

AN OFFERING FROM THE BDO CENTER FOR CORPORATE GOVERNANCE  
AND FINANCIAL REPORTING

# BDO FLASH REPORT

## CORPORATE GOVERNANCE



### SUBJECT

## ADVANCING FINANCIAL REPORTING – PERSPECTIVES OF THE SEC CHIEF ACCOUNTANT

### SUMMARY

In a recent [speech](#) offered to a broad group of stakeholders, SEC Chief Accountant Wes Bricker emphasized the advancement of financial reporting quality as a foundation that “underpins the efficient functioning of our capital markets and economy.” BDO encourages audit committees, preparers, investors, academics, standard-setters, and auditors to review and reflect on common interests we all share.

### DETAILS

#### *Overview – Working Together to Advance Financial Reporting*

As highlighted in prior speeches and now specifically emphasized in his current May 2018 Baruch College Financial Reporting Conference speech, SEC Chief Accountant Wes Bricker continues to direct focus on high quality financial reporting and its function in helping promote capital markets. Reliable financial information and good governance, provided by companies and reinforced by independent auditors, are enablers for sound decision-making by individual and institutional investors.

#### *Key Points*

##### **General vs. Special Purpose Financial Statements**

Chief Accountant Bricker notes both a reminder and a distinction between general and special purpose financial statements. General purpose statements are prepared in accordance with GAAP, which is developed through standard-setting that avoids providing “privilege to certain objectives, economic activities, financial products, or market participants” that could negatively impact “confidence in the accuracy or quality of reported information [and] impair capital formation...” Special purpose financial statements (e.g., cash, tax, regulatory, contract, or other basis of accounting) are generally used when U.S. GAAP financial statements are not required and information provided is intended for use by a limited set of users. Bricker encourages the support of standard setters through participation and feedback from users and preparers during the standard setting process and additionally through timely implementation and quality application of standards by financial statement preparers.

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### New Accounting Standards, Non-GAAP, and Other Developments

Chief Accountant Bricker also points at the evolution of standard setting as exemplified through the significant implementation requirements of "new GAAP" standards for revenue recognition, lease accounting, and credit losses in the current and ensuing years. Stakeholders are reminded to continue their focus on successful implementation for each of these standards.

U.S. Tax Reform is another area that requires active attention by companies to complete accounting necessitated by the new legislation and provide investors with insight through disclosures described in SAB 118 about the status of the company's accounting for the effect of income tax reform during the measurement period.

Bricker's remarks further highlight changes in accounting and disclosures effective this year regarding stock held in other companies (FASB ASC Topic 825-10) whereby changes in fair value from one period to the next will be recognized in net income and investors will be better able to see the impact of management decisions to buy, sell or hold equity investments. He reminds companies who use non-GAAP measures to provide supplemental information within the financial statements that non-GAAP is just that: supplemental, rather than a substitute for GAAP. Audit committees, in particular, play a key role in overseeing the appropriate use of non-GAAP measures by management and are encouraged to take the time to "review the metrics to understand how management evaluates performance, whether the metrics are consistently prepared and presented from period to period, and the related disclosure policies."

### Other Significant Areas to Positively Effect Quality of Disclosures

Companies are encouraged to consider exposure to changes in economic and market conditions – e.g., liquidity, changes in market prices and rates, etc. – that impact market risk disclosures to investors.

Auditor independence is also on the Chief Accountant's radar as a means for ensuring the objectivity and integrity of a company's financial reporting.

The SEC has proposed for comment ["loan provision" rulemaking](#) that will make practical changes to compliance to more accurately identify lending relationships with equity owners of audit clients that may impair an auditor's independence. Feedback on this is encouraged by the SEC.

### Role of Audit Firm Governance and Culture

With recent headlines of alleged accounting firms' misconduct, Chief Accountant Bricker shines a light on the importance of audit firms' governance and culture in ensuring trust in the financial reporting chain. Audit firms, like corporations, must maintain an effective firm-wide (enterprise) risk management system. This should be coupled with a strong commitment to quality control standards along with sound governance and reporting practices.

Similarly, ensuring independence and diverse thinking among boards of directors and audit committees are viewed by Bricker as enhancements to good governance that can continue to be made to both public and private company boards.

Good governance is intertwined with tone and culture that should permeate both companies and audit firms, alike. For auditing firms, Chief Bricker points out that "audit quality and value can be more difficult for firm leaders to integrate into regular processes unless the firm as a whole—top to bottom and across service lines and geographies—views the mandate for audit quality and value as key to its success." The more complex audit firms are appointing or considering the appointment of independent directors or advisors to their own boards. The largest audit firms also produce voluntary audit quality reports to share publicly how they are operating their business in the pursuit of audit quality for their clients and the marketplace. BDO's 2017 Approach to Audit Quality is available [here](#) and we are poised to release our 2018 Audit Quality Report in June 2018.

## NEXT STEPS

We appreciate and agree with Chief Bricker's comments and observations. BDO will continue to highlight this information along with other financial reporting and governance activities, trends, and discussion points for our client audit committees and management teams through our [Center for Corporate Governance and Financial Reporting](#).

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