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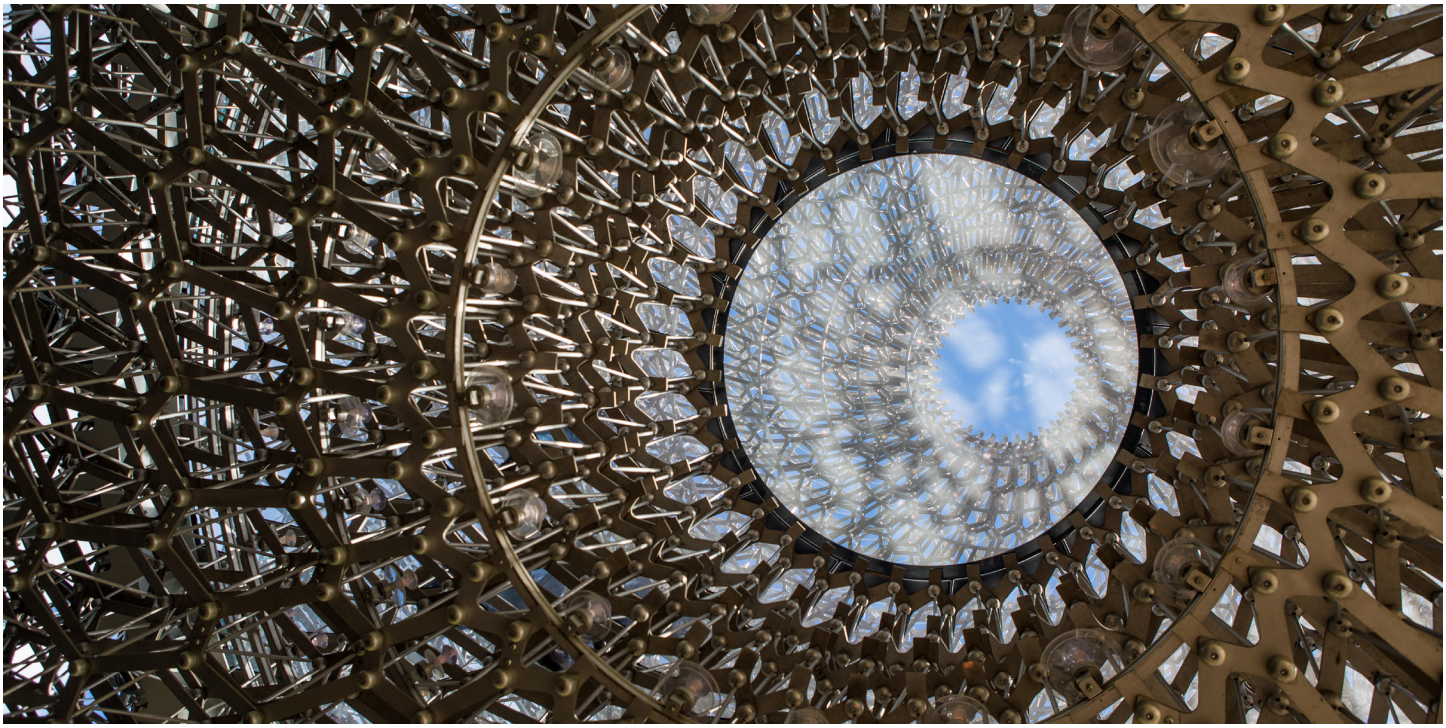

In This Issue

Highlights of the 2018 AICPA Conference on Current SEC and PCAOB Developments

Executive Summary

The AICPA Conference on Current SEC and PCAOB Developments is a gathering place for key leaders and constituents and serves as a reminder of the important role each party plays in the financial reporting process. Attendees at this year's conference left Washington, D.C., with a renewed sense of collaboration and partnership. Throughout the event, auditing, accounting, and regulatory organizations reiterated the importance of the participation of all stakeholders, including international standard setters and rule-makers, in the delivery of high-quality financial reporting.

Conference speakers acknowledged the efforts of stakeholders to implement new standards and encouraged them to keep up the momentum on activities associated with standards they have adopted as well as those on the horizon. Topics dominating the conversation at the conference included dry runs for reporting critical audit matters (CAMs); Brexit; implementation of, and continued focus on, the application of the FASB's new standards on revenue recognition, leases, and credit losses (the "new GAAP standards"); the potential transition away from the London Interbank Offered Rate (LIBOR); and cybersecurity.

In the keynote address, SEC Chairman Jay Clayton and SEC Chief Accountant Wesley Bricker discussed topics such as investor confidence, the new PCAOB board, technology, international matters, hiring and talent issues, non-GAAP measures, and key performance indicators in addition to certain of the topics outlined above. A highlight of the conversation was the unfurling of the "Bricker Blueprint," a graphic that depicts the role each stakeholder plays in the domestic and international financial reporting process for providing transparent financial information to financial statement users in a timely manner. Mr. Bricker emphasized that stakeholders should strive to work together without silos or blind spots.

The chief accountant issued a statement summarizing the SEC Office of the Chief Accountant's (OCA's) recent key activities, including those related to stakeholder engagement, interactions with other SEC divisions and offices (including an update on independence matters related to the "loan rule"), implementation of new GAAP standards, ICFR, the new PCAOB board, CAMs, role of the auditor, auditor independence, activities of the International Accounting Standards Board (IASB®), audit committees, and innovation.

At a session characterized by Center for Audit Quality (CAQ) Executive Director Cynthia Fornelli as "unprecedented," audience members were treated to a panel discussion in which all five members of the PCAOB board discussed their perspectives on the PCAOB's key priorities. While various board members expressed interest in different priorities, PCAOB Board Member Duane DesParte observed in closing that the new members are passionate about all the cited priorities.

These and other topics of discussion are summarized throughout this *Heads Up*.

Audit Committee Responsibilities

Throughout the conference, the SEC staff underscored that the audit committee plays a key role in the financial reporting process. The SEC's views were echoed by the PCAOB in its 2018–2022 strategic plan, which includes an initiative to engage more with audit committees.

Advancing the Effectiveness of Audit Committees

In presentations during the conference, and in the published statement issued in connection with it, Mr. Bricker emphasized several ways in which audit committee effectiveness can be strengthened. Specifically, he encouraged audit committees to consider the following:

- *Cybersecurity* — Audit committees should understand how management oversees cybersecurity risk within the company. The CAQ recently issued several resources for audit committees (see the list below), including a publication related to cybersecurity.
- *Readiness to adopt new accounting standards* — The audit committee plays a significant role in the oversight of management's implementation and ongoing application of new accounting standards. Management's SAB 74 disclosures may give the audit committee an indication of the company's readiness to adopt new accounting standards and allow the audit committee to ask relevant questions to understand the status of the implementation and how investors may respond to the disclosures.
- *Balanced agenda* — The audit committee has a responsibility to understand the accounting, ICFR, and reporting requirements as part of its oversight of the company's financial reporting. Audit committees should focus on management's approach to designing and maintaining effective internal controls (including hiring and retaining competent talent) as technology, accounting, and reporting requirements change.
- *Candid discussions* — Audit committees and auditors should engage in candid communications to help promote audit quality.

For more information, see the following recently issued CAQ resources for audit committees:

- *Critical Audit Matters: Lessons Learned, Questions to Consider, and an Illustrative Example*.
- *2018 Audit Committee Transparency Barometer*.
- *Cybersecurity Risk Management Oversight: A Tool for Board Members*.
- *Emerging Technologies: An Oversight Tool for Audit Committees.*

International Interest in Audit Committees

OCA Interim Deputy Chief Accountant Jenifer Minke-Girard gave an update on the International Organization of Securities Commission's (IOSCO's) project to explore the audit committee's role and current practices related to promoting and supporting audit quality. She noted that in comments received on *IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality*, respondents indicated that the practices of audit committees can be different between jurisdictions and noted that if a subsidiary is in a different jurisdiction, it is important to understand the subsidiary's culture.

Considerations for Effective ICFR

Throughout the conference, presenters spoke about the significance of ICFR in preventing or detecting material misstatements in financial reporting, as well as the importance of communication between management, the audit committee, and the auditors regarding ICFR in driving high-quality financial reporting. Mr. Bricker noted, "It is essential for audit committees, auditors, and management to continue to have appropriate discussions of ICFR in all areas — from risk assessment to design and testing of controls, as well as the appropriate level of documentation. If left unidentified or unaddressed, internal control deficiencies can lead to lower-quality financial reporting which can ultimately lead to higher financial reporting restatement rates and higher cost of capital."

OCA staff members highlighted certain areas of management's annual assessment of ICFR and related disclosures in which there continues to be room for improvement, including the following:

- *Evaluating the operating effectiveness of ICFR* — OCA Professional Accounting Fellow Emily Fitts described two areas of focus in the assessment of the adequacy of the evaluation of the operating effectiveness of controls. The first focus area relates to whether the controls are operating as designed. Ms. Fitts provided issues for management to consider, including an assessment of the consistency with which the controls operate throughout the period and how the assessment evaluates each aspect of a control when the control has multiple steps to address identified risk(s). The second focus area relates to whether the procedures that evaluate the operating effectiveness of ICFR are in line with the related risks. Ms. Fitts highlighted quantitative and qualitative considerations, including whether the persuasiveness of evidence obtained is in line with the related risks, whether the control is automated or manual, and whether the control relies on the completeness and accuracy of the information produced by the company.
- *Material weakness disclosures* — Ms. Fitts discussed the sufficiency of communication by management when ICFR is ineffective, whether in management's annual report on ICFR or in material weakness disclosures. She observed that such disclosures have improved, but the SEC believes that more can be done by management, the audit committee, and auditors to provide investors with meaningful information about ICFR. Ms. Fitts discussed questions for management to consider when assessing whether the disclosures provide sufficient detail to allow an investor to understand not only

what caused the deficiency but also its impact on the financial statements and management's plan to remediate the material weakness.

- *Evaluation of control deficiencies* — OCA Professional Accounting Fellow Tom Collens recognized improvements in management's assessment of the severity of control deficiencies but noted that opportunities for further improvements remain. He indicated that it was important for a company to avoid assessing the severity by considering only the actual misstatement identified and made the following observations:
    - An evaluation of the severity of a control deficiency is not limited to the actual misstatement when, depending on the root cause of the control deficiency, it is reasonably possible that other financial statement areas may be affected by the control deficiency. (For example, when a control deficiency is related to the competency of accounting personnel, a company should evaluate whether it is reasonably possible that other financial statement areas may be affected by the control deficiency.)
    - An evaluation of the severity of a control deficiency includes a comprehensive analysis of all relevant information available to assess the reasonable possibility that a control will fail to prevent or detect a material misstatement. (For example, a company might need to take into consideration the absolute value of the misstatements that offset within the same financial statement line item.)
    - The identification of compensating controls that might reduce the severity of the control deficiency should include a consideration of whether the controls are designed to accomplish the same objectives of the deficient control(s) and whether the controls are operating at a level of precision that will prevent or detect a material misstatement.

New Accounting Standards Implementation

During the OCA accounting policy initiatives panel, OCA Deputy Chief Accountant Marc Panucci acknowledged and encouraged management's ongoing dialogue about the importance of good controls. Mr. Panucci explained that defining policies, processes, and controls throughout the implementation phase of the new GAAP standards before the adoption date will directly contribute to the successful implementation of the new standards. In addition, it is important for management to assess whether there are different risks during and after the implementation of a new accounting standard.

Accounting and Financial Reporting Topics

Adoption of New GAAP Standards and Other Current Issues

Adoption of the FASB's new accounting standards on revenue recognition, leases, and credit losses remains a key priority for preparers, auditors, standard setters, and regulators. During the session on OCA policy initiatives, Deputy Chief Accountant Sagar Teotia commented on registrants' implementation progress:

- *Revenue* — Significant progress has been made related to implementing the new revenue standard. The TRG, AICPA industry groups, preclearance letters, and SEC staff speeches have provided guidance on implementing the standard's requirements in financial statements. While comments on revenue matters are expected to continue, the SEC has generally been happy with registrants' implementation efforts thus far.
- *Leases* — Given that there is no TRG for the new leasing standard, preparers have a greater responsibility to identify questions and work through implementation issues. Mr. Teotia indicated that the SEC staff is working closely with the FASB staff to address

practice issues identified by stakeholders. He also acknowledged that while many preparers are experiencing challenges related to their software and systems, they have expressed confidence in their ability to meet the adoption deadline. In a Q&A session, he indicated that he does not expect a deferral of the effective date of the new leasing standard.

- *Credit losses* — The focus of implementation questions about current expected credit losses (CECL) has shifted from scope to application, which indicates that progress has been made. The SEC has been working on various consultation questions and will continue to observe the TRG and AICPA working groups as well as work with banking regulators to monitor implementation. Also, the SEC is planning to make conforming edits (related to CECL) to SAB 102, which contains the current SEC staff guidance on methods and documentation related to loan loss allowances.

In addition to the topics outlined above, the SEC staff discussed hedging and the effects of the potential transition away from the LIBOR, income taxes, and the highly inflationary environment in Argentina.

Revenue Recognition

The new revenue standard, which most public business entities (PBEs) adopted in 2018, remains a focus of the SEC staff. In the keynote address, Mr. Bricker explained that the "implementation of the new standard was a substantial, yet manageable, effort involving extensive collaboration among preparers, auditors, investors, standard-setters, industry groups, and others with the shared goal of advancing high-quality financial reporting in our capital markets."

In a Q&A session, Mr. Teotia acknowledged that the application of reasonable judgments could result in diversity in application of the new standard. He noted that while the SEC staff is monitoring this and will consider whether there is opportunity or a necessity to narrow the diversity through standard setting, the staff is not currently aware of any issues for which standard setting is required.

During the session on current OCA projects, OCA Professional Accounting Fellow Sheri York and OCA Associate Chief Accountant Sarah Esquivel provided observations about four recent ASC 606 prefiling consultations, three of which are related to the two most frequently addressed topics in consultations with the OCA: application of the principal-versus-agent guidance and identifying performance obligations.

The four prefiling consultations were summarized as follows:

- *Principal-versus-agent guidance* — This consultation addressed whether a distributor is acting as a principal or as an agent when the manufacturer (i.e., the registrant's vendor) ships the goods directly to an end customer (i.e., in a drop shipment arrangement). The SEC staff did not object to the registrant's conclusion that it is the principal in the arrangement. In commenting on this conclusion, Ms. York noted that "[i]n some circumstances, physical possession will not coincide with control of a specified good." Ms. York emphasized that even though application of the principal-versus-agent guidance requires significant judgment, "significant judgment does not mean optionality."
- *Identifying performance obligations* — Two consultations addressed whether promises in a contract are separately identifiable (distinct within the context of the contract):
    - The first consultation involved a registrant that provides a security monitoring service. The service uses equipment (e.g., cameras and sensors) installed at the customer's location to capture and communicate information to the registrant's technology platform. A key feature of the registrant's technology platform is its

artificial intelligence, which uses data from certain equipment to learn the patterns of the customer's behavior and thereby create a "smart" security monitoring service. The SEC staff did not object to the registrant's conclusion that the equipment, installation, and monitoring service are not separately identifiable in the contract because the registrant provides a significant service of integrating the goods and services in the contract into a combined "smart" security monitoring service for which the customer has contracted.

  - The second consultation focused on whether off-the-shelf software and related services are highly interdependent or highly interrelated. The SEC staff objected to the registrant's conclusion that the promised goods and services in the contract are not separately identifiable in the contract. The basis for the staff's objection was that the software and service did not "significantly affect each other." Ms. Esquivel highlighted that "[in] this fact pattern, the service was a convenience to the customer, but it was not required." Therefore, "the choice of whether or not to use the service did not significantly impact the utility of the software."

- *Identification of a significant financing component* — This consultation addressed a registrant that licenses its brand name (in a symbolic intellectual property arrangement, with revenue recognized over time) to a third party in exchange for a significant up-front fee. The SEC staff did not object to the registrant's conclusion that despite the difference in the timing between revenue recognition and payment, the contract does not contain a significant financing component because "the difference between the promised consideration and the cash selling price arose for reasons other than financing" and this difference is "proportional to the reason identified for the difference." She further outlined various reasons cited by the registrant in support of its argument.

See Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard* for more information.

During the session on developments of the Division of Corporation Finance (the "Division"), Deputy Chief Accountant Patrick Gilmore noted that the SEC staff's comment letters related to significant judgments focus on (1) identifying whether promised goods and services in a contract are distinct; (2) determining whether an entity is acting as a principal or as an agent; (3) determining the timing of revenue recognition, including (a) the point in time at which control is transferred for performance obligations satisfied at a point in time and (b) the measure of progress used for performance obligations satisfied over time; and (4) determining the appropriate disaggregation of revenue to disclose.

During the comment letter panel session, the panelists provided insights on comment letters issued by the SEC staff to registrants. A panelist observed that the SEC staff does not have a bias toward a particular outcome when commenting on significant judgments. For example, deferring the recognition of revenue or recognizing revenue on a net basis (i.e., the entity is acting as an agent) should not be viewed as a "safe" answer.

See Deloitte's September 26, 2018, *Heads Up* for more information about our observations related to comment letters issued by the SEC staff on the new revenue standard.

Lease Accounting

Given the approaching effective date of the FASB's new leasing standard (codified in ASC 842),[1] most entities have made considerable implementation progress over the past year. In a Q&A session, Mr. Teotia addressed a question related to registrants' SAB 74 transition disclosures. In a manner consistent with prior comments made by the SEC staff,[2] Mr. Teotia emphasized the importance of a registrant's SAB 74 disclosures leading up to adoption of the new leasing standard. When asked by a Q&A panelist about the level of detail of such disclosures, Mr. Teotia explained that there is not a one-size-fits-all answer; rather, registrants should provide information to achieve the objective of the disclosure requirements, which, as indicated in SAB Topic 11.M, include assisting investors in "assessing the significance of the impact that the standard will have on the financial statements of the registrant when adopted."

OCA Professional Accounting Fellow Andrew Pidgeon observed that in recent SEC staff prefiling consultations related to the FASB's new leasing standard, there have been questions about transition and how lessees and lessors should account for certain costs.

Mr. Pidgeon discussed two prefiling consultations related to the measurement of a lessee's minimum rental payments under existing operating leases that are undergoing transition to ASC 842. The consultations addressed (1) whether a lessee should include executory costs in its minimum rental payments and (2) the appropriate index or rate that a lessee should use to measure minimum rental payments in transition (i.e., the index or rate at lease inception or the then-current index or rate).

In both consultations, the SEC staff did not object to the registrants' consistent application of their existing policies under ASC 840 in transition to ASC 842. Mr. Pidgeon also referred to a related question about whether the SEC staff would object if a registrant changed its existing policy for measuring minimum rental payments when adopting ASC 842. He noted that the staff did not object to the registrants' conclusions that their decisions represented accounting policies and that to change such policies, they would need to demonstrate preferability under ASC 250.

Regarding the index or rate consultation, Mr. Pidgeon noted that to measure future minimum rental payments, the parties proposed a change from using lease inception index or rate values to current index or rate values. He stated that the staff "communicated that when evaluating whether that policy change is preferable, it would be reasonable for a registrant to consider as part of its Topic 250 analysis, if the lease obligation that results from using current index or rate values represents a better measurement of the registrant's current lease obligations."

See Deloitte's October 17, 2018, *Heads Up* for more information about common transition issues related to the new leasing standard. As described above, Mr. Pidgeon discussed a situation in which the parties proposed a change from lease inception index or rate values to current index or rate values. Q&A 3 in the *Heads Up* discusses transition considerations related to the index or rate that should be used to measure minimum rental payments in transition (including a discussion regarding making a change in the other direction — that is, from the use of a current index or rate to the inception index or rate). Further, Q&A 4 discusses approaches to accounting for executory costs for operating leases in transition.

[1] For PBEs (other than those eligible for the relief provided by the SEC's announcement; see Deloitte's July 20, 2017, *Heads Up*), certain not-for-profit entities, and certain employee benefit plans, the new leasing standard (ASU 2016-02 and all related amendments) is effective for annual periods beginning after December 15, 2018, and interim periods therein. For all other entities, the new leasing standard is effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted.

[2] For additional information, see Mr. Bricker's Statement in Connection With the 2017 AICPA Conference on Current SEC and PCAOB Developments.

Mr. Pidgeon also discussed questions related to how lessees and lessors should account for "certain costs relating to a lease." The lessee-specific question addressed how a lessee should account for costs incurred to place a leased asset into use (e.g., costs incurred to compensate "a party other than the lessor to ship a leased asset to the lessee's premises"). The SEC staff did not object to a lessee's capitalization of these costs by analogy to ASC 360. However, the staff observed that it could also be appropriate to expense the costs as incurred. Mr. Pidgeon noted that the decision to expense or capitalize (by analogy to ASC 360) these costs represents an accounting policy election.

Mr. Pidgeon next discussed a prefiling consultation related to "lessor accounting for costs incurred to fulfill its obligations under a lease." In the absence of explicit guidance in U.S. GAAP, the SEC staff did not object to a lessor's application, by analogy, of the fulfillment cost guidance codified in ASC 340-40 (which was issued in connection with the new revenue standard). However, the staff observed that it could also be appropriate to expense the costs as incurred. In a manner consistent with a lessee's accounting for similar costs, a lessor's decision to expense or capitalize (by analogy to ASC 340-40) these costs represents an accounting policy election.

See Deloitte's *A Roadmap to Applying the New Leasing Standard* for more information.

Credit Losses

OCA Senior Associate Chief Accountant Kevin Vaughn provided observations about a recent consultation related to a registrant's evaluation of subsequent events after its adoption of ASU 2016-13 (the CECL standard). Specifically, the consultation addressed the following three scenarios in which information is (1) received after the balance sheet date but before the date the financial statements were issued or available to be issued and (2) significantly different from management's expectation:

- *Scenario 1* — An entity receives a loan servicer report that includes loan activity that occurred on or before the balance sheet date.
- *Scenario 2* — An entity receives an appraisal report detailing the fair value of loan collateral as of the balance sheet date.
- *Scenario 3* — The government announces unemployment rates for a period that includes the balance sheet date.

The SEC staff indicated that in the first two scenarios it would object to the registrant's exclusion of the information from its process for estimating expected credit losses. The staff highlighted that in both scenarios, an important consideration was that the information is loan-specific regarding facts that existed as of the balance sheet date. By comparison, because the information in Scenario 3 is used to make projections for periods that extend beyond the balance sheet date and is not loan-specific, the SEC staff would not object to either the registrant's inclusion or omission of such information in its estimation process.

In addition, Mr. Vaughn acknowledged that if other facts and circumstances become known after the balance sheet date, a registrant will need to evaluate whether such information should be incorporated into the estimate of expected credit losses. Mr. Vaughn shared the following views regarding how to perform subsequent-event evaluations as part of the process for estimating expected credit losses:

- *Category 1 — A registrant receives loan-specific information related to facts that exist on the balance sheet date.* The registrant should include such information in its estimation process.
- *Category 2 — A registrant receives information related to forecasting before it completes its estimation process.* The registrant may include such information in its estimation

process (unless the information indicates a material weakness or a deficiency in the registrant's CECL process, in which case the registrant must include such information).

- *Category 3 — A registrant receives information related to forecasting after it completes its estimation process.* The registrant would not include such information in its process (unless the information indicates a material weakness or a deficiency in the registrant's CECL process, in which case the registrant must include such information).

OCA Professional Accounting Fellow Rahim Ismail also discussed a consultation involving two questions about a registrant's proposed accounting policy for loan charge-offs after its adoption of the CECL standard. The first question focused on whether the registrant should determine loan charge-offs at the loan level or at the pool level. The registrant observed that while the CECL model requires the pooling of loans with similar risk characteristics to estimate the allowance, it is acceptable to assess loans at the individual loan level for charge-offs. The SEC staff did not object to the registrant's conclusion. The second question addressed the scope of information a registrant should consider when evaluating whether a loan is uncollectible for accounting purposes (i.e., loan-level information vs. relevant portfolio information). The registrant observed that the CECL model does not provide specific guidance on evaluating collectibility and concluded that it is acceptable to consider all relevant information, which may include individual loan information and historical loss information for similar loans. The SEC staff did not object to the registrant's conclusion.

Hedging: Potential Transition Away From the LIBOR

Mr. Ismail stated that the SEC staff is monitoring the ongoing efforts of the Federal Reserve Bank of New York's Alternative Reference Rates Committee to convert contracts based on the LIBOR, both present and future, to an acceptable alternative. Stakeholders have been proactively identifying and addressing potential accounting implications that may result from this change. In particular, Mr. Ismail highlighted steps taken by the FASB toward this goal, including (1) the issuance of ASU 2018-16, which adds the secured overnight financing rate (SOFR) overnight index swap (OIS) rate as a benchmark interest rate for hedge accounting purposes, and (2) the Board's addition of a project to its technical agenda that aims to facilitate the transition from the LIBOR to the SOFR and help stakeholders address the resulting effects on financial reporting. Mr. Teotia echoed these comments.

Mr. Ismail also discussed a consultation in which a registrant requested the SEC staff's views on the anticipated transition's impact on existing cash flow hedge accounting relationships in which the hedged item is documented as LIBOR-based payments.

In the consultation, the registrant first questioned whether the anticipated transition away from the LIBOR would preclude the registrant from asserting that the occurrence of forecasted LIBOR-based interest rate payments remains probable beyond the anticipated transition away from the LIBOR. The staff did not object to the registrant's view that hedge documentation implicitly takes into account the LIBOR's replacement, thereby allowing the registrant to continue to assert that the occurrence of the hedged item is probable.

This registrant also questioned how the anticipated transition away from the LIBOR would affect the assessment of hedge effectiveness of a cash flow hedge of LIBOR-based variable rate debt. The SEC staff did not object to the registrant's view that a transition away from LIBOR-based contracts would affect the hedged item (e.g., forecasted interest payments) and the hedging instrument (e.g., interest rate swap) similarly, thereby negating any impact to the overall effectiveness of the hedge.

Division Director William Hinman also cited an expectation that registrants will consider the need to disclose anticipated impacts resulting from the transition away from the LIBOR. Such disclosures may be appropriate in MD&A, in the registrant's risk factors or liquidity and capital resources section.

Income Taxes

During the panel discussion on OCA policy initiatives, Mr. Teotia noted that the accounting effects of the Tax Cuts and Jobs Act (the "Tax Act") have been observed for almost a year now. He stated that the goal of SAB 118 (codified as SAB Topic 5.EE and incorporated into the Codification by ASU 2018-05) was to give preparers sufficient time to gain an understanding of the Tax Act and account for its effects while (1) improving the usefulness of financial information through the use of estimates and (2) increasing transparency as more information became available. Mr. Teotia observed that investors' feedback on SAB 118 has been positive since the guidance enabled them to obtain useful information sooner than they otherwise would have. He reminded stakeholders that the maximum measurement period available under SAB 118 ends in December 2018 and that the accounting for the effects of the Tax Act will need to be finalized in accordance with ASC 740 at that time.

Argentina

During a panel discussion on Division developments, SEC Senior Advisor to the Chief Accountant Craig Olinger discussed the impact of the highly inflationary environment in Argentina on entities that have material operations in Argentina. He focused on the need of these entities to tailor their disclosures to their particular circumstances, noting that they should consider providing appropriate disclosures in all relevant sections of their filings (e.g., MD&A, risk factors) to highlight the impact of operating in a highly inflationary environment.

See Deloitte's July 3, 2018, *Financial Reporting Alert* for additional information on disclosure considerations for entities with material operations in Argentina.

SEC Reporting Topics

Continued Focus on Capital Formation

As he did at last year's conference, Mr. Hinman highlighted the high priority the SEC places on policies and rulemaking related to facilitating capital formation while maintaining investor protection. The SEC staff discussed recent efforts to improve the attractiveness of the U.S. capital markets, as summarized below.

Advances in SEC Rulemaking

Mr. Hinman stated that the Division will continue to seek ways to broaden the investment opportunities available to "Main Street" investors by encouraging more companies to join the public capital markets. In light of this background, Mr. Hinman discussed the Division's rulemaking activities and agenda, which are largely driven by the SEC's interconnected goals of facilitating capital formation and disclosure effectiveness.

Mr. Hinman highlighted recent SEC accomplishments, including issuance of the following:

- A final rule that increases the public float thresholds for smaller reporting companies (SRCs), thereby expanding the number of registrants eligible for scaled disclosure requirements available to SRCs.
- A final rule on disclosure simplification (commonly known as the "Disclosure Update Simplification Technical Release," or "DUST-R"), which eliminates or simplifies certain redundant or outdated disclosure requirements.

- A proposed rule that would simplify and streamline financial disclosures about guarantors and issuers of guaranteed securities and affiliates whose securities collateralize a registrant's securities (SEC Regulation S-X, Rules 3-10 and 3-16). The goal of the proposal is to improve the disclosures, enhance their understandability, and reduce the cost and burden of providing the disclosures. While the issuance of a final rule is not on the SEC's near-term agenda, Mr. Hinman indicated that the Division will strive to help the SEC finalize the proposed rule in 2019.

Connecting the Dots

During the conference session in which Mr. Hinman discussed SEC rulemaking, Mr. Olinger noted that DUST-R also eliminates the requirement for a foreign private issuer (FPI) to obtain a waiver from the 12-month age of financial statement requirements in an initial public offering (IPO), provided that the FPI includes certain representations in the registration statement.

See Appendix A for a summary of the above rules and other ongoing disclosure effectiveness projects as well as Deloitte resources that provide additional information about each project.

Mr. Hinman also discussed the ongoing advancement of various projects on the SEC's near-term agenda, including those related to the following:

- *Earnings releases and quarterly reporting* — The Division expects that the SEC will issue a request for comment to explore, among other things, (1) the interplay between the earnings releases and quarterly reports on Form 10-Q, (2) whether quarterly reporting should be required for all companies or whether a subset of registrants should report on a different cadence, and (3) the relationship between quarterly reporting and a focus on short-term thinking. In an announcement separate from the conference, the SEC indicated that it plans to consider the request for comment at an open SEC meeting scheduled for December 19, 2018.
- *Financial statements of businesses acquired or to be acquired (SEC Regulation S-X, Rule 3-05), real estate operations (SEC Regulation S-X, Rule 3-14), and pro forma financial information (SEC Regulation S-X, Article 11)* — The SEC staff is working with the SEC to propose rules that would simplify the disclosure requirements under the aforementioned rules to reduce the cost of preparing the disclosures and improve the quality and relevance of the required disclosures. For example, the staff is considering simplification of the significance calculations required by the current rules and whether pro forma adjustments may be more useful to investors if they include forward-looking information (e.g., effects of reasonably estimable synergies).
- *Definition of an accelerated filer and Sarbanes-Oxley Section 404(b) exemption* — The SEC amended the definition of an SRC but not the accelerated filer thresholds, which trigger the requirement to provide the auditor attestation report on ICFR under Section 404(b). During the adoption of the SRC amendments, Mr. Clayton directed the SEC staff to study and formulate recommendations to the SEC for possible additional changes to the accelerated filer definition, which would reduce the number of registrants that are subject to Section 404(b). The SEC is expected to issue a proposal to amend the definition of an accelerated filer sometime in 2019.
- *Other matters* — The Division plans to help the SEC comply with a congressional mandate to extend the availability of Regulation A exempt offerings, which are currently available only to nonpublic companies, to existing registrants as well.[3] On a longer-term basis, the Division will seek to harmonize the various private placement regulations.

[3] See Section 508 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018.

Communicating With the Division Staff

Throughout the conference, the SEC staff provided insights on, and recommendations for, communicating with its staff, as discussed below.

Rule 3-13 Waivers

In a manner consistent with prior public remarks, the SEC staff encouraged registrants to use SEC Regulation S-X, Rule 3-13, to seek modifications to their financial reporting requirements when the application of the rules results in a requirement to provide more information than the registrant believes is necessary to reasonably inform investors (herein referred to as "Rule 3-13 waivers"). Rule 3-13 gives the SEC staff the authority to permit the omission or substitution of certain financial statements otherwise required under Regulation S-X "where consistent with the protection of investors." The staff discussed the following examples of Rule 3-13 waivers related to financial statement requirements for acquired or to-be-acquired businesses ("acquirees") under SEC Regulation S-X, Rule 3-05:

- *Anomalous income test* — An acquiree may be significant solely on the basis of the income test; this may be the case when the registrant reports near break-even results. In these circumstances, the staff may look at other financial and nonfinancial measures to supplement the income test. For example, the staff may compare the revenue and operating income of the acquiree with those of the registrant (or with other, nonfinancial measures) when evaluating the registrant's request to waive financial statements of the acquiree for one or more years.
- *Anomalous investment test* — When an acquiree is significant solely on the basis of the investment test, the staff may want to understand why the registrant is acquiring the acquiree at a premium. The staff indicated that in this situation, the staff may consider whether an audited statement of assets acquired and liabilities assumed, which reflects the application of the purchase price at fair value on the transaction date, may be more relevant and useful to investors than historical audited financial statements.
- *Related businesses* — Acquisitions of related businesses[4] must be evaluated for significance as a single business combination. If these acquisitions are significant in the aggregate, audited financial statements are generally required for all of the related businesses. The staff will consider waivers for individual related businesses that are not significant to the overall transaction.
- *IPOs* — The financial statement periods presented during an IPO may exhibit significant growth. Businesses acquired in the earliest period presented may be significant under the literal application of the significance tests but may not be material to the registrant's current operations. The staff may consider relief from providing one (or more) financial statement periods required in these circumstances.
- *Acquisition of a foreign entity* — A registrant may acquire an entity that meets the definition of an FPI, but not a foreign business, because of nuances in the ownership requirements in the two definitions. In the absence of a waiver, the financial statements for a foreign entity that does not qualify as a foreign business would need to be (1) prepared in accordance with U.S. GAAP or (2) reconciled to U.S. GAAP if presented under IFRS® Standards or local GAAP. The staff has granted relief by allowing a registrant to file IFRS financial statements for an acquiree without reconciliation to U.S. GAAP in such circumstances.

[4] Rule 3-05(a)(3) defines businesses as related if any of the following conditions apply:
- "They are under common control or management."
- "The acquisition of one business is conditional on the acquisition of each other business."
- "Each acquisition is conditioned on a single common event."

See Section 1.7 of Deloitte's *A Roadmap to SEC Reporting Considerations for Business Combinations* for more information.

Connecting the Dots

Acquired foreign businesses are also subject to age of financial statement requirements that differ from those that apply to domestic acquirees.[5] The staff stated that (1) the foreign entity waiver example discussed above applied to the basis of accounting and (2) any requests to apply the age of financial statement requirements applicable to a foreign business would require separate consideration and discussion during the waiver process.

Although the above examples are related to Rule 3-05, the SEC staff indicated that similar Rule 3-13 waivers may be appropriate for significant equity method investments (SEC Regulation S-X, Rule 3-09). The staff reminded registrants that (1) every fact pattern is unique and (2) investor protection is key to the staff's analysis. In addition, the staff indicated that it is available to discuss potential waiver fact patterns by phone before a registrant submits a written request.

Responding to Comment Letters

During several panel discussions, the SEC staff reiterated its view that the comment letter process is a dialogue between a registrant and the staff. Division Associate Director Cicely LaMothe suggested that the process may proceed more smoothly if a registrant seeks clarification from the SEC reviewer if it does not fully understand a comment. She also suggested that a registrant alert the staff early in the process if a comment is related to an immaterial transaction or disclosure to avoid spending significant resources on the questions raised.

Ms. LaMothe also offered insight into the staff's practice of providing oral comments. With respect to open reviews, the staff may reach out to registrants by phone to (1) facilitate the timely closure of an ongoing SEC staff review or (2) address time-sensitive matters. While reviewing a registrant's response to initial comments, the staff may contact the registrant to discuss minor points of clarification to complete the review rather than issuing a follow-up comment letter. In addition, if a company is near the completion of an offering, the staff may contact the company to discuss any remaining comments or disclosure considerations to facilitate timely completion of the offering. Separately, the staff may also contact a registrant to discuss publicly reported significant events, such as a cyber breach affecting the registrant, before commencing a review or issuing any written comments.

See Appendix B of Deloitte's *A Roadmap to SEC Comment Letter Considerations, Including Industry Insights* for additional information about best practices for submitting Rule 3-13 waiver requests and responding to SEC comments.

Non-GAAP Measures

The SEC continues to focus on non-GAAP financial measures. While registrants' disclosures of such measures have improved (especially related to prominence), these disclosures remained the number one topic of SEC comment letters in 2018.

During their keynote address, Mr. Clayton and Mr. Bricker emphasized the importance of policies that support the reporting of non-GAAP measures and key performance indicators that are (1) complete, (2) accurate, and (3) consistent with the objective of communicating operating results through the eyes of management. Mr. Bricker also stressed the significance of registrants' implementation of appropriate disclosure controls and procedures (DCPs) that address how corrections of errors or changes in the calculation of non-GAAP measures will be identified and reported to investors. Mr. Bricker noted that he does not view GAAP

[5] See Section 1.12.3 of Deloitte's *A Roadmap to SEC Reporting Considerations for Business Combinations* for more information.

and non-GAAP measures as competing with one another; rather, when used appropriately, non-GAAP measures may broaden the scope of business information provided to investors.

SEC staff members also discussed the importance of disclosing why a measure is useful; for instance, such a disclosure may demonstrate that a company is trying to give investors insight into how management runs the company. In some situations, the staff may seek to corroborate such assertions by asking about the information provided to the company's board or about which measures the company uses in financial planning.

Individually Tailored Accounting Principles

The SEC staff acknowledged that entities often face challenges in identifying individually tailored accounting principles.[6] During a panel discussion on Division developments, Mr. Gilmore noted that to comply with the definition of a non-GAAP measure,[7] non-GAAP adjustments should generally involve the inclusion or exclusion of GAAP amounts. However, adjustments that change the accounting policy or the method of recognition of an accounting measure may be misleading and may therefore not be permitted.

Mr. Gilmore suggested that affirmative answers to the following questions may be indicators of adjustments that could result in tailored accounting:

Question	Example
Does the adjustment shift the measure from an accrual basis of accounting to a cash or modified basis of accounting?	Presenting cash receipts or billings as a proxy for revenue for a subscription-based business that recognized revenue over time
Does the adjustment include transactions that are also reportable in another company's financial statements?	Including adjustments to consolidate financial results for an entity that is accounted for under the equity method
	Presenting revenue, gross, as the principal in a transaction when the company is required to report revenue, net, as an agent
Does the adjustment reflect part, but not all, of an accounting concept?	Adjusting a performance measure for the cash portion of income tax expense but not the noncash portion
Does the adjustment render the measure inconsistent with the underlying economics or ignore certain aspects of the economics?	Adjusting revenues for sales-type or direct financing leases to account for them as if they were operating leases, thus ignoring the economics of the lease agreements

Connecting the Dots

The SEC staff discussed whether adjusting revenue to a pre-ASC 606 basis (i.e., ASC 605) after adoption of ASC 606 would be considered individually tailored accounting for companies that adopted the new revenue standard by using the modified retrospective method. ASC 606 specifies that in the year of initial application, entities that elect to use the modified retrospective method are required to disclose the effect of changes to financial statement line items resulting from the entities' application of the new standard.

[6] See Question 100.04 of the SEC's Compliance & Disclosure Interpretations (C&DIs) on non-GAAP measures.

[7] See SEC Regulation S-K, Item 10(e), which defines a non-GAAP financial measure as "a numerical measure of a registrant's historical or future financial performance, financial position or cash flows that: (i) Excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of comprehensive income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or (ii) Includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented." The definition in SEC Regulation G is consistent with that in Item 10(e).

This requirement may effectively result in the disclosure of affected line items on an "ASC 605 basis" for the year of adoption. Because the disclosures are required under GAAP, they generally would not be considered individually tailored accounting, or even non-GAAP measures, for the year of adoption. However, adjusting to present historical results under ASC 605 in periods *after* the initial period of application could be considered individually tailored accounting.

This view is consistent with one expressed at the March 13, 2018, CAQ SEC Regulations Committee joint meeting with the SEC staff, which maintained that when a registrant's current-period results reflect the adoption of the new revenue standard under the modified retrospective method, the registrant may supplementally present in MD&A a discussion that treats those results on an ASC 605 basis to provide comparability with prior periods. However, the discussion of the current results of operations under ASC 606 should be given prominence. Such disclosure should be included only in the period of adoption and should be comparable with the disclosures provided in the financial statements under ASC 250.

See Deloitte's May 22, 2018, journal entry for a discussion of how to present the effect of ASC 606 on comparable periods in MD&A. For more information about non-GAAP measures and individually tailored accounting principles, see Deloitte's *A Roadmap to Non-GAAP Financial Measures*.

Cybersecurity

The SEC staff continued to emphasize the importance of effectively managing cybersecurity risks and appropriately informing investors about cybersecurity risks and cyber incidents. Mr. Clayton noted that the SEC has seen both an increased appreciation of the importance of cyber risk issues and more cybersecurity expertise at the corporate board level. He observed that for companies to continue to make progress on cybersecurity, it is essential for them to move from a mind-set that focuses primarily on the prevention of cyber breaches to a more forward-looking perspective that also takes into consideration whether the companies are collecting data in such a way that the data can be protected.

Mr. Hinman highlighted the importance of:

- DCPs to address cyber incidents related to the identification and escalation of a breach at the appropriate levels within an organization, which would include ensuring that all relevant parties, including a company's IT and financial reporting functions, are involved in assessing the potential effect of the breach and related disclosure requirements.
- Insider trading policies that take into account cyber risks and align with escalation procedures for significant cyber incidents.
- Disclosures that describe the role of the board of directors in cyber risk oversight when cyber risk is material.

During a panel session on SEC comment letter trends, Ms. LaMothe noted that the SEC staff will be reviewing cybersecurity disclosures and encouraged registrants to continually reassess these disclosures given the evolving nature of cyber risk. For example, it may not be sufficient for a company that has experienced a material cybersecurity breach to continue to simply disclose that there is a risk that a breach could occur. In addition, she reminded registrants that the SEC staff reads the news too, noting that if a significant cyber incident is reported by the news media, the SEC staff may contact a registrant to better understand the registrant's plans for disclosure of the incident.

Connecting the Dots

In February 2018, the SEC issued interpretive guidance (the "release") in response to the pervasive increase in digital technology as well as the severity and frequency of cybersecurity threats and incidents. This release largely refreshed existing SEC staff guidance related to cybersecurity (e.g., CF Disclosure Guidance: Topic No. 2) and, like that guidance, did not establish any new disclosure obligations but rather presented the SEC's views on how its existing rules should be interpreted in connection with cybersecurity threats and incidents. However, the release addressed topics not discussed in previously issued SEC releases, such as the items highlighted by Mr. Hinman, as noted above.

In addition, registrants should also consider the evolving nature of cyber threats when implementing internal controls, as highlighted in the SEC's recent investigative report.

For more information, see Deloitte's February 23, 2018, and October 30, 2018, *Heads Up* newsletters.

Brexit Disclosures

In their keynote address, both Mr. Clayton and Mr. Bricker discussed Brexit. Mr. Clayton broadly observed that until recently, the financial and business risks of Brexit were either not well understood or underestimated. He further noted that the effects of uncertainty related to Brexit are already observable; for example, some entities have adopted a more risk-averse approach to their hiring and business investment decisions as the United Kingdom approaches the March 29, 2019, withdrawal deadline.

Mr. Clayton also commented on the wide-ranging nature of Brexit disclosures. For example, the SEC has observed that while some registrants have provided granular disclosures describing entity-specific implications of Brexit, other registrants have disclosed Brexit as a general risk. In a related speech on December 6, 2018, Mr. Clayton also indicated that he has directed the SEC staff to focus on (1) registrants' disclosures about Brexit and (2) Brexit's effects on market utilities and infrastructure.

Mr. Clayton encouraged registrants to ensure that (1) their disclosures give investors sufficient information about both the potential implications of Brexit and the entity's planning and preparation for the transition and (2) they use materiality as a basis for determining the appropriate disclosure level. Mr. Bricker encouraged accountants and auditors — given their deep understanding of key processes, operations, and accounting matters — to seek out opportunities to be involved in discussions related to the planning for Brexit, even during this year-end financial reporting process. In his address, Mr. Hinman stated that registrants should consider disclosing information that their board of directors has identified in its ongoing scenario planning for Brexit.

During a Q&A session, Mr. Teotia stated that registrants should not expect extended transition relief, such as that granted in SAB 118 for the Tax Act with respect to Brexit. That is, registrants should be prepared to address the accounting and disclosure implications of Brexit in the period in which they occur.

See Deloitte's March 31, 2017, *Financial Reporting Alert* for further discussion of the potential effects of Brexit and related accounting and disclosure considerations.

Emerging Growth Company Transition Requirements for New Accounting Standards

As noted in Topic 10 of the FRM, "Title I of the JOBS Act, which was effective as of April 5, 2012, created a new category of issuers called 'emerging growth companies, or EGCs' whose financial reporting and disclosure requirements in certain areas differ from [those of] other categories of issuers." For example, an EGC is not required to comply with new or revised accounting standards as of the effective dates for PBEs and may elect to take advantage of the extended transition provisions by using non-PBE (or private-company) adoption dates for as long as the issuer qualifies as an EGC.

> See Deloitte's *A Roadmap to Initial Public Offerings* for information about the criteria that must be met for an issuer to qualify as an EGC.

Division Deputy Chief Accountant Lindsay McCord addressed transition requirements related to the adoption of new accounting standards for EGCs that elect to take advantage of the extended transition provisions and defer adoption of a new or revised accounting standard by using private-company adoption dates. While Ms. McCord's remarks apply to the adoption of any new or revised accounting standard, the discussion and illustrative examples below focus on the adoption of ASC 606 (the new revenue standard).[8]

Calendar-year-end EGCs that elect to take advantage of the extended transition provisions and adopt the new revenue standard by using private-company adoption dates will generally apply the standard for annual periods beginning on January 1, 2019, and in interim periods within annual periods beginning on January 1, 2020. Ms. McCord indicated that if a registrant no longer qualifies as an EGC after the PBE adoption date for the new revenue standard (i.e., loses its EGC status after January 1, 2018), it can no longer delay the adoption of the new revenue standard by using the private-company adoption date (i.e., January 1, 2019). However, if a registrant adopted the new revenue standard before losing its EGC status, the SEC staff would not expect the registrant to revise its financial statements for a different adoption date.

In a manner consistent with Ms. McCord's remarks, the examples below illustrate the application of the transition requirements.

Example 1 — Registrant Qualifies as an EGC on December 31, 2019

Registrant A is a calendar-year-end EGC that has elected to take advantage of the extended transition provisions and adopt the new revenue standard by using private-company adoption dates. Registrant A will be required to adopt the new revenue standard for annual periods beginning on January 1, 2019, and in interim periods within annual periods beginning on January 1, 2020, as follows:

- Registrant A will first adopt the new revenue standard in its 2019 annual financial statements included in its 2019 Form 10-K.
- As paragraph 11110.2 of the FRM indicates, A is **not** required to reflect adoption of the new revenue standard in the selected quarterly financial data (SEC Regulation S-K, Item 302(a)) for the 2019 quarterly periods in its 2019 Form 10-K. However, the SEC staff would expect A to provide clear and transparent disclosures that the quarterly financial data in its 2019 Form 10-K are presented on a basis different from that of the annual financial statements presented in its 2019 Form 10-K.
- For quarterly financial information presented in A's subsequent Forms 10-Q in 2020, the SEC staff would expect A to present the 2019 comparable quarters under the new revenue standard.

If A loses its EGC status (i.e., no longer qualifies as an EGC) on December 31, 2020 (or later), A would not be expected to revise its date of adoption of the new revenue standard since the new revenue standard was adopted before A lost its EGC status.

[8] In the discussion and examples, it is understood that a registrant adopted ASC 606 by using the modified retrospective method.

Example 2 — Registrant No Longer Qualifies as an EGC on December 31, 2018

Assume the same facts as in Example 1, except that Registrant A no longer qualifies as an EGC on December 31, 2018. Registrant A will now be required to adopt the new revenue standard for annual periods beginning on January 1, 2018, as follows:

- Registrant A will first adopt the new revenue standard in its 2018 annual financial statements included in its 2018 Form 10-K.
- Registrant A is required to reflect adoption of the new revenue standard in its selected quarterly financial data (SEC Regulation S-K, Item 302(a)) for the 2018 quarterly periods in its 2018 Form 10-K. In addition, the SEC staff would expect A to provide clear and transparent disclosures that the quarterly financial data presented in its 2018 Form 10-K do not mirror the information in its 2018 Forms 10-Q.
- For quarterly financial information presented in its subsequent Forms 10-Q in 2019, A will be required to present the 2018 comparable quarters under the new revenue standard.

Example 3 — Registrant No Longer Qualifies as an EGC on December 31, 2019

Assume the same facts as in Example 1, except that Registrant A no longer qualifies as an EGC on December 31, 2019. The SEC staff will not object if A adopts the new revenue standard only in its 2019 annual financial statements as follows:

- Registrant A may first adopt the new revenue standard in its 2019 annual financial statements included in its 2019 Form 10-K.
- Registrant A may reflect adoption of the new revenue standard in its selected quarterly financial data (SEC Regulation S-K, Item 302(a)) for the 2019 quarterly periods in its 2019 Form 10-K.

Connecting the Dots

Although the SEC staff did not address whether a registrant should provide clear and transparent disclosures that the quarterly financial data presented in its 2019 Form 10-K do not mirror the information in its 2019 Forms 10-Q, we believe that a registrant should provide such disclosures when the adoption of the new standard is reflected in its selected quarterly financial data. In addition, we believe that for quarterly financial information presented in its subsequent Forms 10-Q in 2020, Registrant A in this example should present the 2019 comparable quarters under the new revenue standard.

Ms. McCord also indicated that a registrant that files an initial registration statement and does not qualify as an EGC must present financial statements that apply the PBE adoption dates for new accounting standards. Accordingly, for a calendar-year-end company, the financial statements must reflect the adoption of ASC 606 as of January 1, 2018.

Connecting the Dots

Non-EGC private entities may want to consider how their timeline for a potential IPO may affect their plans related to adopting the new revenue standard. For example, if a non-EGC calendar-year-end private entity adopts the new revenue standard on January 1, 2019 (the required adoption date for nonpublic entities), but subsequently elects to file an IPO, the entity would be required to retrospectively adjust its financial statements and **accelerate** its adoption date to January 1, 2018, the required adoption date for PBEs.

Accounting Standard Setting

Remarks of Russell Golden, FASB Chairman

Mr. Golden observed that with most of the "big standards out the door," the Board "is focused on what lies ahead." He discussed the three phases of the FASB's work: (1) short-term improvements, (2) midterm improvements, and (3) long-term improvements.

Short-Term Improvements

The Board is developing and enhancing educational resources to help stakeholders make a successful transition to new standards. Mr. Golden applauded the efforts of accounting firms and public companies to provide supplemental training to stakeholders but noted that gaps in training remain. To help close those gaps, the FASB is providing targeted training to third-party CPE providers that develop and deliver educational programs.

Midterm Improvements

Mr. Golden stated that the FASB is "immersed in proactive, extended outreach" related to key projects that are expected to result in standard setting over the next three to five years. Mr. Golden outlined the staff's outreach and research related to three topics on the Board's technical agenda: (1) financial performance reporting, (2) segment reporting, and (3) distinguishing liabilities from equity. The results of the outreach on these topics will be discussed at public Board meetings.

The FASB is also working on its research agenda, which includes topics such as the second phase of the hedging project. In that phase, the Board will consider whether it can extend the benefits of the new hedging standard by further aligning it with risk management activities. The research agenda also includes a project on backwards tracing, which is related to income taxes and would involve exploring changes or alternatives to the current prohibition against recognizing the effects of changes in deferred taxes in the current year in the same line item in which those amounts were originally recorded.

Long-Term Improvements

Mr. Golden indicated that the FASB is preparing for the impact of technology on financial reporting. He noted that the Board's primary mission is to develop standards that provide useful information to financial statement users. Since he believes that adapting standards to technological advances is critical to that mission's success, the FASB has undertaken a study that would help it understand how to do so.

Remarks of Susan Cosper, FASB Technical Director

Ms. Cosper gave an update of the Board's current standard-setting activities and reminded participants that resources are available to help stakeholders implement the new guidance on revenue, leases, credit losses, and hedge accounting. Such resources include the FASB's implementation Web portal, its TRG on credit losses, and its implementation papers on specific issues related to hedge accounting. She referred to the potential transition from the LIBOR to the SOFR as a "sleeper issue" and discussed transition issues related to that change. She also indicated that the FASB has added this topic to its active project agenda.

Remarks of Hans Hoogervorst, IASB Chairman

Mr. Hoogervorst indicated that recent amendments to IFRS 9 (financial instruments) and IFRS 17 (insurance contracts) have significantly improved transparency, which will enable regulators and investors to identify risks in a more timely fashion.

Mr. Hoogervorst also provided an update on the postimplementation review of IFRS 3 (business combinations), which highlighted concerns that test results produced under the goodwill impairment model may be "too little, too late." In response to those concerns, the IASB intends to publish a discussion paper that presents potential new approaches to goodwill impairment testing.

Auditing and PCAOB Developments

PCAOB Developments

During the PCAOB's keynote panel discussion, PCAOB Chairman William Duhnke III and PCAOB board members J. Robert Brown, Duane DesParte, James Kaiser, and Kathleen Hamm reflected on the past year. In particular, they discussed how, as a new board, they have embraced the opportunity before them to take a "fresh look" at enhancing the structure, processes, and effectiveness of their organization. This undertaking involves looking at each of their programs — including standard setting, registration and inspections, and enforcement — and considering how those programs can be improved.

The discussion focused on the priorities of the PCAOB's 2018–2022 strategic plan, as adopted in November 2018, which include effective oversight, innovation, improved engagement, and process and culture optimization.

The Board is particularly focused on outreach and transparency, and they highlighted how they are reconsidering their processes in this regard. For example, Mr. Brown reflected on a candid observation shared by a participant at the recent PCAOB Investor Advisory Group meeting, which "described the thought process of the PCAOB as completely opaque." Mr. DesParte commented on the concept of "inreach," describing it as a means of connecting with stakeholder audiences — including audit committees and preparers. On the basis of feedback the new Board has received, the PCAOB is revisiting its historical communication mechanisms to reinvent how, when, and what it communicates with the public through its standard setting, inspection reporting, news releases, and public statements. In addition, the PCAOB is reconsidering how it obtains feedback, how it wants to receive advice, and how it may use advisory groups and other means to gather input from all stakeholders.

See Deloitte's December 12, 2018, *Audit & Assurance Update* for more information about the PCAOB's communications related to standard setting with various stakeholder groups and other highlights of the November 29, 2018, meeting of the PCAOB's Standing Advisory Group (SAG).

PCAOB Standard Setting and Related Activities

Status of Proposed PCAOB Auditing Standards

Before the new Board members took office, the PCAOB proposed changes to its standards related to (1) auditing accounting estimates, including fair value measurements; (2) the auditor's use of the work of specialists; and (3) supervision of audits involving other auditors. Board members and PCAOB Acting Chief Auditor and Director of Professional Standards Barbara Vanich provided an update on these proposed standards and confirmed the PCAOB's intentions to move forward with their release. Ms. Vanich reinforced the spirit of the proposals, noting that their aim is to refresh the original standards adopted from 1988 to 2003 to promote clarity, emphasize appropriate auditor attention and skepticism, and incorporate scalable risk-based requirements.

During the conference, the PCAOB announced that it will be holding a public meeting on December 20, 2018, to consider the PCAOB staff's recommendations regarding the standards on estimates and specialists. In addition, with respect to the standard on supervision of other auditors, the PCAOB staff indicated that it expects to submit a recommendation for the Board's consideration by the third quarter of 2019.

Changes in the Use of Data and Technology

Ms. Vanich described how emerging technology is "fundamentally changing how auditors approach the audit and audit quality." Through the SAG Data and Technology Task Force established this past year, research on data analytics and artificial intelligence is ongoing, with input from various stakeholder groups (e.g., academics, auditors, preparers, regulators). The need for staff guidance is also under close evaluation; while current standards are not widely perceived as barriers to emerging technologies, additional or improved guidance may prove beneficial.

Changes in Standards Related to a Firm's System of Quality Control

Mr. Brown discussed potential changes to standards related to a firm's system of quality control. He described how drivers of this project include observations from inspections and interest expressed by the issuer and audit committee community. The Board and Mr. Bricker highlighted the importance of entities' building quality into the front end of their processes rather than addressing areas of weakness on the back end. Ms. Hamm suggested that changes in quality control standards and systems may move toward a "more risk-informed, process-oriented, and dynamic approach."

See Deloitte's December 12, 2018, *Audit & Assurance Update* for more information about the PCAOB's focus on the use of data and technology and potential changes to the standards related to quality control, as discussed at the November 29, 2018, SAG meeting.

PCAOB Inspections

As noted above, the PCAOB continues to take a fresh look at its processes, which includes refreshing the structure of its inspections program. Chairman Duhnke stated that "we want to start from the very beginning to have a conversation about not only just what is the purpose of an inspection, but how do we conduct [an] inspection, what do we look at, and what do we communicate?" Mr. DesParte commented that the Board is considering how best to share leading practices identified through inspections.

During a session focused on PCAOB inspection updates, PCAOB Division of Registration and Inspections Director George Botic stressed the continued importance of the auditor as the "sentinel for investors and the capital markets" and remarked on the PCAOB's commitment to embracing change, particularly change related to the PCAOB's inspection process and reporting. He explained that some changes will be implemented for the 2019 inspection cycle and that others will follow. Continuing the discussion on firms' systems of quality control, Mr. Botic described advantages of effective audit quality indicators, including the PCAOB's intent to gather information from firms on how leadership identifies and evaluates such indicators. He encouraged firms to be innovative in this area.

Observations From the 2018 Inspection Cycle

Mr. Botic communicated common themes from the 2018 inspection cycle, including ICFR, revenue recognition, allowance for loan losses and other accounting estimates, and risks of material misstatement. He noted that while the volume of deficiencies related to controls with a review element has decreased, such deficiencies remain the most frequent ICFR inspection

findings. Given the continuity of findings in this area, Mr. Botic encouraged firms to analyze their design of monitoring programs, strongly suggesting formalization of root-cause analyses. Regarding other accounting estimates, common observations in this area were related to (1) the auditor's evaluation of assumptions, data, and contradictory evidence and (2) assets and liabilities acquired in business combinations.

Areas of Focus in the 2019 Inspection Cycle

Mr. DesParte referred to the PCAOB's Inspections Outlook for 2019, which the Board released on December 6, 2018. Key takeaways noted by the Board and Mr. Botic included the following:

- Firms can expect increased review and inspection of the systems of quality control (including evaluation of culture, use of quality indicators, evaluation of risks, and responses to those risks). In addition, PCAOB inspection teams will employ a risk-based focus to identify areas of greatest concern within such systems.
- PCAOB inspection teams will be directly communicating with audit committees of all issuers selected for inspection. This expanded interaction aligns with the Board's strategic outreach efforts.
- The structure of inspection teams will change to incorporate a "horizontal cross-firm thematic review" in which teams will look at specific issues across firms. The PCAOB plans to issue results of these "targeted" reviews in 2019.
- The PCAOB is reexamining its reporting process to improve timeliness and understandability for all stakeholders.

The key areas of focus for 2019 inspections will also include independence, recurring inspection deficiencies, cybersecurity risks, software audit tools, digital assets, audit quality indicators, changes in the auditor's report, and implementation of new accounting standards.

The Auditor's Communication of CAMs

Given that the effective date[9] of the requirement to communicate CAMs[10] in the auditor's report is quickly approaching, there was a consistent focus among conference speakers on the status of implementing the requirements, the transformational changes that will result from their implementation, and preparations for those changes. The PCAOB weighed in on CAMs during its presentations, and it emphasized its commitment to monitoring implementation efforts as well as to understanding challenges that may need to be addressed through clarifying guidance.

Understanding Potential Benefits and Challenges

In a separate discussion held with preparers and representatives from the PCAOB staff and the auditing profession, panelists observed that the requirement to communicate CAMs represents an opportunity for companies to take a fresh look at their disclosures. Also, early and frequent coordination between management and auditors may help ensure that CAMs are aligned with company disclosures.

PCAOB Deputy Division Director and Deputy Chief Auditor Jennifer Rand highlighted the investing community's desire to understand those matters that are most critical to the audit. Once the communication requirement becomes effective, CAMs may be used as another data point by investors in their decision-making process.

[9] Effective dates are as follows:
- *Communication of CAMs for audits of large accelerated filers* — Audits for fiscal years ending on or after June 30, 2019.
- *Communication of CAMs for audits of all other companies* — Audits for fiscal years ending on or after December 15, 2020.

[10] CAMs are matters arising from the audit of the financial statements that were communicated or required to be communicated to the audit committee; are related to accounts or disclosures that are material to the financial statements; and involve especially challenging, subjective, or complex auditor judgment.

In terms of potential challenges, panelists noted that CAMs might become boilerplate over time and stressed how important it is for CAMs to be written in "plain English." An audit practitioner stated that continued outreach with investors and other financial statement users, including analysts, will be important, as will be providing the appropriate education with respect to CAMs so that the auditor's report can be understood by stakeholders. Preparer panelists also recommended that companies engage with their investor relations department as well as their legal counsel and others that are involved in company communications to prepare them for the implementation of CAMs (since, for example, the investor relations department may be the first to receive questions on CAMs).

Preparing for CAM Reporting Through Dry Runs

The implementation of the requirement to communicate CAMs remains a priority for audit firms and preparers, and audit committees are keenly interested in understanding the types of matters that may be identified as CAMs in the auditor's report. Mr. Panucci and Ms. Rand commented that they were encouraged by, and appreciative of, the amount of effort that companies were devoting to the dry run process.

The preparer panelists expressed a positive view of the process and underscored how important it is for management and audit committees to stay engaged with their auditors on CAMs, not only during initial implementation of the communication requirement, but also afterwards. One panelist noted that there were no surprises during the dry run process given that matters identified as CAMs had previously been communicated or were required to have been communicated to the audit committee.

The audit practitioner noted that early lessons learned show how the process of identifying CAMs requires the application of significant auditor judgment and that there are challenging aspects to the actual drafting of CAMs. He also suggested that when reviewing draft CAMs during the dry run process, auditors should take a step back and read them through the lens of a financial statement user to determine whether they can be easily understood. For example, auditors should consider whether the CAMs include terms that are overly technical since use of such terms should be avoided (e.g., instead of writing "We performed a substantive analytical procedure" to describe how the CAM was addressed, the auditor could write, "We developed an expectation").[11]

Expectations Related to CAMs

In the midst of the standard-setting process, there were initial concerns that certain CAMs identified may result in the disclosure of original information about a company (e.g., significant deficiencies in ICFR, remote contingencies, illegal acts of management). However, early feedback is that CAMs are not introducing topics that were not already discussed within a company's disclosures. In addition to these observations, Mr. Panucci acknowledged that CAMs may overlap with critical accounting estimates and areas of significant risk but that it was unlikely that a CAM would be identified for every critical accounting estimate and significant risk communicated to the audit committee.

In reference to the PCAOB's adopting release outlining the requirements for CAM reporting, Ms. Rand noted the PCAOB's expectation that "in most audits to which the requirement to communicate critical audit matters applies, the auditor will determine that at least one matter involved especially challenging, subjective, or complex auditor judgment." Although there is no explicit expectation regarding the number of CAMs an auditor may identify and communicate within the auditor's report, Ms. Rand clarified that the auditor should not approach the process expecting to identify no CAMs.

[11] See the CAQ's December 2018 publication for additional lessons learned during the dry run process, questions that audit committees and others may consider, and an illustrative example of CAMs.

During a discussion of the comparability of CAMs among companies, preparer panelists observed that, in all likelihood, there could be some level of consistency since CAMs on the same topics may exist and may be described in similar ways, particularly within a single industry. However, the identification of CAMs — as well as the methods the auditor uses to address them — should depend on a company's individual facts and circumstances and the period under audit. Further, even though CAMs are expected to be unique to a specific company, a preparer panelist noted that there has been interest in reading the CAMs of peers.

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

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

Project	Summary and Relevant Deloitte Resources
Disclosure Effectiveness Initiative	
Request for Comment on the Effectiveness of Financial Disclosures About Entities Other Than the Registrant (September 2015)	**Summary:** Request for comments on the effectiveness of financial disclosure requirements in SEC Regulation S-X that apply to certain entities other than the registrant (i.e., acquired businesses, equity method investees, guarantors, and issuers of guaranteed securities and affiliates whose securities collateralize registered securities). **Deloitte Resources:** October 6, 2015, *Heads Up* and November 24, 2015, comment letter.
Business and Financial Disclosure Required by Regulation S-K (Concept Release, April 2016)	**Summary:** Potential modernization of certain of SEC Regulation S-K's business and financial disclosure requirements. **Deloitte Resources:** April 18, 2016, *Heads Up* and July 15, 2016, comment letter.
Request for Comment on Subpart 400 of Regulation S-K Disclosure Requirements Relating to Management, Certain Security Holders and Corporate Governance Matters (August 2016)	**Summary:** Request for comments on the disclosure requirements in SEC Regulation S-K, Subpart 400, related to compensation as well as requirements related to corporate governance matters. **Deloitte Resource:** August 26, 2016, news article.
Exhibit Hyperlinks and HTML Format (Final Rule, March 2017)	**Summary:** Amendments that require registrants to include hyperlinks to exhibits listed in the index of certain filings. **Deloitte Resource:** March 2, 2017, news article.
Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities (Proposed Rule, July 2018)	**Summary:** Proposal to amend and simplify certain disclosure requirements in SEC Regulation S-X, Rules 3-10 and 3-16. **Deloitte Resources:** July 31, 2018, *Heads Up* and November 27, 2018, comment letter.
Disclosure Update and Simplification (Final Rule, August 2018)	**Summary:** Amendments to certain disclosure requirements that were redundant, duplicative, overlapping, outdated, or superseded. **Deloitte Resources:** August 28, 2018, *Heads Up* and September 11, 2018 (updated October 1, 2018), *Financial Reporting Alert*.
Modernization of Property Disclosures for Mining Registrants (Final Rule, October 2018)	**Summary:** Amendments that align the property disclosure requirements for mining properties with current industry and global standards and regulatory requirements. **Deloitte Resource:** November 1, 2018, news article.
SEC Actions Complementing the Disclosure Effectiveness Initiative	
Form 10-K Summary (Interim Final Rule, June 2016)	**Summary:** Amendments that permit, but do not require, registrants to provide a summary of business and financial information in Form 10-K as long as the summary contains cross-references with hyperlinks to the related disclosures in Form 10-K. **Deloitte Resource:** June 2, 2016, journal entry.

(Table continued)

Project	Summary and Relevant Deloitte Resources
SEC Actions Complementing the Disclosure Effectiveness Initiative	
Order Granting Limited and Conditional Exemption Under [the Exchange Act] (June 2016)	**Summary:** Order allowing certain companies to use inline XBRL to voluntarily file structured financial statement data through March 2020. **Deloitte Resource:** June 13, 2016, news article.
Report on Modernization and Simplification of Regulation S-K (November 2016)	**Summary:** Report on certain specific SEC staff recommendations regarding ways to streamline and improve disclosures. **Deloitte Resource:** November 29, 2016, news article.
Request for Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies) (March 2017)	**Summary:** Request for comments on existing disclosure requirements for bank holding companies and other registrants in the financial services industry, including potential new or revised disclosures, the possible elimination of certain existing redundant disclosure requirements, the scope and applicability of Guide 3, and the impact of regulation on bank holding companies. **Deloitte Resources:** March 1, 2017, news article and June, 1, 2017, comment letter.
FAST Act Modernization and Simplification of Regulation S-K (Proposed Rule, October 2017)	**Summary:** Proposal to simplify certain disclosure requirements in SEC Regulation S-K and related rules and forms. The changes would affect requirements related to MD&A, descriptions of property, risk factors, redaction of confidential information, hyperlinks, and cross-references. **Deloitte Resources:** October 12, 2017, news article and October 16 2017, *Heads Up*.
Smaller Reporting Company Definition (Final Rule, June 2018)	**Summary:** Amendments that expand the definition of a smaller reporting company (SRC) to include companies with less than $250 million of public float or less than $100 million in annual revenues and either no public float or a public float that is less than $700 million. SRCs are permitted to take advantage of certain scaled disclosure requirements in SEC Regulation S-X and SEC Regulation S-K. **Deloitte Resource:** July 2, 2018, *Heads Up*.
Inline XBRL Filing of Tagged Data (Final Rule, June 2018)	**Summary:** Amendments that require registrants to use the Inline XBRL format for the submission of operating company financial statement information and mutual fund risk/return summaries. **Deloitte Resources:** June 28, 2018, news article and July 3, 2018, *Heads Up*.
Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts (Proposed Rule, October 2018)	**Summary:** Proposal to modernize disclosures regarding variable annuity and variable life insurance contracts by using a layered disclosure approach designed to provide investors with key information related to a contract's terms, benefits, and risks in a concise and more reader-friendly manner. **Deloitte Resource:** October 31, 2018, news article.

Appendix B — Selected Speakers

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

Speakers
Statement in Connection With the 2018 AICPA Conference on Current SEC and PCAOB Developments
Wesley Bricker, Chief Accountant, SEC
FASB and IASB Chairman Addresses
Russell Golden, Chairman, FASB
Hans Hoogervorst, Chairman, IASB
OCA Current Projects
Tom Collens, Professional Accounting Fellow, SEC
Sarah Esquivel, Associate Chief Accountant, SEC
Emily Fitts, Professional Accounting Fellow, SEC
Rahim Ismail, Professional Accounting Fellow, SEC
Andrew Pidgeon, Professional Accounting Fellow, SEC
Kevin Vaughn, Senior Associate Chief Accountant, SEC
Sheri York, Professional Accounting Fellow, SEC
PCAOB Registration, Inspection, and Enforcement Update
George Botic, Director, Division of Registration and Inspections, PCAOB
Center for Audit Quality Update
Cynthia Fornelli, Executive Director, CAQ

Appendix C — Titles of Standards and Other Literature

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

FASB Literature

For titles of *FASB Accounting Standards Codification* references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

See the FASB's Web site for the titles of citations to:

- Accounting Standards Updates.
- Proposed Accounting Standards Updates (exposure drafts and public comment documents).
- Superseded Standards (including FASB Interpretations, Staff Positions, and EITF Abstracts).

SEC Literature

- Regulation S-K
  - Item 10, "General"
  - Item 3-02, "Consolidated Statements of Comprehensive Income and Cash Flows"
- Regulation S-X
  - Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired"
  - Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"
  - Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered"
  - Rule 3-14, "Special Instructions for Real Estate Operations to Be Acquired"
  - Rule 3-13, "Filing of Other Financial Statements in Certain Cases"
  - Rule 3-16, "Financial Statements of Affiliates Whose Securities Collateralize an Issue Registered or Being Registered"
  - Article 11, "Pro Forma Financial Information"
- SAB Topics
  - SAB Topic 5.EE, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act"
  - SAB Topic 11.M (SAB 74), "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period"
  - SEC Staff Accounting Bulletin No. 102
  - SEC Staff Accounting Bulletin No. 118
- Releases
  - Final Rule 33-10322, *Exhibit Hyperlinks and HTML Format*
  - Final Rule 33-10513, *Smaller Reporting Company Definition*
  - Final Rule 33-10514, *Inline XBRL Filing of Tagged Data*
  - Final Rule 33-10532, *Disclosure Update and Simplification*
  - Final Rule 33-10570, *Modernization of Property Disclosures for Mining Registrants*
  - Final Rule 34-78041, *Order Granting Limited and Conditional Exemption Under Section 36(a) of the Securities Exchange Act of 1934 From Compliance With Interactive Data File Exhibit Requirement in Forms 6-K, 8-K, 10-Q, 10-K, 20-F and 40-F to Facilitate Inline Filing of Tagged Financial Data*
  - Interim Final Rule 34-77969, *Form 10-K Summary*
  - Interpretive Release No. 33-10459, *Commission Statement and Guidance on Public Company Cybersecurity Disclosures*

- Proposed Rule 33-10425, *FAST Act Modernization and Simplification of Regulation S-K*
- Proposed Rule 33-10526, *Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities*
- Proposed Rule 33-10569, *Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts*
- Release No. 33-9929, *Request for Comment on the Effectiveness of Financial Disclosures About Entities Other Than the Registrant*
- Release No. 33-10198, *Request for Comment on Subpart 400 of Regulation S-K Disclosure Requirements Relating to Management, Certain Security Holders and Corporate Governance Matters*
- Release No. 33-10321, *Request For Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies)*
- Concept Release No. 33-10064, *Business and Financial Disclosure Required by Regulation S-K*
- Release No. 34-84429, *Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934 Regarding Certain Cyber-Related Frauds Perpetrated Against Public Companies and Related Internal Accounting Controls Requirements*

- FRM Topics
  - Topic 10, "Emerging Growth Companies"
  - Topic 11, "Reporting Issues Related to Adoption of New Accounting Standards"
- Other Literature
  - CF Disclosure Guidance: Topic No. 2, "Cybersecurity"
  - Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*
  - *Report on Modernization and Simplification of Regulations S-K*, 2016

PCAOB Literature

Release No. 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*

CAQ Resources

2018 Audit Committee Transparency Barometer

Critical Audit Matters: Lessons Learned, Questions to Consider, and an Illustrative Example

Cybersecurity Risk Management Oversight: A Tool for Board Members

Emerging Technologies: An Oversight Tool for Audit Committees

International Standards

IFRS 3, *Business Combinations*

IFRS 9, *Financial Instruments*

IFRS 17, *Insurance Contracts*

IOSCO Publication

IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality, April 2018

Appendix D — Abbreviations

Abbreviation	Description
AICPA	American Institute of Certified Public Accountants
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
C&DI	SEC Compliance and Disclosure Interpretation
CAM	critical audit matter
CAQ	Center for Audit Quality
CECL	current expected credit loss
CPE	continuing professional education
DCPs	disclosure controls and procedures
EGC	emerging growth company
EITF	Emerging Issues Task Force
FASB	Financial Accounting Standards Board
FAST Act	Fixing America's Surface Transportation Act
FPI	foreign private issuer
FRM	SEC Division of Corporation Finance Financial Reporting Manual
GAAP	generally accepted accounting principles
HTML	HyperText Markup Language
IASB	International Accounting Standards Board
ICFR	internal control over financial reporting

Abbreviation	Description
IFRS	International Financial Reporting Standard
IOSCO	International Organization of Securities Commissions
IPO	initial public offering
IT	information technology
JOBS Act	Jumpstart Our Business Startups Act
LIBOR	London interbank offered rate
MD&A	Management's Discussion & Analysis
OCA	SEC Office of the Chief Accountant
OIS	overnight index swap
PBE	public business entity
PCAOB	Public Company Accounting Oversight Board
Q&A	question and answer
SAB	SEC Staff Accounting Bulletin
SAG	PCAOB's Standing Advisory Group
SEC	Securities and Exchange Commission
SOFR	secured overnight financing rate
SRC	smaller reporting company
TRG	transition resource group
XBRL	eXtensible Business Reporting Language

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