiver requests, significance tests performed for acquisitions and disposals of businesses, transaction accounting adjustments for pro forma presentation, and other matters.

Division of Enforcement

Division of Enforcement Director Gurbir Grewal and Ryan Wolfe, enforcement chief accountant, spoke about recent enforcement actions involving registrants and auditors, holding gatekeepers accountable when they do not act in good faith, and the importance of an effective quality control environment at audit firms. They also emphasized the importance of making sure a registrant's external communications are accurate and complete. Overall, they said they are focused on creating a culture of proactive compliance throughout the financial reporting ecosystem.

From the FASB

In a panel focused on FASB standard-setting activities and priorities, FASB Chair Rich Jones and FASB staff members Hillary Salo and Nellie Debbeler provided an overview of the FASB's progress on its technical and research agendas, noting that both the FASB's priorities and progress made on those priorities have benefited from stakeholder feedback on the FASB's 2021 Agenda Consultation Invitation to Comment.

During the panel, Jones announced that in 2024, the FASB will modify the operating procedures of its Emerging Issues Task Force (EITF) with the objective of monitoring and addressing emerging issues on a more timely basis. Under the new process, the EITF will have control over its own agenda, deliberate issues separately from the board, and provide recommendations to the FASB in the form of an agenda request with a proposed solution. Salo clarified in a later session that any of the EITF's agenda requests that result in a standard-setting project being added to the FASB's technical agenda will be subject to the FASB's normal due process.

In addition to highlighting new guidance issued during the year, Jones, Salo, and Debbeler, said that looking forward to 2024, the FASB plans to continue working on its proposal on the disaggregation of income statement expenses and other projects including software costs, environmental credit programs, government grants, statement of cash flows, and interim reporting.

Jones reiterated the importance of feedback in the FASB's standard-setting process and encouraged participation from all stakeholders. Jones also mentioned that he expects the FASB to begin another open-ended agenda outreach request next year.

From the PCAOB

PCAOB chair and PCAOB board

PCAOB Chair Erica Williams in her speech "Too Much Is at Stake to Let Complacency Win" highlighted the role of the audit and how the work of auditors gives stakeholders trust and confidence in the markets. Williams stressed the importance of auditors choosing vigilance over complacency in performing audits. Williams also covered the following topics:

- Standard-setting activities
- Inspection trends
- Enforcement actions

Williams and the PCAOB held a panel discussion covering various topics including how the board receives input and feedback on its rulemaking agenda through advisory groups and the comment letter process. Other topics included key elements of promoting public trust in audits; the talent shortage in the public accounting profession; transparency in oversight activities, including inspection reports; inspections in China and Hong Kong; the role of technology in the audit; the PCAOB's interaction with global audit regulators; and the importance of timely communication with audit committees.

PCAOB chief auditor, acting director of Division of Registration and Inspections, and director of Division of Enforcement and Investigations

PCAOB Chief Auditor Barbara Vanich provided an update on the PCAOB's recent and future standard-setting projects. Projects include:

- Completed standard during 2023:
  - "The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards," approved by the PCAOB on Sept. 28, 2023, and the SEC on Dec. 1, 2023
- Proposed standards during 2023:
  - "General Responsibilities of the Auditor in Conducting an Audit (AS 1000)," issued March 28, 2023
  - "Noncompliance With Laws and Regulations," issued June 6, 2023
- "Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form," issued June 26, 2023
- Items on the short-term and midterm standard-setting agendas, with specific discussion on the midterm project related to firm and engagement performance metrics
- Current topics on the research agenda with specific discussion of the project on communication of critical audit matters

Vanich also provided some year-end audit reminders related to the importance of considering how business risks can affect the risk of material misstatement to the financial statements, the need to update risk assessments throughout the audit, and the importance of demonstrating professional skepticism by all members of the audit team.

PCAOB acting Director of Registration and Inspections Christine Gunia gave an update on the PCAOB's recent inspection cycle and provided a preview for the upcoming inspection cycle. Gunia mentioned that, using inspection results as an indicator, audit quality appears to be going in the wrong direction. Approximately 40% of the audits inspected in the most recent inspection cycle contained deficiencies where the auditor had not obtained sufficient appropriate audit evidence at the time the report was issued. The primary financial statement areas of deficiencies in audits of issuers included:

- Revenue
- Inventory
- Long-lived assets
- Accounts related to business combinations
- Allowance for credit losses
- Equity

In a preview of upcoming inspections, Gunia discussed plans to focus on audits of issuers in the financial services industry, overall business risks such as persistent high rates of inflation, financial statement areas with a risk of fraud, and estimates involving complex models. The PCAOB also launched a Culture Review Initiative as part of the inspections of certain firms to perform specific procedures to assess aspects of the firms' cultures.

Director of the Division of Enforcement and Investigations Robert Rice discussed the PCAOB's focus on rigorous enforcement. He pointed to increased enforcement activities in 2023, stating that the division was using every tool in its toolbox to find misconduct and hold violators accountable. He spoke about the use of sanctions to serve as a deterrent. He also spoke about cases where the PCAOB broke new ground, including the largest civil monetary penalties, the first-ever cases against firms located in China, and the first instance where the PCAOB imposed supervisory structure changes at a firm. In 2024, the PCAOB plans to build on the activities from 2023 by continuing to strengthen the enforcement program.

From the CAQ

Center for Audit Quality (CAQ) staff discussed its efforts to engage capital market stakeholders in discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets though the following activities:

- Discussing critical issues affecting the audit profession, through formally commenting on proposed changes to the auditing standards and various regulatory proposals on topics including environmental, social, and governance (ESG) and sustainability reporting; artificial intelligence; and digital assets
- Developing resources and publishing thought leadership that is targeted to key stakeholders, such as U.S. public company auditors, preparers, and audit committees
- Engaging with stakeholders within the financial reporting ecosystem, including audit committee members, investors, audit firms, and anti-fraud collaboration partners

Regarding engaging in issues affecting the audit profession, the CAQ emphasized the importance of all stakeholders being engaged in the standard-setting process and encouraged them to provide feedback on proposals via comment letters. In addition, the CAQ cited its "Fall 2023 Audit Partner Pulse Survey," which surveyed audit partners about their perspectives on the current business environment in the United States.

In discussing resources developed in the past year, the CAQ cited its annual "S&P 500 ESG Reporting and Assurance Analysis," which was published in July 2023. The analysis tracks how many of the S&P 500 report ESG information, what reporting standards and frameworks were used, and if the companies received assurance from a public company auditor in 2021.

Engagement with stakeholders includes conducting meetings of the CAQ's Audit Committee Council; publishing research publications and conducting roundtables with investors to obtain their views on corporate financial reporting, including the role of the audit profession; sponsoring the CAQ Smaller Firm Task Force; and being a member of the Anti-Fraud Collaboration.

2023 national office consultation trends

A panel of national office partners from several accounting firms discussed frequent areas of consultation in 2023. A common theme across the areas identified by panelists was the need to consider multiple U.S. GAAP topics to reach the proper accounting conclusion.

- **Equity payments between customers and vendors.** As companies look for ways to manage cash flow, it is becoming more common to see payments made in the form of equity (for example, equity warrants) instead of, or in addition to, cash. The panelists observed that the correct accounting conclusion will be affected by, among other things, a company's role in the transaction (issuer or receiver of the equity). For example, while a customer issuing equity to a vendor typically would follow ASC 718, a vendor issuing equity to a customer also would need to consider guidance in ASC 606. Similarly, the entity receiving the equity often must evaluate various areas of GAAP (for example, vendors might evaluate ASC 606 and ASC 321, while customers might evaluate ASC 705 and ASC 321). Many fact patterns for receiving entities typically also include ASC 815 derivative considerations.
- **Business combinations**
    - Identifying the accounting acquirer. Panelists highlighted three situations in which identification of the accounting acquirer can be complex: 1) when a newly formed entity issues shares to effect the business combination, 2) when a public company uses shares to effect a merger with a private company, and 3) when the legal acquiree is a variable interest entity (VIE) and the legal acquirer is the primary beneficiary. In a business combination in which a VIE is acquired, ASC 805-10-25-5 indicates the primary beneficiary of the VIE is always the acquirer. Absent VIE considerations, the evaluation of the accounting acquiror in a business combination often uses the indicators in ASC 805-10-66-12.
    - Contingent consideration. With ongoing uncertainty about the economy, panelists also have seen a rise in the use of contingent consideration in business combinations, and questions often arise as to whether such arrangements represent consideration transferred or compensation expense. The panel observed that when such arrangements are tied to continuing employment, the contingent consideration typically represents compensation for post-combination services.
- **Life science revenue transactions and monetization.** Panelists discussed complexities that arise when monetizing intellectual property in research and development funding arrangements. Such arrangements can give rise to several complex considerations, including whether the arrangement includes a derivative in the scope of ASC 815 or whether all or part of the arrangement should be evaluated as a sale of future revenues under ASC 470.
- **Embedded leases in XaaS arrangements.** Panelists observed that "anything as a service" arrangements (XaaS), where the customer is receiving the benefit of the use of an asset without an up-front capital investment, are becoming very common. These contracts often do not use the word "lease" but should be evaluated under the guidance in ASC 842 to determine whether the contract contains one or more lease components.
- **Virtual power purchase agreements.** Panelists noted virtual power purchase agreements (VPPA) are becoming more common in practice. Entities involved in a VPPA should consider whether the VPPA should be treated as a derivative in its entirety or whether an embedded derivative is present. Panelists also observed the FASB has a project on its agenda to address the accounting for renewable energy credits, which are a key part of VPPAs.

Chief accounting officer and controller panel

The panelists discussed topics top of mind for controllers and their teams. They agreed that technology is changing rapidly and stressed the need for a diverse team with strong business acumen to be able to keep up with the rate of change. One topic of particular interest to the panelists and their respective companies is the importance of data – setting data strategy, investing in data systems, centralizing data, securing data, and identifying and training data specialists. Many of the upcoming accounting standards and SEC rules will require companies to use their data systems. Consequently, panelists are spending significant time to identify any gaps in capabilities and develop a control framework.

ESG was also a priority for the panelists. While final SEC climate rules have not yet been issued, many companies are in the process of preparing for SEC and other ESG-related rules. The panelists observed that strong governance is key to any company doing ESG reporting, as data is coming from so many different sources. While getting the data to adhere to reporting requirements can be an enormous challenge, ESG presents an opportunity for accountants to work cross-functionally with teams they don't traditionally get to work with and can provide great visibility to senior management.

Panelists discussed the current state of the accounting profession and the challenges they are facing when it comes to attracting and retaining top talent. They noted that to avoid burnout on their teams, they are constantly thinking about how they can give team members the right skills and opportunities to develop, and they discussed the power of using technology to reduce repetitive tasks and allow additional time to focus on more interesting and meaningful work.

Current audit issues panel

Public accounting representatives provided perspectives on some key issues that auditors, audit committees, and management teams should consider in connection with current and future audits. Topics included:

- Required updates to audit firms' methodologies to reflect the PCAOB's recently issued standards
- Focus for auditors on internal controls and maintaining an attitude of professional skepticism with the changes in the macroeconomic environment
- Importance of understanding if audit clients are using AI in financial reporting and, if so, understanding the controls that management has established around AI
- Belief that AI will enable – not replace – human expertise on audits

The latest in ESG reporting

A panel comprised of auditors, investors, and preparers discussed the ongoing impact of the evolving regulatory environment for ESG reporting and disclosures. Topics included the following areas:

- Developments in regulations across the globe and within the U.S. – specifically new rules from California
- Trends in ESG reporting within the S&P 500
- Key considerations for companies on the ESG reporting journey
- Investor interest in and use of ESG reporting
- Measures being undertaken by audit firms and attestation standard-setters in preparation for requirements and requests for assurance over ESG information

From the IASB

In her remarks, International Accounting Standards Board (IASB) Vice Chair Linda Mezon-Hutter addressed four key initiatives of the IASB:

- Mezon-Hutter provided an overview of the IASB's forthcoming accounting standard on primary financial statements, including key changes to the presentation of financial statements and the effective date.
- She discussed the current status of the IASB's post-implementation review of IFRS 15, the IASB's revenue standard. She shared preliminarily that stakeholders largely approve of the standard and have encouraged the IASB to not make any significant changes, especially if those changes would drive divergence from the FASB's revenue standard (Topic 606).
- She provided an overview of the interactions between the IASB and its "sister" standard-setting body, the International Sustainability Standards Board (ISSB). She explained the respective focus areas of the ISSB and the IASB and how the two standard-setters coordinate.
- She discussed the activities of the IFRS Interpretations Committee and how the work of the committee helps ensure consistent application of the IASB standards.

Technology panel: Trends and application for preparers and auditors

The panel focused on the impact of AI for preparers and auditors, including both the current state and what to expect in the future. Key views shared from the panel discussion included:

- Finance departments are typically one of the first groups within an organization to adopt AI; these tools enable the finance function to eliminate mundane tasks and to analyze significant amounts of data quicker.
- Preparers continue to expand their use of AI within the financial reporting process.
- AI has the potential to transform what and how things are done within the finance function; it will create different paths for the next generation of accountants.
- The use of AI presents perils, and it is important for preparers to build governance and "guardrails" around AI tools; organizations will need to consider data protection around the use of AI models.
- AI will generate excitement within the preparer community and audit profession.
- Preparers and auditors should familiarize themselves with AI tools currently available to get comfortable with the technology.

Investor considerations panel: Impact of generative AI

Panelists shared their views on the current state of generative AI, including the pace of development, its reliability, and its potential impact on financial markets. Panelists noted that AI has disrupted and will continue to disrupt industries, and it provides opportunity for companies to enhance their products and services, improve their operational efficiency, and reduce overall costs. Panelists also pointed out challenges and risks stemming from AI, stressing the importance of strong governance over an organization's use of AI.

Mark your calendar

The 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments will be held Dec. 9 through Dec. 11, 2024, at a new location – the Washington Hilton in Washington, D.C.

Learn more

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