

## SEC Updates 2019 Guide

<p><b>Focus Areas for 2019</b></p>	<p><b>Cybersecurity</b> - CorpFin staff will focus on cybersecurity disclosures in their filing reviews in 2019, including disclosure of threats and internal control considerations for cybersecurity.</p> <p><b>Disclosures</b> - SEC is expecting disclosure of risks and impact of current events when material, including Brexit, changing interest rates, trade tariffs and transitions away from LIBOR.</p> <p><b>Smaller Reporting Company (SRC)</b> - Amendments to the definition and disclosure updates and simplification will strongly impact smaller company filings.</p> <p><b>Non-GAAP financial measures</b> - SEC is concerned that measures which use individually tailored recognition and measurement methods could be misleading.</p> <ul style="list-style-type: none"> <li>○ Examples include: adjustments to reflect only part of an accounting concept; or a shift from accrual basis of accounting to cash or a modified basis of accounting.</li> </ul>
<p><b>Rulemaking Activities</b></p>	<ul style="list-style-type: none"> <li>• SEC is requesting comments on changes to quarterly reporting standards that would reduce the burden of quarterly reporting while maintaining or enhancing investor protection.             <ul style="list-style-type: none"> <li>○ The proposal would shift focus to earnings release as the core quarterly disclosure, with potential impact to the timing of quarterly reporting, reporting frequency and information content.</li> </ul> </li> <li>• Amendments to Regulation A (Reg A) would allow Exchange Act-reporting companies to file under Reg A.             <ul style="list-style-type: none"> <li>○ Provides exemption from registration for offerings of securities up to \$50M in a 12-month period</li> <li>○ Companies which meet reporting requirements under the Exchange Act are deemed to have met reporting requirements of Reg A, so no further approval process is required.</li> </ul> </li> <li>• Other expected rulemaking activity:             <ul style="list-style-type: none"> <li>○ changes in accelerated filer definition,</li> <li>○ modifications to required financial information about guarantors and collateralizations,</li> <li>○ changes in financial disclosures about acquired businesses, and</li> <li>○ amendments to business, financial and management disclosures required by Reg S-K.</li> </ul> </li> </ul>

## PCAOB Updates

<p><b>Standard-Setting Activities</b></p>	<ul style="list-style-type: none"> <li>• Continued focus on the adoption of Critical Audit Matters in the audit report.</li> <li>• Potential staff guidance on use of emerging technologies.</li> <li>• Adoption of new auditing standards for accounting estimates, including fair value measurements, to focus on estimates with a greater risk of material misstatement and emphasize professional skepticism in auditing of estimates.</li> <li>• A special topics appendix to address auditing of fair value of financial instruments, such as use of third-party pricing sources.</li> <li>• Guidance on the use of a specialist would provide supplements to AS 1105 and supervision of both auditor-employed and auditor-engaged specialists.</li> <li>• Adoption of new auditing standards for supervision of audits involving other auditors.</li> </ul>
<p><b>Inspection Trends</b></p>	<ul style="list-style-type: none"> <li>• Common themes in 2018:             <ul style="list-style-type: none"> <li>○ Internal Control Over Financial Reporting (ICFR) (especially precision of management review controls and company's remediation efforts),</li> <li>○ Risk assessment for Revenue and AR,</li> <li>○ Auditing of accounting estimates (especially of allowance for loan losses or business combinations, reasonableness of significant estimates, and consideration of contradictory evidence),</li> <li>○ Root-cause analysis, and</li> <li>○ Form AP.</li> </ul> </li> <li>• 2019 Inspection Outlook:             <ul style="list-style-type: none"> <li>○ Continued evaluation of recurring ICFR deficiencies,</li> <li>○ System of quality control in CPA firms,</li> <li>○ Technology risks at the firm,</li> <li>○ Implementation of new auditor's reporting model, and</li> <li>○ Auditing implementation of new accounting standards (revenue recognition and leases).</li> </ul> </li> <li>• Expected changes in PCAOB inspections going forward:             <ul style="list-style-type: none"> <li>○ Prevention vs. detection in CPA firm quality control and impact of firm culture,</li> <li>○ Targeted inspection procedures,</li> <li>○ Enhanced stakeholder engagement (i.e. audit committee engagement for all inspection selections),</li> <li>○ Best practice evaluations,</li> <li>○ Reporting timeliness, and</li> <li>○ Transparency.</li> </ul> </li> </ul>

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