

Highlights from the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments

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The three-day 2022 American Institute of CPAs (AICPA) & Chartered Institute of Management Accountants (CIMA) Conference on Current SEC and PCAOB Developments concluded on Dec. 14. Regulators and standard-setters across the financial reporting spectrum provided perspectives including the U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), and Financial Accounting Standards Board (FASB), as well as representatives from the audit and accounting profession.

Themes that emerged from this year's conference:

- Investor information should be a key focus of all stakeholders.
- High-quality financial reporting requires the cooperation and engagement of all stakeholders.
- Trust is foundational to high-quality financial reporting and is fostered through high-quality audits.

Following are notable messages and topics from the conference.

From the SEC

Hester Peirce, commissioner

During the fireside chat, SEC Commissioner Hester Peirce:

- Remarked on the importance of the SEC's role in supporting capital formation and wondered whether the SEC's recent rulemaking activities were creating an inhospitable landscape for public companies
- Questioned whether the SEC's climate related disclosure rule proposal is sufficiently flexible to meet investor needs
- Cautioned preparers and auditors not to let any estimation uncertainty inherent in certain climate information leak into financial statement estimates
- Suggested stakeholders consider applying traditional financial reporting and auditing lessons to crypto assets even if no specific regulations apply, though she also remarked that any coming crypto asset regulations should not be so stringent that only large entities could comply
- Reminded participants to remain vigilant to fraud in the current economic environment

Peirce also addressed the future of the profession and encouraged all stakeholders to foster the accounting talent pipeline, including telling more young people about the profession.

Paul Munter, acting chief accountant

Setting the tone for his remarks with an observation that while compliance is an important part of financial reporting, accounting is at its core a communication activity, SEC acting Chief Accountant Paul Munter remarked on information investors and other stakeholders have requested or questioned including:

- Disaggregation of financial information (for example, income statement, tax disclosures)
- Segments, including whether segments are appropriately aggregated
- Improved cash flow information (for example, direct method)

Munter observed that while the FASB is considering many of these requests in some fashion in their current standard-setting agenda, there is nothing that prevents SEC registrants from providing additional disaggregated disclosures or a direct method cash flow statement in their current filings if registrants believe such information is more useful to investors.

Munter also remarked on the staff's work on crypto assets, including [Staff Accounting Bulletin No. 121](#) on the accounting for obligations to safeguard crypto assets and recent crypto asset consultations. Munter concluded his remarks with observations on the potential for fraud. In light of the risks and uncertainties in the current economic environment, preparers should carefully prepare well thought out judgments and

estimates. Trust in financial reporting requires the involvement of all stakeholders, and Munter pointed out that the recent release “[IOSCO Statement on Financial Reporting and Disclosure During Economic Uncertainty](#)” includes useful perspectives as it “reminds issuers, external auditors[,] and audit committees [or those charged with governance] of the important role each plays in providing investors with high-quality, reliable, timely, and transparent financial information, especially in times of heightened uncertainty.”

OCA panel

Office of the Chief Accountant (OCA) staff members Anita Doult, senior associate chief accountant; Nigel James, senior associate chief accountant; Shehzad (“Shaz”) Niazi, deputy chief counsel; Diana Stoltzfus, deputy chief accountant; and Jonathan Wiggins, senior associate chief accountant, incorporated conference themes into their discussion of top-of-mind matters including auditor independence, crypto assets, fraud, and monitoring international standard-setting.

Auditor independence

Auditors are integral to protecting the capital markets and achieving trust in the financial reporting function. The staff noted that independence in fact and appearance is foundational to financial reporting credibility. During the session, OCA staff:

- Remarked that independence is a shared responsibility between management, the audit committee, and auditors
- Observed that independence must be viewed beyond a compliance “check the box” exercise
- Stated that auditors have a critical gatekeeping function in preserving the integrity of the capital markets, which is positively influenced when firms establish an appropriate tone at the top for ethical behavior

Crypto assets

Panelists observed crypto assets are an area of high investor interest, and the ever-evolving crypto landscape creates accounting complexities. They discussed specific topics stakeholders should consider including:

- Staff Accounting Bulletin (SAB) No. 121 – Issued in March 2022, SAB 121 provides staff guidance for crypto safeguarding arrangements. The SAB indicates that entities should recognize at fair value a safeguarding liability with an offsetting indemnification asset reflecting crypto assets safeguarded for others, but not owned by the entity
- Crypto lending arrangements – The staff shared their views on the accounting for crypto lending arrangements from the lender’s perspective. The fact pattern discussed involved a lending arrangement in which a lender loans to a borrower an agreed upon quantity of crypto assets for a specified period of time, after which the crypto assets are returned to the lender; the lender is compensated through a fee. While the loan is outstanding, the borrower, at its sole discretion, has the right and ability to direct the use of the loaned crypto assets, including pledging the crypto assets, and the lender loses the economic benefits of the crypto assets. In such arrangements, the staff concluded the lender should (a) derecognize the lent crypto assets because it no longer controls the crypto assets, (b) recognize a crypto asset loan receivable at the fair value of the lent crypto assets, and (c) recognize as a gain (loss) the difference between (a) and (b). The loan receivable would subsequently be measured at the fair value of the lent crypto assets with changes in fair value recognized in net income. Additionally, the lender would apply ASC Topic 326 to recognize an allowance for expected credit losses from the loan. The staff emphasized lenders should provide robust disclosures for such arrangements, including information about the nature and terms of the arrangement, how an entity monitors and manages exposure to credit risk, fair value measures, etc.
- Auditing considerations – The staff observed specialized skills might be needed to understand crypto asset processes and controls as well as the risk of misappropriation of assets.

Fraud considerations

OCA emphasized the need to continually exercise professional skepticism during the audit to appropriately address the risk of fraud. Illustrating the exercise of professional skepticism, the staff discussed the significance of entity level controls and the careful evaluation of audit evidence.

Monitoring international standard-setting

OCA summarized their efforts to monitor international standard-setters, including their observations from participation in various international standard-setting bodies related to accounting, auditing, regulation, and sustainability.

Division of Corporation Finance panel

SEC Division of Corporation Finance (Corp Fin) staff members Cicely Lamothe, acting deputy director of disclosure operations; Lindsay McCord, chief accountant; Craig Olinger, senior adviser to the chief accountant; and Melissa Rocha, deputy chief accountant, provided an overview of recent activities and priorities including year-end disclosure considerations, segments, crypto assets, non-GAAP measures, and other matters.

Year-end disclosure considerations

Recent events

Corp Fin observed management's discussion and analysis (MD&A) is a top area of staff comment, with a particular focus on the risks and uncertainties associated with recent global events. Inflation, supply chain issues, interest rates, the strong dollar, climate, geopolitical conflict, COVID, and restrictions or limitations on cross-border cash transfers are topics Corp Fin believes likely impact a registrant's risk factor disclosure, forward-looking statements, and MD&A. Corp Fin observed the need for enhanced and robust disclosure of these events to assist investors in understanding the related impact on the issuer and reminded registrants of the availability of recent staff guidance and sample comment letters (for example, Disclosure Guidance [Topics 9](#), 9A, and [10](#) as well as the [sample letter](#) on geopolitical and supply chain issues). The concepts outlined in the staff guidance and sample letters (for example, labor shortages, cybersecurity risks, distribution delays, inflationary pressures, cross-border risks) remain conceptually relevant and should be considered in year-end disclosure documents. Other key Corp Fin disclosure reminders for recent events included:

- Critical accounting estimate disclosures should include both quantitative and qualitative information to enhance investor understanding of the relative importance of recent events and should not simply repeat information from the financial statements. One area Corp Fin stated preparers should focus on is sensitivity analysis because investors should understand the past and potential future variability in assumptions and estimates. Finally, disclosures should become more robust as estimate uncertainties become more likely or more material.
- Registrants might need to consider providing a schedule of valuation and qualifying accounts ([Rule 12-09 of Regulation S-X](#)) in their year-end disclosure document.
- As recent events continue to evolve, issuers should consider whether such events are appropriately characterized as current impacts versus hypothetical future events.

Climate

Corp Fin's ongoing focus on climate-related disclosures is currently based on the SEC's 2010 [interpretive guidance](#), and Corp Fin mentioned that its [climate disclosure sample comment letter](#) is available to assist registrants in evaluating their current disclosures.

Rule 4-07(h) of Regulation S-K, "Board leadership structure and role in risk oversight"

Corp Fin is focused on whether registrants need to refine or enhance their proxy disclosure of board leadership structure and risk oversight. Corp Fin comments on boilerplate disclosure typically request additional tailored information to address how the registrant's board structure and risk

oversight address the unique circumstances and challenges of the registrant's business, which investors need to make informed voting and investment decisions. Corp Fin stated it does not encourage any particular board structure or disclosures but suggests registrants read the [Rule 4-07\(h\)](#) adopting release for further discussion on the disclosure objective of the rule.

Segment reporting

Corp Fin staff highlighted the continued significance of segment reporting to investors making capital allocation decisions. The staff emphasized the importance of properly identifying operating segments because operating segments form the basis for other accounting and disclosure considerations including the aggregation analysis required to identify reportable segments and identification of reporting units for goodwill impairment testing. Staff indicated it evaluates an entity's segment disclosures through the lens of the information that is regularly reviewed by the chief operating decision maker (CODM). Information Corp Fin reviews often includes:

- Reports provided on a regular basis to the CODM or board of directors
- Organizational structure
- Narratives on how the CODM allocates resources and assesses performance
- Earnings call transcripts

Corp Fin also discussed example fact patterns where they had objected to a single reportable segment based on the total mix of information presented during the comment letter process.

Crypto assets

Corp Fin discussed the unique accounting challenges in crypto asset arrangements. To respond to these challenges, Corp Fin noted a new office of crypto assets is reviewing issuer filings operating in the crypto industry. Corp Fin also highlighted their recent [sample comment letter](#), which provides interpretive guidance on the [disclosure implications of exposure to crypto asset markets and market participants](#). Corp Fin also remarked that the appropriate accounting and disclosure depends upon the facts and circumstances that are unique to the underlying crypto asset arrangement and noted that understanding the rights and obligations of both the issuer and holder of the crypto assets, including any potential changes in the rights and obligations over time, are foundational to reaching appropriate accounting and disclosure conclusions.

Non-GAAP measures

Non-GAAP was the leading comment letter topic in the past year. Corp Fin updated stakeholders on their latest non-GAAP thinking, including the concurrent release of updated [non-GAAP Compliance & Disclosure Interpretations \(C&DIs\)](#). Corp Fin's remarks and the updated C&DIs:

- Highlight non-GAAP performance measures that inappropriately exclude normal or recurring cash operating expenses. While Corp Fin acknowledges what is a normal cash operating expense differs from company to company, they view normal expenses as repeatedly occurring, even if at irregular intervals. Examples of fact patterns to which Corp Fin might object include:
 - a retailer characterizing store opening or closing expense as non-recurring even if such expenses do not occur at regular intervals, because store openings or closing typically are a normal part of a retailer's business strategy or operations
 - a registrant excluding rent expense as non-recurring when rent is integral to an issuer's operations and generation of revenue
- Address undue prominence questions such as:
 - non-GAAP reconciliation requirements extend to each non-GAAP measure included in tables, graphs, charts, or ratios (for example, see [footnote 27 to the 2003 non-GAAP adopting release](#)) and the reconciliation should always begin with the GAAP measure
 - a non-GAAP income statement, by definition, is comprised of non-GAAP measures and includes all or most of the line items and subtotals found in a GAAP income statement

- Non-GAAP adjustments that alter GAAP recognition and measurement principles (for example, modifying accrual accounting to cash basis accounting or presenting a measure of revenue that deducts transaction costs as if the registrant is an agent when GAAP requires a gross presentation as a principal) could result in a misleading tailored accounting principle

Corp Fin also reminded issuers that non-GAAP measures must be clearly labeled and described to prevent such information from being misleading (for example, gross contribution margin should not be labeled “net revenue,” a measure that excludes cost of goods sold should not be labeled “gross profit,” a measure labeled “pro forma” should be prepared consistent with Article 11 of Regulation S-X), but no amount of disclosure can overcome a misleading measure. Finally, the new C&DIs are intended to capture historical staff interpretations rather than creating any new non-GAAP policies, and any revisions to previously disclosed non-GAAP measures should be reflected in the next filing with retrospective application to comparative non-GAAP measures presented for prior periods.

Other matters

Corp Fin also addressed waiver requests (for example, when requesting a waiver, consider what alternative information might be provided to investors), transition considerations for the new long-duration insurance contracts standard, implementation questions for significance tests performed for acquisitions and dispositions of businesses, pro forma presentation questions, and observations on recent rulemakings.

From the FASB

The importance of stakeholder input, especially investor feedback, on the direction and development of accounting standards was a key theme from FASB Chair Rich Jones, and FASB staff members Hilary Salo and Nellie Debbeler. They highlighted the [“2021 FASB Agenda Consultation Report,”](#) and focused on how feedback from the FASB’s 2021 Agenda Consultation Invitation to Comment has influenced the FASB’s standard-setting priorities, including the addition of new projects on items such as crypto assets and regulatory credits (for example, carbon emission credit programs), the removal of projects with less interest to investors, such as their consolidation project, and the re-orientation of certain existing projects, such as their project on income tax disclosures. Jones further commented on the extensive FASB outreach to obtain investor input throughout the standard-setting process, which is discussed in its [“2022 FASB Investor Outreach Report.”](#)

Looking forward, Jones and the FASB staff noted that proposals related to disaggregation of income statement expenses, income tax disclosures, and accounting for holdings of certain crypto assets are expected in the first half of 2023. The FASB also continues to deliberate improvements to segment reporting, software cost capitalization guidance, the accounting for government grants by for-profit entities, and possible future improvements to the statement of cash flows.

From the PCAOB

PCAOB chair and PCAOB board

PCAOB Chair Erica Williams in her speech, [“A Challenge to the Audit Profession: Uphold the Highest Standards in Audit Quality,”](#) highlighted the significance of high-quality audits in the protection of capital markets and enhancing investor confidence. Williams remarked that audit firms must sharpen audit focus as investor confidence is not inevitable. Williams also covered the following topics:

- Inspection observations
- Enforcement actions

- Audits involving multiple auditors
- Audit confirmations

The PCAOB board joined Williams for a panel discussion. The panel covered various topics including the board's [strategic plan](#), the importance of inspections to achieving audit quality, prospective opportunities and challenges associated with the use of technology in the audit and how technology can contribute to improved audit quality in the 21st century, the importance of the audit and how the audit report is trusted by investors and users of the financial statements, recruiting and retaining talent, and stakeholder engagement activities by the PCAOB, through its advisory groups and discussion with audit committee members as part of the inspection process.

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

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

- Proposed quality control standard, "[A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms](#)," issued Nov. 18, 2022
- Re-proposal of confirmations standard, "[The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards](#)," subsequently issued on Dec. 20, 2022
- Items on the short-term and mid-term standard-setting agendas
- Current topics on the research agenda.

PCAOB Director of Registration and Inspections George Botic provided an update on inspection findings from the PCAOB's recent inspection cycle and provided a preview for the upcoming inspection cycle. Botic mentioned concern with the increased rate of deficiencies identified in the most recent inspection cycle, which included the following common financial statement areas:

- Revenue
- Inventory
- Business combinations
- Long-lived assets
- Allowance for credit losses
- Equity

In a preview of upcoming inspections, Botic discussed plans to focus on areas that are complex in nature, require significant judgment, and might be susceptible to change. Inspectors also will evaluate the robustness of the audit team's risk assessment process, including its understanding of the company's business operations and strategy, the impact of changes in controls on risk assessment, and the identification and assessment of risks of material misstatement, including fraud.

Acting Director of Enforcement and Investigations Mark Adler discussed the PCAOB's focus on fostering high-quality audits through rigorous enforcement activities. He pointed to increased enforcement activities, including significant sanctions, during 2022. In 2023, the PCAOB plans to build on the activities from 2022 by continuing to impose significant sanctions and seeking admissions of intentional or egregious conduct from auditors.

From the Center for Audit Quality (CAQ)

The CAQ staff discussed its efforts to engage capital market stakeholders in discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets through the following activities:

- Publishing resources and materials that are targeted to key stakeholders, such as U.S. public company auditors, preparers, and audit committees
- Engaging in discussion of critical issues impacting the audit profession, through formally commenting on various regulatory proposals related to ESG and sustainability reporting and proposed changes to the auditing standards
- Prioritizing initiatives to introduce the next generation of diverse students to the accounting profession

The CAQ noted that on Nov. 30, 2022, the CAQ and Audit Analytics issued the “[2022 Audit Committee Transparency Barometer](#),” which tracks S&P Composite 1500 proxy disclosures to evaluate transparency regarding audit committee oversight of the external auditor and other important financial reporting topics. New questions added in 2022 address disclosures over the audit committee’s consideration of the length of the auditor tenure, how the audit committee is involved in the selection of audit engagement partner, whether the board of directors has an ESG or sustainability director, and whether the audit committee is responsible for ESG oversight.

In the ninth year of analyzing disclosures of audit committee oversight in proxy statements, the findings of the report note a continued overall uptick in key areas of disclosure. The publication provides a summary of the results of the new questions, highlights of the results, a discussion of the benefits of audit committee disclosures, disclosure examples, and questions to consider when preparing audit committee disclosures.

On the same day, the CAQ also issued “[Audit Committee: The Kitchen Sink of the Board](#),” which addresses how boards can effectively allocate oversight responsibilities to the audit committee and how audit committee members can keep up with an ever-evolving workload and improve their disclosures related to audit committee oversight responsibilities.

Environmental, social, and governance (ESG) highlights

ESG was a topic of frequent discussion with dedicated sessions on climate and other ESG disclosures from the perspective of investors, auditors, preparers, and regulators.

Preparers emphasized the importance of:

- Determining relevant ESG metrics and goals and developing a sustained process for monitoring progress against these goals
- Performing a gap analysis of an entity’s current ESG process and working to close any identified gaps
- Establishing ESG process governance and oversight within the organization and building cross-functional teams to develop high-quality climate and other ESG disclosures
- Accepting that data maturity will evolve and but to not let “perfect” get in the way of progress
- While improvement of quality of data will be a journey and will mature over time, it is important to establish controls around the data used in ESG disclosures, including third party data

A panel of audit professionals described the challenges of recruiting talent with ESG skills. Audit firms are focused on training and educating staff to meet the growing demand for assurance over ESG information.

Investors, analysts, and rating agencies described how they use ESG data to evaluate a company’s business operations and strategy. Users also stressed the importance of companies “telling their own ESG story.” Users also highlighted the importance of trust in ESG information and remarked that third-party assurance provides trust through enhancing the quality and reliability of the information.

From a regulatory perspective, presenters discussed the SEC’s proposal on climate-related disclosures and recently proposed and finalized regulations from other global regulators.

The CAQ covered their [analysis](#), issued Oct. 18, 2022, of 2020 ESG reports and Carbon Disclosure Project (CDP) Climate Change Questionnaires for S&P 500 companies. The purpose of this analysis was to understand what the companies disclosed about reporting standards and frameworks used, greenhouse gas emissions, assurance or verification of ESG information, and net-zero and carbon neutral commitments. Among other findings, the CAQ highlighted that of the S&P 500 companies, 464 issued a stand-alone ESG report and 313 responded to the CDP Climate Change Questionnaire for the 2020 period. Of the 464 ESG reports issued, 43 obtained some type of assurance from public company auditors. Most companies (93%) issued an ESG report using at least one framework or standard, and more than 230 used three or more standards and frameworks to help develop their reports.

Mark your calendar

The 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments will be held Dec. 4-6, 2023, at the Marriott Marquis in Washington, D.C.

Learn more

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