

2015 AICPA National Conference on Current SEC and PCAOB Developments

Compendium of significant accounting and reporting issues

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Summary

Representatives of the Securities and Exchange Commission (SEC or Commission), the Financial Accounting Standards Board (FASB or Board) and the International Accounting Standards Board (IASB) (collectively, the Boards) and the Public Company Accounting Oversight Board (PCAOB) shared their views on various accounting, financial reporting and auditing issues at the annual AICPA National Conference on Current SEC and PCAOB Developments (Conference) last week in Washington, DC.

Highlights included:

Internal control over financial reporting – SEC and PCAOB officials emphasized the importance of strong internal controls throughout the Conference. They observed that recent PCAOB inspection findings on internal control over financial reporting (ICFR) may indicate deficiencies in the design of management's controls, particularly the documentation of key management review controls, and said auditors must take a risk-based approach when auditing ICFR. They said auditors must discuss with management and audit committees their expectations about the extent of documentation management needs to support the effectiveness of key controls, which should be commensurate with the associated risk.

New revenue recognition standards – Representatives of the SEC, the FASB and the IASB discussed efforts to implement the new revenue recognition standards the Boards jointly developed. The SEC staff members stressed the objectives of achieving consistent application of the standards for similar fact patterns and resolving significant implementation issues that could result in diversity in practice when companies adopt the standards. The SEC staff also said it expects disclosures about the effects of the new revenue standards to be more robust as their effective date approaches.

Disclosure effectiveness, including non-GAAP financial measures – Representatives of the SEC and the FASB provided updates on their disclosure effectiveness initiatives. The SEC representatives said they expect additional rulemaking in 2016 related to Regulations S-X and S-K, as well as improved search functionality for filings on the SEC's website. FASB representatives provided an update on the Board's disclosure framework project and its focus on material disclosures. SEC representatives said they were encouraged by recent efforts by companies to make voluntary improvements to their disclosures but highlighted several focus areas where they expect more meaningful disclosures. For example, they said the use and disclosure of non-GAAP financial measures requires close attention.

Segment reporting – SEC and PCAOB representatives said that segment reporting continues to be a critical focus area because investors continue to identify it as the most important disclosure area in SEC filings. They are focusing on whether companies are appropriately identifying and aggregating operating segments, as well as the design and operation of internal controls over these judgments.

Remarks of senior representatives

Remarks by Mary Jo White, SEC Chair

SEC Chair Mary Jo White highlighted the importance of reporting reliable financial information so that investors can make informed decisions. She talked about the shared responsibility of preparers, auditors, audit committees, standard setters and regulators for reliable financial reporting to investors and the vital role each plays in making sure that the US capital markets remain "the safest and strongest in the world."

Internal control over financial reporting

Chair White observed that preparers often make difficult judgments to meet the objectives of US GAAP or IFRS (e.g., revenue recognition, impairment, fair value) and said that reliable financial reporting depends on accounting staff and internal auditors challenging management's conclusions if they have questions about transactions, judgments and risk areas.

Chair White also said that management's ability to fulfill its financial reporting responsibilities depends on effective ICFR. She noted that there is still a debate about the extent of testing and related documentation that companies and auditors are required to perform related to the assessment of ICFR and said the SEC staff is monitoring discussions PCAOB officials are having with companies and auditors about these issues. She encouraged preparers, auditors and regulators to continue the dialogue to address any challenges in the operation and assessment of ICFR but said ICFR must remain "the strong bulwark of reliable financial reporting that it has become."

Non-GAAP measures

Chair White observed that non-GAAP financial measures are used extensively by companies and analysts but can be a source of confusion. Chair White said that the use of non-GAAP measures deserves close attention to make sure that the rules are being followed and to ask whether the rules are sufficient. She asked preparers to carefully consider the following questions when they use such measures:

- ▶ Why is the non-GAAP measure being used and how does it provide investors with useful information?
- ▶ Are any non-GAAP measures being given greater prominence than the GAAP measures?
- ▶ Is the explanation of the non-GAAP measure and its usefulness to investors, accurate and complete rather than boilerplate?
- ▶ Are there appropriate controls over the calculation of the non-GAAP measure?

'... ICFR must remain the strong bulwark of reliable financial reporting that it has become.'

– Mary Jo White, SEC Chair

How we see it

Chair White's comments suggest that the SEC is closely monitoring the expanding use of non-GAAP measures. Registrants should ensure that their non-GAAP measures are transparent, balanced and fully comply with the SEC's requirements.

Gatekeepers for high-quality audits

Chair White talked about the critical role of external audits performed by independent, knowledgeable and skeptical auditors in maintaining the strength of financial reporting. She said the PCAOB's inspection program and enhancements the PCAOB has made to its auditing standards have improved audit quality. However, Chair White expressed concern that PCAOB inspections still find significant deficiencies in various areas and that the SEC has had to bring enforcement actions against audit firms for missing or ignoring red flags.

Chair White expressed concerns about the increasing workload of some audit committees and questioned whether directors who serve on multiple boards and audit committees can effectively discharge their responsibilities. She said that only people who have the time, commitment and relevant experience should be selected to serve on audit committees. She said that audit committees of every public company should be able to properly oversee the auditors and adequately review how management is designing and implementing ICFR and how non-GAAP measures are being used. She noted that the SEC has issued a concept release on possible revisions to audit committee disclosures and said the audit committee report should evolve to meet the needs and expectations of investors.

Standard setters and regulators

Chair White said the FASB needs to preserve its independence and that accounting standards must provide objective, accurate and credible information that is useful for investor decisions. She commended the FASB and the IASB for working jointly in several areas to develop converged, high-quality globally accepted accounting standards (e.g., revenue recognition, business combinations, fair value measurements), even though certain priority projects did not result in completely converged guidance.

She also said that the SEC staff has developed a recommendation for the Commission's consideration on the possibility of allowing US issuers to voluntarily disclose supplemental IFRS information and that the staff will be discussing it with the Commissioners to help them determine a path forward. Chair White further added that she believes "it is important for the Commission, as a Commission, to make a further statement about its general views on the goal of a single set of high-quality global accounting standards."

Chair White observed that the SEC has seen "concrete progress" by companies in making their disclosures clearer and more understandable. However, she said that there is more work to be done. She said that while it may be beneficial to reduce the volume and complexity of disclosures to help investors focus on important matters, there are certain areas (e.g., foreign income taxes) where more transparency would be beneficial. She talked about the status of the SEC's disclosure effectiveness initiative and its request for comment on Regulation S-X requirements. She said that she expects the SEC to issue a release on Regulation S-K in 2016, as well as other changes related to financial statement disclosures and improvements to the presentation of filing information and search tools on the SEC's website (i.e., EDGAR).

Chair White also noted that one of the tools to ensure high-quality financial reporting is a strong enforcement program. She discussed several recent cases in which auditors and other gatekeepers did not meet requirements. She also noted that financial reporting will continue to be a high-priority area for the SEC's enforcement program.

Remarks by James Schnurr, Chief Accountant

ICFR and enforcement actions

Mr. Schnurr said management's ability to fulfill its financial reporting responsibilities depends on the effective design and operation of ICFR. He noted that the PCAOB continues to issue frequent inspection findings related to ICFR, which may reflect not only inadequate audit execution but also deficiencies in management's controls and assessments. He encouraged auditors, management and audit committees to have a robust discussion about the design and assessment of ICFR.

He also said that the SEC's Enforcement Division has focused on internal control matters and the role of gatekeepers, including audit firms and audit committee members. He highlighted recent enforcement actions brought against audit firms for dismissing red flags and failing to evaluate contrary evidence and exercise professional skepticism.

IFRS reporting by US registrants

As mentioned by Chair White, Mr. Schnurr said the SEC staff will soon discuss its recommendation with the Commissioners to allow US issuers to voluntarily disclose IFRS information as a supplement to their US GAAP financial statements. The SEC staff's recommendation would permit companies to voluntarily provide IFRS information without it being considered non-GAAP information subject to additional disclosures, including reconciliation to US GAAP.

In response to a question, Mr. Schnurr said that he believes there will be market demand for voluntary IFRS disclosures by certain US issuers, particularly if they have foreign peers that adopt new IFRS standards that are not converged with US GAAP.

In the near term, Mr. Schnurr emphasized the importance of continued convergence efforts in order to further the objective of a single set of a high-quality global accounting standards.

Disclosure effectiveness

Mr. Schnurr said that companies must have appropriate processes and internal controls to apply judgment about financial statement disclosures. He observed that these judgments might result in eliminating immaterial disclosures or adding disclosures beyond the specific requirements to avoid misleading investors. The process of making such judgments should include coordination between management and the audit committee as well as consideration of the perspective of a "reasonable investor." Mr. Schnurr also emphasized the need for registrants to reevaluate whether existing disclosures continue to be relevant.

As part of the SEC's disclosure effectiveness initiatives, Mr. Schnurr shared that the staff expects to coordinate with the FASB to reduce duplication in the SEC and FASB disclosure requirements in addition to making other recommendations to the Commission.

Mr. Schnurr supported the recent efforts by the FASB to develop a disclosure framework that emphasizes principles and materiality when communicating information to users rather than a checklist of required disclosures.

Auditor independence

Mr. Schnurr noted that the staff is focused on the growing consulting practices of accounting firms. He said that consulting practices may benefit accounting firms by fostering specialized skill sets and driving profits that can be invested in improving audit quality but said this trend may raise independence questions when there are not appropriate safeguards to mitigate "scope creep" in consulting engagements.

The Commission will soon consider the SEC staff's recommendation to allow US issuers to voluntarily provide supplemental IFRS information.

Audit committee oversight

Mr. Schnurr observed that many audit committees have assumed responsibilities beyond regulatory requirements, such as the oversight of cybersecurity risks, emerging technologies and other compliance risks. He suggested that audit committees may need to “get back to basics” in their oversight of financial reporting, including:

- ▶ The appointment, compensation and oversight of auditors
- ▶ Preparation and disclosure of the audit committee charter
- ▶ Audit committee reporting to shareholders

He stressed the need for audit committees to establish a culture of compliance, ask probing questions about management’s significant judgments and estimates and require follow-up on corrective actions when necessary. He also said that the selection of the independent auditor should be based principally on audit quality not the audit fee. He encouraged audit committee members to consider the PCAOB’s concept release on audit quality indicators, which can be used to help evaluate audit quality even without further PCAOB action.

PCAOB standard-setting activities

Mr. Schnurr commended the PCAOB for efforts to improve its standard-setting process, which included engaging an external consultant to review the process. While he noted that the PCAOB plans to adopt a final transparency rule and is moving ahead with its auditor reporting project, he emphasized the importance of finalizing auditor performance standards as the most effective way to improve audit quality.

Remarks by Russell Golden, Chairman of the FASB

FASB Chairman Russell Golden echoed SEC Chair White’s remarks on the importance of maintaining independence from the influence of politics and special interests in setting financial accounting and reporting standards. For many FASB projects (e.g., impairment of financial instruments, leases, materiality), stakeholders and, in some cases, members of the Board, have expressed conflicting points of view. Mr. Golden said that it is the Board’s job to sort through these views and to set standards that accurately reflect economic transactions and provide the most useful information to users of financial statements.

Mr. Golden commented on the ongoing implementation efforts for the revenue recognition standard and what has been learned during that process to prepare for the implementation of future standards. He also discussed the status of several other active projects and briefly discussed the future direction of the FASB’s agenda.

Revenue recognition standard

The FASB and the IASB formed a transition resource group (TRG) to help manage implementation issues for the new revenue recognition standard in an effort to limit diversity in how preparers interpret the standard prior to its effective date. Mr. Golden indicated that this was a successful initiative and has helped the Boards promote global comparability in revenue. He said 98% of the 87 implementation questions raised by constituents have been discussed by the TRG or resolved with the FASB staff. Although most of the issues discussed by the TRG did not lead to additional standard-setting, the results of those discussions help to educate stakeholders about the new standard. The FASB also has issued three proposals based on feedback from the TRG. Mr. Golden said that the practical expedients and other proposals will reduce the cost and complexity of applying the standard without significantly changing the quality of the information reported to users of financial statements.

Impairment of financial instruments

Mr. Golden said that the Board intends to apply the lessons learned in implementing the revenue recognition standard to the implementation of the upcoming standard on the impairment of financial instruments. As a result, a TRG has been formed before the standard is issued to identify any significant issues requiring the FASB's attention.

One of the major issues that TRG is facing involves misconceptions about what the standard will require. Mr. Golden addressed and dispelled each of the following common misconceptions related to the credit impairment standard:

- ▶ The new standard will require businesses to develop and install costly, complex new systems.
- ▶ Bank examiners will take a more conservative view than the standard requires.
- ▶ The credit crisis involved only large banks.
- ▶ The standard takes an unrealistic view of the economics of loan financing.

Other projects

Disclosure framework

The FASB's two materiality proposals in its disclosure framework project have received a lot of attention. The first would amend the definition of materiality in the Conceptual Framework to conform to the definition that is used by the SEC and PCAOB. Mr. Golden indicated that this proposal would not change the legal definition of materiality, as the FASB does not have this authority. Mr. Golden also clarified that the amended Concepts Statement would only apply to the Board's observation of materiality as part of its standard-setting process and would not apply to preparers and auditors.

The second Exposure Draft is intended to clarify the process that preparers follow in assessing the materiality of information in notes to financial statements. Mr. Golden indicated that this proposal would clarify what the Board understands to be the predominant current practice related to the assessment of materiality by preparers.

Leases

The FASB plans to issue its new leases standard in early 2016. Mr. Golden said that the Board is not planning to create a TRG for the leases standard, but will carefully monitor discussions with stakeholders during the implementation process and will be prepared to increase its education efforts if needed.

The new leases standard will require lessees to recognize most leases on their balance sheets. One of the major concerns the FASB heard was that additional liabilities would affect compliance with debt covenants. Mr. Golden stated that lenders have told the FASB that the addition of lease liabilities to a company's balance sheet will not alter a lender's view of the organization's financial position because most lenders currently adjust financial statements to recognize lease liabilities when making lending decisions. However, to help mitigate concerns, the FASB decided that most lease liabilities should be characterized as operating obligations in the financial statements rather than obligations that are equivalent to debt.

Future agenda

Mr. Golden said the FASB recently conducted a survey to identify future projects that should be considered a priority for the Board. The top five areas for improvement in financial reporting identified in the survey were (1) financial performance reporting, (2) cash flow classification, (3) pensions and other post-retirement benefits, (4) liabilities and equity and

(5) intangible assets. He also said that segment reporting was the top area of improvement identified by investors. Stakeholders will be given an opportunity to comment on a discussion paper that includes these and other potential FASB projects. The FASB plans to issue the discussion paper in early 2016.

Remarks of PCAOB Chairman James Doty

PCAOB Chairman James Doty observed that the PCAOB's overall responsibility is to serve investors by setting audit and professional standards, performing inspections of audits and firms' quality control systems and, when necessary, taking disciplinary actions against auditors who fail to comply with the standards. He stated that the PCAOB focuses auditors on their role as gatekeepers to the capital markets when they determine and report on whether a company's financial statements comply with the relevant financial reporting framework.

He said the PCAOB's work has resulted in the following three trends:

- ▶ Auditor conduct has changed.
- ▶ Audit quality has improved.
- ▶ The audit has gained credibility from stakeholders due to credible regulation.

Inspections update

Mr. Doty noted that, for firms that are committed to remediating deficiencies and identifying root causes, inspection findings have started to decline. He believes the PCAOB has established an interactive, fair and transparent inspection process. The PCAOB plans further engagement with preparers and audit committee members to educate and inform them about the inspection process and the results of inspections and help the PCAOB better understand the effects of its inspection process.

Mr. Doty spoke about the PCAOB's inspections in 46 foreign jurisdictions and expressed optimism that the European Commission's Adequacy Decision will be renewed in 2016. The PCAOB continues to have challenges reaching an agreement to perform inspections in China. In June, a pilot inspection program was approved by the China State Council, but Mr. Doty said it has been difficult to finalize the details of the program.

Auditor incentives

Mr. Doty stated that the PCAOB's programs both deter bad conduct and incentivize exemplary conduct. He said the PCAOB works to recognize the effects of incentives, both systemic and personal, and implement countermeasures for those that adversely affect audit quality.

Mr. Doty stated that research by the PCAOB's Center for Economic Analysis indicates there is a statistically significant increase in effort by the engagement partner and quality reviewer in the year following a deficiency being identified through inspections, without a statistically significant change in fees. The research also indicates that there is a statistically significant decrease in effort and increase in restatement rate following inspections in which no significant deficiencies were identified.

Mr. Doty also said audit committees that see their job as negotiating the lowest audit fee may not always be promoting audit quality. In his view, highly competent and strong audit committees promote auditor objectivity and independence from management.

Standard-setting projects

Mr. Doty said the PCAOB's standard-setting considers appropriate audit procedures as well as mechanisms that provide appropriate auditor incentives, with the overriding objective of enhancing the relevance and reliability of the audit. Mr. Doty highlighted the status of several ongoing projects and said the Board soon will adopt a final rule related to the disclosure of the engagement partner.

Maintaining public confidence

Mr. Doty said this is an exciting time to be in or entering the audit profession but noted that the profession faces the challenge of maintaining public confidence in the audit. He observed that auditors' value to the capital markets resides in their ability to provide an independent, objective and skeptical mindset when evaluating a company's financial statements.

Internal control over financial reporting

As discussed earlier, ICFR continues to be a source of significant PCAOB inspection findings. The SEC Chair and Chief Accountant stressed the importance of ICFR in providing high-quality financial information to investors and said the level of PCAOB inspection findings likely indicated problems with companies' controls.

In his remarks, the PCAOB Chair acknowledged that PCAOB inspections of audits of internal control had raised concerns among preparers about the extent of the auditor's assessment of management review controls, including the assessment of their precision and the level of documentation needed to support their effective operation. A panel comprised of representatives of the SEC, the PCAOB, large accounting firms and preparers discussed these and related matters:

- ▶ *Management review controls* – Panelists noted that not all management review controls are created equal. Representatives from the SEC and PCAOB said the Commission's guidance for management¹ and the PCAOB's Auditing Standard (AS) No. 5 are aligned with respect to the assessment of financial reporting risks and the selection of controls that adequately address those risks. They reinforced the importance of management and auditors having an appropriate understanding of the design of the management review control in order to assess whether it operates at a sufficient level of precision to address the financial statement risk(s) or whether lower level controls also need to be tested. SEC staff noted that in a number of higher-risk areas, it is unlikely that management review controls alone would be sufficient to address the risk, given the number of judgments required and the inputs needed to make them.
- ▶ *Population of controls* – During their outreach, the SEC and PCAOB noted that, in some cases, auditors and management were testing different controls to address certain financial reporting risks. Panelists noted that, in some cases, auditors may be testing lower-level controls while management may be relying on higher-level review controls. The panelists noted that management and the auditor may reach different conclusions about the precision of controls and said it is important that auditors and management communicate to make sure they understand the reasons for any differences. These discussions can help both parties understand the controls and potentially lead to improvements in the design of the controls or the control-testing approach. Discussing these differences also could minimize the risk of auditors and management reaching different conclusions on the effectiveness of the controls.

- ▶ *Evaluation and evidence of effectiveness of controls* – Mr. Schnurr and Brian Croteau, SEC Deputy Chief Accountant, stressed that the Commission’s guidance for management requires documentation of how the design of a control addresses the relevant financial reporting risk as well as evidence to support that the control is operating effectively. Importantly, Mr. Croteau said the Commission’s guidance requires more evidence of the operating effectiveness of controls in higher-risk areas. Mr. Croteau also noted that this principle is integral to the performance of an assessment using a risk-based approach, supports effective and consistent operation of the company’s controls over time and is consistent with the auditor’s requirements under AS 5.
- ▶ *Auditor’s use of templates and checklists* – Panelists observed that auditors frequently use templates and checklists to facilitate ICFR documentation. Staff members from the SEC and PCAOB said these templates and checklists can help auditors consistently consider and document important elements of their procedures, particularly in higher-risk areas. However, the panelists agreed that templates and checklists should not be used as substitutes for auditor judgment and understanding, and they encouraged management and auditors to discuss any questions regarding the nature and purpose of the auditor’s procedures.

In other remarks regarding material weaknesses in ICFR, Mr. Croteau reminded management and auditors that evaluating the severity of a control deficiency requires consideration of the “could factor,” meaning whether it is reasonably possible that a material misstatement “could” occur and not be prevented or detected on a timely basis. That is, management and the auditor should not just consider whether a material misstatement occurred. Mr. Croteau also discussed the importance of considering whether changes to internal controls in conjunction with the adoption of a new accounting standard require disclosure as material change in ICFR in the relevant quarter under Item 308(c) of Regulation S-K.

How we see it

- ▶ We support the efforts by the SEC and PCAOB to encourage dialogue between financial statement preparers and auditors in response to the number of PCAOB inspection findings involving audits of ICFR.
- ▶ Management and auditors should work together early in the audit process to understand and agree on the level of documentation that should be retained by both parties for the audit of ICFR.

EY resources

- ▶ [Financial reporting developments](#), [Segment reporting](#) (SCORE No. BB0698)

Accounting and independence matters

Segment reporting

Courtney Sachtleben, a staff member in the Office of the Chief Accountant (OCA), said that over the past year, OCA has been working closely with the Division of Corporation Finance and others, including the PCAOB, to emphasize the objectives and principles outlined in the standard on segment reporting. Ms. Sachtleben and other members of the SEC staff shared their observations related to the identification of operating segments, aggregation into reportable segments and ICFR.

Identification of operating segments

Accounting Standards Codification (ASC) 280 requires entities to identify operating segments in a manner consistent with the way management organizes the segments (i.e., management's approach). Ms. Sachtleben observed that, as business operations evolve, registrants should reassess their identification of operating segments, particularly after a change in organizational structure, key personnel changes or significant acquisitions and dispositions.

Ms. Sachtleben said that the periodic financial reporting package provided to the Chief Operating Decision Maker (CODM) and the registrant's organizational structure will often provide insight into how management has organized the company for purposes of making operating decisions and assessing performance. However, she cautioned that neither is determinative in the identification of operating segments and that a variety of information sources can enhance and corroborate this analysis, including information about the basis on which budgets and forecasts are prepared and how executive compensation is determined.

Ms. Sachtleben said that if applying the guidance in ASC 280 results in the identification of a single operating segment, a registrant should disclose that it allocates resources and assesses financial performance on a consolidated basis and explain the basis for that management approach. However, she said that it would seem counter to the objectives of segment reporting if the business description indicates the company is diversified across businesses or products but is not managed in a disaggregated way.

Nili Shah, a Deputy Chief Accountant in the SEC's Division of Corporation Finance, also discussed segment reporting in a panel with other members of the Division. Regarding the identification of operating segments, she emphasized the following points:

- ▶ When identifying the CODM, companies should focus on which person or group in the organization is making the key operating decisions and not necessarily the person who has the ultimate decision-making authority (e.g., CEO). ASC 280 contemplates that a company's Chief Operating Officer may be the CODM.
- ▶ When determining whether discrete financial information is available, a company shouldn't conclude that such information is not available simply because certain costs are shared and not allocated specifically to each component. She said this view would not be persuasive. Gross profit information provided to the CODM and used to assess performance and make resource allocation decisions could be considered discrete financial information.

Aggregation of operating segments

While the identification of operating segments follows a management approach, the determination of reportable segments considers both aggregation criteria and quantitative thresholds. The aggregation of operating segments is one of the more judgmental areas of the segment reporting literature. Two or more operating segments may be aggregated into a single reportable segment only when all the following criteria are met: (1) aggregation is consistent with the objectives and principles of ASC 280, (2) the segments have similar economic characteristics and (3) the segments are similar in each of the five criteria specified in the standard.

Ms. Sachtleben reminded registrants that the guidance on determining whether two operating segments are "similar" requires the evaluation to be made relative to the range of the company's business activities and the economic environment in which it operates. She added that it would be helpful to consider similarity from the perspective of a reasonable investor and that it is important to consider information such as industry reports and other analyses by users of the financial statements that may provide evidence of how a reasonable investor would analyze the company.

Ms. Sachtleben also reminded registrants that once they identify segments that require separate reporting, they need to consider additional guidance on combining any remaining segments. She said that in performing this analysis, registrants should consider what additional level of detail would be useful to the users of the financial statements consistent with the first criterion above. She noted that registrants also may want to consider whether their reportable segments facilitate a consistent description of the company in its annual report and other published information such as its earnings releases, investor presentations and financial information on its website.

Ms. Shah also highlighted aggregation of operating segments as an area of focus in the review of filings by the staff in the Division of Corporation Finance, and she emphasized the following points:

- ▶ When responding to SEC staff comments on segment disclosures, companies should discuss why aggregation is consistent with the objectives and basic principles of ASC 280 (i.e., how aggregation helps users better understand the company's performance and assess its prospects for future net cash flows).
- ▶ When evaluating economic similarity, registrants should understand that there are no bright lines and significant judgment is required. In addition, the types of metrics considered and the acceptable level of differences in those metrics among the segments being evaluated for aggregation may differ across industries.
- ▶ An expectation that operating segments will have similar economic characteristics (e.g., long-term average gross margins) in the future does not take precedence over the lack of similarity in current and past performance.
- ▶ The SEC staff has increased its focus on the qualitative criteria in ASC 280. She reminded registrants of the requirement to meet all of the aggregation criteria in ASC 280 and said that at times the staff has objected to aggregation even when the quantitative economic characteristics were considered similar.

Effective internal control over financial reporting supports the judgments required in segment reporting.

Internal control over financial reporting

Ms. Sachtleben highlighted that the guidance on segment reporting requires the application of reasonable judgment and that effective ICFR supports those judgments, including the determination of operating segments, aggregation and entity-wide disclosures. Input from, and interaction with, the CODM may be an important element in the design of effective ICFR, specifically how the CODM allocates resources and assesses performance. She said that documenting the design and effective operation of management's controls over these judgments is an integral part of management's support for the effectiveness of its ICFR and will be essential to the auditor's ability to evaluate these controls.

Other segment reporting discussions and considerations

Wesley Bricker, Deputy Chief Accountant, observed that segment reporting was ranked in the top three consultation areas in OCA during 2015. Mr. Bricker observed that some registrants have contended in their consultations, including on segment reporting, that they should not be required to apply a US GAAP standard because the result would be "competitively harmful" or "misleading." He noted that these arguments are troubling because they disregard the thoughtful balance taken by the accounting standard setters in crafting reporting standards that provide transparent, useful information to investors. He concluded that a better approach starts with identifying what information is useful to investors, as well as why and how that information can be appropriately reported.

Ms. Shah also mentioned that when the SEC staff has objected to a company's segment reporting conclusions, it generally has permitted the registrant to reflect changes to its segment disclosure in future filings. However, she cautioned that if goodwill is impaired as a result of a change in the registrant's reporting units, the SEC staff likely would require restatement of prior periods.

Finally, Helen Munter, Director of the PCAOB's Division of Registration and Inspections, said that PCAOB inspections in 2016 will include a focus on segment reporting, including the identification of the CODM, the identification and aggregation of operating segments, and the continued assessment of an issuer's ICFR related to segment reporting.

How we see it

Segment reporting continues to be a top focus area by the SEC staff. Entities should continue to reassess their segment reporting conclusions and evaluate whether internal controls are designed to make sure that the CODM, operating segments and reportable segments are appropriately identified in accordance with ASC 280. Management review controls often will be an important element of a registrant's internal control over segment reporting.

EY resources

- ▶ [Financial reporting developments, Share-based payment](#) (SCORE No. BB1172)

Effect of post-vesting restrictions on the measurement of share-based awards

ASC 718-10-30-10³ clarifies that "a restriction that continues in effect after an entity has issued instruments to employees, such as the inability to transfer vested equity share options to third parties or the inability to sell vested shares for a period of time, is considered in estimating the fair value of the instruments at the grant date."

Barry Kanczucker, a member of the OCA staff, addressed the effect of post-vesting restrictions on the measurement of share-based payment awards and noted that market participant assumptions used in the fair value measurement of a restricted share may result in some discount relative to the fair value of a similar but unrestricted share. However, Mr. Kanczucker noted the SEC staff looks to ASC 718-10-55-5 to evaluate the appropriateness of any discount. It states that "if shares are traded in an active market, post-vesting restrictions may have little, if any, effect on the amount at which the shares being valued would be exchanged." He encouraged registrants to consult with the SEC staff if they believe their post-vesting restrictions would result in a significant discount being applied to the grant-date fair value of an award.

EY resources

- ▶ [To the Point, Potential alternative to develop discount rates used to measure defined benefit plan costs](#) (SCORE No. BB3053)

Discount rates used to measure the interest cost of defined benefit pension plans

The interest cost component of net periodic pension cost is the increase in the projected benefit obligation due to the passage of time at a rate equal to the assumed discount rate. Many companies use a weighted average discount rate, developed using a yield curve, to calculate the interest cost.

Ashley Wright, a member of the OCA staff, discussed a recent consultation on an alternative approach (a spot rate approach) to determine the discount rate used in the interest cost calculation. Under a spot rate approach, a company that determines its discount rate from a yield curve uses the individual spot rates along the yield curve that correspond with the timing of each future cash outflow for benefit payments to calculate interest cost. Ms. Wright stated that the use of individual discount rates results in a different amount of interest cost compared with the interest cost calculated using a weighted-average discount rate.

Ms. Wright indicated that the SEC staff would not object to a registrant that employs the yield curve approach changing from using a weighted average discount rate approach to a spot rate approach for measuring interest cost and accounting for this change as either a change in estimate or a change in estimate inseparable from a change in accounting principle.

However, Ms. Wright shared the following observations about companies that use a different method for measuring the pension benefit obligation (e.g., hypothetical bond matching methodology) and are considering changing to a yield curve methodology and the spot rate approach:

- ▶ A company's decision to select, or change the selection of, a particular methodology for determining the discount rate should align with the requirement to select the best rate(s) for which the obligation could be effectively settled.
- ▶ A change in the methodology used to determine the discount rate should be made only if alternative market information (i.e., source data) results in better information being used in measuring the pension benefit obligation.
- ▶ The selection of a best estimate is generally not made on the basis of materiality.
- ▶ Any change in the method used to calculate the best estimate of those rates should be made when a change in the facts and circumstances may warrant the use of a different method.
- ▶ A registrant may need to consider its arguments when it previously changed from a yield curve approach to a bond matching approach (if applicable).
- ▶ A change in the approach to calculate interest cost would not seem persuasive to change the basis for selecting a different source of market information (i.e., the approach to determining the discount rate(s)) used for measuring the pension benefit obligation.

The SEC staff said the examples in the accounting standard about discontinued operations do not establish bright lines or safe harbors.

How we see it

A registrant that believes it has facts and circumstances that would support a change from the bond matching approach to the yield curve approach, considering the points above, should discuss its fact pattern with the SEC staff.

EY resources

- ▶ [Financial reporting developments](#), [Discontinued operations](#) (SCORE No. BB2878)

Presentation of discontinued operations

The revised guidance in ASC 205-20 raises the threshold for reporting a discontinued operation by requiring that a component (or group of components) disposed of or classified as held for sale represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Mr. Kanczucker discussed how ASC 205-20 allows for judgment to determine whether a disposal group meets the definition of a discontinued operation under the revised guidance.

He addressed concerns about which financial results should be considered in evaluating whether a disposal group is a discontinued operation. In his view, these metrics should be the primary metrics that are prominently presented in the financial statements and communicated to investors (e.g., revenue, net income) as well as other metrics that may be relevant from an investor's perspective, particularly when the company has used such measure(s) on a consistent basis for communicating operating and financial results. There is no single financial metric that is determinative of whether a disposal group meets the discontinued operations criteria. Instead, the totality of the evidence should be considered from the perspective of current, historical and forecast financial results.

In Mr. Kanczucker's view, entities should consider both quantitative and qualitative factors when determining whether a disposal group represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASC 205-20 provides examples that include quantitative thresholds (e.g., 15% of total revenue, 20% of total assets) of what may constitute a strategic shift that has or will have a major effect on an entity's operations and financial results. However, Mr. Kanczucker indicated that the quantitative thresholds included in these examples are illustrative and do not establish bright lines or safe harbors. The staff member also noted that the less significance a disposal group has to the financial results, the more qualitative evidence is needed to support discontinued operations presentation (e.g., entities should consider how the disposal group and related qualitative factors were disclosed in previous filings).

EY resources

- [Financial reporting developments](#), [Fair value measurement](#) (SCORE No. BB1462)

Fair value measurements

Kris Shirley, a member of the OCA staff, discussed several considerations for companies determining fair value measurements.

Identifying the principal or most advantageous market

A fair value measurement assumes the transaction to sell an asset or transfer a liability takes place in either the principal market or, in the absence of the principal market, the most advantageous market for the asset or liability. If an entity cannot transact in a market on the measurement date, that market may not constitute the principal or most advantageous market.

Mr. Shirley said that the company may need to consider whether the characteristics of its asset or liability being measured at fair value differ from the asset or liability that transacts in an observable market, as differences may prevent the company from accessing this market. This determination could lead to a different conclusion about whether the observable market is the principal or most advantageous market. For example, restrictions that may be unique to the entity's asset or liability that are not embedded in the asset or liability in the observable market may prevent an entity from accessing the particular price within the market. He also said there may be situations in which the market where the initial transaction occurred will not be the principal or most advantageous market.

Mr. Shirley noted that even when a market does not constitute the principal or most advantageous market, a company may still use observable prices from that market as one input into its fair value measurement. However, appropriate adjustments should be made for any differences in the characteristics of the company's particular asset or liability and those for which there is an observable price. Mr. Shirley provided an example of a company that measures a loan at fair value and on the measurement date looks to the securitization market for observable prices. The company would need to make appropriate adjustments to reflect the fact that its loan has not been securitized as of the measurement date.

Use of cost basis as fair value

Mr. Shirley observed that some companies use the initial cost basis of certain illiquid assets or liabilities as their fair value measurement for a period of time following the initial transaction. He noted that in determining fair value of an asset or liability, the transaction price may be a good starting point, but fair value under ASC 820 is an exit price at the measurement date under current market conditions and those conditions likely will be different from when the initial investment was made. This may be due to a number of factors, including changes in macroeconomic conditions (e.g., changes in interest rates), a change in market participants or a change in the expectation of cash flows.

Mr. Shirley said that companies will need to obtain evidence to support a conclusion that cost basis approximates fair value at the measurement date or why the fair value may not have changed materially from the initial cost basis. This may be supported through quantitative evidence, such as observable market pricing for the asset or liability or for comparable assets or liabilities with observable market prices, or qualitative evidence in certain cases.

ICFR for fair value measurements

Mr. Shirley also provided reminders about the importance of having a system of internal control over financial reporting related to fair value measurements, including those for illiquid assets or liabilities. The nature of these controls may differ based on the complexity of the estimate and whether the estimate was derived internally or by using a third-party service provider, among other factors.

Allowance for loan losses

Christopher Rickli, a member of the OCA staff, provided several reminders on management's responsibility under the SEC staff guidance in Staff Accounting Bulletin (SAB) Topic 6.L⁴ for determining the allowance for loan losses (ALL).

Mr. Rickli said SAB Topic 6.L establishes expectations for management related to the development, documentation and application of a systematic methodology for determining the ALL. This includes an expectation that management will provide written documentation on certain decisions, strategies and processes for its ALL methodology. These processes should include effective internal controls designed to ensure use of relevant, reliable and sufficient data on which to base the ALL estimate. Mr. Rickli noted that these controls should not only include management review controls, but also transaction level controls in order to satisfy SAB Topic 6.L's expectations of data relevance and reliability.

When adjustments are made to the allowance that are intended to capture factors not already included in the entity's loss estimation model (e.g., changes in risk selection and underwriting standards, lending policies and certain economic trends and conditions), Mr. Rickli said that there is an expectation that management maintain sufficient, objective evidence to support the amount of the adjustments and explain why the adjustments are necessary. Also, management is expected to have an adequate understanding of the data currently being used in the ALL estimation model in order to be able to evaluate the necessity and the reasonableness of proposed adjustments.

EY resources

- ▶ *Financial reporting developments, Consolidation and the Variable Interest Model: Determination of a controlling financial interest (following the adoption of ASU 2015-02, Amendments to the Consolidation Analysis) (SCORE No. BB3099)*

Determining whether fees are a variable interest

Mr. Semesky discussed several considerations when determining whether a decision maker's fee is a variable interest when applying Accounting Standards Update (ASU) 2015-02, *Amendments to the Consolidation Analysis*.⁵

Three conditions must all be met to conclude that fees received by an entity's decision maker or service provider do not represent variable interests in that entity:

- ▶ The fees are compensation for services provided and are commensurate with the level of effort required to provide those services (i.e., commensurate).
- ▶ The service arrangement includes only terms, conditions or amounts that are customarily present in arrangements for similar services negotiated at arm's length (i.e., customary).
- ▶ The decision maker or service provider (and its related parties or de facto agents) does not hold other interests in the variable interest entity (VIE) that individually, or in the aggregate, would absorb more than an insignificant amount of the VIE's expected losses or receive more than an insignificant amount of the VIE's expected residual returns.⁶

Customary and commensurate

Mr. Semesky said that the determination of whether fees are commensurate often can be accomplished with a qualitative evaluation of whether an arrangement was negotiated on an arm's-length basis when the decision maker had no obligations other than to provide the services to the entity being evaluated for consolidation. He cautioned that this analysis requires a careful consideration of the services to be provided in relation to the fees.

On the evaluation of whether terms, conditions and amounts included in an arrangement are customary, Mr. Semesky said that this may be accomplished in ways such as benchmarking the key characteristics of the arrangement against other market participants' arrangements negotiated on an arm's-length basis or, in some instances, against other arm's-length arrangements entered into by the decision maker. Mr. Semesky emphasized that there are no bright lines in evaluating whether an arrangement is customary, and reasonable judgment is required in such an evaluation.

How we see it

The SEC staff member's observations are consistent with our view that determining whether a fee is commensurate and customary requires the use of professional judgment and a qualitative evaluation of the purpose and design of each entity and the terms and conditions of the fee arrangement. The presence of unrelated investors may be helpful in performing this evaluation, but is not determinative; all facts and circumstances should be considered.

Interests held by related parties

ASU 2015-02⁷ states that, when an entity evaluates whether the fees paid to a decision maker or service provider are a variable interest, "any interest in an entity that is held by a related party of the decision maker or service provider should be considered in the analysis. Specifically, a decision maker or service provider should include its direct economic interests in the entity and its indirect economic interests in the entity held through related parties, considered on a proportionate basis ... Indirect interests held through related parties that are under common control with the decision maker should be considered the equivalent of direct interests in their entirety." Questions have arisen about how a decision maker (e.g., manager) should apply this guidance when the decision maker does not have an ownership interest in the related party under common control (i.e., when the decision maker does not have an indirect interest).

Mr. Semesky highlighted an example in which an entity has four investors that are unrelated to one another and has a manager that is under common control with one of the investors. The manager has no direct or indirect interests in any of the investors or the entity other than through its fee, and it has the power to direct the activities of the entity that most significantly impact its economic performance.

Mr. Semesky said that in this example, if the manager's fee would otherwise not meet the criteria to be considered a variable interest (i.e., it was customary and commensurate), the fact that an investor under common control with the manager has a variable interest would not by itself cause the manager's fee to be considered a variable interest. However, Mr. Semesky cautioned that when a controlling party in a common control group designs an entity to separate power from economics to avoid consolidation in the separate company financial statements of a decision maker, OCA has viewed such separation to be non-substantive.

Additionally, Mr. Semesky concluded that once the manager determined that its fee is not a variable interest, it would not be required to consolidate the entity as a result of applying the related party tiebreaker test.

How we see it

The SEC staff member's observations on evaluating interests held by parties under common control provide much needed clarity to entities as they adopt the new consolidation standard. Absent the clarification, in many cases, the manager would have considered the interest of the party under common control as its own interest, which may have caused the fee to be considered a variable interest. While such a conclusion may not have resulted in consolidation of the entity by the manager, it would have resulted in further analysis by the manager and may have subjected the manager to additional disclosures.

EY resources

- ▶ [Technical Line, New Venezuelan currency regime – same accounting and reporting considerations](#) (SCORE No. BB2970)

Foreign exchange restrictions and evaluating control

Mr. Semesky noted that OCA has observed registrants deconsolidating subsidiaries in Venezuela. He reminded registrants of the need to reassess that conclusion continuously. If the conclusion to deconsolidate was based on foreign exchange restrictions and the severity of government-imposed controls, an improvement in exchangeability or loosening of government-imposed controls may result in the restoration of control and consolidation. He said that he would expect consistency in a registrant's judgments of whether it has lost control or regained control of a subsidiary, and that registrants should have internal controls over the assessment.

Further, Mr. Semesky cautioned that careful consideration should be given to whether a Venezuelan subsidiary would be considered a VIE, because power may no longer reside with the equity-at-risk holders. As a result, Mr. Semesky stated that registrants should clearly disclose their judgments on, and the financial reporting effect of, deconsolidation. They should also consider the required disclosures for interests in VIEs that are not consolidated.

How we see it

The conclusion to deconsolidate a Venezuelan operation (or to change the accounting for an investment from the equity method to the cost method) should be based on entity-specific facts and circumstances and will require significant judgment.

Accounting consultation activities and restatements

Mr. Bricker commented that OCA's primary consultation activities included revenue recognition, business combinations and identification and reporting of segments (which interestingly are not in the top three areas of restatement, he noted). For consultations that come through the Division of Corporation Finance, he cautioned registrants against benchmarking other registrants' disclosures or responses to SEC comment letters to establish their accounting policies without management doing the necessary work to determine and support their own policies.

Mr. Bricker provided observations regarding the top three restatement areas, which relate to debt/equity accounting, statement of cash flows classification and income tax accounting. Because the guidance in these areas can be difficult to apply, Mr. Bricker reminded companies and audit committees about the need to continually assess whether they have resources with sufficient training and competence available to support high-quality financial reporting and make sure proper controls and processes exist.

Auditor independence matters

Michael Husich, Senior Associate Chief Accountant in OCA, and Mr. Croteau emphasized that compliance with the auditor independence rules is the shared responsibility of auditors, management and the audit committee. When non-audit services are provided, the SEC staff members encouraged management and the audit committee to have policies and procedures for ongoing monitoring of the services provided. Mr. Croteau further highlighted the risk of “scope creep” that could impair auditor independence, result in unplanned changes in auditors and the potential need for re-audits, which can be costly for companies and could adversely affect capital-raising activities.

Mr. Husich discussed prohibited services related to bookkeeping services and financial statement preparation for broker-dealer audit clients, which have led to recent SEC and PCAOB enforcement actions. He emphasized that prohibitions on these services are not intended to discourage two-way communications or further engagement between the auditor and its audit client, as long as management takes ultimate responsibility for the accounting conclusions and does not rely on the audit firm to design or implement the controls. For example, SEC staff noted that audit firms may provide guidance about the proper application of the revenue recognition standard, including important factors to be considered in making judgments important to the accounting process. However, SEC staff cautioned that audit firms should always be mindful to not put themselves in the position of auditing their own work or of acting as management by, for example, having direct involvement in the development of specific revenue recognition policies.

Financial reporting and disclosure matters

SEC staff from the Division of Corporation Finance discussed specific reporting matters it commonly focuses on in filing reviews and in which disclosures could be more effective.

Non-GAAP financial measures

Keith Higgins, Director of the SEC’s Division of Corporation Finance, reiterated the SEC’s focus on non-GAAP measures, which Chair White highlighted in her remarks. Cicely LaMothe, Associate Director in the Division of Corporation Finance, outlined the following general themes related to the staff’s review of non-GAAP measures:

- ▶ **Prominence** – Non-GAAP measures should not be presented more prominently than the comparable GAAP measures.
- ▶ **Compliance with securities rules** – Depending on the presentation, non-GAAP measures must comply with the disclosure and presentation requirements of Regulation G or Item 10(e) of Regulation S-K. In particular, registrants must clearly disclose how the non-GAAP measures are useful to investors without using boilerplate language.
- ▶ **Labeling** – Registrants should clearly label non-GAAP measures and related adjustments so they are understandable and not misleading. For example, registrants sometimes identify non-GAAP measures or adjustments using terms that are used in US GAAP, or they use a non-GAAP measure that they define differently than other companies. Instead, registrants should accurately describe the non-GAAP measures in their disclosures to minimize confusion and foster comparability.
- ▶ **Consistency** – As registrants make changes to their non-GAAP measures (or GAAP measures used as a base for non-GAAP), appropriate disclosures should be made to describe how these changes affect comparability with the measure previously disclosed.

SEC staff members also made the following points about specific non-GAAP measures. They said adjustments to pension costs should provide enough information for a user to understand the nature of the adjustments made. For example, a label such as “pension adjustment” does not provide enough information. In addition, describing the adjustment as non-cash is inappropriate because pensions are generally cash settled. They also said registrants should provide robust disclosures when eliminating the actuarial gain or loss on pension assets to help users understand the ultimate pension cost reflected in the non-GAAP measure as well as how the expected rate of return reflected in the non-GAAP measure compares with the actual rate of return.

The SEC staff has recently allowed registrants to disclose a “system-wide sales” non-GAAP measure with appropriate disclosures, but the staff has objected to measures that eliminate the effect of commodity price volatility with a “normalized market price.” Panelists discussing MD&A said constant currency is a useful non-GAAP measure because it describes one of the three factors affecting changes in revenue (i.e., price, quantity, the effect of currency changes) and referred the audience to the Compliance and Disclosure Interpretations (C&DI) issued by the staff in 2010 stating that a reconciliation was not necessary for such a measure.⁸

Income tax disclosures

Ms. Shah said that registrants should continue to focus on the quality and clarity of key income tax disclosures within MD&A, including those related to income tax rate reconciliations and indefinitely reinvested earnings. Consistent with prior years, the SEC staff has requested that companies disclose the amount of large cash balances held overseas when the indefinite reinvestment assertion is made. Ms. Shah discussed the following ways income tax disclosures could be improved:

- ▶ **Discussing the items and changes in the effective income tax rate reconciliation** – Using the income tax rate reconciliation as a starting point for the narrative income tax disclosures in MD&A and tying MD&A disclosures directly to the rate reconciliation helps reduce confusion about where the items discussed flow through the reconciliation. The narrative disclosures should include detailed discussion of what drove the change in the effective tax rate, and the overall susceptibility of the rate to changes. This helps users determine whether the past rate is indicative of the future rate.
- ▶ **Clarity and transparency** – The SEC staff may question registrants if there are material items in the rate reconciliations that are not clearly identified and discussed in MD&A. Also, reconciling items affected by multiple factors should be clarified and disaggregated so that users can understand factors driving the reconciling item. For example, reconciling items labelled “foreign rate differential” should be limited to only statutory tax rate differences and not include other differences within the foreign jurisdiction. As an example, the SEC staff suggested a multi-column reconciliation that separately presents the reconciling items and taxable income by material foreign jurisdictions in addition to domestically and on a consolidated basis.

Fair value disclosures

Craig Olinger, a Deputy Chief Accountant of the Division of Corporation Finance, said the adequacy of fair value disclosures required by ASC 820 continues to be an area of focus. Investors have said that disclosures that allow them to assess the quantitative techniques and inputs used, particularly for measurements categorized in levels 2 and 3 of the fair value hierarchy, are important for making informed investment decisions. Registrants can achieve this by challenging the level of aggregation and related description of each class of instrument⁹ (e.g., mortgage backed, treasury, collateralized debt) and the related quantitative inputs used to value each class. Mr. Olinger reminded registrants to appropriately consider

the nature, characteristics and risk in aggregating assets and liabilities for disclosure. The description of the valuation techniques and inputs used should be linked to each class and provide a detailed description of how the instruments were valued and the related inputs used, not merely list all potential valuation techniques or inputs.

How we see it

Earlier this year, the SEC staff issued several comment letters to registrants in the insurance industry about their basis for aggregating in their disclosures certain fixed maturity securities into defined classes and their descriptions of valuation techniques. Mr. Olinger's comments indicate that the SEC staff may be focusing on this topic more broadly.

EY resources

- ▶ [Technical Line, IPO financial statement accounting and disclosure considerations](#) (SCORE No. CC0423)

Predecessors in IPO registration statements

Initial public offering (IPO) structures may involve the combination of multiple entities in a "put-together" transaction or the carve-out or spin-off of operations from another company. In certain cases, the IPO registrant also may be a newly formed entity, or Newco, that has no significant activities but will acquire a business when or before the IPO becomes effective. The SEC staff said that these transactions require a careful evaluation of the facts and circumstances to determine whether an acquired entity represents a predecessor.

Identifying the predecessor is a matter of judgment and is based on whether an acquired business will constitute the main thrust of the business or operations of the combined entities. More information must be provided for a predecessor (i.e., the same as for a registrant) than for an acquired business under Rule 3-05 of Regulation S-X. For example, unlike a significant acquisition under Rule 3-05, separate schedules, selected financial data, MD&A and other disclosures required under Regulation S-K must be provided for each predecessor.

The SEC staff made the following observations about determining the predecessor:

- ▶ Factors to consider when identifying the predecessor may include the order in which the entities were acquired (i.e., which entity was acquired first), the size and fair value of the entities and the ongoing management structure. None of these factors is determinative, and all facts and circumstances should be evaluated.
- ▶ It is rare not to identify a predecessor, even if a Newco is determined to be the accounting acquirer.
- ▶ It is possible to identify more than one predecessor entity.

The SEC staff also reminded registrants that the predecessor's financial statements may reflect operations that will not be part of the IPO registrant. The SEC staff generally applies a legal entity concept when defining the predecessor. Therefore, if the IPO registrant or the predecessor is a legal entity that disposes or spins off businesses at or prior to the IPO, it may not be able to retroactively omit those businesses from the historical financial statements.

EY resources

- ▶ [Technical Line, Accounting risks related to the decline in oil prices](#) (SCORE No. BB3077)

Depressed oil and gas prices

The SEC staff said that it is focusing on changes in the reserve estimates of oil and gas registrants as well as potential asset impairment issues that may affect any registrant materially exposed to change in oil and gas prices.

The SEC staff noted that it commonly sees boilerplate language about the effects of the continued decline in oil and gas prices that do not address how the registrant is affected. The SEC staff has asked registrants to consider additional disclosures about material uncertainties and the range of potential outcomes related to their impairment estimates and judgments. For

example, if management has projected a recovery in oil and gas prices that supports the valuation of the company's assets, the company should consider disclosure about whether a material impairment could result from a longer recovery period.

The SEC staff also said registrants should expand their disclosures if the depressed oil and gas prices materially affect the company's operational or growth prospects or if there is a reasonable likelihood that the reported results may not be indicative of future results.

Accounting, SEC and audit standard-setting update

SEC staff views about the revenue standard

In discussing implementation of the FASB's new revenue recognition standard, Mr. Bricker mentioned a recent survey that indicated "75% of responding companies had not completed their initial impact assessment and, of those, a third had not begun [the assessment]." This statistic is consistent with the results of a polling question posed to attendees during the conference. Mr. Bricker emphasized the need for audit committees to be involved and informed of management's detailed implementation plans and to make sure the company has sufficient resources to complete the work timely.

He said it is important for the TRG to continue its efforts as well as consider a global perspective to foster comparability among registrants. The SEC staff will interpret and expect consistent application among foreign private issuers (FPIs) and domestic registrants where the language in the FASB and IASB standards is the same. Mr. Bricker and others echoed statements previously made by Mr. Schnurr about the need to work through implementation issues in robust discussions with the AICPA's industry groups, the TRG, audit firms and SEC staff.

The SEC staff and other panelists further emphasized the need for registrants to give thoughtful consideration to the evolution of their SAB Topic 11.M¹⁰ disclosures. Mr. Bricker emphasized that the SEC staff is looking forward to reviewing more detailed disclosures in upcoming filings about how companies expect to be affected by the new standard. He also said that companies that don't yet know how they will be affected should disclose that the effect is unknown, along with information about when they plan to complete their assessment of how they will be affected.

How we see it

As companies evaluate and determine the qualitative and quantitative effect of the new revenue recognition standard, their SAB Topic 11.M disclosures should evolve through the adoption date. These disclosures should provide users with detailed information relating to the adoption and should not include boilerplate language. We believe this may become a focus area for the SEC staff in its reviews of filings next year.

Ms. Wright shared some observations about the implementation of the new revenue standard. First, she said all companies will experience some degree of change, which may include changes to disclosures, processes, systems or controls, in adopting the new principles-based standard. She said management and audit committees should create a change management plan and should make sure that sufficient resources are allocated to the project. She also observed that some companies are achieving good results by taking a bottom-up approach to implementation, which begins with the identification of different revenue streams and contracts.

EY resources

- ▶ [Financial reporting developments, Revenue from contracts with customers \(ASC 606\)](#) (SCORE No. BB3043)

Ms. Wright also reiterated that one of the objectives of the new revenue standard is to improve comparability among companies with similar fact patterns. In this regard, she noted that the SEC staff is focused on achieving consistency in the application of the new revenue standard, even if diversity existed under prior revenue guidance. If different accounting conclusions are identified for similar facts and circumstances, companies should raise those differences during the implementation phase of the standard with the TRG, AICPA industry task forces or the SEC's OCA. Raising issues as soon as possible could potentially prevent companies from incurring costs to make changes to achieve consistent accounting conclusions (e.g., due to future interpretive standard setting by the Emerging Issues Task Force).

Mark Kronforst, Chief Accountant of SEC's Division of Corporation Finance, discussed questions the SEC has received about the requirement in Item 11(b) of Form S-3 to recast annual financial statements upon adoption of a new accounting principle, specifically how it applies to adoption of the new revenue recognition standard. Mr. Kronforst said that Item 11(b) is clear that retrospective revision of the annual financial statements in a new or amended registration statement is required for registrants applying a full retrospective method, if the change is material. For example, a calendar-year registrant filing a Form S-3 registration statement in 2018 after it adopts the revenue standard retrospectively in a Form 10-Q filing would be required to recast its prior-period annual financial statements (e.g., for 2015, 2016 and 2017). He acknowledged registrants' concerns of having to recast an additional year of financial statements, but said that any changes to the requirement would require rulemaking by the Commission. However, Mr. Olinger said the staff plans to issue guidance that would not require companies that adopt the revenue standard on a full retrospective basis to retest the significance of equity method investees for the periods that are revised.

How we see it

Given the continued uncertainty on this topic, companies should consider accelerating the timing for refreshing any shelf registration statements that expire in the year they will adopt the revenue recognition standard. Companies planning to register securities in the year of adoption for other reasons should consider how the need to recast the financial statements might affect their adoption and choice of transition method.

EY resources

- ▶ [To the Point, New legislation makes changes to JOBS Act and other SEC requirements](#) (SCORE No. CC0432)
- ▶ [To the Point, SEC proposes requiring 'clawback' policies and disclosures](#) (SCORE No. CC0413)

SEC rulemaking and other initiatives

Mr. Higgins discussed the new Fixing Americas Surface Transportation Act (FAST Act), which included amendments to the Jumpstart Our Business Startups Act (JOBS Act), many of which are effective upon enactment, and certain other mandates for the SEC (which we discuss in our [To the Point, New legislation makes changes to JOBS Act and other SEC requirements](#) (SCORE No. CC0432)).¹¹

Under the FAST Act, in its IPO filing or confidential submission an EGC may omit the earlier of the two required years of annual financial statements if it reasonably believes it will provide an additional full year of annual financial statements by the effective date of its IPO. The SEC staff clarified that this relief extends to other entity financial statements (e.g., S-X Rule 3-05).

The SEC staff clarified that interim financial information for the current and prior year must be included in the EGC's IPO filing or submission because the interim periods are **part of** the financial information that will be required at effectiveness. For example, an EGC that is contemplating an IPO in 2016 could submit or file the registration statement for SEC staff review in early 2016 with only 2014 audited financial statements and the most recent interim period of 2015 (and comparable interim period of 2014) assuming it will include 2015 audited financial statements prior to distributing its preliminary prospectus.

Mr. Higgins said the SEC continues to focus on its remaining rulemaking under the Dodd-Frank Wall Street Reform and Consumer Protection Act, including rules relating to hedging, executive compensation and resource extraction payments, which the Commission recently re-proposed.

Audit committee reporting

In July 2015, the SEC issued a concept release seeking public comment on possible revisions to audit committee disclosures, with a focus on areas related to the audit committee's oversight of the independent auditor. Mr. Croteau observed that the Sarbanes-Oxley Act of 2002 (SOX) significantly expanded the audit committee's responsibilities, but that the SEC's disclosure requirements predate SOX. The concept release was developed in response to a desire by some investors to hear more from audit committees about how they perform their role as gatekeepers for the benefit of investors.

Mr. Croteau noted that many commenters support considering improvements to audit committee disclosure requirements. However, there were mixed views about the need for mandatory detailed disclosures, with some commenters suggesting that voluntary disclosures could be sufficient. Mr. Croteau noted that commenters were particularly interested in areas such as:

- ▶ The selection and appointment of the auditor
- ▶ The evaluation of the audit team
- ▶ Auditor compensation
- ▶ Composition of the audit committee

With respect to voluntary disclosure, both Chair White and Mr. Croteau observed that many audit committees have enhanced their disclosures beyond those required by today's rules in response to increased investor interest. Mr. Croteau encouraged audit committee members to consider the usefulness of their disclosures and whether additional insights could make the report more meaningful.

EY resources

- ▶ [To the Point, Our recommendations for changing Regulation S-X disclosures about entities other than the registrant](#) (SCORE No. CC0429)
- ▶ [Disclosure effectiveness – What companies can do now](#) (SCORE No. CC0403)
- ▶ [Disclosure effectiveness – What investors, company executives and other stakeholders are saying](#) (SCORE No. CC0404)

Disclosure effectiveness initiative

The Division staff continues to review the business and financial disclosures in Regulation S-K and S-X as part of the SEC's disclosure effectiveness initiative. The SEC staff also is considering how to leverage technology and the EDGAR delivery system to facilitate user access to meaningful information. Mr. Higgins said that the initiative continues to be a priority and he expects there will be significant progress in 2016.

Regulation S-X rulemaking

In October 2015, the SEC issued a request for comment on how it might enhance the effectiveness of disclosure requirements in Regulation S-X applicable to entities other than the registrant, including acquired businesses, equity method investees, subsidiary issuers and guarantors. Although the comment letter period has ended, the SEC staff said that it continues to accept and consider any comments submitted.

Mr. Kronforst said that the SEC received a wide range of recommendations from constituents, but comment letters highlighted several specific areas for improvements that the SEC staff is considering.

How we see it

The consistency of recommendations on some topics could enable the SEC staff to make recommendations to the Commission in a relatively short time frame about changes to the rules that could reduce complexity and costs for preparers and improve the usefulness of information for investors.

Regulation S-K requirements

The SEC staff is currently reviewing how to enhance the Regulation S-K requirements, including the following disclosure areas:¹²

- ▶ Eliminating overlapping and outdated requirements
- ▶ Determining the appropriate balance between bright lines and principles-based requirements
- ▶ Scaling disclosures for EGCs and smaller reporting companies
- ▶ Updating and incorporating the industry guides, particularly for bank holding companies

Technology improvements

Mr. Higgins cited a comment letter from the Center for Audit Quality and several trade organizations, including the US Chamber of Commerce, Financial Executives International and Business Roundtable, that suggested modernizing the SEC's website and the EDGAR system.¹³ The SEC staff said that it plans to implement changes over the next couple of months in response to this letter.

Voluntary improvements by companies

In a panel, an SEC staff member and several company executives discussed voluntary efforts that registrants have made to improve their disclosures. The SEC staff member observed that more companies are considering their SEC filings to be communication documents, rather than merely compliance filings. Company executives summarized changes they have made to disclosures, including eliminating immaterial information, using charts and tables to highlight material information and reducing duplicative information by using cross-references.

The SEC staff said that it supports the use of cross-references to or from the financial statement notes and other sections of the Form 10-K as long as it is clear which disclosure has been audited. However, company executives said that they and their auditors rarely support cross-referencing from the financial statement notes (e.g., to MD&A) due to concerns about the clarity of audit responsibility.

PCAOB standard setting and other initiatives

Martin Baumann, PCAOB Chief Auditor and Director of Professional Standards, and Jay Hanson, PCAOB Board Member, provided an overview of the PCAOB's standard setting and other projects. They also discussed the evaluation of the PCAOB's standard-setting process that occurred during 2015 to create a more thorough, efficient approach to the standard-setting projects.

Recently approved standards

- ▶ *Related parties* – Mr. Baumann highlighted the Board's standard on related parties, AS 18, which is effective for audits of financial statements for fiscal years beginning on or after 15 December 2014. Mr. Hanson and Mr. Baumann noted concerns that have been raised by auditors and preparers as the standard has been implemented, particularly with respect to the requirement for auditors to obtain a representation from management that they have provided the auditor with a list of all related parties. Mr. Baumann observed that obtaining a list of all related parties is the starting point for an auditor's procedures. In response to a question, Mr. Hanson observed that this was not an area in which commenters raised concerns during standard setting.

- ▶ *Reorganization* – Mr. Baumann described the reorganization of the PCAOB’s auditing standards that was completed this year and will be effective as of 31 December 2016. The PCAOB undertook this project to organize its auditing standards using a topical structure and a single numbering system for easier navigation.

Reporting standards

- ▶ *Transparency* – Mr. Baumann said the objective of this project was to provide important information to investors and promote accountability through disclosure of the name of the engagement partner and certain other participants in the audit. A supplemental request for comment was issued on 30 June 2015 to propose disclosing this information in a new PCAOB form, Form AP, rather than in the auditor’s report. Mr. Baumann stated that this alternative would balance the benefits of such disclosure with the liability concerns raised by including the information in the auditor’s report. The standard, which is subject to approval by the SEC, is expected to be approved by Board on 15 December 2015.
- ▶ *Auditor’s reporting model* – Mr. Baumann said the PCAOB plans to re-propose a standard on the auditor’s reporting model in the first half of 2016. It will reflect feedback the PCAOB received from comment letters and in public hearings on an earlier proposal. Mr. Baumann noted that expanded auditor reporting is already required in the United Kingdom and has been considered successful. Additionally, the International Auditing and Assurance Standards Board (IAASB) approved a new audit reporting standard, which includes the identification of key audit matters and how those matters were addressed during the audit, effective for 2016 listed company audits.
- ▶ *Audit quality indicators (AQIs)* – Mr. Hanson said that while constituents support the PCAOB’s AQI concept release, they expressed diverse views on the next steps the PCAOB should take in the project. He said he believes the PCAOB should continue to monitor discussions between auditors and audit committees, encourage firms to issue quality reports and then assess whether to mandate the use of AQIs.

Performance standards

- ▶ *Supervision of other auditors* – Mr. Baumann said a proposal on supervision of other auditors in multinational audits would seek to strengthen the oversight of the other firms by the lead audit firm and provide improved guidance on directing, reviewing and using the work of other auditors.
- ▶ *Auditing estimates, including fair value measurements* – Mr. Baumann said the staff is planning to recommend that the PCAOB propose a single standard to replace the multiple existing standards that govern the auditor’s work in this area. The proposal would address changes in the related accounting frameworks, the increased use of fair value measurements and pricing services and provide better linkage with the Board’s risk assessment standards.
- ▶ *Specialists* – Mr. Baumann said the staff plans to recommend that the PCAOB propose general requirements for the oversight of specialists (whether used by the auditor or by management) and to develop more rigorous requirements on using the work of management’s specialists.

Other projects requiring additional research or outreach

- ▶ *Going concern* – Mr. Baumann said that evaluating whether there is substantial doubt about a company's ability to continue as a going concern is important to investors. Following the FASB's adoption of a requirement for management to make an evaluation of substantial doubt, which it defined differently than existing PCAOB standards, the PCAOB reminded auditors that their evaluation of an entity's ability to continue as a going concern needed to comply with the PCAOB's existing auditing standards. The PCAOB is currently evaluating its next steps.
- ▶ *Other information accompanying the financial statements* – Mr. Baumann noted that in its 2013 proposal on the auditor's reporting model, the PCAOB proposed requirements for the auditor to read and evaluate the other information accompanying the financial statements and include a discussion of this evaluation in the auditor's report. Commenters expressed concerns about this proposed requirement, and the PCAOB is exploring its next steps.
- ▶ *Quality control standards* – Mr. Baumann said improved quality control standards could lead to improved audit quality and a reduction of inspection findings by the PCAOB and other global regulators. The IAASB has undertaken a similar project, and the PCAOB is planning to coordinate its efforts with the IAASB.
- ▶ *Other emerging issues* – The PCAOB's recently asked its Standing Advisory Group to identify the most important issues that could affect audits, auditors and the PCAOB. The issues identified included whistleblower activity, economic developments, use of data/data auditing, non-GAAP measures, the effect of FASB's materiality proposal, revenue recognition and cybersecurity.

International matters**The IFRS footprint and outlook for IFRS**

Hans Hoogervorst, IASB Chairman, discussed the success of convergence efforts between the IASB and the FASB, including their revenue recognition and leases standards. He noted that the revenue standards are substantially the same and demonstrate that rules-based and principles-based cultures can be reconciled. He said the leases standards the Boards plan to issue early next year are converged on their main objective to put most operating leases on the balance sheet.

Mr. Hoogervorst said that 116 jurisdictions currently require the use of IFRS. He noted developments in Japan, India and China that advance the use of IFRS. He said these developments are clear progress for investors and preparers because companies will be able to use one accounting language in expanding parts of the world. However, Mr. Hoogervorst acknowledged that consistent application of IFRS requires "permanent attention and rigorous enforcement."

Mr. Hoogervorst also discussed the outlook for the IASB's standard setting over the next 12 months. The IASB and IFRS Foundation will conduct outreach on their standard-setting agenda and the effectiveness of their structure in 2016. He said the IASB needs to improve the communication value of financial reporting by addressing disclosure effectiveness and performance reporting. Other issues the IASB may address include how financial reporting relates to broader issues of corporate reporting (e.g., sustainability, value creation) and the effect of technology and Big Data on financial reporting. He encouraged entities to comment on the consultation papers that will be released in 2016.

Finally, Mr. Hoogervorst noted that the US has substantive interests at stake in IFRS due to its expanding use in the global economy. He gave an example of a recent high-profile IPO by an FPI that listed on a major US stock exchange using financial statements in accordance with IFRS as issued by the IASB. That's why, he said, regardless of its use by domestic companies, US constituents should stay engaged and help the IASB build IFRS in the future.

Considerations for IFRS in the US capital markets

Julie Erhardt, Deputy Chief Accountant in OCA, discussed the interaction between the US and IFRS and benefits of a single set of global accounting standards. She made the following points:

- ▶ **Shared origins** – The US was a strong supporter and active participant in the global accounting profession's decision to convert the International Accounting Standards Committee into the IASB, and there are many companies and organizations in the US with a connection to the IASB's work (e.g., US headquartered global corporations) suggesting that the US should continue to be actively involved with IFRS.
- ▶ **Shared knowledge** – The US is perceived as a leader on financial reporting policy matters. There is a potential benefit in US companies and standard setters sharing their experiences and views across borders.
- ▶ **Shared benefits** – A single recognizable/comparable set of standards benefits domestic companies and investors in the expanding global economy.

How we see it

While it appears that any SEC action in the short-term related to IFRS may be limited to acceptance of voluntary supplemental disclosures, there continues to be consistent support for continued convergence efforts and US engagement with the IASB and global standard setting.

Foreign private issuers

Mr. Olinger said that as of 31 December 2014, about 500 of the approximately 900 FPIs registered with the SEC prepared their financial statements in accordance with IFRS and about 400 prepared their financial statements in accordance with US GAAP. Very few FPIs prepare financial statements in accordance with local country GAAP reconciled to US GAAP.

Common issues and best practices related to foreign transactions

Mr. Olinger participated in an international reporting panel discussion with others on areas that are challenging in cross-border transactions. The panel highlighted the following reporting considerations for transactions that will be registered with the SEC:

- ▶ **Foreign status** – When contemplating a foreign transaction, a registrant needs to consider whether it and the target are US domestic filers, foreign businesses or FPIs. This distinction is important in understanding the basis (i.e., US GAAP, IFRS) of the financial information to be presented in the registration statement. Mr. Olinger clarified that a foreign incorporated joint venture that is 50% owned by a US-domiciled entity and 50% owned by a foreign entity does not qualify as a foreign business because neither entity controls the joint venture. When such a joint venture is consolidated by the non-US registrant for reasons other than voting rights under the consolidation rules, Mr. Olinger encouraged registrants to consult with the SEC staff to determine whether any of the foreign business accommodations could be used. Paul Dudek, Chief of the SEC's Office of International Corporate Finance, said that SEC rules do not specify the date on which the assessment must be made whether an acquiree meets the foreign business criteria; therefore, judgment is required, and registrants may consult with the SEC staff.

- ▶ **Auditor reporting framework** – The panel observed that, in an SEC filing, a target’s financial statements must be audited under AICPA standards or PCAOB standards, but audits performed under International Standards of Auditing are not acceptable. Certain disclosures required by IFRS (e.g., market risks and critical accounting estimates) may be disclosed in MD&A and incorporated by reference in the notes to the financial statements. As a result, the audit report on IFRS financial statements must clearly extend to those disclosures.

Losing FPI status

Mr. Dudek discussed some considerations for a registrant that loses its FPI status when it makes the required assessment at the end of the second quarter of its fiscal year. For example, a calendar-year company that loses its FPI status as of 30 June 2015 may continue to file forms that are applicable to FPIs for the remainder of the year. The company will be subject to all of the requirements of a domestic company beginning 1 January 2016, including the requirement to file current reports and quarterly reports. The 2015 Form 10-K would need to include three years of audited financial statements prepared using US GAAP. The registrant must also reassess the significance of equity method investees under S-X Rule 3-09 of Regulation S-X using its US GAAP financial statements.

Considerations for certain Canadian companies

Certain Canadian companies listed in the US register with the SEC under the Multi-Jurisdictional Disclosure System (MJDS) and are afforded certain accommodations including the ability to provide two years of audited financial statements in their SEC filings. A public float of at least \$75 million at year end is one of several eligibility criteria. Recent declines in energy prices and their effect on a company’s stock price could result in a Canadian filer losing its MJDS status and having to comply with requirements as an FPI, including the requirement to provide three years of audited financial statements and comply with S-X Rule 3-09 for purposes of filing Form 20-F.

SEC enforcement and PCAOB inspection matters

Remarks of SEC enforcement staff

Andrew Ceresney, Director of the SEC’s Division of Enforcement, and Michael Maloney, Chief Accountant in the Division of Enforcement, discussed the SEC’s enforcement actions over the past year. The SEC filed more than 800 cases (a record) in fiscal 2015. In fiscal 2014, the SEC collected approximately \$2 billion of disgorgements and penalties, which is either paid to wronged individuals or the US Department of Treasury (depending on the nature of the case).

Mr. Ceresney said the number of financial reporting and auditing cases continued to rise in fiscal 2015 to 114 from 79 in 2014 and 53 in 2013. The increase was driven in part by the Division of Enforcement’s creation of a financial reporting and auditing task force and its use of data analytics. Mr. Maloney indicated the allegations in those enforcement actions stem from poor tone at the top, pressure to meet financial targets/earnings management, and growth outpacing infrastructure. The financial reporting actions focused on a variety of topics from revenue recognition (e.g., percentage of completion, accelerated/false revenues, bill and hold arrangements) to disclosure issues (e.g., missing or insufficient). The SEC also has filed enforcement actions against auditors for lack of professional skepticism, overreliance on management representations, failure to obtain audit evidence and having insufficient documentation.

Finally, Mr. Maloney discussed enforcement actions related to faulty valuations. He said these actions involved improper methodologies and unsupported or outdated assumptions, but the Division does not question valuations made in good faith. These actions often found that

auditors did not obtain a sufficient understanding of the models/assumptions used or placed overreliance on outside specialists. He emphasized that management, auditors and valuation specialists need to remain vigilant in complying with their respective responsibilities.

PCAOB inspections

Ms. Munter said that she believes the state of audit quality is improving. Ms. Munter stated that audit firms and audit partners are more engaged, and firms are focusing on root cause analyses and on timely and substantive remedial actions. Specifically, the PCAOB has seen improvements in the tone at the top, the training on complex audit areas, new practice aids and checklists to help auditors consistently and thoroughly apply the PCAOB auditing standards, coaching and support to audit teams and monitoring activities of firms.

Ms. Munter said the goal of the inspection process is not to only to identify deficiencies on specific audits but to leverage any observations from specific audits to help identify any systemic problems that may exist. The identification and remediation of any potential systemic issues can lead to more significant improvements in audit quality.

Ms. Munter also noted that many inspections result in no deficiencies being identified, and the PCAOB is looking to further its understanding of the root causes of high-quality audits inspected.

However, Ms. Munter noted there are still opportunities for improvement in certain areas of recurring inspection findings, including internal control, fair value and revenue recognition. These recurring inspection findings are consistent with findings identified by the annual survey of inspection results produced by the International Forum of Independent Audit Regulators. Other areas noted for improvement by the PCAOB staff include effective remedial action, root cause analysis, consistent global execution of an audit methodology and monitoring of independence.

Ms. Munter said the PCAOB's 2016 inspections will likely focus on:

- ▶ Recurring deficiencies, including ICFR, assessing and responding to risks of material misstatement and auditing accounting estimates
- ▶ Challenges created by the appreciation of the US dollar
- ▶ Segment disclosures, including identifying the CODM and determining the operating and reportable segments
- ▶ Mergers and acquisitions
- ▶ Income taxes, including management's assertion of indefinite reinvestment outside of the US and the related internal controls
- ▶ Going concern evaluation
- ▶ Cybersecurity
- ▶ Implementation of AS 18

Finally, Ms. Munter highlighted the PCAOB's focus on increasing the inspection information that is shared with the public. Inspection reports have been expanded to include industry information, and the staff introduced Inspection Briefs to highlight important matters about inspections. The PCAOB staff plan to further expand the data available about inspections on the PCAOB website, beginning in 2016.

Endnotes:

- ¹ Commission guidance regarding *Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934*, Release No. 33-8810 (June 20, 2007), is available at: <https://www.sec.gov/rules/interp/2007/33-8810.pdf>
- ² ASC 605-50, *Customer Payments and Incentives*.
- ³ ASC 718, *Compensation-Stock Compensation*.
- ⁴ SAB Topic 6.L, *Selected Loan Loss Allowance Methodology and Documentation Issues*.
- ⁵ For public business entities, ASU 2015-02 is effective for annual and interim periods beginning after 15 December 2015. For all other entities, it will be effective for annual periods beginning after 15 December 2016, and interim periods beginning after 15 December 2017. Early adoption is permitted for annual and interim periods.
- ⁶ ASC 810-10-55-37.
- ⁷ ASC 810-10-55-37D.
- ⁸ Refer to C&DI's on non-GAAP measures question 104.06 available at: <http://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm>
- ⁹ ASC 820 states that the appropriate classes of assets and liabilities are determined on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy within which the fair value measurement is categorized.
- ¹⁰ SAB Topic 11.M addresses disclosure of the effect that recently issued accounting standards will have on the financial statements of the registrant when adopted in a future period.
- ¹¹ The SEC staff recently issued C&DIs related to the FAST Act, which can be found at: <http://www.sec.gov/divisions/corpfin/guidance/fast-act-interps.htm>
- ¹² The FAST Act requires the SEC to take action to revise Regulation S-K requirements within 180 days and conduct further study in consultation with the Investor Advisory Committee and the Advisory Committee on Small and Emerging Companies.
- ¹³ The comment letter can be found at: <http://www.sec.gov/comments/disclosure-effectiveness/disclosureeffectiveness-40.pdf>

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Appendix – Conference speeches

	Speech and link to source
SEC Chair, Mary Jo White	▶ Speech by SEC Chair: Keynote Address at the 2015 AICPA National Conference: "Maintaining High-Quality, Reliable Financial Reporting: A Shared and Weighty Responsibility"
SEC Chief Accountant, James Schnurr	▶ Speech by SEC Chief Accountant: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Deputy Chief Accountant, Wesley Bricker	▶ Speech by SEC Deputy Chief Accountant: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Deputy Chief Accountant, Julie Erhardt	▶ Speech by SEC Deputy Chief Accountant: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Deputy Chief Accountant, Brian T. Croteau	▶ Speech by SEC Deputy Chief Accountant: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Senior Associate Chief Accountant, Michael Husich	▶ Speech by SEC Senior Associate Chief Accountant: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Associate Chief Accountant, Barry Kanczucker	▶ Speech by SEC Associate Chief Accountant: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Professional Accounting Fellow, Kris Shirley	▶ Speech by SEC Professional Accounting Fellow: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Professional Accounting Fellow, Christopher Rickli	▶ Speech by SEC Professional Accounting Fellow: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Professional Accounting Fellow, Ashley Wright	▶ Speech by SEC Professional Accounting Fellow: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Professional Accounting Fellow, Christopher Semesky	▶ Speech by SEC Professional Accounting Fellow: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
SEC Professional Accounting Fellow, Courtney Sachtleben	▶ Speech by SEC Professional Accounting Fellow: Remarks before the 2015 AICPA National Conference on Current SEC and PCAOB Developments
PCAOB Chair, James R. Doty	▶ Speech by PCAOB Chair: Protecting the Investing Public's Interest in Informative, Accurate, and Independent Audit Reports
PCAOB Member, Jay D. Hanson	▶ Speech by PCAOB Member: PCAOB Standard-Setting Update – AICPA National Conference on Current SEC and PCAOB Developments
FASB Chairman, Russell G. Golden	▶ Speech by FASB Chairman: Remarks at the 2015 AICPA Conference on Current SEC and PCAOB Developments
IASB Chair, Hans Hoogervorst	▶ Speech by IASB Vice-Chairman: IFRS: 2015 and beyond
CAQ Executive Director, Cindy Fornelli	▶ Speech by CAQ Executive Director: Center for Audit Quality Update: Focus on the Future
AICPA Chair of the Board of Directors, Tim Christen	▶ Speech by AICPA Chair: Adapt, Evolve for Relevance: Driving Change to Preserve Our Future