



SEC Issues & Trends

**AICPA & CIMA Conference
on Current SEC and PCAOB
Developments**

December 2023



Three days of discussion and analysis

Over the course of the conference (Dec 4-6), we heard from regulators, standard-setters and practitioners.

SEC Chief Accountant Paul Munter stressed our collective responsibility to demonstrate the value in our profession – what it means to be grounded in a calling to serve in the public interest and a commitment to lifelong learning.

SEC representatives repeatedly raised issues that came back to the theme that high-quality financial reporting requires high-quality standards, high-quality application of those standards, and high-quality independent audits.

PCAOB Board members echoed that messaging, repeatedly emphasizing the auditor's gatekeeper role.

But it was agreed that the burden of quality financial reporting does not rest with the auditor alone. It is a shared responsibility with management – with active oversight by the audit committee.

SEC staff reiterated recent themes and concerns, in particular the need for registrants to focus on transparent disclosure in the current economic environment.

Remarks by PCAOB and FASB officials highlighted the important role of investors in their respective standard-setting agendas.

Lastly, practitioner panels touched on topical issues – including audit committee challenges, complex accounting topics, ESG reporting in the absence of a final climate rule, and the omnipresent GenAI.

This highlights summary provides an easy-to-digest snapshot of select discussions, organized by theme. Key issues that we think should be top of mind as we head into the 2023 reporting season.

For more insights about the discussions, see our full listing of [conference blogs](#) published on KPMG Financial Reporting View.

And as you prepare for 2023 year-end reporting, register for our [SEC update webcast](#) on January 18 or 22 (1.5 CPE).

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SEC Regulatory Matters Topic Team Leader

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1. Top takeaways

We are grounded in a calling to serve in the **public interest** and a commitment to **lifelong learning**. And it is our collective responsibility to promote the **value of the profession** to professionals entering the workforce.

Risk assessment drives good reporting

In today's complex and evolving environment, diligent risk assessment enables both companies and auditors to understand how risks and uncertainties impact the financial reporting process. It powers complete, transparent and understandable disclosures.

GenAI is here and it's pervasive

GenAI promises amazing improvements in financial reporting speed, quality and insights. But it comes with new demands on corporate governance, internal control and auditing techniques to ensure it is used responsibly.

Concerns about the cash flow statement

The SEC delivered the message that not all registrants have the same rigorous processes and controls around preparation of the cash flow statement as other statements – and reinforced that classification errors in the statement should be evaluated with the same thoroughness as other errors.

New segment reporting ASU raises questions

Weighing in on the FASB's new segment reporting standard, SEC staff cautioned that additional measures of profit or loss disclosed in the financial statements may be non-GAAP measures to which SEC regulations apply.

Audit Committees play a crucial role

There are many challenges at the global, national and local levels that put companies' financial reporting, compliance, risk and internal control environments to the test.

These challenges include global economic uncertainty, regional conflicts with far-reaching effects, new major regulatory mandates, and the emergence of GenAI.

The best way for audit committees to tackle these challenges is to ask lots of questions.

2. The importance of culture

The auditor's **gatekeeper** function – its shared role in maintaining trust and confidence in the capital markets – is rooted in its **integrity and culture**. This is the foundation of high-quality audits.

High-quality independent audits

- SEC representatives emphasized the importance of an audit firm's culture.
- Only by having a strong culture can an audit firm and its clients be confident that the audit engagement team is exercising the proper professional skepticism.
- Audit firm leadership can promote professional skepticism by properly training auditors and embedding the firm's cultural values throughout the entire firm – not just its audit practice.
- PCAOB representatives emphasized the auditor's gatekeeper role – noting the shared responsibility of the audit committee, management and others in the financial reporting ecosystem.

Our approach: Ethics & Integrity

- We are in Year 4 of our revitalized and innovative Ethics & Integrity learning strategy that applies to *all* professionals.
- We conduct internal audits of independence compliance by job level throughout the year, creating quarterly reports with recommendations for leadership engagement.
- We empower engagement teams to pull audit work forward, tracking progress throughout the year. Leaders are held accountable for acting early so teams meet these milestones.
- We continue to focus on our Accelerate 2025 strategy to attract, retain and develop quality, diverse talent. Leaders are armed with resources and dashboards to drive quality outcomes.

Our values

Integrity

We do what is right.

Excellence

We never stop learning and improving.

Courage

We think and act boldly.

Together

We respect each other and draw strength from our differences.

For Better

We do what matters.

3. Risk assessment and connectivity

Financial reporting is about communications – about the **consistency** of messaging, and the **completeness, transparency and understandability** of disclosures.

Risk assessment is foundational

- Properly assessing risks is a foundational element of the financial reporting process, and properly communicating those risks is the end product of that process.
- It is important to take a holistic approach to risk assessment by looking at entity-level risks in addition to risks that directly impact financial reporting.
- Therefore, a company's risk assessment process must account for the myriad of risks impacting financial and operating results, which can change rapidly in this fast-moving world.
- It is imperative for an audit committee to ensure management's risk assessment process is robust.

Connectivity of communications

- Investors rely on robust disclosures when making investment decisions – including what risks they are willing to take and how to price those risks.
- Disclosures are not simply about compliance – they connect and provide appropriate context regarding the risks and uncertainties a company faces.
- In addition, disclosures are not made in a vacuum. They should take into consideration other communications about the risks and uncertainties a company faces.
- Ultimately, all communications should be in sync. Regulators and investors are watching.

Additional resources

Conference blogs, [SEC stresses high-quality standards, application, audits](#) and [Advice to AC members is to ask lots of questions](#)

Statement by SEC Chief Accountant Paul Munter (Aug 2023), [The Importance of a Comprehensive Risk Assessment by Auditors and Management](#)

4. What audit committees should do

OCA staff encouraged audit committees to **actively engage** directly with the independent auditor (formally and informally) – instead of through management – to promote and encourage the auditor’s exercise of **professional skepticism**.

Example: Risk assessment

- Comprehensive risk assessment is an important agenda item for audit committees. Areas of risk may include industry-specific, regulatory, economic, geopolitical, climate change, cybersecurity, data privacy, GenAI and digital technologies.
- Oversight of this process can be daunting for an audit committee, but the following are example questions to ask management.
- **Ask:** Which executives are responsible for identifying material financial, liquidity and operating risks?
- **Ask:** How is management identifying and mitigating these risks?
- **Ask:** Does management have an incident response plan that can be used for a wide range of incidents or crises?

Example: Cybersecurity

- Companies must disclose a material cybersecurity incident on Form 8-K within 4 business days of concluding the incident was material, and make extensive disclosures on Form 10-K.
- **Ask:** Where will governance over cyber sit within the audit committee?
- **Ask:** Is management’s cyber incident response plan up to date, and is management capable of identifying and assessing the materiality of cyber incidents to facilitate timely reporting?
- **Ask:** Does management have the right team assembled to reassess the company’s existing risk management and governance processes, ensuring compliance with incident reporting and disclosure?

Additional resources

Conference blog, [Advice to AC members is to ask lots of questions](#)

KPMG Board Leadership Center special report, [Risk oversight: Reassessing board and committee structure](#)

Defining Issues, [SEC finalizes cybersecurity rules](#)

KPMG Audit Committee Institute [resources](#)



5. Presentation of the financial statements

High-quality financial reporting is critical to **investor trust** – i.e. high-quality accounting **standards**, high-quality **application** of those standards and high-quality independent **audits**.

Segment reporting

- Released at the end of Nov, ASU 2023-07 permits preparers to report multiple measures of segment profit or loss, as long as one of the measures reported is the measure that is most consistent with GAAP. This means that multiple measures of segment profit or loss could start appearing in the notes to financial statements.
- Weighing in on the ASU, SEC staff cautioned that other measures of profit or loss disclosed alongside the measure most consistent with GAAP may be non-GAAP measures to which SEC regulations apply.
- For entities with a single reportable segment, SEC staff interprets the phrase ‘most consistent with GAAP’ to mean net income. We understand this mostly relates to such entities that also have a single operating segment.

Statement of cash flows

- SEC Chief Accountant Paul Munter is concerned that the statement of cash flows does not receive the same level of attention from preparers and auditors as the balance sheet or income statement.
- However, it “is integral to a complete set of financial statements, and it should therefore be subject to the same level of due professional care, effective internal controls, and robust, high-quality audit as other financial statements.”
- The materiality of a classification error needs to be assessed objectively from the perspective of a reasonable investor. It cannot be assumed that correction in the current period (little r) will always be appropriate.

Additional resources

Conference blogs, [SEC's Corp Fin explains its priorities and concerns](#) and [SEC stresses high-quality standards, application, audits](#)

KPMG Defining Issues, [FASB issues ASU requiring new segment disclosures](#)

KPMG Issues In-Depth, [Non-GAAP financial measures](#)

Statement by SEC Chief Accountant Paul Munter (Dec 2023), [The Statement of Cash Flows: Improving the Quality of Cash Flow Information Provided to Investors](#)

KPMG Handbook, [Statement of cash flows](#)

6. Recent rule-making reminders

SEC staff has been receiving **questions** about these recent rules. On pay vs performance, many questions are from attorneys and compensation analysts.

Pay vs performance rules

- At the heart of the rules is disclosure of ‘actual compensation paid’ as that term is defined by the rules.
- Since the computations are largely GAAP-based, registrants should involve their accountants in the process.
- The SEC released C&DIs in Feb, Sept and Nov 2023, which also address areas such as clarifications to the appropriate fair value methodologies.

Compensation clawback rules

- Registrants had to adopt recovery policies under the clawback rules by December 1, 2023.
- Checkbox 1 is used to indicate that the filing reflects a correction of any error to previously issued financial statements – i.e. it is checked when the prior period(s) annual financial statements report any accounting error as defined in Topic 250, including the voluntary correction of an immaterial error.
- Checkbox 2 is checked when those corrections are restatements that require a recovery analysis under the clawback rule. A recovery analysis is triggered for either a Big R or little r restatement.

Additional resources

Conference blog, [SEC's Corp Fin explains its priorities and concerns](#)

KPMG Defining Issues, [New SEC staff C&DIs on pay vs performance disclosures](#)

KPMG Defining Issues, [SEC approves clawback listing standards](#)

KPMG Handbook, [Accounting changes and error corrections](#)

7. Fresh reminders about old issues

With SEC staff focused on the **completeness** and **transparency** of disclosures, a number of review comments revisited familiar themes. Registrants should **be specific** in their disclosures – and in their responses to staff.

Non-GAAP financial measures

- The Dec 2022 C&DIs did not reduce the number of comments in 2023. Errors relating to the basic requirements persist.
- **Example:** Improperly excluding operating expenses that are normal and recurring, which is considered at the registrant level and not individual locations.
- **Example:** Presenting a tailored accounting principle with adjustments that change the GAAP-basis recognition, which the staff believes is misleading.
- Staff also reminded that the revenue number disclosed in segment information under Topic 280 should be revenue to external parties (i.e. consistent with Topic 606) – not a non-GAAP measure or segment revenue.

Other MD&A comments

- When **inventory losses** have a material impact on year-on-year results – and if there are known trends or uncertainties that will impact the company's results of operations or liquidity – MD&A should include discussion.
- **Critical accounting estimates** disclosure in MD&A should not be a repeat of the significant accounting policy disclosure in the financial statement notes.
- Some MD&A disclosures about the results of operations do not sufficiently explain why **operating metrics** have changed, even though the same companies provide more detail through other communication channels (e.g. earnings calls).

Additional resources

Conference blogs, [SEC's Corp Fin explains its priorities and concerns](#) and [SEC explains comment letter and enforcement trends](#)

KPMG Issues In-Depth, [Non-GAAP financial measures](#)

8. The future is GenAI

GenAI promises **amazing improvements** in financial reporting speed, quality and insights. But it comes with new demands on **corporate governance**, **internal control** and **auditing** techniques to ensure it is used responsibly.

What is it?

AI is an umbrella term that encompasses a range of interrelated technologies – from simple rule-based logic (deterministic) to more advanced and complex algorithms (probabilistic). GenAI is a specific subset of AI based on probabilistic technology that synthesizes large amounts of data using an artificial neural network – an artificial brain.

What are AI and GenAI example use cases?

- Billing and gaining insights about customer behavior, invoice digitization within the procure-to-pay processes, and supplier and vendor management.
- Mapping disclosures in draft financial statements to items in a disclosure checklist.
- Analyzing financial statements in natural language instead of using time-consuming keyword searches.

What will be the impact on financial reporting?

Increased productivity through cognitive automation; increased accessibility of data for a range of uses; increased ability to identify data outliers; increased visibility into end-to-end processes and controls; real-time insights into areas of risk or control weaknesses; and faster quarterly and year-end reporting.

What are some of the governance challenges?

- Third parties should have proper controls in place so that data provided to those parties is secure.
- Large language models can hallucinate – i.e. return an answer that is misleading or simply false.
- Determining what output to share and how to share it, plus who has the ultimate rights to the output and how partners are using that output and any underlying data.

Additional resources

Conference blogs, [Generative AI – what is it and where is it taking us?](#) and [Advice to AC members is to ask lots of questions](#)

Hot Topic, [Artificial Intelligence in financial reporting](#)

Responsible AI and the challenge of AI risk, [Insights from the 2023 KPMG US AI Risk Survey Report](#)

[The KPMG Trusted AI Framework](#)

More KPMG resources: [Generative AI](#)

9. ESG preparedness in an unsteady state

In the absence of a final climate rule from the SEC, there are plenty of other **questions** you should be asking as the **walls close in** on ESG reporting.

Click on the link ► if you answer 'yes'

1. Are you an SEC registrant (including a registered investment fund or advisor) or planning an IPO^a? ►
2. Do you do business in California? ►
3. Do you have statutory reporting obligations outside the US? ►
4. Do you have EU operations? ►
5. Are you a federal contractor? ►
6. Are any significant customers imposing reporting and assurance obligations? ►
7. Do you report to the CDP? ►
8. Do you want to know what your competitors are doing? ►
9. Are you considering any sustainability-related strategies? ►
10. Do you have M&A plans? ►

a. The SEC's Fall 2023 Regulatory Agenda shows April 2024 for the final [climate rule](#).

Additional resources

Conference blogs, [Preparedness in a moving ESG reporting landscape](#) and [Advice to AC members is to ask lots of questions](#)

KPMG Handbook, [GHG emissions reporting](#)

KPMG ESG: [all resources](#)

KPMG ESG Reporting and Assurance Services: [all resources](#)

KPMG Financial Reporting View: [all resources](#)

10. Standard-setting important to investors

While both FASB and PCAOB representatives highlighted **investors** as key to their agendas, FASB Chair Richard Jones stressed the critical need for **feedback from all stakeholders** in getting standards right.

Disaggregation projects coming to an end

- **Segment reporting.** Released at the end of Nov, ASU 2023-07 improves reportable segment disclosure requirements through enhanced disclosures about significant segment expenses. See [#5](#) on SEC staff concerns about multiple measures of profit or loss.
- **Income statement disaggregation.** Companies would disaggregate specified expense categories within each relevant caption in the income statement, with further disaggregation required for inventory and manufacturing expense. A public roundtable is being held on Dec 13.
- **Income tax disclosures.** The exposure draft proposed significantly expanding what is disclosed and how the information is disaggregated – giving investors a detailed look at a company’s global tax positions. A final standard is expected by the end of the year.

The role of the auditor as gatekeeper

- **Noncompliance with laws and regulations (NOCLAR).** The proposal would require auditors to strengthen the identification, evaluation and communication of information that may indicate a company’s noncompliance with laws and regulations.
- **General responsibilities of the auditor.** The proposal would modernize principles spread across several existing auditing standards related to an auditor’s general responsibilities, including due professional care and professional skepticism.
- **Confirmations.** The new standard is a step forward in the Board’s strategic goal of modernizing the PCAOB standards – it reflects changes in the means of communication and business practices since issuance of the original standard.

Additional resources

Conference blogs, [FASB focuses on stakeholder-centric standard-setting](#) and [PCAOB emphasizes auditor's gatekeeper role](#)

KPMG Defining Issues, [FASB issues ASU requiring new segment disclosures](#)

KPMG Defining Issues, [FASB proposes income statement disaggregation disclosures](#)

KPMG Defining Issues, [FASB proposes improvements to income tax disclosures](#)

KPMG Defining Issues, [PCAOB proposal would expand auditors' responsibilities](#)

Full listing of conference blogs

Day 1

[SEC stresses high-quality standards, application, audits](#)

[PCAOB emphasizes auditor's gatekeeper role](#)

[Advice to AC members is to ask lots of questions](#)

Day 2

[SEC's Corp Fin explains its priorities and concerns](#)

[SEC explains comment letter and enforcement trends](#)

[The PCAOB's agenda to modernize](#)

[FASB focuses on stakeholder-centric standard-setting](#)

Day 3

[Complex transactions crossing multiple topics](#)

[Generative AI – what is it and where is it taking us?](#)

[Preparedness in a moving ESG reporting landscape](#)

Keep in touch



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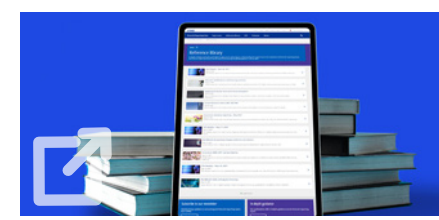
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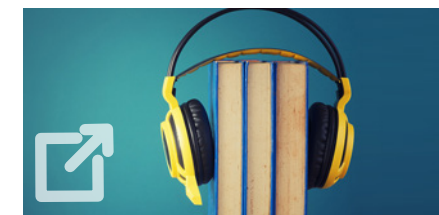
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Our discussion and analysis of accounting topics – from short Hot Topics that deal with a topical issue, to our in-depth guides covering a broad area of accounting.



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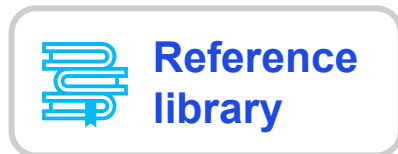
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