SEC Issues & Trends

AICPA Conference on Current SEC and PCAOB Developments

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Rising to the challenges of rapid change

Change. The accounting profession is not immune from it. The profession must respond to – and even embrace – rapid changes in stakeholder expectations, technology and economic landscapes, all while maintaining the high quality financial reporting that is essential to our capital markets.

This theme of rapid change was front and center at the 2019 AICPA Conference on Current SEC and PCAOB Developments held in Washington, DC, December 9-11. Conference speakers spent significant time discussing how the various stakeholders in our financial reporting system (investors, regulators, professional organizations, companies, audit committees and audit firms) can respond to, and collaborate to address, current and looming changes.

**Stakeholder expectations**

Investors demand GAAP financial information that they can trust, and speakers spent significant time discussing how that trust can be maintained through the implementation of several new accounting and auditing standards. However, speakers also noted how investors and other stakeholders are increasingly demanding corporate information that extends beyond traditional GAAP financial statements.

To address some of these demands, many SEC registrants provide relevant non-GAAP financial measures to investors. SEC leaders emphasized existing rules and guidance for non-GAAP measures, and also communicated expectations about consistency and transparency for non-GAAP reporting. Conference participants also discussed stakeholder demands for increased disclosures about environmental, social and governance disclosures, and what companies, regulators, standard setters and auditors are doing in response.

**Technology**

Technology is transforming the entire financial reporting ecosystem – from how companies prepare their financials, to how auditors obtain assurance over them and how investors consume them. The use of evolving data and analytics technologies is providing new opportunities to achieve both quality and efficiency in the financial reporting process.

However, new technologies carry with them risks and challenges, including data protection and integrity. In addition, the accounting profession is continuing to assess how technologies such as blockchain can create new ways of doing business and transform certain aspects of accounting and auditing.
**Economic landscape**

Companies have to regularly update their financial reporting and disclosures to respond to shifts in the economic landscape – e.g. reference rate reform, Brexit and trade disputes. An example of a pressing accounting issue that has potentially significant economic consequences is the planned cessation of LIBOR. Because so many financial instruments (e.g. debt/loans, derivatives and preferred stock) use LIBOR as a reference rate, considerable work is underway to address the many accounting ramifications of changing the reference rate in these instruments.

On the pages that follow, we delve more deeply into how conference speakers addressed these issues and others.
Contents

Is your company prepared to respond to emerging issues?

New accounting standards — Can you see the light at the end of the tunnel?

How is your company affected by the rapid pace of technological change?

How has the SEC responded to rapid change in the accounting profession?

How will the PCAOB’s work affect your company?

Appendix: Index of published speeches

KPMG’s Financial Reporting View

Acknowledgements
Is your company prepared to respond to emerging issues?

Companies must be agile. While today’s challenges may seem immense, companies also continue to look ahead and prepare for difficult issues on the horizon. Some emerging issues are the result of global events, such as reference rate reform and the planned cessation of LIBOR in 2021. Other emerging issues result from changing stakeholder demands, such as increasing demands by investors and other stakeholders for additional corporate information that extends beyond what has historically been provided in audited financial statements and related regulatory disclosures, such as MD&A. For example, some stakeholders want more information about environmental, social and governance (ESG) issues. These emerging issues were given particular attention at this year’s conference.

**LIBOR**

SEC Chairman Jay Clayton cautioned preparers not to underestimate the consequences and complexity of the reference rate reform. He also believes that early consultation with the SEC staff may be critical to the successful transition.

Clayton’s general comments were further emphasized by the staff of the SEC’s Division of Corporation Finance. They reported seeing more disclosures on LIBOR from the financial sector, but not as many from the nonfinancial sector – even from companies that have substantial debt tied to LIBOR or significant counterparty exposure in derivatives indexed to LIBOR. The staff expects companies to continue to focus on making appropriate disclosures about the effects of reference rate reform.

The FASB is working through complex accounting issues raised by reference rate reform, and has issued an exposure draft that provides relief for issues affecting held-to-maturity debt securities classification, contract modification and hedge accounting. The staff of the SEC’s Office of the Chief Accountant (OCA) is also addressing some of these issues. For example, OCA Professional Accounting Fellow Jamie Davis discussed a recent consultation on how to account for amendments to preferred stock instruments as a result of the anticipated cessation of LIBOR. In the fact pattern Davis discussed, an equity-classified perpetual preferred stock instrument that pays dividends indexed to LIBOR was amended to designate a replacement dividend rate index. No cash was exchanged in connection with the amendment. The staff did not object to the:

— continued application of the registrant’s historical accounting policy to use a qualitative approach to determine whether the amendment represented a modification or extinguishment;
Is your company prepared to respond to emerging issues?

— conclusion that the amendment was a modification because of the amendment’s business purpose and how the changes may influence the economic decisions of the investor; and
— conclusion that there was no incremental fair value to recognize because the modification was negotiated at fair value and the anticipated cessation of LIBOR was already priced into the preferred stock’s fair value immediately prior to the modification.

Responding to demands for additional corporate information

When asked their views on ESG disclosures, the SEC staff referred to Director of the Division of Corporation Finance William Hinman’s March 2019 speech on ESG and sustainability issues. Hinman noted that “market participants have raised questions about the sufficiency of sustainability disclosures,” with some wanting more specific sustainability disclosure requirements and others concerned that they could lead to disclosures that are not considered material.

One investor panelist echoed this tension by stating that although many investors want more ESG disclosures, some analysts are unclear on how to incorporate such information into their modeling given the lack of historical sustainability data. He also noted a lack of consistency and comparability in current disclosures. However, another investor panelist noted that his firm requires ESG due diligence for every investment it makes.

At the conference, Hinman noted that the current SEC disclosure framework may require disclosure of ESG issues if they present material risks. For example, he pointed to the SEC’s 2010 guidance on how existing disclosure requirements may apply to climate-related issues. Further, he suggested that the manner in which Reg S-K Item 407(h) – pertaining to disclosures of the board of directors’ role in risk oversight – has been applied to disclose cybersecurity issues may also be relevant for ESG disclosures.

In line with Hinman’s remarks from March, the staff of the Division of Corporation Finance at this year’s conference stated that they read registrants’ sustainability documents outside of their SEC filings to ensure their consistency with, and completeness of, the registrants’ SEC filings.

The IASB also has been considering how its mission relates to these demands for more corporate information. IASB Vice Chair Sue Lloyd discussed the IASB’s project to revise and update its practice statement on management commentary. The IASB plans to consider how broader financial reporting could complement and support IFRS financial statements. Lloyd stated that certain issues about “how the world impacts the company” – such as how environmental changes affect the company – could be relevant to investors because these issues may affect the company’s future cash flows. The IASB plans to publish an exposure draft in the second half of 2020.

Disclosures about other emerging issues

Reference rate reform is not the only emerging issue that may require disclosure in registrants’ SEC filings. For example, some registrants may be materially affected by Brexit or cybersecurity incidents. The SEC staff provided some general disclosure principles for these types of events and trends. Specifically, if these events and trends are expected to have a material effect
Is your company prepared to respond to emerging issues?

on a registrant’s financial statements, the SEC staff expects the following to be disclosed:

— how the risk is assessed and how it affects operations;
— how management is mitigating the risk;
— the board of directors’ role in evaluating the risk and monitoring management’s response;
— a statement that the effect of the risk is unknown and cannot be quantified at the current time, if applicable; and
— the issue’s evolution – e.g. as more facts become known about the effect on operations and related risks, the disclosure should become more detailed.

Regarding Brexit disclosure, the staff of the Division of Corporation Finance noted they are seeing enhanced disclosures on how Brexit is affecting registrants through, for example, their supply chains. They are interested, though, in whether there is consistency and transparency in the disclosures and how registrants’ boards are being briefed on the issue.
New accounting standards – Can you see the light at the end of the tunnel?

Two down, one to go. Many registrants have already implemented the revenue and leases standards, and will be implementing the credit losses standard in 2020. This year’s conference looked back on the successes and challenges in the implementation of the revenue and leases standards, and also addressed some interpretive matters for all three standards.

SEC staff recognized preparers’ implementation efforts that have contributed to the preparation of high quality financial statements. They pointed to the proactive planning of many preparers that made implementation successful, such as starting early, participating in internal dry-run processes and consulting with the SEC.

Revenue recognition standard one year on

The revenue recognition standard continues to be the number one consultation topic with the staff of the OCA. They observed that they continue to respect registrants’ well-reasoned judgments when consulting on fact patterns being accounted for under the new standard. Further, the Division of Corporation Finance has continued issuing comment letters on revenue recognition issues, many of which focused on two of the topics discussed by the OCA staff at this year’s conference: determining whether an entity is acting as a principal or an agent and identifying performance obligations.

Determining whether an entity is a principal or an agent

OCA Professional Accounting Fellow Lauren Alexander noted that “determining whether an entity is a principal or an agent...can be particularly challenging when two parties are involved in providing services to a customer, especially if some of the services can only be provided by a specific service provider.”

The issue she discussed involved a registrant that had a contractual relationship with a customer but could not legally provide some of the services promised in the contract. As a result, the registrant had to rely on another service provider to deliver the restricted services and give that provider discretion in determining how to fulfill its obligation. The staff did not object to the registrant concluding it was the principal in the transaction because the registrant could define the scope of services to be performed on its behalf, thereby giving it sufficient control over those services.

Identifying performance obligations

Another area of judgment in applying the revenue recognition standard is determining whether promises to transfer goods or services to a customer are separately identifiable or can be combined into one performance obligation. OCA Professional Accounting Fellow Susan Mercier noted that many
registrants have been asserting that their goods or services are inputs to a "solution" they are providing to a customer without analyzing the principles and factors outlined in ASC 606-10-25-21. She further said that determining whether the combined output is greater than, or substantively different from, the sum of the parts is helpful in many cases.

Mercier illustrated this analysis in a fact pattern about a registrant that provided software and the necessary updates to allow developers to build and deploy their apps on third-party platforms. In this particular fact pattern, the staff did not object to treating the software and updates to the software as a single performance obligation. The staff did not object because the combined output of these two promises was greater than, or substantively different from, the individual promises. And, once they were combined, they gave the app developers the ability to continually deploy and monetize content using third-party platforms of their choice.

**Applying the revenue standard to sale-leaseback transactions**

OCA Professional Accounting Fellow Aaron Shaw addressed the application of the revenue recognition standard to a specific sale-leaseback transaction. The registrant transferred fixed assets to a variable interest entity (VIE), which leased the fixed assets to a third party and provided the third party with a substantive fixed-price purchase option to acquire the fixed assets at the end of the lease term. This transaction resulted in the third party gaining a controlling financial interest in the VIE.

Simultaneously, the VIE leased back a physically distinct portion of the assets for a fixed term under a prepaid master lease. The registrant evaluated whether the third party gaining a controlling financial interest in the VIE should be accounted for as a sale of assets under the sale and leaseback guidance in ASC 842-40.

The registrant concluded that the third party obtained control of the leased assets through its ability to obtain current benefits from the underlying assets through its master prepaid lease, and it was able to prevent others from obtaining the benefits of the leased assets by holding a substantive purchase option. The staff objected to the registrant’s conclusion that the third party obtained control of the leased assets. Control of an asset is the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset. An entity’s ability to prevent others from directing the use of, and obtaining the benefits from, the asset does not by itself establish control. In this fact pattern, the staff observed that control had not transferred because the registrant would regain its controlling financial interest in the VIE should the third party not exercise the purchase option.

**Leases standard – implementation nearing completion**

The OCA and FASB staffs continue to assist preparers with lease accounting matters. The FASB staff has received the most inquiries about determining the appropriate discount rate and identifying embedded leases. The OCA has also been consulted on a number of different lease topics and shared the results of one consultation concerning collectibility.

Collectibility for lessors is an important matter under the leases standard. For example, in a sales-type lease if collectibility of lease payments is not probable
at the lease’s inception, the lessor cannot derecognize the asset and must defer recognizing any income or loss. OCA Professional Accounting Fellow Erin Bennett described an unusual fact pattern in which a registrant/lessor historically experienced a high rate of payment delinquencies, which led to the termination of several contracts. Because it continued to expect a high rate of default, the registrant began structuring its leases using a high implicit rate and a residual value guarantee. The staff objected to the registrant’s conclusion that collectibility of lease payments was probable at lease inception due to the registrant’s historical difficulties in collecting lease payments in similar leases.

A conference panel of practitioners noted a number of implementation challenges faced by preparers in implementing the leases standard. A large challenge faced during implementation was ensuring all of a registrant’s leases – including embedded leases and those maintained by foreign subsidiaries – were identified. Post-implementation challenges include identifying and accounting for reassessments and impairments of right of use assets.

**Credit losses is up next**

The credit losses standard is effective in 2020 for larger public companies, although the FASB recently delayed implementation for smaller public and all nonpublic companies. The FASB is currently focused on addressing the standard’s scalability and flexibility to help these companies eventually implement the standard. For its part, the SEC staff is focused on registrants that are implementing the standard in 2020. SEC Chief Accountant Sagar Teotia warned that the runway for implementation is short for these registrants, and they should be finalizing their implementation now.

The SEC staff recently released SAB 119, which updates previous staff interpretive guidance (SAB 102) to provide SEC staff expectations for policies, procedures and controls for estimating credit losses under the new standard. A conference panel of practitioners expressed concerns that credit loss disclosures may be particularly challenging, so a company should not leave disclosures to the end of its implementation process.

Lauren Alexander discussed a consultation involving whether potential future advances of costs on a borrower’s behalf (such as payments for property taxes and HOA fees) should be included in measuring expected credit losses. The lender in these circumstances may choose to make these payments on the borrower’s behalf but is not obligated to do so. The staff would not object to excluding potential advances in measuring expected credit losses until the advances are made because the lender is not unconditionally required to advance these amounts.

**Other accounting issues**

The OCA provided fresh insights into issues involving equity method investments and VIEs.

**Equity method investments**

Erin Bennett highlighted OCA’s longstanding position that for investments in limited partnerships and similar entities (such as LLCs that function similarly to limited partnerships) the equity method should be applied unless the investor’s interest is so minor that it has virtually no influence over partnership operating and financial policies. In practice investments of more than 3-5% are
considered more than minor. Bennett stated that the OCA staff had recently objected to a registrant that proposed not applying that view to its fact pattern.

**VIEs**

Aaron Shaw discussed how a VIE’s primary beneficiary (PB) was determined in two scenarios. In the first scenario, the staff did not object to a registrant concluding that it was not the PB in a VIE even though it helped establish investment guidelines for the VIE and had the contractual ability to modify certain aspects of the guidance. The staff’s reasoning was that (1) the most significant activities were the day-to-day investment decisions made by the VIE’s general partner under those guidelines and (2) the registrant was not able to significantly limit the general partner’s discretion over current and future investment decisions.

In the second scenario, Shaw stated it is not appropriate to conclude that a registrant is not a PB simply because the registrant does not have power over some of the risks and activities that affect a VIE’s economic performance. Rather, a registrant must examine its power over the risks and activities that most significantly affect the VIE’s economic performance.
How is your company affected by the rapid pace of technological change?

A key theme that emerged during the conference was how the rapid pace of technological innovation is driving change. New technologies are creating opportunities and risks for companies. New sources of company-compiled data (e.g. about customer behavior, supply chain dynamics) have gained recognition as valuable, though intangible, enterprise assets. However, this has fueled a stakeholder desire for more information about such intangible assets and an increased focus on cyber-risk management.

Technological change is also affecting the audit. For example, data and analytics applications promise to affect not only how audits are conducted but also the skills auditors need, and what audits look like. Data and analytics applications are allowing auditors to obtain additional insights into how the business is operating and enhance their risk assessments. The impact of how these technologies impact the audit process also continues to be a focus of a PCAOB research project.

**IASB’s response to digitization of financial analysis**

The IASB is reexamining financial statement presentation in light of the increased digitization of financial analysis. It notes that digitization (e.g. through data aggregators) is changing the way in which financial information is consumed, which makes the structure and comparability of financial information even more important.

To this end, the IASB is exploring standardizing subtotals and other financial statement captions on the income statement. They note that, for example, there is no clear guidance and much diversity in practice on how the subtotal operating profit is determined. The current proposal would require operating, investing and financing subtotals on the income statement. The proposal further would require new disclosures in the notes to reconcile management performance measures (akin to non-GAAP financial measures) to equivalent IFRS numbers.

**Blockchain**

In 2019, blockchain technology continues to be a hot topic, but businesses are still exploring real-world applications of the technology. Blockchain may allow businesses to conduct transactions and secure their data, and some expect it will create even greater business value in the future.

The staff of the Division of Corporation Finance noted that the accounting for digital assets is not clear. To begin to address this need, the AICPA has established an Accounting and Auditing Digital Assets Working Group to identify and respond to the unique challenges related to the accounting for and auditing of digital assets. Planned accounting papers from the group will contain...
How is your company affected by the rapid pace of technological change?

Q&As relating to the classification and initial measurement, subsequent measurement, derecognition and ownership of digital assets or the rights to receive digital assets if held by a third-party wallet. Planned auditing papers will address engagement acceptance and continuance, risk assessment, processes and controls, and related parties and illegal acts.

<table>
<thead>
<tr>
<th>Audit challenges for digital assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existence</strong></td>
</tr>
<tr>
<td>A company doesn’t have a physical representation of the digital asset.</td>
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<tr>
<td><strong>Rights and obligations</strong></td>
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<tr>
<td>Because ownership of the digital asset is dependent upon ownership and control of a private key, a company needs to establish that it has exclusive control of the private key.</td>
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<tr>
<td><strong>Valuation</strong></td>
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<tr>
<td>Digital assets may not be frequently traded and may be traded at different prices on various exchanges.</td>
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<td><strong>Related parties</strong></td>
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<tr>
<td>Because the counterparty in a transaction may not be clear, a company needs to validate that transactions are not with related parties.</td>
</tr>
<tr>
<td><strong>Internal control over financial reporting</strong></td>
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<tr>
<td>The safeguarding of the private key, and other IT and cyber risks.</td>
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</tbody>
</table>
How has the SEC responded to rapid change in the accounting profession?

Modernizing the SEC’s rules continues to be on the SEC’s agenda. Chairman Clayton stated that recent and upcoming rulemakings and staff guidance have focused on modernization efforts that enhance all three aspects of the SEC’s mission: protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. Clayton rejected the notion that modernization efforts require trade-offs among these three aspects.

Non-GAAP financial measures

Non-GAAP financial measures continue to be a hot financial accounting and reporting topic. Their importance is driven by stakeholders looking for information beyond the financial statements and management wanting to “tell their story” across multiple platforms.

The SEC supports the use of non-GAAP financial measures, with Sagar Teotia noting that GAAP measures supplemented with non-GAAP can provide good information for investors. However, he and Chairman Clayton made it clear that non-GAAP financial measures need to be unbiased, transparent and consistent with full disclosure of how they are calculated and how they reconcile to the GAAP measures.

Clayton went further to express his personal desire that non-GAAP financial measures be based on the metrics management uses to oversee the entity. Tying the metrics back to the financial statements is particularly important to the analyst community according to one conference speaker. Further, Clayton thinks these metrics should be comparable, noting, “I don’t like it when the calculation changes from quarter to quarter.” However, he suggested that when the metrics do change, the change should be clearly disclosed.

In addition to Clayton’s general observations about non-GAAP financial measures, the staff of the Division Corporation Finance spoke about non-GAAP financial measure presentations to which it has objected:

— non-GAAP measures that reflect the opposite principal/agent revenue recognition conclusions than ASC 606 (e.g. reporting revenue net as an agent in the financial statements and gross in non-GAAP financial measures); and
— non-GAAP contribution margins without reconciliation to gross margins calculated on a GAAP basis.

Further, the staff believes it will be inappropriate to exclude credit losses determined under the new standard from non-GAAP measures. They encourage consultation with the staff if a registrant is contemplating a non-GAAP measure that omits the credit losses recognized under the credit losses standard. The staff also expects good disclosure in the MD&A about the impacts that adoption of the new credit losses standard has on a registrant.
How has the SEC responded to rapid change in the accounting profession?

The IASB is also addressing non-IFRS financial measures, noting that one-third of IFRS companies include adjusted income measures. An IASB proposal would require such measures to be reconciled to the most comparable profit subtotal specified by IFRS in a single note to the financial statements, which would also be subject to the audit.

**Structured payables disclosures**

Division of Corporation Finance Deputy Chief Accountant Lindsay McCord described certain MD&A disclosures that the staff expects registrants to make regarding structured payables arrangements. The staff is aware of the increase of supplier finance programs involving trade payables, sometimes referred to as structured trade payables, reverse factoring, vendor payable programs and supply chain financing. In the staff’s experience, registrants are not always disclosing that they are using these arrangements as a strategy to increase liquidity. When supplier finance programs are material to the current period or are reasonably likely to materially impact liquidity in the future, the staff expects a registrant to consider disclosing in MD&A the following items.

— The material and relevant terms of the program, along with the general benefits and risks introduced by the arrangement.
— Any guarantees provided by the subsidiaries and the parent in relation to these programs.
— Any plan to further extend terms to suppliers and the factors that may limit their ability to continue to increase operating cash flows using this strategy in the future.
— Information about trends and uncertainties related to the extended payment terms for these arrangements (e.g. information about the period-end accounts payable and intra-period variations).

**Audit committees**

Chairman Clayton noted that strengthening registrants’ independent audit committees was a regulatory area that provided a significant “bang for your buck” for investors. How audit committees serve as gatekeepers and contribute to audit quality continued to be an important topic at the conference this year. Clayton strongly believes audit committees serve a key role in protecting investors and can have a significant and positive effect on audit quality.

SEC leadership made two important points at the conference about audit committees. First, Clayton stated he believes there should be more direct interaction between audit committees and auditors, rather than indirect interaction through management. Second, Sagar Teotia stated that no consultation with the staff would be complete without knowledge of the audit committee’s views on the consultation issue.

Clayton and Teotia emphasized that auditor independence is fundamental to the operation of an efficient market system and should be a top priority of audit committees to ensure they are getting an independent view of management’s work. Audit committees are the front-line in ensuring auditor independence.

The SEC has demonstrated a willingness to periodically reexamine its auditor independence rules. Associate Chief Accountant Vassilios Karapanos described the amendments to the SEC’s Loan Rule made in 2019 to better identify which
lending relationships with shareholders of an audit client pose a threat to an auditor’s independence. He also mentioned that the OCA staff updated its FAQs on auditor independence. The SEC has an ongoing project to consider updates to other areas of its independence rules, and the staff encouraged stakeholders to provide feedback.

**Interacting with the SEC staff**

When dealing with the Division of Corporation Finance, registrants may find themselves addressing their correspondence to a different office because the division realigned its 11 industry offices effective October 1, 2019. The seven new industry offices include: energy and transportation, finance, life sciences, manufacturing, real estate and construction, technology and trade and services. Further, the international corporate finance, M&A and structured finance groups were consolidated into a single group.

A Division of Corporation Finance staff member suggested several best practices for working with the SEC staff.

- When submitting registration statements, provide an email for the company and outside counsel.
- Before sending paper copy submissions, ask the staff if they would prefer to review the submission electronically.
- Before calling the staff with an interpretive or procedural question, do some research on the authoritative guidance.
- Clearly and directly address the questions in comment letters.
- Do not assume the staff permitted something because you see it in another filing. There is no guarantee that the staff reviewed the other filing or that the matter was material in the other filing.
- Pick up the phone, particularly if there is a question or you need clarification on a comment letter.
- If a question in a comment letter relates to activity or a balance that is not material, lead with this fact as it could save everyone time.
- Be upfront about the business purpose of novel transactions.

**SEC enforcement**

Representatives from the SEC’s Division of Enforcement provided a comprehensive update of enforcement actions over the past year, including failures by both registrants and auditors to comply with SEC rules and applicable accounting standards.

One enforcement action that may provide a cautionary example for registrants in many industries concerned the application of ASC 450 to legal contingencies. In that action, the registrant failed to timely accrue a liability for the payment of significant regulatory penalties. The enforcement staff noted that ASC 450 requires the registrant and its auditor to consider the facts and circumstances each reporting period, including regulator discussions, calculations of potential damages and settlement offers. Recognizing or disclosing legal contingencies too late may result in a material error and a violation of SEC rules.
How has the SEC responded to rapid change in the accounting profession?

The enforcement staff also previewed their future enforcement priorities:
- the role of gatekeepers (e.g. auditors and audit committees);
- earnings management;
- revenue recognition;
- disclosure of material information, including trends and uncertainties;
- expense recognition; and
- non-GAAP/nonfinancial metrics.

Looking ahead

The SEC’s Fall 2019 Agency Rule List (also known as the Reg Flex agenda) contains 48 items, many of which will likely be finalized in next 12 months. Some particular items to note include the following selected items.

<table>
<thead>
<tr>
<th>Selected items from SEC’s fall 2019 agency rule list</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes to the definition of an accelerated filer</td>
<td>Affects which registrants need auditors to attest to their internal controls</td>
</tr>
<tr>
<td>Changes to financial disclosures about acquired businesses</td>
<td>Potentially reduces costs for registrants</td>
</tr>
<tr>
<td>Changes to financial disclosures for registered debt security offerings</td>
<td>Potentially reduces costs for registrants</td>
</tr>
<tr>
<td>Amendments to certain provisions of the auditor independence rules</td>
<td>Potentially modernizes auditor independence rules</td>
</tr>
<tr>
<td>Modernization and simplification of disclosures regarding description of business, legal proceedings and risk factors</td>
<td>Potentially reduces costs for registrants</td>
</tr>
<tr>
<td>Guide 3 bank holding company disclosures</td>
<td>A once in a generation update to the disclosures for bank holding companies</td>
</tr>
<tr>
<td>Earnings releases / quarterly reports</td>
<td>Potentially changes the amount and/or timing of interim information provided to investors</td>
</tr>
</tbody>
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In connection with the conference, Sagar Teotia also released a statement outlining OCA’s ongoing key priorities.
Critical audit matters

The requirement for an auditor to include critical audit matters (CAMs) in its report represents the most significant update to the auditor’s report in decades. It was clear that implementation of CAMs was a priority for both the SEC staff and PCAOB board members.

OCA Professional Accounting Fellow Louis Collins made the following observations about CAM implementation.

— Communications that are tailored to the specific facts and circumstances of the audit are likely to be more meaningful to investors and other financial statement users. Information is more meaningful if it avoids general language about audit procedures performed, including the related control testing, and instead describes the specific procedures performed that were responsive to the principal considerations that led the matter to be identified as a CAM.

— Investors and other financial statement users should understand that CAMs are intended to be unique to each individual audit, so they should be cautious about drawing comparisons among companies.

PCAOB board members emphasized that CAMs should be consistent with the auditor’s work papers. In addition, the staff of the Division of Corporation Finance plans to review CAMs – just like they would any other required disclosure – and could send a comment letter if the registrant’s filing does not reflect the importance of the issue underlying the CAM. Correspondingly, a non-SEC panelist noted that the CAMs process has prompted some registrants to take a fresh look at their disclosures.

PCAOB board members announced that they issued a publication on initial observations and feedback about CAMs. It indicates that the number of CAMs per audit report varied, with the average number being around two, and that most CAMs are about revenue, business combinations, impairment and taxes.

Improving outreach

In 2019, the PCAOB continued its transformation process as a result of external feedback and internal discussions. PCAOB board members discussed expanded stakeholder engagement with audit committees, investors and preparers in 2020. To better understand their challenges and oversight needs, the PCAOB contacted hundreds of investors and audit committee members in 2019, and plans to continue reaching out to the audit committee chairs for every inspected engagement.
How will the PCAOB’s work affect your company?

Improving auditor inspections & quality control standards

The PCAOB implemented several important changes to its auditor inspection program in 2019. With a focus on planning, execution and reporting, the PCAOB is reworking its inspections program with the short-term goal of maintaining consistency across inspection teams and firms. In addition to its audit firm-specific inspection teams, the PCAOB created three teams, each with a specific mission.

— **The quality control team** reviews and reaffirms the PCAOB’s understanding of audit firms’ quality control systems.
— **The target team** looks at targeted areas, which in 2019 included multi-location/group audits in the US and abroad.
— **The internal team** examines the PCAOB’s own inspections group and its quality controls to help achieve common practices across all inspection teams.

Further, the PCAOB is launching a new format for its inspection reports based on feedback that suggested that their reports were difficult to understand and not published quickly. As a result, the PCAOB will introduce several changes beginning in 2020:

— new streamlined and user-friendly formatting;
— comparative information;
— reduction of boiler-plate language; and
— new subsection in section 1 (section 1B) where other findings such as issues with Form AP or audit committee communications would be described.

The largest six firms’ 2018 inspection reports will be released in the new format in late winter / early spring 2020, and all firms’ reports will use the new format starting with their 2019 inspection reports.

On the standard-setting front, PCAOB board members indicated that the PCAOB may soon issue a concept release on a potential approach to revising PCAOB quality control standards.

In addition, OCA Professional Accounting Fellow Nipa Patel described how the SEC exercises its oversight responsibilities for all PCAOB standard-setting projects.
# Appendix:
## Index of published speeches

The text of speeches can be accessed using the links below.

<table>
<thead>
<tr>
<th>SEC OCA staff speakers</th>
<th>Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lauren K. Alexander, Professional Accounting Fellow</td>
<td>Revenue recognition – Principal versus agent guidance</td>
</tr>
<tr>
<td></td>
<td>Current expected credit losses</td>
</tr>
<tr>
<td>Erin Bennett, Professional Accounting Fellow</td>
<td>Application of equity method</td>
</tr>
<tr>
<td></td>
<td>Leases - Collectibility</td>
</tr>
<tr>
<td>Louis J. Collins, Professional Accounting Fellow</td>
<td>Critical audit matters</td>
</tr>
<tr>
<td>Jamie N. Davis, Professional Accounting Fellow</td>
<td>Discontinuation of LIBOR</td>
</tr>
<tr>
<td>Vassilios Karapanos, Associate Chief Accountant</td>
<td>Auditor independence with respect to certain loans or debtor-creditor relationships</td>
</tr>
<tr>
<td></td>
<td>Independence FAQs</td>
</tr>
<tr>
<td>Susan M. Mercier, Professional Accounting Fellow</td>
<td>Revenue recognition – Identification of performance obligations</td>
</tr>
<tr>
<td>Nipa Patel, Professional Accounting Fellow</td>
<td>Commission’s oversight responsibilities of PCAOB standard setting</td>
</tr>
<tr>
<td></td>
<td>International audit-related standard setting</td>
</tr>
<tr>
<td>Aaron Shaw, Professional Accounting Fellow</td>
<td>Sale and leaseback transactions</td>
</tr>
<tr>
<td></td>
<td>Consolidation – Power to direct the most significant activities</td>
</tr>
<tr>
<td>Sagar Teotia, Chief Accountant</td>
<td>Background and role of the Office of the Chief Accountant</td>
</tr>
<tr>
<td></td>
<td>OCA’s ongoing priorities</td>
</tr>
</tbody>
</table>
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Matt Doyle
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Jeff Jones
Chief Accountant

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