

# *SEC Updates*

Marc Rosenbaum, Partner, PwC Israel  
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# ***SEC organizational changes***

## ***Chair***



**Walter Jay  
Clayton**  
***(independent)***



**Michael  
Piwowar**  
***(Republican)***



**Kara Stein**  
***(Democrat)***

## ***Commissioners***



**Vacant**



**Vacant**

## ***SEC nominees***

***Robert  
Jackson Jr.  
(Democrat)***



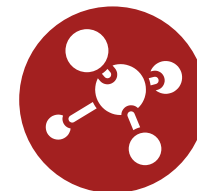
- ***Columbia University Law Professor***
- ***Served as a Senior Advisor at the Department of Treasury during the financial crisis***

***Hester  
Peirce  
(Republican)***



- ***Research Fellow at the Mercatus Center at George Mason University***
- ***Former US SEC counsel and Senate Aid***

# Organization structure



**SEC**

**Office of the Chief Accountant**

**Wesley Bricker**  
Chief Accountant

Considers company positions on accounting, financial reporting and auditing matters, particularly unusual, complex or innovative transactions

*Marc Panucci*, Deputy Chief Accountant – Professional Practice  
*Sagar Teotia*, Deputy Chief Accountant

**Division of Corporation Finance**

**William Hinman**  
Director

Ensures compliance in form and content of filings and considers registrant requests for waivers and interpretations of form and Content

*Mark Kronforst*, Associate Director  
*Craig Olinger*, Deputy Chief Accountant  
*Nilima Shah*, Deputy Chief Accountant

**Division of Enforcement**

**Stephanie Avakian & Steven Peiken**  
Co-Directors

Investigates possible federal securities law violations including misrepresentation or omission of important information about securities, manipulating the market prices of securities, insider trading and selling unregistered securities

# *SEC landscape*



## *Hot Topics*

- Politics and priorities
- Continued focus on accounting and financial reporting
- Enforcement actions
- Recent developments
  - Policy changes
  - Non-GAAP
  - SAB 74 disclosures
  - JOBS Act
  - FAST Act
  - Closer look at Dodd-Frank
  - Disclosure effectiveness

## *Hot topics*



### *Enforcement trends*

- Continued focus on financial reporting fraud and internal control
- Increased whistleblower activity
- Gatekeeper focus
- Task Forces
- Corporate Issuer Risk Assessment (CIRA) tool (formerly known as AQM)
- Foreign Corrupt Practices Act (FCPA) and Insider Trading

***The Commission continues to see the same causes of financial reporting problems over the last few years***

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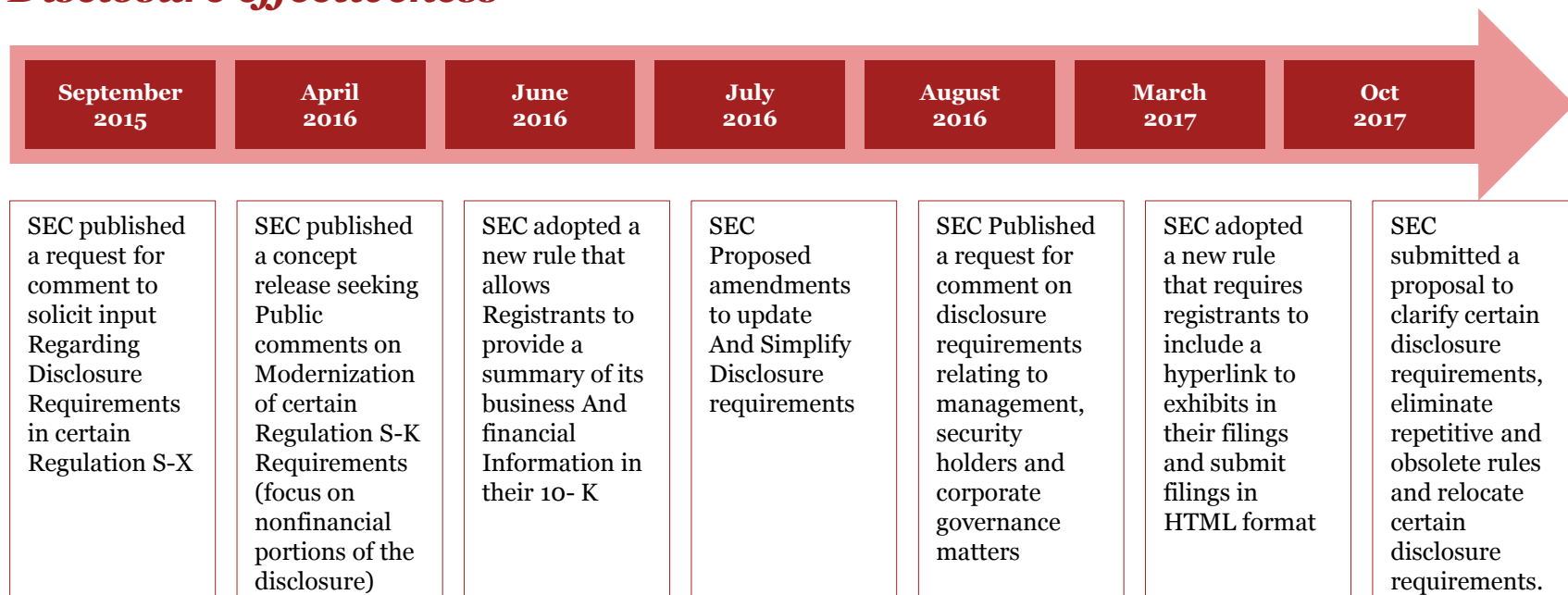
## *Hot topics*

### *SEC policy changes designed to facilitate capital formation*

- Non-public review of draft registration statements for initial public offerings and other initial registrations under 1933 Act
- Non-public review of draft registration statements for initial registration of class of securities under Section 12(b) of the Exchange Act
- Non-public review of draft registration statements submitted within 12 months after the effective date of the aforementioned registration statements
- Exclusion of financial information not expected to be required at the time the registration statement is publically filed
- Interim financial information that relates to a period that will not be required to be included in the registration statement at the time of the contemplated offering may be omitted

# Hot topics

## Disclosure effectiveness



***Both the S-X and S-K releases intend to identify ways to improve effectiveness of disclosures and the presentation and delivery of material information as well as reduce duplication.***



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## ***Hot topics***

### ***Proposal to modernize Regulation S-K***

SEC submitted a proposal to clarify certain disclosure requirements, eliminate repetitive and obsolete rules and relocate certain disclosure requirements.

Some proposed changes among others are:

- Option to exclude the earliest year of MD&A when the information is not material and the registrant has filed the earliest year MD&A on EDGAR as part of the previous year's Form 10-K;
- Omit certain confidential information from contracts filed as an Exhibit
- Simplify the rules regarding incorporation by reference, including allowing the use of hyperlinks

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## ***Hot topics***

### ***Non-GAAP***

- Presenting most comparable GAAP measure to be of equal or greater prominence than non-GAAP measure
- Presenting a performance measure that does not exclude normal, recurring, cash operating expenses necessary to operate a business
- Presenting non-GAAP measures consistently between periods or disclosing the change between periods and the reasons for the change
- Presenting a reconciliation between non-GAAP and most comparable GAAP measure
- Explaining why the non-GAAP measure is useful to investors

# *Hot topics*

## *SAB 74 disclosures*

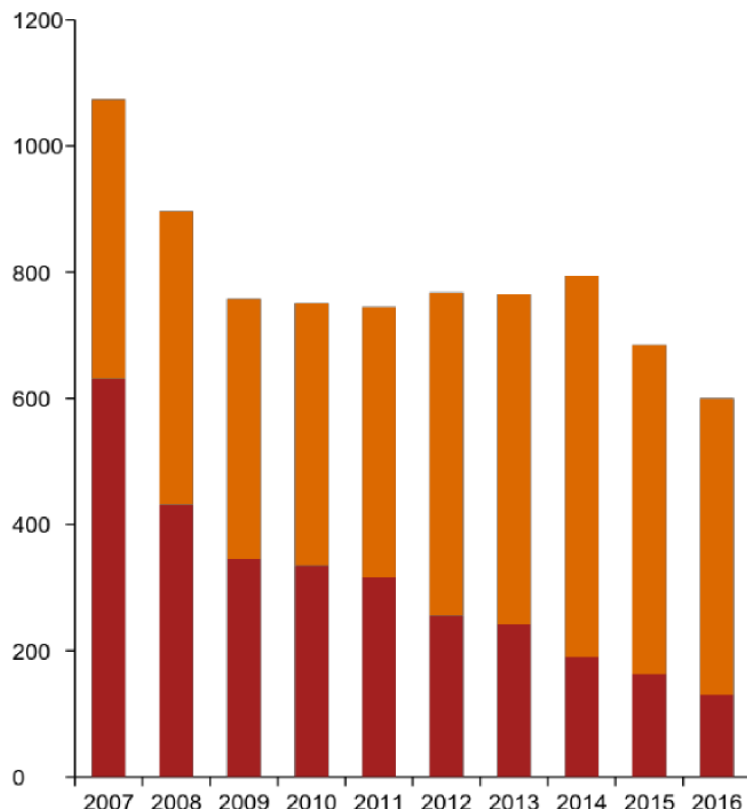
Disclosure of the impact that recently issued standards will have when adopted in a future period

- Qualitative disclosures which include a description of the effect on the accounting policies of the registrant
- Comparison to the registrant's current accounting policies
- Description of the status of the implementation process

***“If something is clearly wrong, or something is omitted, absolutely a comment will go out. But what I think we'll try to avoid is for the comment process to become the centerpiece of this effort.”***

***Mark Kronforst***

# Restatement and revision trends



## Top five causes of restatements

1. Debt, quasi-debt, warrants and equity securities issues
2. Tax expense, benefit, deferral and other issues
3. Cash flow statement
4. Revenue recognition issues
5. Expense recording issues

Source: Audit Analytics; restatements & revisions from 10-K Filers

**Brown = Revisions**  
**Red = Restatements**

## ***PCAOB's current activities***

<b>Standard-Setting Projects</b>		<b>Research Agenda and Other Topics</b>
Auditor's Reporting Model	Reproposal – May 2016 Final standard adopted – June 2017 SEC approval – October 2017	Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities
Estimates and Fair Value	Proposal – June 2017 Comments due August 2017	Changes in the Use of Data and Technology in the Conduct of Audits
Specialists	Proposal – June 2017 Comments due August 2017	The Auditor's Role Regarding Other Information and Company Performance Measures, Including Non-GAAP Measures
Supervision of Other Auditors	Proposal – April 2016 Supplemental Request for Comment – September 2017 Comments due November 15, 2017	Auditor's Consideration of Noncompliance with Laws and Regulation
Going Concern	Next action under consideration	Audit Quality Indicators

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# *Auditor's reporting model*

## *On the home front*

- PCAOB adopted a new standard in June 2017, which was approved by SEC in October 2017
- Retains pass/fail model
- Elements of the new standard will come into effect for calendar 2017 audits, with more significant changes related to communicating critical audit matters (CAMs) being phased in starting with June 30, 2019 accelerated filers



## *Looking abroad*

IAASB issued new and revised auditor reporting standards and related conforming amendments that are effective for periods ending on or after December 15, 2016; Enhanced auditor reporting happening in the UK since 2014

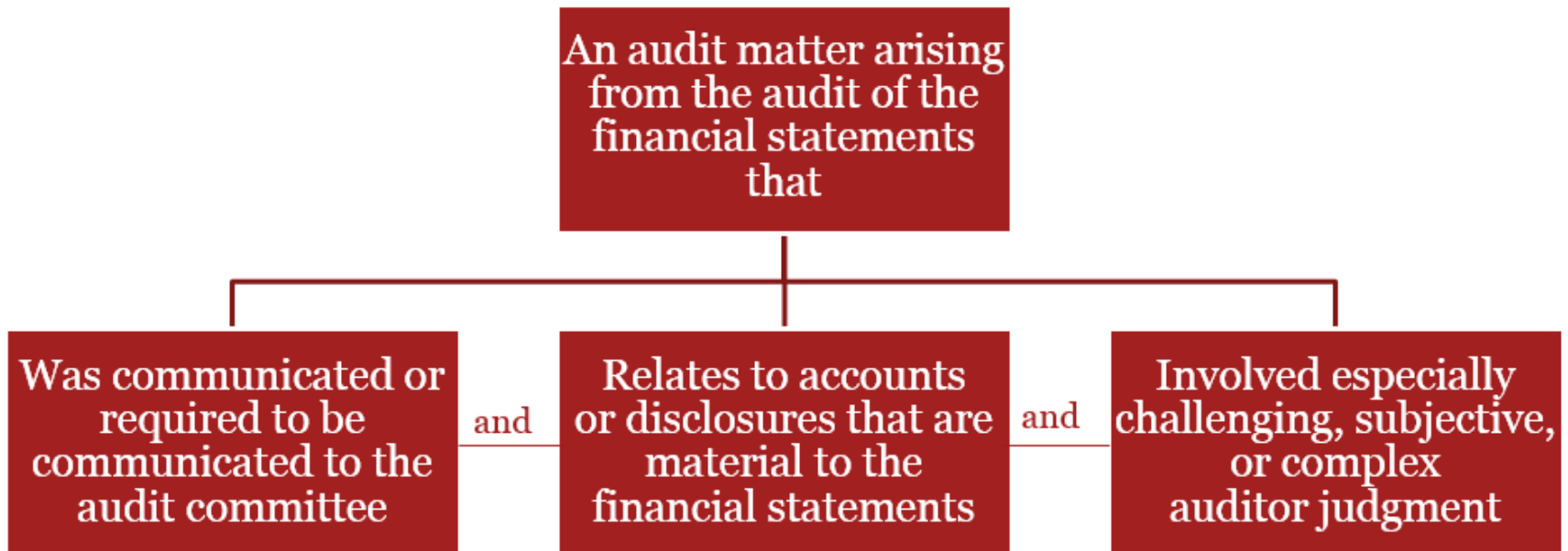
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## *Phase 1 – Changes effective in 2017*

- 1** A statement disclosing the year in which the auditor began serving consecutively as the company's auditor ("auditor tenure")
- 2** Addressing the report to the company's shareholders and board of directors or equivalents
- 3** Standardization of the report, with the auditor's opinion required to be presented as the first section of the report and other required section titles
- 4** A statement that the auditor is required to be independent of the company in accordance with SEC and PCAOB rules
- 5** Enhancements to basic elements to better describe the auditor's responsibilities under PCAOB standards, including adding the phrase "whether due to error or fraud," when describing the auditor's responsibility to obtain reasonable assurance about whether the financial statements are free of material misstatements

## *Phase 2 – Communication of critical audit matters*

### *Definition of a CAM*





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# *Thank you*

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