Statement in Connection with the 2019 AICPA Conference on Current SEC and PCAOB Developments

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Background and Role of the Office of the Chief Accountant

The federal securities laws establish the authority of the Securities and Exchange Commission to set accounting, auditing, and independence standards to be followed in the preparation and the audit of general-purpose financial statements of public companies.

The SEC's Office of the Chief Accountant ("OCA") is led by the Chief Accountant, who serves as the principal advisor to the Commission on accounting and auditing matters arising in the administration of the federal securities laws.[1]
The Chief Accountant leads a team of individuals who have a broad mix of experiences, with various professional backgrounds, who work across domestic and international capital markets. OCA seeks to fully leverage its diverse experience, talents, and skillsets to support a financial reporting system that provides financial information that is comparable, verifiable, timely, and understandable by the millions of stakeholders who participate in our capital markets.

As Chairman Clayton has emphasized, audited financial statements are the bedrock of our financial reporting system. [2] High-quality financial statements, prepared in accordance with a framework developed by independent standard setters, provide relevant and reliable information to investors. Audits of financial statements performed by independent accountants increase the credibility of the financial statements.
Preparers, audit committees, auditors, standard setters, regulators, and others all play different but interconnected roles in the process designed to provide high-quality financial information to investors. Ultimately, the strength of our financial reporting system relies on the rigor applied to each of its component parts.

Our Ongoing Priorities

As previously noted, OCA plays an important, unique role in the financial reporting system, engaging in a wide range of activities affecting stakeholders both domestically and internationally. We invest our time and resources across a number of key priorities, consistent with the SEC's mission and strategic plan, including:

I. Engagement with Stakeholders
II. Oversight of the FASB, the New Accounting Standards, and Current FASB Standard Setting
III. Oversight of the PCAOB
IV. International Accounting, Audit, and Disclosure Matters
V. Staff Guidance and Other Initiatives

VI. Other Key Areas (Internal Control over Financial Reporting, Audit Committees, and Technology and Innovation)

Engagement with Stakeholders

To promote high-quality financial reporting, we meet with participants in every phase of financial reporting to listen to stakeholder views, understand emerging issues and risks, and promote high-quality financial reporting. We seek a mix of interactions with investors, preparers, audit committees, auditors, industry groups, standard setters, other regulators, and academics.

This past year[3] we interacted with stakeholders through over 200 meetings, roundtables, speeches, and presentations, all to promote coordination and advance high-quality financial reporting. Examples of theses interactions, including copies of speeches and other materials, are available on our website.[4]
Through stakeholder engagement we gain a broad and deep perspective on financial reporting developments and related risks, both domestically and internationally. We believe the rapidly changing business and economic environment necessitates a proactive approach by accounting and auditing standard setters, regulators, and others. Stakeholders throughout the system, in large part, have risen to the challenge. We recognize the dedication, professionalism, and hard work of the many participants in the financial reporting ecosystem, and believe that the collective efforts of all participants have meaningfully improved financial reporting and strengthened our capital markets (all of which benefit investors).

We also recognize that maintaining quality and the confidence of investors in our financial reporting system requires a consistent commitment to integrity and transparency by all stakeholders, and in particular, those involved in financial reporting and audit, since even an isolated event has the potential to harm investors and undermine confidence. Over time, both in our markets and globally, there have been different events that remind us of the harm that can occur in a very short time period. We must remain vigilant and not lose focus on continuing to strengthen and improve financial reporting for investors and protect the integrity of our capital markets.

Consultations

One of the most important ways we communicate with preparers, audit committees, auditors, and others is through our consultation process. We encourage consultation submissions by both domestic registrants and foreign private issuers on accounting matters under both U.S. GAAP and International Financial Reporting Standards ("IFRS"), as well as issues regarding auditor independence. These consultations often involve complex or unique facts and circumstances.

Our consultative process often involves staff in other offices and divisions of the SEC. We regularly engage with the Divisions of Corporation Finance ("CF"), Investment Management, Trading and Markets, and Enforcement on accounting, internal control over financial reporting ("ICFR"), auditor independence, and other auditing matters.

We view consultation submissions to our office as the initiation of a constructive dialogue. Through our accounting and independence consultation process, we provide the OCA staff's view on the registrant or auditor's conclusion, thereby reducing uncertainty regarding the acceptability of the conclusion under applicable standards (e.g., U.S. GAAP, IFRS, or SEC independence rules). The consultation process also allows us to communicate our views regarding financial reporting responsibilities in hopes of fostering high-quality financial reporting among companies and auditors of all sizes and helping prevent costly misstatements. More information about how to initiate a dialogue with us and what to expect from the consultation process is available on our website.[5] We are proud of our proactive approach in this area.

Oversight of the FASB, the New Accounting Standards, and Current FASB Standard Setting

Accounting standards play a critical role in the financial reporting process by establishing a framework for companies to provide decision-useful information to users. Investor confidence in accounting standards facilitates efficient capital formation.

Oversight of the FASB

While the Commission retains the authority and responsibility to prescribe the methods to be followed in the preparation of accounts and the form and content of financial statements to be filed under the securities laws, consistent with the federal securities laws, the Commission has designated the FASB to serve as an independent, private sector accounting standard setter.[6] An independent, private sector standard setter that follows an open due process that considers the input and views of all stakeholders is well positioned to establish high-quality accounting

standards. OCA supports the Commission in its oversight of the FASB. We also assist in the standard-setting process by providing feedback on proposed Accounting Standards Updates ("ASU"), observing FASB meetings, and sharing our experiences on a wide range of topics.

The FASB's current agenda is focused on potential improvements to accounting standards, including, among others, important projects on identifiable intangible assets and subsequent accounting for goodwill, distinguishing liabilities from equity, and reference rate reform. We continue to encourage stakeholder participation in the standard-setting process. We believe that having interested parties investing time early in and throughout the standard-setting process, providing the FASB with feedback and application considerations, is critical to the FASB's ability to continue to develop high-quality accounting standards.

New Accounting Standards

Revenue

Implementation of the new revenue standard[7] is now complete for the vast majority of public companies, which, we believe, has resulted in noteworthy improvements to revenue-related information provided to investors. We recognize the extensive and constructive efforts by standard setters, preparers, auditors, and others to successfully implement the new revenue standard, and commend the work of all stakeholders that contributed to various industry task forces and forums to address questions on revenue recognition, measurement, presentation, and disclosure.

The objective of the new revenue standard is to establish principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.[8] The standard is a significant milestone in financial reporting in that it is largely converged with IFRS and it eliminates disparate revenue recognition requirements that previously existed in U.S. GAAP for specific transactions and industries. Importantly, it also provides enhanced disclosures to users of financial statements.[9] We view these benefits as significant for investors.

OCA has been actively engaged in advancing implementation of the new revenue standard, including by:

- Addressing consultations on revenue matters from preparers and other divisions and offices throughout the Commission;
- Actively monitoring implementation groups such as the FASB/IASB Joint Transition Resource Group for Revenue Recognition ("Revenue TRG") and the sixteen AICPA Revenue Recognition Industry Task Forces;
- Participating in a wide variety of meetings with preparers, industry groups, investors, auditors, and other regulators to provide insights into application issues; and
- Delivering over 20 published speeches and participating in panel discussions with the goal of sharing the results of our consultations to create transparency across the profession.

Now that most registrants have completed the implementation process, we believe it is an appropriate time to discuss our experience in implementing this significant standard. Through our engagement during the standard-setting and implementation processes, we observed multiple factors that positively affected implementation:

- Early engagement by preparers, auditors, users, industry groups, and others, with detailed feedback and realistic potential fact patterns allowed stakeholders to identify and address issues in a timely manner. Such engagement took the form of formal feedback and informal discussions, through a variety of comment letters, roundtables, FASB advisory group meetings, meetings of the Revenue TRG, work of the sixteen AICPA Revenue Recognition Industry Task Forces, and other discussions.
- Many areas of the new revenue standard require significant judgment, so preparers benefitted from identifying issues early on in implementation, giving themselves sufficient time to develop judgments and providing their auditors sufficient time to audit the well-reasoned judgments that were necessary to implement the revenue standard.
- Many preparers consulted with OCA on the most challenging of revenue-related questions to obtain the staff's views on their accounting conclusions, particularly on issues where the preparer had a unique fact pattern. In fact, we receive more questions on revenue recognition than on any other accounting topic. We have consistently not objected to well-reasoned judgments on factually supported matters that entities have made in applying the standard.
- Users, and the financial reporting system more broadly, benefitted from disclosure by registrants of their progress toward implementation, and disclosures regarding the anticipated impact of adoption of the new revenue standard.

Our role in the implementation of the new revenue standard has shifted from addressing questions before registrants implemented the revenue standard to primarily answering post-implementation questions and assisting the Division of Corporation Finance in its ongoing, thoughtful review of registrants' financial statements and disclosures.

Leases

The new leases standard[10] became effective as of January 1, 2019 for calendar year-end public companies. The majority of public companies have filed their first financial statements reflecting the new leases standard, which provides investors with greater transparency about leasing transactions by requiring lessees to recognize most of the rights and obligations created by leases on the balance sheet.

We commend the efforts of preparers, industry groups, auditors, standard setters, and others in connection with the implementation of this new standard. This implementation benefited from a collaborative effort that involved proactive identification and discussion of accounting issues.

One example of effective collaboration was that, when appropriate, the FASB issued updates to the standard to address certain of these issues without affecting the availability of decision-useful information to investors.[11] For example, the standard originally required an entity to adopt using a modified retrospective approach.[12] As implementation began, certain entities identified complexities and costs with this approach that were not known when the standard was originally issued. The FASB issued an ASU[13] that provided an additional transition method. We believe that the coordination and collaboration of stakeholders during the implementation of the new leases standard has served investors and our markets well.

OCA has been actively engaged in advancing implementation of the new leases standard, including by:

- Engaging on consultation questions about the leases standard, including having addressed those related to the scope of the standard, transition, and certain lessee and lessor costs, which have been the subject of SEC staff speeches;[14] and
- Participating in meetings and panel discussions with preparers, industry groups, investors, auditors, and other regulators to provide insights into application issues.

We continue to be involved with the new leases standard as registrants begin the post-implementation stage, and welcome consultation questions as the focus shifts from implementation to the ongoing accounting for leases under the new standard.

Current Expected Credit Losses

The new credit losses standard requires companies to recognize credit losses using an expected loss model rather than an incurred loss model.[15] Stakeholders have been active in the implementation of this standard and we have observed significant progress. The effective date for this standard is 2020 for many public companies.[16] Similar to revenue and leases, engagement from preparers, industry groups, auditors, and others on the new credit losses standard has been extremely valuable. As the remaining adoption timetable is short, companies should focus their efforts to finalize implementation to allow investors to benefit from the standard on accounting and disclosure of credit losses.

We have been monitoring implementation of the standard, including the discussion and resolution of implementation questions through the FASB's Transition Resources Group for Credit Losses[17] and the AICPA's Depository Institutions Expert Panel and Financial Reporting Executive Committee.[18]

We also are assisting entities in their adoption of the new credit losses standard by updating staff guidance regarding appropriate documentation of the allowance for loan losses following the change from the incurred loss model to the expected credit loss model.[19] In November 2019, OCA and CF issued a staff accounting bulletin, SAB 119, to align prior staff guidance with the relevant concepts of the FASB's new expected credit loss standard.[20] As noted in SAB 119, OCA and CF staff believe many of the concepts from SAB 102 continue to be relevant under the expected credit loss model.

We have also answered consultations on the new credit losses standard, and we remain available for dialogue with stakeholders as they turn their focus from adoption to the ongoing accounting for credit losses under the new guidance. We believe these implementation-related efforts will benefit investors and in a general manner, will benefit our markets.

Current FASB Standard-Setting

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

The FASB currently has a project on its standard-setting agenda regarding the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets. The FASB added this project to its agenda in response

to stakeholder concerns that the cost to perform the annual goodwill impairment test may exceed the benefits to investors. The objective of the project is to explore potential ways to improve the decision-useful financial information provided to investors while reducing the cost of applying the standard.[21]

The FASB recently issued an invitation to comment ("ITC") on this topic that sought to obtain feedback from stakeholders on the subsequent accounting for goodwill, the accounting for certain identifiable intangible assets, and the scope of the project on those topics.[22] Participation from stakeholders was extensive with the FASB receiving over one hundred comment letters.[23] The FASB also recently held two roundtables to discuss stakeholder feedback on the ITC.[24] We encourage stakeholders to continue to actively participate in the FASB's standard-setting process as this project moves forward.

Distinguishing Liabilities from Equity

The FASB added a project to its standard-setting agenda on distinguishing liabilities from equity, and we believe this project has the potential to impact many types of transactions. The FASB added this project to its agenda in an effort to improve understandability and reduce complexity in the accounting for convertible debt and instruments potentially settled in an entity's own equity with both the characteristics of liabilities and equity, without limiting the availability of decision-useful information to investors.[25]

The FASB recently issued a proposed ASU[26] that requested stakeholder views on possible targeted improvements to the guidance on certain convertible instruments and the derivatives scope exception for contracts in an entity's own equity, and the FASB has received valuable feedback from commenters. We will continue to monitor this important project.

Reference Rate Reform

Another item on the FASB's standard-setting agenda that has the potential to impact financial reporting, including the reporting of many types of transactions, is reference rate reform.[27] The sustainability of LIBOR[28] as a benchmark has been brought into question by various authorities as a result of recent market developments.[29] It is expected that a number of private-sector banks currently reporting information used to set LIBOR will stop doing so after their current reporting commitment ends, which is currently expected at the end of 2021.[30]

LIBOR is used extensively both domestically and globally as a benchmark for various commercial and financial contracts, including interest rate swaps and other derivatives, as well as corporate debt. This move away from LIBOR as a benchmark could have a significant effect on financial markets. This has led to an increased focus on related financial reporting implications.

OCA staff, along with staff from the Division of Corporation Finance, Division of Investment Management, and Division of Trading and Markets recently issued a joint statement on LIBOR transition that encourages stakeholders to identify and address the risks related to the LIBOR transition.[31] This is a complex matter that involves uncertainties, including, for example, how LIBOR-based assets and obligations that extend beyond 2021 will be valued after that date.

With respect to existing contracts, the joint statement encourages market participants who have not already done so to begin the process of identifying existing contracts that extend past 2021 to determine their exposure to LIBOR. The statement encourages market participants to focus on these contracts now to avoid or reduce business and market disruptions after 2021. The risks associated with this expected discontinuation and transition will be exacerbated if the work necessary to effect an orderly transition to an alternative reference rate is not completed in a timely manner.[32]

We are actively monitoring the activities of preparers, auditors, standard setters, and other regulators, to address financial reporting issues that might arise in connection with any transition from LIBOR to an alternative benchmark rate. We encourage the ongoing discussion and analysis of questions in this area.

We appreciate the FASB's proactive approach to considering the potential accounting implications arising from the anticipated transition away from LIBOR. The FASB recently issued a proposed ASU on temporary optional guidance to ease the potential burden in accounting for contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met.[33] The proposed ASU is in addition to the ASU that the FASB issued last year that allows for the Overnight Index Swap ("OIS") rate based on the Secured Overnight Financing Rate ("SOFR") (collectively, "SOFR OIS") to be designated as a benchmark interest rate for hedge accounting purposes.[34]

We encourage stakeholders to identify and raise potential accounting issues relating to the transition away from LIBOR. OCA is available to engage with stakeholders as they continue their ongoing discussion and analysis of the transition from LIBOR. We encourage consultations with us (and have already received consultations) in this important area.

Oversight of the PCAOB

The PCAOB plays an important role in the financial reporting system. Investors expect and deserve financial information that is complete and accurate. The independent audit is a critical addition to an investor's confidence in the completeness and accuracy of information within the financial statements. The PCAOB protects the accuracy and credibility of the audit report through the authorities conferred to it by the Sarbanes-Oxley Act, including:

- Establishing standards and rules governing the conduct of audits of issuers and brokers and dealers registered with the SEC;
- Registering, inspecting, and reporting on registered public accounting firms' adherence to its standards and rules; and
- Investigating and enforcing possible violations of its standards and rules.[35]

The Commission exercises oversight responsibilities with respect to the PCAOB in accordance with the Sarbanes-Oxley Act. Among other responsibilities, OCA advises the Commission on the approval of rules and standards adopted by the PCAOB and the approval of the PCAOB's budget. We share the PCAOB's goal of enhancing audit quality for the benefit of investors and our markets.

While the Commission continues to look to the PCAOB to pursue its mission with effect, the Commission also continues to exercise its oversight and regulatory functions over the accounting profession in many other ways.[36] To assist the Commission, OCA engages directly with accounting firms that provide auditing and assurance services in connection with the requirements of the federal securities laws.

PCAOB: Focus on Audit Quality

The PCAOB Board and its staff have identified and are executing on various initiatives that are expected to improve audit quality. Many of these initiatives will take time to fully complete, but we are seeing tangible evidence of the benefits of the PCAOB's new focus. Notably, we believe the Board's emphasis on increased proactive engagement with all stakeholders, including preparers, audit committees, investors, and the audit profession, is already driving improvements in audit quality as well as in how the PCAOB fulfills its mission. The Board believes that a more proactive approach to engaging with stakeholders will drive improvements in audit quality. OCA supports this view.

The PCAOB continues its work to enhance its preventative methods and activities as it assesses and modernizes its regulatory activities. We encourage this continued focus, as we believe these methods will help more auditors avoid mistakes in the first place, which provides the best protection for investors. For example, the PCAOB staff recently issued a series of proactive staff guidance documents related to the ongoing implementation of critical audit matters ("CAMs"). This guidance included information for various audiences, including information tailored for audit committees and investors, as well as more technical guidance that anticipated implementation issues based on knowledge obtained from stakeholder outreach, including from the "dry run" process as discussed in more detail below.

Auditors, preparers, and audit committees engaged in dry runs, which provided an early opportunity to evaluate and respond to potential concerns, when necessary. The PCAOB issued the guidance in communicating CAMs and, in part, the source of the guidance was feedback related to these dry runs.[37] This allowed the guidance to be specific to certain implementation questions that arose during the dry run process and similarly was available before the effective date of communicating CAMs. Importantly, the guidance for investors and audit committees included information on how these stakeholder groups can contact the PCAOB to encourage constructive two-way communications.[38]

The PCAOB's focus on preventative measures also includes the Board's focus on better communicating general observations from inspections. In May, the PCAOB staff included descriptions of "good practices" in its inspection results preview.[39] Similarly, in its annual report on the interim inspection program related to audits of brokers and dealers published in August, PCAOB staff provided examples of effective procedures employed by auditors of brokers and dealers.[40] We believe informing the profession about actions auditors can take to meet their professional obligations is beneficial to the profession and, more importantly, protects investors and benefits our markets.

We are encouraged by the early results from these efforts.

OCA Monitoring of PCAOB Standard-Setting Initiatives

With respect to PCAOB standard setting, OCA continues to be involved in the standard-setting activities through the lifecycle of the process – from development through implementation. Investing our resources in this process allows us to provide informed advice to the Commission on the adoption of new PCAOB rules and standards. For example, this year, the Commission approved a new standard for auditing accounting estimates and amended existing auditing standards related to an auditor's use of the work of specialists.[41] We worked closely with the PCAOB staff during the drafting process, providing insights and perspectives where appropriate. We will now turn our attention to working in coordination with the PCAOB to monitor the implementation of these standards.

Critical Audit Matters and Auditor Reporting Model Progress

We continue to focus on the implementation of the PCAOB's Auditor's Reporting Model ("ARM"), including the process of implementing CAMs, which are now effective for audits of large accelerated filers. We recognize the efforts to date of auditors, preparers, audit committees, and the PCAOB as it relates to the implementation of CAMs. Some of the efforts to date that demonstrate a forward-looking and preventative mindset in CAM implementation and communication include:

- The PCAOB's Office of the Chief Auditor reviewed certain audit firms' CAM-related methodologies ahead of the effective date and communicated thematic observations to provide auditors with relevant information related to the implementation of the standard.[42] It is important to note the review is separate from the PCAOB's inspection process and is not a PCAOB approval of the methodology. Nevertheless, we believe it is beneficial for audit firms to learn from these observations that were available before the effective date.
- As noted above, auditors, preparers, and audit committees engaged in "dry runs," which have provided an early opportunity to evaluate and respond to potential concerns, when necessary. This process also allowed the PCAOB to issue timely guidance in communicating CAMs.

We encourage auditors to consider the guidance as they work through CAM implementation. We encourage the financial reporting community to continue the momentum associated with these positive steps throughout the implementation process. We also encourage accelerated filers and non-accelerated filers to learn from the implementation effort for large accelerated filers and we encourage the continuation of dry runs for accelerated and non-accelerated filers. Finally, we look forward to receiving feedback from investors and other users about the utility of the new audit report as the Commission and the PCAOB begin their process to review the standard after implementation.

Standard Setting Moving Forward

Moving ahead, we look forward to the PCAOB's continued work in pursuit of its standard-setting agenda. We note that the PCAOB staff recently moved its quality control standard from its research agenda to its standard-setting agenda, noting the staff intends to develop a concept release for the PCAOB Board's consideration.[43] Relatedly, the PCAOB continues to track developments from the International Auditing and Assurance Standards Board's ("IAASB") project on Quality Management.[44]

International Accounting, Audit, and Disclosure Matters

Markets are global and international accounting and audit-related standards[45] also are of paramount importance to the strength of the financial reporting system and global capital markets. OCA is actively engaged in promoting quality in financial reporting and auditing globally – said plainly, international matters are a critical priority of the office and we devote significant resources to these efforts.

The Monitoring Group

In July of this year, I was honored to be appointed as Co-Chair of The Monitoring Group along with Ana María Martínez-Pina Garcia, Vice-Chairperson of the Spanish securities regulatory body, the Comisión Nacional del Mercado de Valores ("CNMV"). The Monitoring Group is a group of international financial institutions and regulatory bodies committed to advancing the public interest in international audit-related standard setting and audit quality. The Monitoring Group's work is conducted with a view toward promoting international audit quality to strengthen confidence in the audit of financial statements.

The Monitoring Group has received valuable feedback through outreach and engagement with key stakeholders. Additionally, the Monitoring Group has continued to be active in meeting and discussing matters both internally and with relevant external parties. I expect the Monitoring Group will continue to work collaboratively with the organizations involved in the overall structure for related to international standards, such as the Public Interest Oversight Board ("PIOB"), the standard-setting boards (the IAASB and the International Ethics Standards Board for Accountants ("IESBA")), the International Federation of Accountants, and the Global Public Policy Committee ("GPPC"), among others.

In addition, the Monitoring Group continues to fulfill its responsibilities under its charter, including multilateral discussions relating to international audit quality, regulatory and market developments that have an impact on auditing, and oversight of the PIOB.

In short, the Monitoring Group has made progress on a number of matters, and will continue to actively engage on a broad range of issues to promote international audit quality. I continue to encourage the different parties that are impacted to engage in this productive dialogue – I believe the Monitoring Group views that engagement as being very helpful in our shared goal of enhancing international audit quality. I look forward to another productive year co-chairing, and engaging with, the Monitoring Group.

International Organization of Securities Commissions

In addition to ongoing dialogue with international audit-related standard setters via the Monitoring Group, OCA also contributes to high-quality international accounting and auditing through our participation and involvement with the International Organization of Securities Commissions ("IOSCO"). For example, an OCA staff member, Nigel James, serves as the Vice-Chair of IOSCO's Committee on Issuer Accounting, Audit and Disclosure ("Committee 1"), which is dedicated to improving the development of accounting and auditing standards and enhancing the quality and transparency of the information investors receive. OCA's contributions to IOSCO will continue to be a key priority for the office.

International Financial Reporting Standards and the Monitoring Board

Many companies and investors continue to have a very high interest in the quality of IFRS, as they, for example, produce and use financial information prepared in accordance with IFRS on a regular basis.

Through participation in the IFRS Foundation Monitoring Board ("Monitoring Board"), we monitor the governance of the IFRS Foundation and the IASB, the development of IFRS, and the quality of the application of IFRS.[46] The IFRS Foundation Monitoring Board includes international capital markets authorities responsible for setting the form and content of IFRS financial reporting. Participation in the Monitoring Board allows securities regulators that enforce the use of IFRS in their jurisdictions to "more effectively carry out their mandates regarding investor protection, market integrity, and capital formation."[47]
We look forward to our continued engagement with the IFRS Foundation. We also look forward to continued interaction with the IASB as part of our normal (and highly important) engagement and interaction of standard setting by the IASB.

Audit Quality in Emerging Economies and Markets

In 2018, the SEC Chairman, the then-SEC Chief Accountant, and the PCAOB Chairman issued a joint statement ("the 2018 Statement") that highlighted that, although substantial progress has been made, there continues to be significant issues relating to the ability of the PCAOB to inspect the audit work and practices of PCAOB-registered audit firms in China. More specifically, the PCAOB continues to have impaired ability to access audit firm work papers with respect to U.S.-listed companies that have operations in China.[48] To date, the PCAOB is unable to conduct inspections of these audit firms. In addition to this specific regulatory challenge, we have emphasized the importance of audit quality in emerging markets, such as China, and our expectation that audit firms will address and bring to our attention challenges they face in these markets.
Recently, to advance the ongoing dialogue regarding audit quality in emerging markets, SEC Chairman Jay Clayton, PCAOB Chairman William Duhnke, and members of the SEC staff met with leaders of the four largest global network audit firms to discuss audit quality and certain of the challenges faced in auditing public company operations in emerging markets, including China, the largest emerging market economy.[49] Through this ongoing dialogue, we expect to emphasize the need for effective and consistent global firm oversight of member audit firms, including those operating in emerging markets and the importance of the design and implementation of audit procedures that are tailored to reflect changes in risk.

Staff Guidance and Other Initiatives

Staff Guidance

In addition to our role and work described above, this year, OCA provided staff guidance relating to the new credit losses standard, the anticipated transition away from LIBOR, and auditor independence.

SAB 119

As described above, in November 2019, OCA and CF staff issued SAB 119 to update prior staff guidance with the relevant concepts of the FASB's new expected credit loss standard. As noted in SAB 119, we believe many of the concepts from SAB 102 continue to be relevant under the expected credit loss model.

Anticipated Transition Away from LIBOR
As described above, in July 2019, we, along with staff from the Divisions of Corporation Finance, Investment Management, and Trading and Markets, issued a joint statement on LIBOR transition that encourages stakeholders to identify and address the risks related to the LIBOR transition.

Auditor Independence

Auditor independence is foundational to the credibility of the financial statements. As OCA staff has consistently noted, auditor independence is a shared responsibility among audit committees, management, and their auditors. Management and audit committees should be aware of how an auditor independence violation may affect the company's required SEC filings.

Over the last year, we worked with other offices and divisions across the Commission, including from the Division of Investment Management, to support the Commission's adoption of amendments to the Commission's auditor independence rules to refocus the analysis that must be conducted to determine whether an auditor is independent when the auditor has a lending relationship with certain shareholders of an audit client (the "Loan Provision Amendments").[50]
In addition, OCA recently revised the staff's FAQs on auditor independence matters, which were posted to the Commission's web site this past June.[51] The revisions included, for example, reorganizing the FAQs to match the structure of the Commission's auditor independence rules, removing FAQs that were no longer relevant, and updating references. Also, we added ten new FAQs and made substantive changes to certain existing FAQs in response to trends observed from our consultations. If a substantive change was made to an FAQ, a 2019 date was included in the FAQ so that users can more easily identify the revisions.
Looking ahead, in connection with the Loan Provision Amendments, the Commission also received comments on other aspects of auditor independence rules. In conjunction with that feedback, the Chairman directed the staff to formulate recommendations to the Commission for possible additional changes to the auditor independence rules for potential rulemaking. We are making significant progress on providing these recommendations to the Commission and we look forward to continued engagement from all stakeholders as we proceed with this very important work on auditor independence.

Other Key Areas

Fostering Effective Internal Control over Financial Reporting ("ICFR")

We continue to emphasize the importance of ICFR to high-quality, reliable financial information. Management is required to evaluate annually its effectiveness of ICFR, and establish and maintain adequate ICFR. We believe it is critical for audit committees, auditors, and management to have appropriate, proactive, and ongoing discussions regarding ICFR – from risk assessment, design and testing of controls, through to documentation.

We commend companies that have improved in this area, and in these cases, we also commend management and auditors for engaging in upfront, frequent, and proactive discussions regarding ICFR matters. However, our consultation experience and Commission enforcement actions suggest that there is additional room for improvement, including in the area of evaluating the severity of identified deficiencies.

We also would like to remind issuers that changes to ICFR may be necessary when transitioning to a new accounting standard. This process typically requires sufficient time to plan and implement, from a proper risk assessment through updating of the internal controls. Issuers should consider that new accounting standards may require new processes, different information, and require the use of new or different individuals within the control process. Management should anticipate where controls may break down in the current environment and whether existing controls mitigate those risks. To the extent that current controls would not mitigate those risks, new or additional controls may be necessary.

Independent Audit Committees

Audit committees play an important role in the financial reporting system through their oversight of financial reporting, ICFR, and audits of public companies. As Chairman Clayton and I have noted on various occasions, it is difficult to overstate the importance of audit committees to financial reporting. The independent audit committee requirement arguably was one of the most effective and cost effective financial reporting enhancements included in Sarbanes-Oxley.[52] Strong, knowledgeable, experienced independent audit committees significantly further the collective goal of providing high-quality financial information to stakeholders. We emphasize the importance of the role of the audit committees throughout our interactions with participants in the financial reporting system. For

example, we have a long-standing policy of requiring the audit committee's view on the proposed accounting treatment or auditor independence issue in a consultation submission to OCA.
Given the number of new accounting and auditing standards implemented or remaining to be implemented in the near future, we encourage audit committees to continue their efforts to understand the new standards and remain engaged with preparers and auditors in the implementation process.

More generally, audit committee members should continue to regularly challenge management and auditors about the accuracy and quality of an issuer's financial reporting. This includes areas such as the impact that new accounting and auditing requirements may have on the financial statements and how they are prepared and reviewed.

Technology and Innovation

OCA collaborates with the Commission's Strategic Hub for Innovation and Financial Technology ("FinHub") in order to actively engage with innovators, developers, and entrepreneurs on Financial Technology ("FinTech") related issues. FinHub is designed to make the SEC's FinTech work more accessible to innovators, entrepreneurs, and their advisers, and serves as a platform to inform the SEC's understanding of new financial technologies.

A few examples of the areas where we engage with market participants on innovative ideas and technological developments include blockchain and distributed ledger, digital marketplace financing, automated investment advice, artificial intelligence, and machine learning. We encourage those within the FinTech community to engage with FinHub on future financial technologies so that we can assist in fostering innovations that benefit the quality of information provided to investors.

As financial technologies, methods of capital formation, market structures, and investor interfaces continue to evolve, we welcome input on how these innovations can benefit the quality of financial information provided to investors but also address the risk that new technologies may bring. The accounting profession should work together to look to the future and consider the possible effects of the use of technology, and how that may affect financial reporting. We look forward to these continued efforts.

Conclusion

OCA is dedicated to advancing the quality of financial reporting for the benefit of investors and our markets. Our office covers a wide range of activities both domestically and internationally. We would like to thank the many participants, in various roles of the profession, who continue to work diligently to meet their responsibilities to investors and contribute to the betterment of financial reporting. We look forward to our continued collaboration with stakeholders throughout the financial reporting system to provide investors with reliable, high-quality, decision-useful financial information that fosters the efficient functioning of capital markets.