

Current developments in the SEC's Office of the Chief Accountant

**Annual Meonske Professional
Development Conference**

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Kevin L. Vaughn

Senior Associate Chief Accountant

Office of the Chief Accountant

U.S. Securities and Exchange Commission



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Agenda

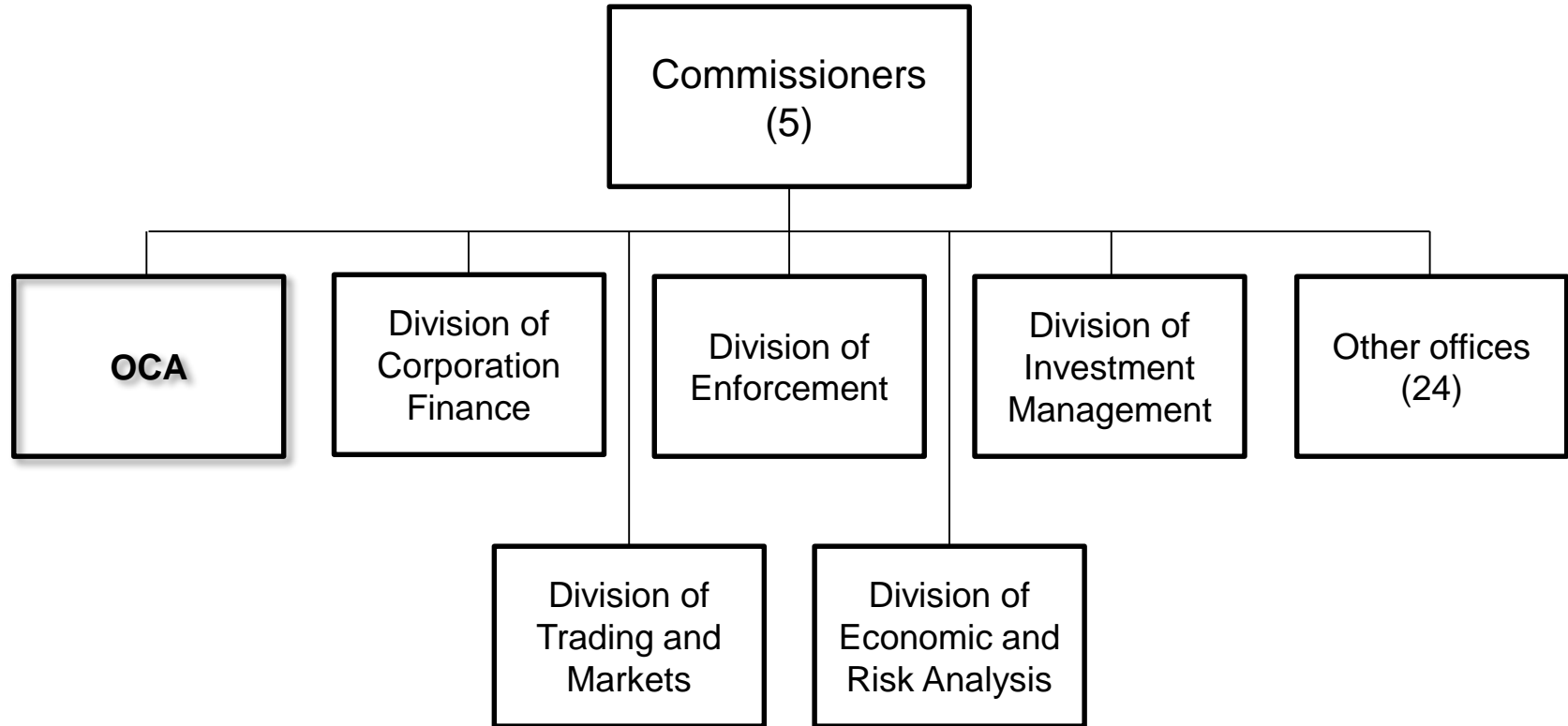
- Commission Updates
- OCA Areas of Focus
 - New Accounting Standards
 - Consultations
 - New Auditing Standards
 - Auditor Independence
- Commission Rulemaking Activities

Commission Updates

Commission Updates

- Elad Roisman – September 2018
- Michael Piwowar – term ended July 2018
- Kara Stein – term ended January 2019
- Currently, Commission has one vacancy

OCA overview: SEC structure



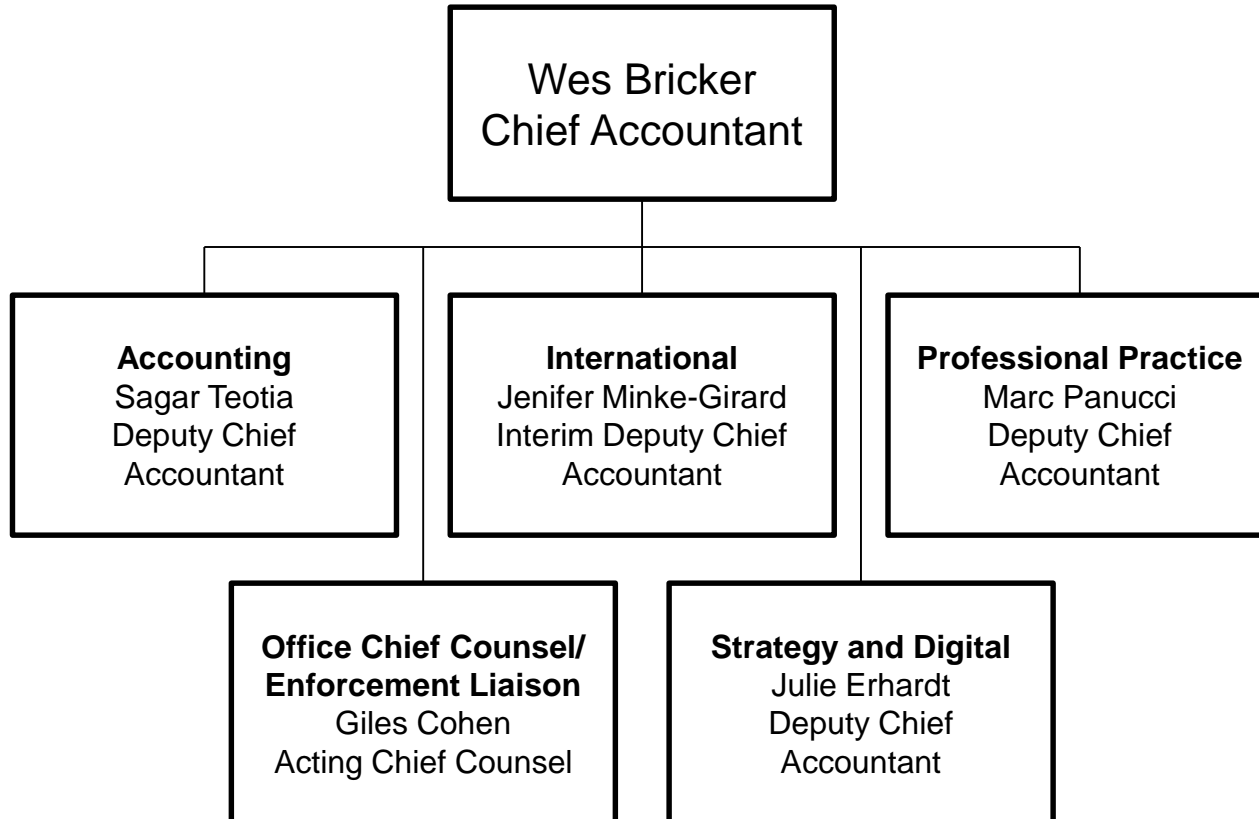
Note: Divisions of Corporation Finance, Enforcement, and Investment Management have Chief Accountants

OCA Areas of Focus

OCA overview: Responsibilities

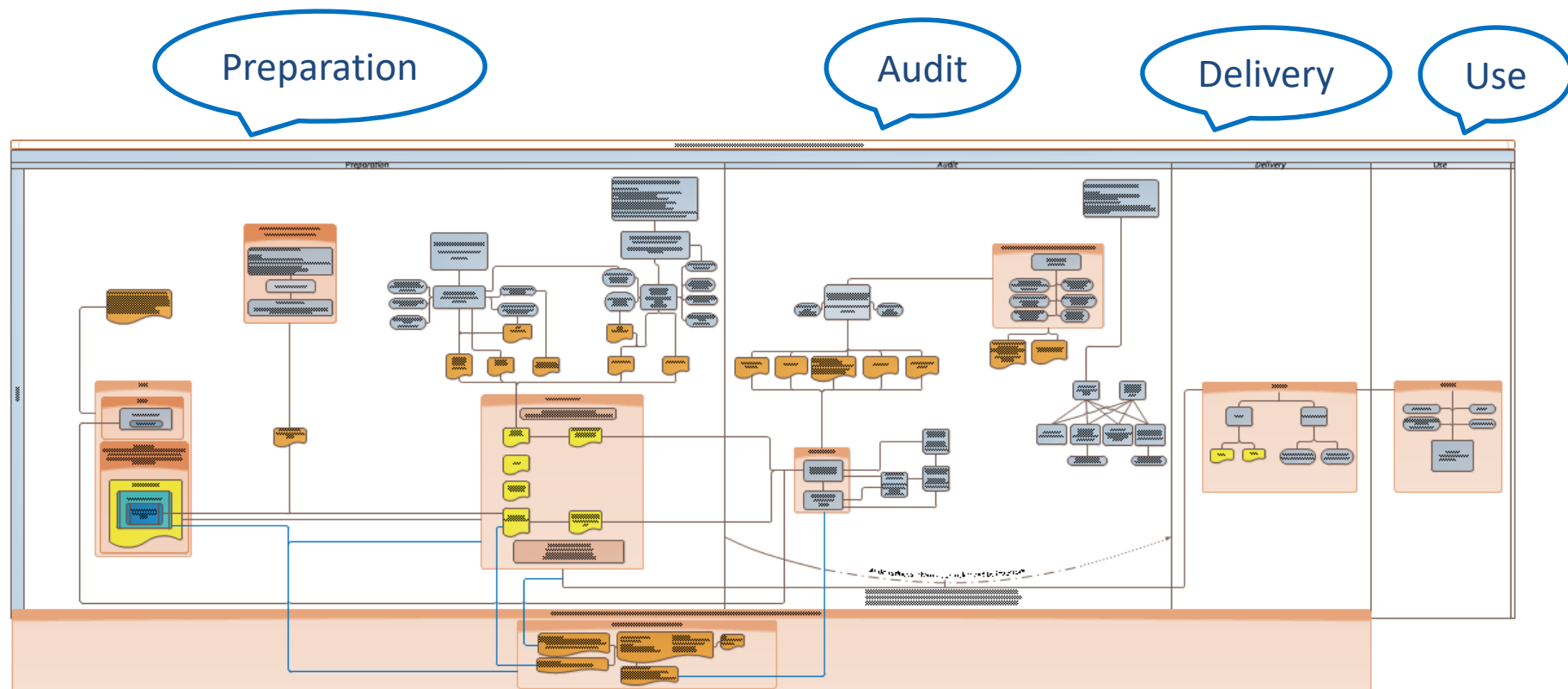
- Principal adviser to the Commission on accounting and auditing matters
- Rulemaking, interpretive guidance, and reports
- Oversight and monitoring of standard setting
- Consultations

OCA overview: Office structure



Overview of Financial Reporting Structure

“The Blueprint”



- Over 40 organizations/groups represented
- Available at <https://www.sec.gov/oca-blueprint-2018.pdf>

OCA Areas of Focus

New Accounting Standards

- Revenue recognition (2018)
- Leases (2019)
- Credit losses (2020)
- Other new accounting standards

OCA Areas of Focus

New Accounting Standards

- Cross-functional exercise
- Internal control over financial reporting (ICFR)
- Comparability across industries
- Evaluate specific facts and applicable literature
- Consistency in application of accounting
- Importance of disclosures (including SAB 74)
- Tone at the top/audit committee role

OCA Areas of Focus

New Accounting Standards – Revenue

- Adopted by a majority of registrants
- Implementation required collaboration by many stakeholders
- Enhanced disclosure requirements are a key element of the new standard
- OCA actively monitoring implementation work and consulted on many revenue topics
- Division of Corporation Finance filing reviews

OCA Areas of Focus

New Accounting Standards – Revenue

- Recent consultation themes:
 - Identification of performance obligations
 - Principal – agent considerations (i.e., gross vs. net presentation)
- OCA continues to welcome consultations

OCA Areas of Focus

New Accounting Standards – Leases

- FASB Topic 842 objectives:
 - Transparency – Most lessees will recognize leases on balance sheet
 - Comparability – Enhanced qualitative and quantitative disclosures by lessees and lessors
- Addresses a primary objective of the 2005 SEC staff report on off-balance sheet arrangements*

*See: Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers (June 15, 2005)

OCA Areas of Focus

New Accounting Standards – Leases

- OCA staff has been actively monitoring implementation activities
 - FASB activities supporting transition
 - Engaging in stakeholder dialogue
 - Speeches and consultations on Topic 842 implementation and application questions
- Recent consultation themes
 - Scope
 - Transition
 - Lessee/Lessor costs

OCA Areas of Focus

New Accounting Standards – Credit losses

- Affects financial and non-financial institutions, including certain lessor receivables
- OCA staff has been actively monitoring implementation activities:
 - FASB/TRG activities supporting transition
 - Dialogue with various constituents
 - OCA welcomes consultation

OCA Areas of Focus

New Accounting Standards – Credit losses

- Many FRR 28 and SAB 102 concepts will remain relevant
 - Procedural discipline
 - Development, documentation, and application of a controlled systematic methodology
 - Data reliability

OCA Areas of Focus

New Accounting Standards – Other

- Hedging
- Statement of Cash Flows
- Insurance
- Share-based payments (non-employee)

OCA Areas of Focus

Consultations

Top consultation topics:*

1. Revenue
2. Financial assets and derivatives
3. Business combinations
4. Consolidations
5. Income taxes and contingencies

*Fiscal year ended September 30, 2018

OCA Areas of Focus

Consultations

- LIBOR
- Business combinations
 - Accounting acquirer
 - Common control
 - New definition of a business

OCA Areas of Focus

New Auditing Standards – Auditors Reporting Model

- New auditor reporting model
 - Commission approved October 2017
 - Adds to the pass/fail auditor opinion
 - Communication of critical audit matters
 - Disclosure of auditor tenure
 - Other changes to clarify the auditor's role and responsibilities, and make the report easier to read

OCA Areas of Focus

New Auditing Standards – Critical Audit Matters

- Implementation best practices
 - Importance of planning and communication
 - Engagement-specific and auditor-driven
 - “Dry runs” including discussions with audit committees
- PCAOB and SEC actively supporting implementation efforts
- Preliminary feedback from “dry runs”

OCA Areas of Focus

Other PCAOB Activities

- Auditing accounting estimates
- Auditor's use of the work of specialists

OCA Areas of Focus

Auditor Independence

- Shared responsibility
 - Audit committees of listed issuers are directly responsible for the appointment, compensation, and oversight of auditors
- Majority of consultations are from audit firms and issuers
 - Expanding range of matters submitted for consultation (e.g., partner rotation, bookkeeping/financial statement preparation, other non-audit services)

Commission Rulemaking

Commission Rulemaking

Auditor Independence with Respect to Loans or Debtor-Creditor Relationships (“Loan Rule”)

- Proposed May 2018 — comment period closed July 2018
- Proposal summary
 - Focus analysis on beneficial ownership
 - Replace bright-line test with “significant influence”
 - Incorporate a “known through reasonable inquiry” standard
 - Amend audit client definition to exclude certain affiliated funds of a fund under audit

Commission Rulemaking

Other Rulemaking

- Selected “Reg-Flex Agenda” Items
 - Earnings releases and quarterly reports
 - Request for comment issued December 2018; comments due March 21, 2019
 - Financial disclosures about acquired businesses (3-05)
 - Accelerated filer definition

Commission Rulemaking

Other Rulemaking

- Proposal stage
 - Disclosures for registered debt guarantors and issuers of guaranteed securities (Rules 3-10 and 3-16 of Regulation S-X)
 - Proposing release issued July 2018
- Recently completed
 - Disclosure update and simplification
 - Amendments to implement FAST Act report

Questions?