



Q4 2018 focus: Financial reporting and auditing update

Board perspectives

2018 AICPA conference highlights

The AICPA held its annual Conference on Current SEC and PCAOB Developments, featuring speakers from regulators, standard setters, preparers, auditors, and others who discussed recent developments in accounting, auditing, and financial reporting. The overarching theme from SEC leadership was that high-quality financial reporting and reliable audits are a shared responsibility among all participants in the financial reporting architecture—including management, audit committees, auditors, standard setters, and regulators.

SEC Chairman Jay Clayton and Chief Accountant Wes Bricker shared the Office of the Chief Accountant's blueprint of the [U.S. Financial Reporting Structure for Public Issuers](#), emphasizing that each participant in this architecture has a role and responsibility in preserving and advancing the quality of financial reporting for investors.

The conference devoted significant time to emerging issues, risks, and upcoming changes in financial reporting that will affect the roles and responsibilities of management, audit committees, and auditors during the 2018 calendar year-end financial reporting process and in 2019, including:

- **Preparing for new accounting standards** – Implementing the revenue recognition, leases, and credit impairment standards
- **Assessing internal controls over financial reporting (ICFR) and best practices** – ICFR in the context of implementing new accounting standards, evaluating control deficiencies, and disclosing material weaknesses
- **SEC focus areas** – Non-GAAP financial measures, the Disclosure Update and Simplification Rule, Emerging Growth Company transition issues, modification or waiver of financial statement requirements, auditor independence matters, and the SEC's 2019 rulemaking agenda

- **Audit developments and their effect on financial reporting** – Audit quality and regulators' access to audit and other information internationally, the approach of the newly constituted PCAOB, and the auditor's reporting model

- **Demystifying emerging technologies** – Data analytics and initial coin offerings.

In addition, these emerging trends are expected to be hot topics for discussion between management, audit committees, and other stakeholders in the coming months.

- **Cybersecurity** – In October, the SEC issued an [investigative report](#) warning companies about cyber-related threats involving spoofed or manipulated electronic communications (email schemes). Companies should consider these threats when creating and maintaining internal controls. Earlier in the year, the SEC issued [guidance on cybersecurity disclosure](#) to assist public companies in preparing disclosures to ensure investors are sufficiently informed about material cybersecurity risks and incidents. (Also see KPMG's [SEC releases investigative report on cybersecurity frauds](#) and [SEC issues guidance on cybersecurity disclosures](#).)

- **Brexit disclosures** – The SEC is closely monitoring how companies disclose the effect of Brexit on their business and operations. Chairman Clayton expressed concern that the potential adverse effects of Brexit are not well understood and often underestimated. He would like to see companies provide more robust disclosures about how management is considering Brexit and the effect it may have on companies and their operations.
- **LIBOR** – Banks that currently report information used to set LIBOR are expected to stop doing so after 2021. Companies face significant risks and

uncertainties related to managing the transition from LIBOR to a new rate such as the Secured Overnight Financing Rate. SEC staff commented that it expects to see disclosures addressing these risks and uncertainties, if material.

For more detail about these and other issues, see KPMG’s *2018 AICPA Conference on Current SEC and PCAOB Developments*.

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