



Q3 2017 TECHNICAL UPDATE

October 2017

The presentation will begin shortly.

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Agenda

- ▶ Accounting Update
- ▶ SEC Matters Update
- ▶ PCAOB and Governance Update

With You Today



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Accounting



Accounting Update - Discussion Outline

- FASB Accounting Standards Updates
- EITF and PCC matters
- Revenue - BDO Resources



FASB Update



Final ASUs Issued Q3 2017

ASU 2017-	Title
11	(Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception
12	Targeted Improvements to Accounting for Hedging Activities
13	Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments

ASU 2017-11, Financial Instruments – Down Rounds*

Simplifies the accounting for certain financial instruments with down round features, reducing income statement volatility for many companies that issue warrants and convertible instruments containing such features.

- Part I: Changes the classification analysis of certain equity-linked financial instruments, such as warrants and embedded conversion features
- Part II: Recharacterizes the indefinite deferral of certain provisions of Topic 480 as a scope exception.
- Effective date of ASU 2017-11:
 - Public business entities - fiscal years and interim periods beginning after 12/15/18
 - All others - fiscal years beginning after 12/15/19, and interim periods within fiscal years beginning after 12/15/20

BDO Alert: <https://www.bdo.com/insights/assurance/fasb/fasb-flash-report-july-2017>

**(Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*



ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities

Simplifies and expands the eligible hedging strategies for financial and nonfinancial risks and also simplifies its application with targeted improvements in key practice areas through:

- Expansion of the list of items eligible to be hedged
- Amendment of the methods used to measure the effectiveness of hedging relationships
- Prescribing how hedging results are presented and disclosed
- Partial relief on the timing of certain aspects of hedge documentation
- Eliminating the requirement to recognize hedge ineffectiveness separately in earnings in the current period

Effective date of ASU 2017-12:

- Public business entities - fiscal years and interim periods beginning after 12/15/18
- All others - fiscal years beginning after 12/15/19, and interim periods within fiscal years beginning after 12/15/20

BDO Alert: <https://www.bdo.com/insights/assurance/fasb/fasb-flash-report-september-2017>

ASU 2017-13, Amendments to SEC Paragraphs*

Codified the SEC staff's comments that if an entity that qualifies as a public business entity (PBE) solely because its financial statements or financial information is included in another entity's filing with the SEC adopts ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2016-02, *Leases (Topic 842)*, using the effective dates applicable to private entities.

PBE financial statements or financial information that may reflect the adoption of the standards above using private company effective dates include:

- Financial statements of an acquired business under S-X 3-05;
- Financial statements of an equity method investee under S-X 3-09; and
- Summarized financial information of an equity method investee under S-X 4-08(g).

Entities meeting the criteria above may elect to adopt:

- ASC Topic 606 for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Previously these entities were required to adopt the standard for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.
- ASC Topic 842 for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Previously these entities were required to adopt the standard for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

BDO Alert: [https://www.bdo.com/insights/assurance/sec/sec-flash-report-july-2017-\(2\)](https://www.bdo.com/insights/assurance/sec/sec-flash-report-july-2017-(2))

**Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments*

EITF and PCC Update





EITF Update

Open Issue 17-A:

Customer's Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract

Next meeting: October 12, 2017



PCC Update

September 19, 2017 meeting:

- Customer's accounting for implementation costs incurred in a cloud computing arrangement
- FASB Invitation to Comment, *Agenda Consultation*
- Balance sheet classification of debt
- Readily determinable fair value (FASB staff research)

Next meeting scheduled for December 8, 2017

Revenue - BDO Resources

Updated Newsletter

<https://www.bdo.com/insights/assurance/fasb/fasb-newsletter-march-2017>

Additional publications coming soon - stay tuned!

Upcoming/Recent Webinars

ASC 606, Revenue from Contracts with Customers (webinar and self-study)

<https://www.bdo.com/events/bdo-knowledge-asc-606,-revenue-from-contracts-wit>

Applying the New Revenue Standard, Part 1 (webinar and self-study)

<https://www.bdo.com/events/bdo-knowledge-applying-the-new-revenue-standard-1>

Applying the New Revenue Standard, Part 2 (webinar and self-study)

<https://www.bdo.com/events/bdo-knowledge-applying-the-new-revenue-standar-2>

BDO Revenue Resource Center

<https://www.bdo.com/services/assurance/revenue-recognition/overview>



SEC Matters

COMMISSION ACTIVITIES



- Clayton regulatory philosophy
 - www.sec.gov/news/speech/remarks-economic-club-new-york
- Two Commissioner Nominees
 - Hester Peirce (R)
 - Robert Jackson (D)
- Regulatory relief and assistance for hurricane victims
 - Announcement: www.sec.gov/news/press-release/2017-181
 - Contact the Division of Corporation Finance for any additional assistance: (202) 551-3500 or www.sec.gov/cgi-bin/corp_fin_interpretive



COMMISSION ACTIVITIES

- Interpretive Guidance on Pay Ratio Rule

www.sec.gov/rules/interp/2017/33-10415.pdf

- Related staff guidance with examples

www.sec.gov/corpfin/announcement/guidance-calculation-pay-ratio-disclosure



COMMISSION ACTIVITIES

- Select focus areas
 - Cybersecurity
 - Reminder on staff cybersecurity disclosure guidance:
www.sec.gov/divisions/corpfin/guidance/cfguidance-topic2.htm
 - Capital formation
 - S-X Rule 3-13 waivers
 - Staff contact information by topical area included in recent FRM update
www.sec.gov/divisions/corpfin/cffinancialreportingmanual.pdf

STAFF ACTIVITIES



- Supplement to June 29th announcement about expansion of confidential submission process
- Guidance on the omission of financial statements from draft and publicly filed registration statements

	Draft Registration Statements	Publicly Filed Registration Statements
EGCs	-May omit annual and interim periods that will not be required to be presented separately at the time of the offering.	-May omit annual periods that will not be required at the time of the offering. -May not omit interim periods that relate to longer historical periods required at the time of the offering.
Non-EGCs	-May omit annual and interim periods that will not be required to be presented separately at the time of the public filing.	-May not omit annual or interim periods at the time of the public filing.

BDO Flash Report: www.bdo.com/insights/assurance/sec/sec-flash-report-september-2017

STAFF ACTIVITIES



- Staff permits delayed adoption of ASC Topics 606 and 842 for certain public business entities
 - BDO Flash Report: [www.bdo.com/insights/assurance/sec/sec-flash-report-july-2017-\(2\)](http://www.bdo.com/insights/assurance/sec/sec-flash-report-july-2017-(2))
- Revenue related staff guidance
 - Conforms staff guidance to Topic 606
 - BDO Flash Report: www.bdo.com/insights/assurance/sec/sec-flash-report-october-2017
- Implementation of new accounting standards and SAB74 disclosures
 - Sagar Teotia speech: www.sec.gov/news/speech/speech-teotia-2017-09-21

PCAOB and Governance Update

PCAOB Current Projects - Standard Setting

Project	Current Stage	Timing
Auditor's Reporting Model	Final standard and adopting release	Adopted 6/1/2017 <i>Subject to SEC approval</i>
Auditing Accounting Estimates, Including Fair Value Measurements	Analyzing Comments	
The Auditor's Use of the Work of Specialists	Analyzing Comments	
Supervision of Audits Involving Other Auditors	Supplemental request for comment	Supplemental comments due 11/15/2017
Going Concern	Outreach, monitoring, and research	

Refer to: <https://pcaobus.org/Standards/Documents/Q32017-Standard-Setting-Update.pdf>

PCAOB Leadership Status - Search is On...



Status of the PCAOB board:

- Chair - Current Chairman Doty's term expired (10/2015) though he will remain in place until a new chair has been identified
- Other Board Members - three seats currently filled with one vacancy; two of those positions will expire by year-end

The search for new PCAOB Board Chair has moved from public interest input (closed 9/1/2017) to the solicitation by the SEC for nominations

*Note: The PCAOB board must have two CPA's and all members must serve staggered five-year terms.

PCAOB Staff Inspection Brief

Key Areas of PCAOB 2017 inspection focus:

- Recurring audit deficiencies
- Recent economic developments
- New Form AP reporting requirements
- Firm's system of quality control
- New accounting standards
- Multinational audits
- Information technology

Resources:

- **PCAOB Brief:**
<https://pcaobus.org/Inspections/Documents/inspection-brief-2017-3-issuer-scope.pdf>
- **BDO Alert:**
<https://www.bdo.com/insights/assurance/corporate-governance/corporate-governance-flash-report-september-2017>



It is estimated that **195 firms** will be reviewed...

including **11 US firms** that issued over 100 issuer audit reports...



and **55 non-US firms**.



Spotlight on ICFR – 15 Years Later...

- The debate continues: Cost/benefits of **Sarbanes-Oxley (“SOX”) 404(b)**
- Points of view emerging around consideration of additional exemptions:
 - **Currently:** Non-accelerated filers with < \$75M of public float are exempt from the auditor attestation provision of 404(b) and Emerging Growth Companies (EGCs) with < \$1B in revenues get a 5-year exemption post-IPO. Newly public companies can delay SOX 404 until the filing of their 2nd 10K
 - **Pending legislation:** **Financial Choice Act** (passed House in June) would grant certain issuers with revenues < \$50M a temporary 404(b) exemption
- During a U.S. House of Representatives hearing in July, options ranging from eliminating 404(b) to extending exemptions for EGCs to scaling scope of ICFR audits were voiced
- Chamber of Commerce Letter to Treasury Secretary Steve Mnuchin cites recommendations for modifying ICFR requirements to provide relief for small and mid-size companies
- Resources: CAQ/Anti-Fraud Collaboration archived webinar - *“What is Your Role? When Accounting Meets ICFR”*
https://www.youtube.com/watch?v=_RBVNJmJ7ls

Recovering from National Disasters - Risks & Impacts

2017 hurricane season has been devastating and companies are advised to assess a broad variety of potential impacts - both direct and indirect:

- Asset impairments and disposals
- Business disruptions
- Environmental risks
- Insurance claims, proceeds and accounting for insurance recoveries
- Disclosures - for example:
 - Loss contingencies
 - Risk and uncertainty
 - Significant estimates
 - Going concern
 - Subsequent events
- SEC/IFR filing deadline relief
- Refer to: <https://www.bdo.com/insights/business-financial-advisory/bdo-disaster-response>

BDO Knows Governance - 2017 Surveys

[2017 BDO Board Survey](#)



- Tax Reform
- Financial Reporting Changes
- Sustainability Matters
- Whistleblower/Compliance Programs
- Activist Investors
- Board Composition

[2017 BDO Cyber Governance Survey](#)



- Cyber-Risk Management
- Briefing Frequency
- Lack of Sharing on Cyber-Attacks
- Ransomware
- SOC for Cybersecurity
- Conclusion

Register for the BDO webinar [“What’s on the Minds of Boards?”](#) to be held on **11/21/2017** at **12PM ET**



Resources



The BDO Center for Corporate Governance and Financial Reporting

A dynamic and searchable on-line resource for board of directors and financial executives

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Poll Question

Please indicate whether you would like to be subscribed to *BDO's Center for Corporate Governance and Financial Reporting* in order to directly receive publications (such as those previously referenced) when available, as well as invitations to webinars and other events.

1. Yes, please email me with information so I can manage my subscription
2. I already subscribe to www.bdo.com
3. No thank you, not at this time
4. N/A - BDO, BDO Alliance, BDO International

BDO Board Governance - Upcoming Webinars*

For a complete listing of BDO events, refer to: <https://www.bdo.com/events>

Title	Date
Internal Audit's Role in Monitoring and Controlling International Exposure	November 28, 2017
Due Diligence and Oversight of Vendors in the Current Regulatory Environment	November 28, 2017
What's on the Minds of Boards	November 21, 2017
BEPS Global Accounting Standards & How They Apply To Your Globally Mobile Population	November 7, 2017
Building an Effective Compensation Committee	October 12, 2017
Quarterly Technical Update - Q3 2017	October 6, 2017
Quarterly Technical Update - Q3 2017	October 5, 2017
Quarterly Technical Update - Q3 2017	October 4, 2017

BDO Board Governance - Archived Webinars

For a complete listing of BDO events, refer to: <https://www.bdo.com/events>

Title	Date
Harnessing the Power of Data Analytics and Continuous Monitoring	Sept 2017
Quarterly Technical Update - Q2 2017	July 2017
AICPA SOC for Cybersecurity - What You Need to Know Now	June 2017
Internal Audit's Role in Highly Acquisitive Organizations	June 2017
Applying the New Revenue Standard - Part 2	June 2017
Applying the New Revenue Standard - Part 1	June 2017
How Trump Administration's Tax Reform Proposals Could Impact Executive Compensation	June 2017
Director Diversity - Striking the Right Balance in the Boardroom	June 2017
Board Leadership - How to Onboard Your Board	May 2017
Reducing the Burden of Sox Compliance	April 2017
Blockchain: Technology, Applications and Risks	April 2017
Quarterly Technical Update - Q1 2017	April 2017
Compensation Committee - How is Your Organization Managing Your Global Equity Compensation Risk?	April 2017
Trump, Legislation & Taxes: How Expected Tax Reform May Impact Global Organizations	March 2017
Tax Planning for Executive Compensation	March 2017
What Boards Need to Know About Cybersecurity (But May Be Afraid to Ask)	March 2017
Establishing an Effective Vendor Audit Program	February 2017
Are You Ready to Comply with the New Lease Accounting Standard?	February 2017
Countering Corruption Part II: ISO 37001 Compliance & Certification - What's Next	February 2017
Boards at Catalysts for Intrapreneurship and Innovation	February 2017
Small Cap Boards - Realities and Strategies for Capital Structuring	January 2017

BDO Board Governance - Publications

For a complete listing of BDO publications, refer to: <https://www.bdo.com/insights/>

- ▶ FASB Issues Improvements to Hedge Accounting
- ▶ PCAOB Proposals 043 and 044
- ▶ New SEC Chair Sets Tone for SEC's Agenda
- ▶ FASB Simplifies Accounting for Down Rounds
- ▶ FASB Delays Adoption of ASC 606 and 842 Permitted for Certain Entities
- ▶ Reminder: SEC SAB 74 Disclosures and Controls for New Accounting Standards
- ▶ SEC Extends Voluntary Submission of Draft Registration Statements for All Companies
- ▶ Significant Accounting & Reporting Matters Q2 2017
- ▶ U.S. IPO Market Rebounds Strongly in First Half of 2017
- ▶ BDO Knows Cybersecurity: Petya Cyber Attack
- ▶ BDO Highlights Important DHS - FBI Cyber Alert on North Korea - Hidden Cobra
- ▶ PCAOB Adopts New Standard to Enhance the Auditor's Report...
- ▶ Introducing SOC for Cybersecurity: Translating Cyber Risk For Every Stakeholder
- ▶ BDO 2017 Approach to Audit Quality
- ▶ FASB Clarifies Accounting for Service Concession Arrangements
- ▶ SEC Chief Accountant Speech - Advancing the Role of Audit Committees
- ▶ BDO Knows Cybersecurity - A Cyberattack of Unprecedented Scale
- ▶ Cybersecurity Officially Reaches the Board
- ▶ Significant Accounting & Reporting Matters Q1 2017
- ▶ Global Equity Rewards Matrix - International Tax Consequences for Equity Compensation
- ▶ AICPA Issues SAS 132 on Going Concern
- ▶ SEC Rule and Form Amendments Applicable to Emerging Growth Companies
- ▶ FASB Updates Presentation of Pension and Other Postretirement Benefit Plan Costs
- ▶ BDO 2017 Shareholder Meeting Alert
- ▶ Topic 606 Revenue from Contracts w/ Customers
- ▶ BDO Knows: Cybersecurity
- ▶ Audit Committee Requirements Practice Aid

Evaluation

We continually work to improve our programming and appreciate constructive feedback. As you print your CPE certificate, please consider responding to a brief evaluation.

Following the program, we will send a thank you e-mail containing additional resources for your consideration.

Thank you in advance for your participation.





Conclusion

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