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Reflections on Current SEC and PCAOB Developments

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Overview

From December 9-11, 2024, representatives from the Securities and Exchange Commission (SEC or the Commission), the Public Company Accounting Oversight Board (PCAOB or the Board), the Financial Accounting Standards Board (FASB), and other speakers participated in the **2024 AICPA & CIMA Conference.** They discussed various accounting, financial reporting, auditing, and regulatory topics that are critical to organizations heading into 2025.

Remarks by the SEC Commissioner

Mark Uyeda

SEC Commissioner

SEC Commissioner Mark Uyeda opened his remarks at the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments by discussing how he sees the SEC's priorities shifting under the incoming administration. Commissioner Uyeda identified two likely emerging priorities under the new leadership:

- An emphasis on facilitating capital formation
- A change in the Commission's approach to crypto regulation

He emphasized the need to reduce the cost and complexity of going public to make it a more viable and scalable option for companies, particularly smaller companies. Furthermore, Commissioner Uyeda highlighted the need to reduce regulatory friction to avoid overburdening the system with undue costs that ultimately get passed on to investors. He advocated for revisiting outdated rules that are difficult for the average investor to follow and called for an emphasis on financial materiality in rulemaking, specifically mentioning the 1% proposed disclosure threshold in the now-stayed climate rule.

On crypto regulation, Commissioner Uyeda noted that most of the SEC's regulation of the crypto markets has been through enforcement and SEC staff action, while he sees the need for comprehensive guidance and clarity on matters such as accounting, disclosures, and custody.

Commissioner Uyeda also commented on the structure of the PCAOB, oversight by the SEC, and effectiveness in achieving the goals set by Sarbanes-Oxley. In terms of structure of the PCAOB, he commented on exploring the potential for folding some of the PCAOB's functions into the SEC, while recognizing that such potential structural changes could require legislative action.

Remarks by the SEC Chief Accountant

Paul Munter
SEC's Chief Accountant

Paul Munter, the SEC's Chief Accountant, highlighted the ethical responsibilities of accountants and the adverse consequences of unethical behavior, which undermine public trust in the profession and in financial reporting.

Mr. Munter stressed the critical role of auditors in maintaining independence and the importance of a strong culture and tone at the top within audit firms and issuers.

Other discussion points included:

The cooperative efforts required for high-quality standard setting, involving various stakeholders, including the FASB, PCAOB, and IASB. High-quality financial information and independent audits benefit investors and promote market confidence.

Academic research showing that behavior is influenced by the people directly around you, underscoring the need for ethical behavior to permeate all levels of an organization.

The auditor's role as a gatekeeper, prioritizing the public interest over self-interest, and viewing investors as the ultimate clients.

The profession's challenge in attracting and retaining talent; accountants must lead by example and maintain public trust.

Mr. Munter also encouraged constructive engagement in the standard-setting process and emphasized the significance of the FASB's Conceptual Framework for Financial Reporting. He supported the FASB's ongoing evaluation of the statement of cash flows and the need for clear and accurate cash flow information for investors.

Regarding the SEC's oversight role, Mr. Munter discussed the importance of audit standard-setting and the Commission's responsibilities in overseeing the PCAOB's standards and rules. Constructive engagement in the PCAOB standard-setting process ensures high-quality financial information.

Remarks by the PCAOB Chair

Erica Williams
PCAOB Chair

PCAOB Chair Erica Williams began by emphasizing the importance of reflecting on the future of the profession and the challenges and opportunities that lie ahead. Ms. Williams highlighted the PCAOB's mission to protect investors, with a focus on the critical role of audits in capital markets.

Also discussed were:

- The importance of the audit profession and the need for it to be valued as essential to the functioning of capital markets.
- Optimism about the future of the auditing profession and the PCAOB's role in protecting investors.
- Significant improvements in the aggregate Part I.A deficiency rate for the largest firms, indicating positive changes in audit quality. Ms. Williams urged firms to maintain this momentum and continue working to reduce deficiencies, emphasizing the importance of investor trust and the need for ongoing efforts to enhance audit quality.

Ms. Williams described the PCAOB's inspections program as a vital tool for protecting investors. The PCAOB is the only independent regulatory organization that inspects auditors of U.S. publicly traded companies globally, including audit firms in China. Improvements in the timeliness of inspection reports and the resolution of backlogs are needed.

Other comments included were:

- The impact of firm culture on audit quality, which was explored through findings from interviews with partners at U.S. Global Network Firms.

> **Key findings included** the correlation between partner tenure and audit quality, the benefits of centralization and standardization, and the challenges posed by remote and hybrid work environments.

- The importance of accountability within firms and the need for a culture that supports audit quality cannot be understated. She acknowledged the efforts of firm leaders to improve culture and drive audit quality.
- The PCAOB has updated 27 standards and rules during her tenure to better protect investors. There remains room for continuous improvement and engagement with audit committees to hold firms accountable for high-quality audits.
- The PCAOB's approach to technology, such as developing advanced AI and machine learning tools to enhance its regulatory capabilities, is evolving. There are of course challenges and opportunities to implementing new technologies, and a bottom-up approach to technological innovation could be preferable.

The PCAOB's commitment to enforcing high ethical standards was reiterated by examples of recent enforcement actions. The PCAOB is focused on cases involving serious matters that create risks for investors, such as audit failures, financial statement fraud, and non-compliance with PCAOB rules and standards.

SEC Staff Remarks on Accounting Matters

Scope of Recently Issued Accounting Standards Updates

Gaurav Hiranandani

Senior Associate Chief Accountant
in the SEC's Office of the Chief Accountant (OCA)

Gaurav Hiranandani, Senior Associate Chief Accountant in the SEC's Office of the Chief Accountant (OCA), discussed the scope of recent ASUs issued by the FASB, such as those on segment reporting, income tax disclosures, and disaggregation of income statement expenses. Mr. Hiranandani clarified that unless an ASU or specific industry guidance explicitly excludes an entity from its scope, the ASU's broad requirements apply. For instance, Mr. Hiranandani explained the segment reporting requirements in ASC 280, including the updates in ASU 2023-07, apply to all entities defined as public entities in the ASC master glossary, including investment companies that file financial statements with the SEC.

Classification of Financial Instruments as Liabilities Versus Equity

Mr. Hiranandani discussed the classification of financial instruments as liabilities versus equity, focusing on the evaluation of whether a warrant instrument with certain provisions is indexed to an entity's own stock in accordance with Accounting Standards Codification (ASC or the Codification) 815, *Derivatives and Hedging*. Mr. Hiranandani shared the following fact pattern:

A registrant issues a warrant and must determine if certain provisions in the warrant would cause it to not be considered indexed to its own stock, resulting in the warrant being classified as a liability rather than within shareholders' equity. Two key provisions were highlighted:

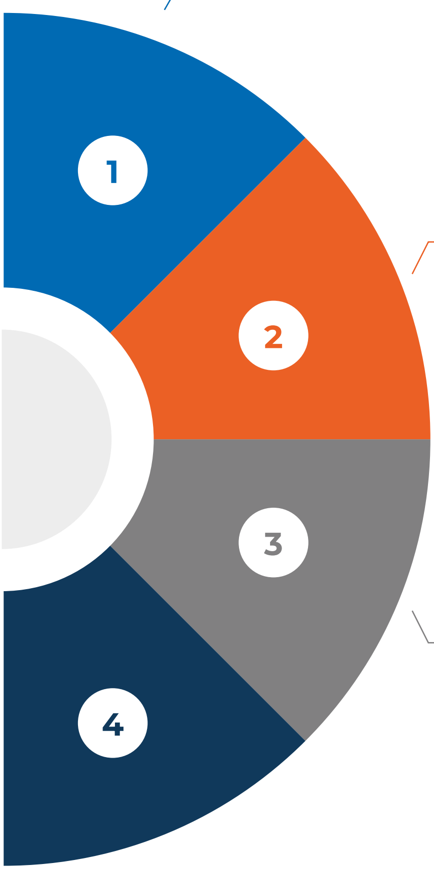
SETTLEMENT PROVISION

The warrant provides for settlement upon a fundamental transaction, such as an all-cash acquisition of the entity. The holder of the warrant would be entitled to a settlement amount based on a standard option pricing model, such as a Black-Scholes option pricing model. However, the option pricing model could require certain pre-specified inputs, like the greater of pre-specified volatility or historical volatility and greater of share price inputs.

PARTICIPATION IN DISTRIBUTION FEATURE

The warrant includes a participation feature that allows the warrant holders to share in dividends with common stockholders based on the number of shares the warrant is exercisable into, without regard to the exercise price.

Mr. Hiranandani noted the above provisions are common in warrant agreements. While a formal view on the accounting for such features was not expressed, Mr. Hiranandani, in his example, made the following observations:



Significant Judgment Required:

Applying the indexation guidance involves significant judgment, especially when assessing the pre-specified inputs into a Black-Scholes option pricing model, which depends on the precise terms of the instrument.

Diversity in Practice:

There is widespread diversity in practice regarding whether such warrants should be classified as liabilities or equity. Terms in warrant agreements have evolved, leading to mixed practices in determining whether its features are indexed to an entity's own stock.

Need for Standard-Setting:

Due to the diversity and significant judgment involved, there is a need for standard-setting to drive consistency. The SEC staff articulated its belief that standard-setting related to ASC 815-40 would improve consistency and provide necessary clarity on how to classify equity-linked contracts.

Stakeholder Engagement:

SEC staff encouraged stakeholder input on this topic as part of the FASB's upcoming agenda consultation.

Mr. Hiranandani encouraged registrants to consult with OCA on similar liabilities versus equity classification issues or other complex accounting matters.

Scope of Deconsolidation Guidance

Jonathan Perdue
SEC Professional Accounting Fellow

SEC Professional Accounting Fellow Jonathan Perdue discussed the deconsolidation guidance in the context of selling a subsidiary that does not meet the definition of a business under ASC 805, *Business Combinations.* Mr. Perdue highlighted the following scenario:

SCENARIO

A subsidiary is sold to a third party, but it does not meet the definition of a business under ASC 805. The subsidiary includes significant assets typically sold by the entity in its ordinary business activities, along with other significant assets and liabilities.

KEY QUESTION

Whether the revenue recognition guidance in ASC 606 applies, given that the sale of the subsidiary and its significant assets are part of the registrant's ordinary business activities.

GUIDANCE REFERENCE

The starting point is ASC 810-10-40-3A, which states that the deconsolidation guidance in ASC 810, Consolidation, on consolidation applies unless the substance of the transaction is directly addressed by other topics, such as ASC 606.

ANALYSIS

The set of assets and liabilities held by the subsidiary includes multiple items not typically accounted for under ASC 606, such as lease contracts, receivables, trade payables, derivative contracts, and other liabilities. Given the significance of these assets, it raised questions on whether the substance of the transaction was directly addressed by ASC 606.

CONCLUSION

SEC staff did not object to accounting for the sale of the subsidiary in that fact pattern in accordance with ASC 810 rather than ASC 606.

Disposition of a Subsidiary Accounted for on a Lag

Gaurav Hiranandani
Senior Associate Chief Accountant in OCA

Mr. Hiranandani discussed the sale of a subsidiary accounted for on a lag. Mr. Hiranandani presented the following scenario:

SCENARIO

A registrant is winding down its subsidiary by selling some of its assets and liabilities to a third party. The subsidiary is recorded on a three-month lag, which is permissible under ASC 810.

KEY ISSUE

The registrant proposed it should come off the lag by recording three months of subsidiary's income statement activity directly to shareholders' equity and adjusting the carrying amount of the assets and liabilities to reflect the carrying amount without a lag as of the date of the sale.

PROPOSED ACCOUNTING

The proposed treatment would result in recording the net gain or loss over the lag period related to the sold assets and liabilities directly against the registrant's shareholders' equity. The resulting gain or loss on sale would then be recorded in the income statement at the transaction date, reflecting the adjusted carrying amount for those net assets.

STAFF'S POSITION

SEC staff objected to the proposed accounting treatment.

SEC Staff Remarks on Audit Matters

Anita Doutt
Senior Associate Chief Accountant in OCA

Gaurav Hiranandani
Senior Associate Chief Accountant in OCA

Nigel James
Senior Associate Chief Accountant in OCA

Shaz Niazi
Deputy Chief Counsel

Evaluation of Accounting Errors and Their Materiality

The session, led by Anita Doutt, Senior Associate Chief Accountant in OCA, and Mr. Hiranandani, emphasized the importance of approaching materiality assessments with objectivity and avoiding potential biases. Registrants and their auditors should ensure their assessments are from the perspective of a reasonable investor and consider both quantitative and qualitative factors in their evaluations.

Ms. Doutt emphasized that the determination of whether an error is material is an objective assessment focused on whether there is a substantial likelihood that a reasonable investor would consider the error important in making investment decisions. Ms. Doutt noted that an immaterial error can still indicate a material weakness in internal control over financial reporting (ICFR).

Mr. Hiranandani highlighted that disclosures are an integral part of the financial statements. The correction of an error within the notes to the financial statements can be a material error if the information is material to investors, even if consolidated amounts reported on the face of the financial statements are not misstated. He stated both quantitative and qualitative factors are considered in determining materiality.

Independence

> Ms. Doutt discussed observed violations of independence requirements, indicating that some auditors, particularly non-U.S. members of network firms, may not fully understand the SEC or PCAOB auditor independence requirements or lack proper controls to monitor these.

She highlighted the importance of robust quality control systems to monitor non-audit relationships with potential entities under audit.

Nigel James, Senior Associate Chief Accountant in OCA, added that the focus on independence is broader than just the U.S., with international discussions occurring as well. He highlighted the inherent tension between a private equity firm's profit motive and a regulated profession's public interest role, which can impact firm culture, audit quality, and the public interest at large.

Shaz Niazi, Deputy Chief Counsel, discussed recent enforcement trends, highlighting an increase in Commission orders related to related-party transactions. Mr. Niazi stressed the importance of applying heightened scrutiny and exercising appropriate due professional care and professional skepticism when dealing with related-party transactions.

Fraud Risk Assessment

Ms. Doutt emphasized the critical role of fraud risk assessment in identifying potential fraud risks within a company. She highlighted the various lines of defense, including internal audit and management, play a significant role in this process.

> Ms. Doutt highlighted the whistleblower hotline was identified as a major tool for fraud risk assessment. She cited the Association of Certified Fraud Examiners (ACFE) report that showed whistleblower hotlines are the top method for detecting fraud, far surpassing other methods.

The hotline provides valuable data that can reveal potential fraud risks and cultural issues within specific locations.

Ms. Doutt discussed the importance of conducting inquiries and analytics as part of the fraud risk assessment process. She stated inquiries should be conducted at commensurate levels to address power imbalances and should include probing questions beyond a checklist approach. She noted that analytics should consider peer performance and look for emerging issues that may indicate fraud risks.

Division of Corporation Finance Practice Matters

Melissa Rocha
Deputy Chief Accountant
in the SEC's Division of Corporation Finance (DCF)

Sarah Lowe
Deputy Chief Accountant
in DCF

Heather Rosenberger
Chief Accountant
in DCF

Segment Reporting — Non-GAAP Considerations

Melissa Rocha, Deputy Chief Accountant in the SEC's Division of Corporation Finance (DCF), explained that staff would not object to the disclosure of additional non-GAAP segment profitability measures provided that these measures otherwise comply with the SEC's non-GAAP guidance. Additional measures not determined in accordance with GAAP are considered non-GAAP financial measures.

Determining Whether the Measure Is a Non-GAAP Measure

Sarah Lowe, Deputy Chief Accountant in DCF, explained not every part of a public entity is an operating segment. For example, corporate headquarters or certain functional departments may not be part of an operating segment. If certain corporate headquarter costs are included in the operating income line item of the consolidated financial statements but not allocated to operating segments, the staff will not consider the disclosure of segment operating income to be a non-GAAP financial measure solely because of these unallocated costs.

The staff would not consider an additional measure of segment profit or loss to be a non-GAAP financial measure if it is calculated using measurement principles consistent with the corresponding measure in the consolidated financial statements. For example, segment gross profit calculated consistently with gross profit in the consolidated financial statements would not be considered a non-GAAP financial measure, while a similar measure excluding depreciation expense would be.

Additional Measure Is a Non-GAAP Measure

During the panel discussion, Ms. Rocha highlighted that the SEC staff would not object to the voluntary inclusion of additional non-GAAP performance measures in the segment footnote, provided they comply with ASC 280-10-50-28B and 50-28C. These non-GAAP measures must meet the presentation and disclosure requirements of Regulation G and Regulation S-K, Item 10(e). A registrant may provide the required disclosures within or outside the financial statements, but the financial statement footnotes should not include cross-references to other parts of the filing containing such disclosures. Additionally, a quantitative reconciliation of the segment non-GAAP measure to the most comparable GAAP measure must be provided.

Audit-Specific Considerations

Heather Rosenberger, Chief Accountant in DCF, emphasized that auditors must evaluate whether the financial statements are fairly presented in conformity with the applicable financial reporting framework, including ASC 280. The scope of the auditor's responsibility does not include compliance with the SEC's non-GAAP rules. If non-GAAP disclosures are included in the audited financial statements, auditors may note in their audit opinion any items not subject to audit. Ms. Rosenberger noted that auditors also have responsibilities under PCAOB AS 2710 related to information included in the audited financial statements that is not otherwise audited.

Non-GAAP Measures and Metrics

Ms. Rosenberger emphasized that non-GAAP measures continue to be a frequent topic of SEC staff comments. Most directly comparable GAAP measures must be presented with equal or greater prominence than the most directly comparable non-GAAP measure. Excluding normal, recurring, cash operating expenses can make a non-GAAP measure misleading. Adjustments that apply individually tailored accounting principles are scrutinized. Non-GAAP measures should be clearly labeled, and accompanying disclosures should provide sufficient information for investors to understand the nature and reason for the adjustments.

Ms. Lowe explained that C&DI Question 102.09 requires registrants to disclose material items affecting financial condition or liquidity in MD&A, including material debt covenants. Measures calculated in accordance with debt covenants can be included in MD&A if necessary to comply with Regulation S-K, Item 303. However, if such measures are disclosed as performance measures and include misleading adjustments, the staff would object.

Management's Discussion and Analysis (MD&A)

MD&A continues to be a top area of comment by the SEC staff. The SEC has been particularly focused on disclosures related to changes in financial condition and liquidity. Companies often limit their disclosures to repeating amounts from the cash flow statement without providing underlying reasons for changes. Providing an analysis of liquidity-related metrics, such as days sales outstanding or days payable outstanding, can help enhance the understanding of the company's financial condition and liquidity. Ms. Rocha stated that the staff encourages companies to provide both quantitative and qualitative analysis to explain these changes.

> For companies with negative operating cash flows, the staff expects a robust discussion on how the company plans to generate or obtain adequate cash to meet its requirements and fund operations for the next 12 months.

In addition, she explained that the staff has also been commenting on going concern disclosures. If an auditor includes a going concern explanatory paragraph in their audit opinion, the company should revisit its MD&A disclosures, consider the need for potential additional risk factor disclosures, and ensure that disclosures are complete and adequate.

Cash Flow Statement Classification

Ms. Lowe noted that the staff has issued comments related to cash flow classification, emphasizing the importance of determining the appropriate classification of cash flows as operating, investing, or financing activities. Companies should consider their unique fact patterns and provide accounting policy disclosures in their footnotes to explain the classification of material cash flows, particularly those that are judgmental in nature.

Clawback Rules

Ms. Rosenberger discussed the SEC's clawback rule, which requires registrants to adopt policies to address erroneously awarded incentive-based compensation. The rule introduced new checkboxes on the cover pages of 10-Ks, 20-Fs, and 40-Fs. These checkboxes indicate whether financial statements reflect error corrections and whether a recovery analysis of incentive-based compensation is required.

The first checkbox applies to correction of an error of previously issued financial statements, including "Big R" and "little r" restatements and any voluntary error corrections. However, out-of-period adjustments recorded in the current year do not require the checkbox to be marked as they do not change previously issued financial statements. In addition, adoption of new accounting standards requiring retrospective application are also not an error correction of previously issued financial statements.

Ms. Rosenberger highlighted that the second checkbox indicates whether the error corrections trigger a recovery analysis. This applies to "Big R" and "little r" restatements but not to voluntary restatements. She reminded registrants that even if no incentive compensation was received by executive officers during the relevant period, the checkbox must still be marked. The checkbox must be selected even if incentive-based compensation received by executive officers during the recovery period was not based on financial reporting measures affected by the restatement.

Issuers must provide a brief explanation of why the recovery policy resulted in no actual recovery, if applicable. This explanation should be more than just stating there was no recovery. Additionally, recovery analysis disclosures must be block-tagged in XBRL format.

Pay Versus Performance

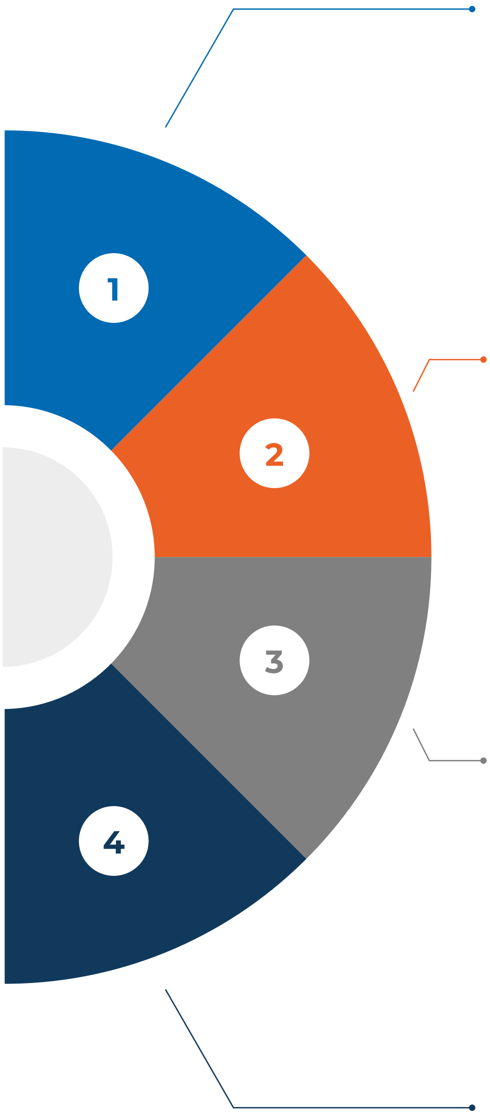
Cicely LaMothe

Deputy Director of Disclosure Operations in DCF

Cicely LaMothe, Deputy Director of Disclosure Operations in DCF, discussed the second-year review of the pay versus performance disclosure rule, which requires companies to disclose the relationship between executive compensation and company performance.

> Since the issuance of the disclosure rule, the SEC has issued nearly 30 compliance and disclosure interpretations (C&DIs) to help companies comply with the complex requirements.

The SEC's Division of Corporation Finance has been focused on implementing the rule and ensuring companies understand and comply with it. SEC staff has taken a measured approach to assessing initial compliance, aiming to provide additional guidance as needed. She offered the following reminders:



Relationship Disclosure

Companies are required to disclose the relationship between executive pay and company performance. In the first year of implementation, many companies omitted this disclosure either in whole or in part. The SEC issued forward-looking comments to address this issue, and compliance improved in the second year.

Net Income Requirement

Companies must disclose net income in the pay versus performance tables. Some companies were substituting a measure that excluded non-controlling interest as an example, which is not compliant with the disclosure requirements. Ms. LaMothe reminded companies to disclose net income as reported in the audited income statement.

Company-Selected Measures

If a company-selected measure is non-GAAP, it must disclose how it is calculated from the audited financial statements. While there is no requirement for a numeric reconciliation to a GAAP measure, the description must be clear and avoid vague references.

Compensation Actually Paid Calculations

Ms. LaMothe stated that the SEC rarely took issue with the numeric calculations but emphasized the importance of using the correct terminology and steps as set forth in the disclosure rule. Companies should follow the legal vesting terms for stock and option awards, including retirement eligibility provisions, in their pay versus performance disclosures.

Disclosures should be tagged in XBRL format. This helps investors assess disclosures more readily and allows the SEC to analyze disclosures across a large number of filings.

Cybersecurity-Related Disclosures

Sebastian Gomez

Associate Director
of the Division's Disclosure Review Program

Sebastian Gomez, Associate Director of the Division's Disclosure Review Program, outlined the SEC's final rule on cybersecurity risk management, strategy, governance, and incidents.

> He clarified that under Form 8-K, Item 1.05, **issuers must disclose a cybersecurity incident within four business days after determining its materiality,** not after the incident occurs.

He referenced a May 2024 statement in which the SEC staff advised using Item 1.05 for material incidents and Item 8.01, Other Events, for non-material incidents or those still under review. Mr. Gomez noted instances where registrants initially used Item 8.01 and later switched to Item 1.05 upon determining it was material.

Disclosure requirements under the cybersecurity rule include disclosure of both quantitative and qualitative impacts to the registrant.

> SEC staff reviewed all Form 8-K, Item 1.05 filings and **found that while registrants adequately disclosed quantitative impacts, they often neglected qualitative impacts.**

Mr. Gomez stressed the importance of including qualitative impacts in the disclosures, such as reputational damage and effects on contracts or customer relationships.

Registrants are advised to provide detailed descriptions of their cybersecurity risk management processes, including oversight of third-party service providers. Registrants must disclose the expertise of management personnel responsible for cybersecurity risk, detailing each individual's qualifications when a group is involved.

Lastly, Mr. Gomez reminded registrants that the Inline XBRL tagging requirement for cybersecurity disclosures takes effect in the second year of required disclosures.

FASB Update

Richard Jones
FASB Chair

Jackson Day
FASB Technical Director

Helen Debbeler
FASB Deputy Technical Director

Agenda Consultation and Stakeholder Feedback

FASB Chair Richard Jones emphasized the importance of stakeholder feedback in shaping the FASB agenda. The 2021 agenda consultation led to a comprehensive reset of the FASB agenda based on stakeholder input. The FASB has issued several exposure documents and invitations to comment (ITCs) to gather feedback on various topics. Chair Jones and Jackson Day, FASB Technical Director, discussed the importance of cost and benefit considerations in the standard-setting process.

Chair Jones, Mr. Day, and Helen Debbeler, FASB Deputy Technical Director, discussed the new ASU requirements for disaggregating certain income statement expenses. Ms. Debbeler also highlighted the FASB's current exposure drafts related to government grants, interim reporting, accounting for and disclosure of internal-use software costs, derivatives scope refinements and hedge accounting. An update on other FASB projects, including the expected exposure draft on accounting for environmental credit programs, was also provided.

PCAOB Standard-Setting and Inspection Matters

Inspections

Christine Gunia
Director of the PCAOB's
Division of Registration and Inspections

Christine Gunia, Director of the PCAOB's Division of Registration and Inspections, detailed the PCAOB's inspection activities in 2024, focusing on improving audit quality.

> The inspection activities revealed high deficiency rates but also some improvement in quality control systems at larger firms. For 2025, the PCAOB's priorities included audits of companies in volatile sectors such as banking, real estate, and information technology. They also addressed audit execution challenges due to workforce concerns, remote work, and technology use, and ensured compliance with quality control standards.

The PCAOB continued to assess compliance with standards and rules related to audit committee communications, audit reports, Form AP, and auditor independence.

Standard-Setting and Year-End Reminders

Barbara Vanich
PCAOB Chief Auditor
and Director of Professional Standards

Barbara Vanich, PCAOB Chief Auditor and Director of Professional Standards, highlighted several key updates in the PCAOB's standard-setting section. She also provided a number of year-end reminders for auditors. The new standard, AS 2310 on confirmations, was effective for fiscal years ending on or after June 15, 2024, and auditors were encouraged to read the new standard and watch the recently posted webinar. There was an emphasis on the sufficiency of participation requirements for lead auditors, with a suggestion to revisit evaluations toward the end of the year. Auditors were also encouraged to review and comply with independence rules (Rules 3524, 3525, and 3526) and ensure that Critical Audit Matters (CAMs) were informative and complied with both the language and spirit of the standard.

Enforcement

William Ryan

Chief Counsel of the PCAOB's
Division of Enforcement and Investigations

> William Ryan, Chief Counsel of the PCAOB's Division of Enforcement and Investigations, discussed the PCAOB's strengthened enforcement efforts, which included **increasing the number of enforcement actions and civil monetary penalties.**

Mr. Ryan noted the Division's focus was on significant audit violations and cooperation with inspections. Notable cases included a $25 million penalty against a Netherlands audit firm.

Mr. Ryan said the Division's priorities for 2025 remain primarily the same, and it will prioritize matters central to investor protection, including investigating significant audit and independence violations, as well as failure to cooperate with inspections or investigations, which erodes the integrity of the oversight process.

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