

# 2020 YEAREND TECHNICAL REVIEW

Current as of November 2020

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# Accounting Update





# Agenda

- FASB Accounting Update
- PCAOB Update
- Corporate Governance Update

# FASB Accounting Update



# 2020 Accounting Standards Updates

ASU*	TITLE	BDO ALERT
2020-01	Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323 and Topic 815	<a href="#">ASU 2020-01 Alert</a>
2020-03	Codification Improvements to Financial Instruments	<a href="#">ASU 2020-03 Alert</a>
2020-04	Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	<a href="#">ASU 2020-04 Alert</a>
2020-05	Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities	<a href="#">ASU 2020-05 Alert</a>
2020-06	Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity	<a href="#">ASU 2020-06 Alert</a>
2020-07	Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets	<a href="#">ASU 2020-07 Alert</a>
2020-08	Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs	N/A

\*ASU No. 2020-02 and 2020-09 were also released to amend certain SEC paragraphs

# ASU 2020-01, Clarifying the Interaction between Topics 321, 323 and 825

Clarifies the following issues:

- ▶ Measurement alternative for investments in equity instruments that do not have readily determinable fair value
  - Observable orderly transactions that result in the investor applying (or discontinuing) the equity method of accounting under Topic 323 are considered for purposes of the measurement alternative in Topic 321
- ▶ Certain Forward contracts and purchased options on securities that would be accounted for under the equity method in Topic 323
  - For purposes of the scope of Subtopic 815-10, Certain Contracts on Debt and Equity Securities, entities should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in Topic 825

Effective Dates	Public Business Entities	Other Entities
	FYs beginning after 12/15/2020	FYs beginning after 12/15/2021

# ASU 2020-03, Codification Improvements to Financial Instruments

## ► Clarifies the following issues:

Contractual term for measuring expected credit losses	When measuring expected credit losses on a net investment in a lease, the lease term determined in accordance with ASC 842 should be used as the contractual term
Interaction between ASC 326 and ASC 860-20	An allowance for credit losses should be recorded when an entity regains control of financial assets sold.
Fair value option disclosures in ASC 825-10	Disclosure requirements apply to all entities
Disclosure for depository and lending institutions	The disclosure requirements regarding debt securities in ASC 320 apply to depository and lending institutions in the scope of ASC 942

### Effective Dates

The amendments have various effective dates and transition requirements, some depending on whether an entity has previously adopted ASU 2016-13



# ASU 2020-04, Reference Rate Reform

## Background

- ▶ Potential effect on the ability to retain hedge accounting.
- ▶ Potential challenges in applying GAAP related to modifications of financial instruments.
- ▶ FASB provided optional practical expedients and exceptions for a limited period of time to ease the burden in accounting for the reference rate reform.
- ▶ The guidance applies only to transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform.

### Effective Dates

The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. The amendments have various transition requirements.



# ASU 2020-04, Reference Rate Reform (Cont.)

## Optional expedients for contract modifications

Contracts in the scope of Topic 310, <i>Receivables</i> and Topic 470, <i>Debt</i>	Accounting for the modification by prospectively adjusting the effective interest rate.
Lease modifications in the scope of Topics 840, 842	Accounting as a continuation of the existing contract - no reassessment of lease classification and discount rate, and no remeasurement of the lease payments.
Contracts in the scope of other topics or industry subtopics	Entities are permitted to consider modifications as an event that does not require contract remeasurement or reassessment of previous accounting determination.
Embedded derivatives	Entities are not required to reassess whether embedded derivatives are considered clearly and closely related to the host contract.

- ▶ Elected expedients for contract modifications must be applied consistently to all eligible contracts or transactions.

# ASU 2020-04, Reference Rate Reform (Cont.)

## Hedge accounting

Critical terms	Qualifying changes in the critical terms of an existing hedging relationship due to the reform will not result in dedesignation of the hedging relationship
Excluded components	Entities may change the systematic and rational method used to recognize in earnings the components excluded from hedge effectiveness assessment
Shortcut method	Entities may continue to apply this method for the remainder of the hedging relationship for fair value and cash flow hedges
Fair value hedges	Entities may change the designated benchmark interest rate documented at hedge inception to a different eligible benchmark interest rate, which will be applied consistently across similar fair value hedging relationships
Cash flow hedges	Entities may continue hedge accounting following a change in the hedged interest rate risk if the hedge is highly effective  Entities may disregard potential changes in the designated hedged interest rate risk when it assesses whether the hedged forecasted transaction is probable  Entities may change the designated method used to assess hedge effectiveness in order to disregard certain mismatches between the designated hedging instrument and the hedged item

- ▶ Except for the expedient to change the designated benchmark interest rate in a fair value hedge, all optional expedients for hedge accounting may be elected on an individual hedging relationship basis.



## ASU 2020-04, Reference Rate Reform (Cont.)

### HTM securities

- ▶ Entities are permitted to make a one-time election to sell or transfer (or both) debt securities classified as held to maturity to available for sale or trading.
- ▶ Debt securities are eligible for this election if they:
  - Were classified as held to maturity before January 1, 2020, and
  - Reference a rate that is expected to be discontinued because of the reference rate reform
- ▶ Entities are not required to transfer all of the remaining debt securities classified as held to maturity.

# ASU 2020-05, Effective dates of the Revenue and Leases Standards for Certain Entities

- ▶ Limited deferral of the effective dates
- ▶ Original effective dates may still be applied.
- ▶ Interaction with SEC guidance codified in ASU 2020-02 regarding certain PBEs - affected entities should monitor potential SEC developments
- ▶ [BDO ASU 2020-05 Alert](#)

## ASU 2016-02, *Leases* (Topic 842)

### Private companies and private NFPs

FYs beginning after 12/15/2021  
interim periods beginning after 12/15/2022

### Public NFPs<sup>1</sup>

FYs and interim periods  
beginning after 12/15/2019

## ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606)

### Privately held entities<sup>1</sup>

FYs beginning after 12/15/2019 and interim periods  
beginning after 12/15/2020

<sup>1</sup> Only applies to entities that have not yet issued their financial statements (or made financial statements available for issuance) as of June 3, 2020.





## ASU 2020-06 -

# Key Changes: Convertible instruments

- ▶ Eliminate the cash conversion and beneficial conversion feature models
- ▶ If conversion option is not bifurcated as a derivative or issued at a substantial premium
  - Convertible debt will be presented as a single liability measured at its amortized cost
  - Convertible preferred stock will be presented as a single equity instrument measured at its historical cost
- ▶ Interest rates for these convertible debt instruments will now be more reflective of the stated coupon rate.



## ASU 2020-06 -

# Key Changes: Derivative Scope Exception

- ▶ Remove three conditions for equity classification
  - The ability to deliver registered shares upon settlement
  - No collateral requirement
  - Certain counterparty rights
  
- ▶ Clarify penalty payments paid for failing to timely file do not preclude equity classification
  
- ▶ Other Changes
  - Instruments that are not indexed to the issuer's stock under 815-40-15-8A must be remeasured at fair value through earnings each reporting period
  - Clarify that the reassessment guidance on subsequent measurement applies to both freestanding financial instruments and embedded features.



## ASU 2020-06 - Key Changes: Earnings-Per-Share

Update EPS guidance to align with amendments to convertible debt and the derivative scope exception, as follows:

- ▶ Require the use of the if-converted method for convertible instruments (versus treasury stock method); should not change practice in most cases
- ▶ Require share settlement presumption for calculating diluted EPS when an instrument may be settled in cash or shares (i.e., remove current guidance allowing a rebuttable presumption)
- ▶ Expand the scope of the recognition and measurement guidance of down-round features in EPS guidance to include an equity-classified convertible preferred stock that includes a down round feature.
- ▶ Require average market price to calculate diluted EPS denominator when the exercise price or number of shares to be issued varies based on share price.
- ▶ Clarify that the weighted-average share count from each quarter should be used when calculating the year-to-date weighted-average share count.





## ASU 2020-06 - Disclosures

Expand the disclosure requirements for convertible debt instruments to compensate for the reduction in accounting models:

- ▶ Add a disclosure objective
- ▶ Add information about events or conditions that occur during the reporting period that significantly affect the conversion conditions
- ▶ Add information on which party controls the conversion rights
- ▶ Align disclosure requirements for contingently convertible instruments with other convertible instruments
- ▶ Require that existing fair value disclosures in ASC 825, *Financial Instruments*, be provided at the individual instrument level rather than in the aggregate

# ASU 2020-06 - Transition

Effective Dates	SEC filers (excluding SRC)	Other Entities
	FYs and interim periods beginning after 12/15/2021	FYs and interim periods beginning after 12/15/2023

- ▶ Full retrospective or modified retrospective transition
- ▶ Early adoption permitted, but no earlier than fiscal years beginning after December 15, 2020.
- ▶ Early adoption only at the beginning of annual fiscal year (Q1 only)
  
- ▶ [ASU 2020-06](#)

# ASU 2020-07, Presentation and Disclosures by NFP Entities for Contributed Nonfinancial Assets

- ▶ Contributed nonfinancial assets will be presented as a separate line item in the statement of activities
- ▶ NFPs shall disclose disaggregated amounts of contributed nonfinancial assets recognized by category and provide the following for each category:
  - Qualitative information about whether the contributed nonfinancial assets were either monetized or used during the reporting period
  - The NFP's policy (if any) about monetizing rather than using contributed nonfinancial assets
  - A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
  - A description of the valuation techniques and inputs used to arrive at a fair value measure
  - The principal market (or the most advantageous market) used to arrive at a fair value measure If a donor-imposed restriction exists.



## ASU 2020-07 - Transition

- ▶ FYs beginning after June 15, 2021
  - ▶ Interim periods within annual periods beginning after June 15, 2022
  - ▶ Amendments should be applied on a retrospective basis
  - ▶ Early adoption permitted
- 
- ▶ [ASU 2020-07](#)

# ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs

- ▶ Relates to guidance issued in ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities*
- ▶ Clarifies an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period
- ▶ Defines ‘next call date’ as the first date when a call option at a specified price becomes exercisable

Effective Dates	Public business entities	Other Entities
	FYs and interim periods beginning after 12/15/2020	FYs beginning after 12/15/2021 and interim periods beginning after 12/15/2022

# Proposed ASU - Practical expedient for franchisors in accounting for initial franchise fees under ASC 606

- ▶ As a practical expedient, nonpublic franchisors may account for the following pre-opening services as a single bundled performance obligation:
  - Assistance in the selection of a site
  - Assistance in obtaining and preparing the facilities for their intended use, including financing, lease negotiation and architectural services.
  - Training of franchisee's personnel or the franchisee
  - Preparation and distribution of manuals and similar material concerning operations, administration and record keeping.
  - Bookkeeping, information technology, and advisory services related to income, real estate, and other taxes or about local regulations.
  - Inspection, testing and other quality control programs.
- ▶ Expedient may be applied only if it is probable that continuing franchise fees will cover the continuing cost of services plus a reasonable profit.
- ▶ Comments closed November 5, 2020



## Proposed ASU - Practical expedient for determining grant-date fair value for equity-classified SBP awards

- ▶ As a practical expedient, nonpublic entities may determine the current price of a share underlying an equity-classified share option award using a valuation method performed in accordance with the presumption of reasonableness requirements of Section 409A of the U.S. Internal Revenue Code.

Comment period closed October 1, 2020

# EITF and PCC Updates







# Emerging Issues Task Force (EITF)

*September 2020 meeting*

The EITF met on September 3 to discuss Issue 19-C\* and reached a consensus for exposure:

- ▶ This issue applies to modifications of all freestanding equity-classified forwards and options that remain equity classified after modification and are not within the scope of Topic 718, Compensation—Stock Compensation, or accounted for as derivatives under Topic 815, Derivatives and Hedging.
- ▶ An entity should treat a modification of the terms or conditions of a freestanding equity-classified derivative instrument as an exchange of the original instrument for a new instrument.
- ▶ [Meeting recap](#)

*\* Warrant Modifications: Issuers' Accounting for Modifications of Equity Classified Freestanding Call Options That Are Not within the Scope of Topic 718, Compensation—Stock Compensation, or Topic 815, Derivatives and Hedging*



# Emerging Issues Task Force (EITF)

*September 2020 meeting (Contd.)*

- ▶ An entity should recognize the effect of a modification of a freestanding equity-classified derivative instrument based on the substance of the transaction as follows:
  - Financing transaction to raise equity - As an issuance cost
  - Financing transaction to raise or modify debt - As an expense
  - Transaction to compensate for goods or services - As a compensation cost
  - Other modifications - As a dividend
- ▶ An entity should measure the effect of a modification of a freestanding equity-classified derivative instrument as the excess, if any, of the fair value of the modified instrument over the fair value of the original instrument immediately before its terms are modified.
- ▶ FASB ratified the EITF consensus in its September meeting.



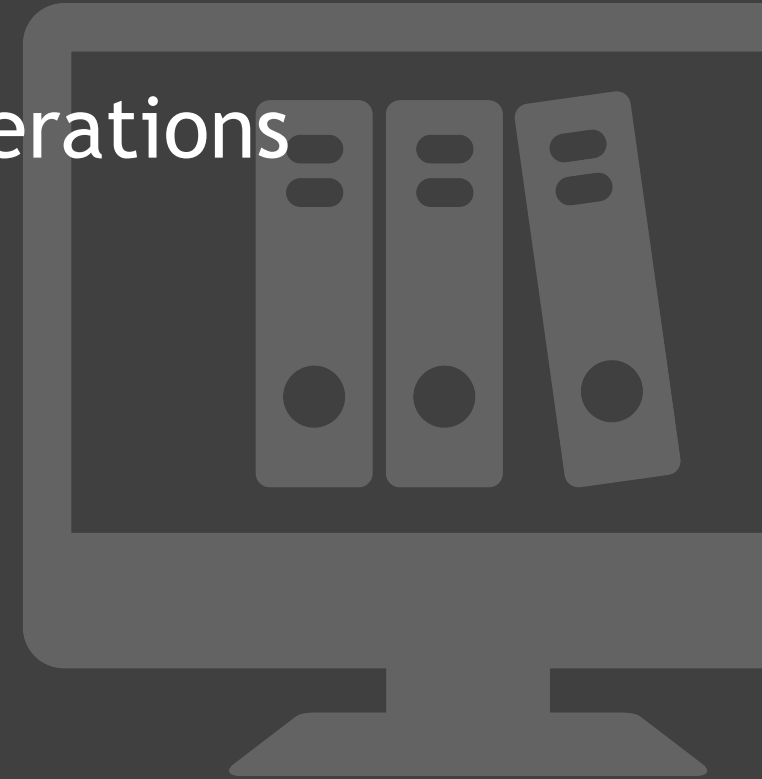
# Private Company Council (PCC)

*September 2020 meeting*

The PCC met on September 22 to discuss the following:

- ▶ Challenges in applying goodwill impairment guidance and accounting for PPP loans (educational materials needed)
- ▶ Practice issues arising from the current business environments:
  - Borrower's accounting for PPP loans, debt modifications and TDR
  - Interim impairment testing of nonfinancial assets
  - Inventory impairment in times of longer turnover
- ▶ Overview of FASB proposed practical expedient for franchisors.
- ▶ FASB project for targeted improvements to the leases standard.
- ▶ Profits interests and their relationship with partnership accounting
- ▶ Disclosure framework - income taxes.
- ▶ [Meeting recap](#)

# COVID-19 Accounting Considerations



# Accounting and Reporting: 2020

## 2020 Matters

- ▶ Complexities in forecast revisions
- ▶ Need for valuation expertise
- ▶ Negotiations with lenders
- ▶ Measurement issues:
  - Revenue: variable consideration estimates
  - Leases: modifications and “Right of Use” asset impairments
  - Debt modifications & TDRs
  - Inventory, A/R, PP&E, goodwill & intangibles
- ▶ Income taxes - state/local, federal, foreign & valuation allowances
- ▶ Documentation of judgments & estimates

*Not a complete list...*

## CARES Act: Corporations (General)

- ▶ Business tax relief and rule modifications - e.g., NOLs, interest expense deductions, AMT credit acceleration, etc.
- ▶ *Reminder that tax law changes need to be recorded in period of enactment*
- ▶ CECL deferral (*financial institutions only*)
- ▶ Reconciling GAAP: *FASB/SEC may need to issue additional guidance/relief?*
- ▶ Bonus depreciation and accelerated depreciation on qualified improvement property

*Not a complete list...*

Refer to BDO Guidance: [Financial Reporting Considerations](#)

# Accounting for Forgivable PPP Loans

- ▶ No specific requirements in U.S. GAAP
- ▶ Debt accounting model under ASC 470 is always appropriate
- ▶ SBA Certification requirements should be considered (Safe harbor - under \$2 million)
- ▶ Analogy to government grant model in IAS 20 may be applied only in limited circumstances



*Click thumbnail on the right for related BDO guidance*

# Lease Concessions related to COVID-19

- ▶ Lessees negotiate with their landlords various forms of lease concessions amid COVID-19
  - Reduced payments
  - Deferral of rent payment interest free
  - Waivers

*Do these lease concessions constitute lease modifications?*

Evaluate the enforceable rights and obligations of the parties in the original contract



Evaluate the applicable laws in the jurisdiction in which the lease contract is governed

- ▶ Assessment may be burdensome and challenging for companies with a large volume of lease contracts.

# Lease Concessions amid COVID-19 - FASB guidance

- ▶ FASB staff issued Q&A on the accounting for COVID-19-related leases concessions.
- ▶ Entities may elect, on a lease by lease basis, to account for qualifying concessions related to COVID-19 either:
  - As if the concession exists in the original contract
  - As lease modification under ASC 842 or ASC 840
- ▶ This election applies only to concessions that:
  - Are related to COVID-19
  - Do not result in a substantial increase to the rights of the lessor or the obligations of the lessee
- ▶ IASB amendments to IFRS 16 only address lessee accounting



*Click thumbnail on the right for related BDO guidance*



# PCAOB Update



# PCAOB Recently Completed Standard-Setting

PROJECT	CURRENT STAGE	TIMING
Auditing Accounting Estimates, Including Fair Value Measurements, and Amendments to PCAOB Auditing Standards	Final Standard issued on 12/20/2018 - approved by SEC on 7/1/2019	Effective for audits of fiscal years ending on or after December 15, 2020.
Amendments to Auditing Standards for Auditor's Use of the Work of Specialists	Final Standard issued on 12/20/2018 - approved by SEC on 7/1/2019	Effective for audits of fiscal years ending on or after December 15, 2020.

Refer to: <https://pcaobus.org/Standards/Pages/recently-completed-standard-setting-activities.aspx>

# Accounting Estimates and Judgments

The PCAOB has released new requirements related to auditing accounting estimates, including fair value measurements, and using the work of specialists, which will take effect for audits of fiscal years ending on or after December 15, 2020.

PCAOB Standards:

- ▶ [Auditing Accounting Estimates](#)
- ▶ [Supervising or Using the Work of an Auditor's Specialist](#)

The PCAOB has further released a publication providing details on the new requirements and key takeaways for Audit Committees, including questions to consider.

## Key Takeaways

- The effects of these changes will not be uniform across all audits
- The extent of the effects will vary based on client circumstances, including but not limited to the nature and extent of accounting estimates and use of specialists, together with auditor judgment
- The auditor's required communications with Audit Committees do not change
- The current environment, which continues to evolve, may have significant effect on application of this standard.

## Audit Committee Resource

New PCAOB Requirements Regarding  
Auditing Estimates and Use of Specialists

November 2020

This document represents the views of PCAOB staff and not necessarily those of the Board. It is not a rule, policy, or statement of the Board. The PCAOB does not set standards for, or provide authoritative guidance on, audit committee conduct.

*The PCAOB has released a [resource](#) for Audit Committees Regarding New Requirements Related to Estimates and Specialists*

# Accounting Estimates and Judgments

## The Requirements

### Auditing Accounting Estimates, Including Fair Value Measurements

- Risk based and scalable
- Does not prescribe detailed procedures
- Provides direction for testing in response to identified risks
- Builds on existing risk assessment requirements where auditor's focus should be on estimates with greater risk of material misstatement
- Reinforces importance of applying professional skepticism
- Address management bias
- Take into account relevant audit evidence regardless of whether it corroborates or contradicts assertions

### Auditor's Use of the Work of Specialists

- Align closely with risk assessment standards - auditor's effort should be commensurate with risk of material misstatement
- Strengthen the requirements for evaluating work of company's specialist
- Better reflect how to use different types of specialists (company vs auditor)
- Devote more attention to work of specialists
- Enhance coordination between an auditor and auditor specialist

## Audit Committee Resource

New PCAOB Requirements Regarding Auditing Estimates and Use of Specialists

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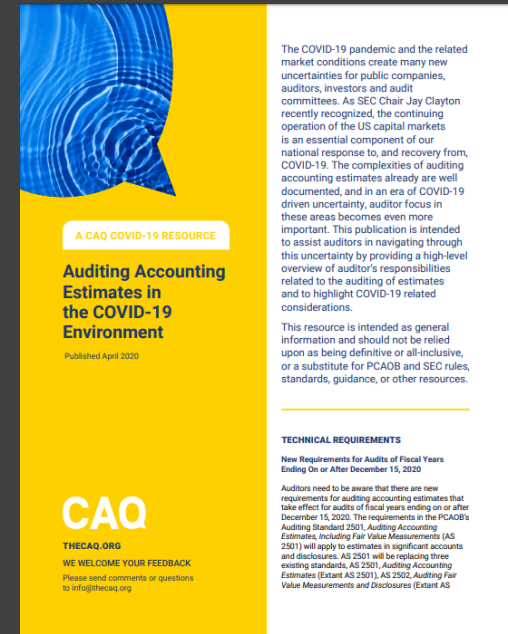
*The PCAOB has released a [resource](#) for Audit Committees Regarding New Requirements Related to Estimates and Specialists*

# Accounting Estimates and Judgments

## Other Considerations

Economic uncertainty creates an environment where the already complex areas of estimates and judgments are magnified by rapidly changing market conditions and will need further thought and scrutiny from management, boards and auditors.

Regulators are in agreement and have voiced their concerns. The SEC has [recognized](#) a number of areas that may involve significant accounting judgments and estimates in reaction to the evolving and dynamic nature of COVID-19. The Office of the Chief Accountant (OCA) [reminds](#) issuers that it will not object to well-reasoned judgments being made by entities and the OCA remains available for and encourages consultation.



The COVID-19 pandemic and the related market conditions create many new uncertainties for public companies, auditors, investors and audit committees. As SEC Chair Jay Clayton recently recognized, the continuing operation of the US capital markets is an essential component of our national response to, and recovery from, COVID-19. The complexities of auditing accounting estimates already are well documented, and in an era of COVID-19 driven uncertainty, auditor focus in these areas becomes even more important. This publication is intended to assist auditors in navigating through this uncertainty by providing a high-level overview of auditor's responsibilities related to the auditing of estimates and to highlight COVID-19 related considerations.

This resource is intended as general information and should not be relied upon as being definitive or all-inclusive, or a substitute for PCAOB and SEC rules, standards, guidance, or other resources.

#### TECHNICAL REQUIREMENTS

**New Requirements for Audits of Fiscal Years Ending On or After December 15, 2020**

Auditors need to be aware that there are new requirements for auditing accounting estimates that take effect for audits of fiscal years ending on or after December 15, 2020. The requirements in the PCAOB's Auditing Standard (AS) 2501, Auditing Accounting Estimates, Including Fair Value Measurements (AS 2501) will apply to estimates in significant accounts and disclosures. AS 2501 will be replacing three existing standards, AS 2501, Auditing Accounting Estimates (Extant AS 2501), AS 2502, Auditing Fair Value Measurements and Disclosures (Extant AS

*The CAQ has released a publication to assist in this complicated area:*

[CAQ Auditing Accounting Estimates in the COVID-19 Environment](#)

# PCAOB Current Projects - Standard Setting

PROJECT	CURRENT STAGE
Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities	On December 17, 2019, issued a <a href="#">concept release</a> on potential approach for public comment were due March 16, 2020. Currently analyzing comments to determine next steps.
Supervision of Audits Involving Other Auditors	Analyzing comments to determine next steps.
Auditor Independence	Following the SEC's adoption of amendments to Rule 2-01 on October 16, 2020, the staff anticipates presenting a recommendation for the Board's consideration in Q4 2020.

Refer to: <https://pcaobus.org/Standards/research-standard-setting-projects/Pages/default.aspx>

# PCAOB Research Agenda

PROJECT	STATUS
Changes in the Use of Data and Technology in the Conduct of Audits*	Assessing need for guidance, changes to PCAOB standards or other regulatory actions.
Audit Evidence	Assessing need for guidance or changes to AS 1105

Refer to: <https://pcaobus.org/Standards/research-standard-setting-projects/Pages/default.aspx>

\*Refer to recent PCAOB [Spotlight](#)

The screenshot shows the PCAOB 'Data and Technology Research Project Update SPOTLIGHT' page. It includes a table of contents with sections like 'Overview', 'PCAOB Staff Activities and Observations', and 'What's Next?'. There is also a 'PCAOB Spotlights' section with a sub-section 'The information in this Spotlight is our staff guidance, other insights, timely and relevant observations for auditors and other key stakeholders.'



# PCAOB Board Member Speech Regarding Research and Standard Setting Agenda

Of note, in mid-October, PCAOB Board member J. Robert Brown issued a [statement](#) publicly criticizing the PCAOB for its updated research and standard setting agenda that appears to be moving away from matters that align with their Strategic Plan and investor expectations that originally included:

- ▶ The auditor's role in other information and company performance measures, including Non-GAAP measures
- ▶ The auditor's consideration of noncompliance with laws and regulations
- ▶ Consideration of the entity's ability to continue as a going concern

Instead, Brown states that existing agendas seem to largely overlap with priorities of an international standard setter rather than reflect input from investors and certain other stakeholders and the PCAOB has not convened its Standing Advisory Group nor its Investor Advisory Group in close to two years.

**Update:** Brown has made several additional recent speeches emphasizing above. Refer to: <https://pcaobus.org/News/Speech/Pages/default.aspx>



# PCAOB COVID-19 Reminders Spotlight

Reminders for audits nearing completion that pertain to:

- ▶ Time constraints/challenges in obtaining/evaluating sufficient and appropriate audit evidence impacting identification, assessment and response to RMMs
- ▶ Effects on F/S that may impact the audit - including revisions to risk assessments, presentation and disclosures
- ▶ Effect on financial reporting processes and controls
- ▶ Audit Committee communications of significant matters:
  - Changes to planned audit strategy or risks
  - Changes to management's processes used to develop critical accounting estimates or significant assumptions impacting the quality of financial reporting
  - Control-related matters - SD/MW
  - Difficult or contentious matters requiring consultation
  - Evaluation of going concern
  - Significant difficulties encountered during the audit
- ▶ Auditor's Report - CAM, emphasis of a matter(s), or explanatory language
- ▶ Quality control considerations - changes to audit firm policies for consultations and engagement quality reviews

The image shows the cover of a PCAOB document titled "COVID-19: Reminders for Audits Nearing Completion SPOTLIGHT". The PCAOB logo is in the top right corner. The title is in large blue and white text. Below the title, there is an "Overview" section with a small text block. To the right is a "Contents" table of contents. Below the overview is another text block, and at the bottom is a disclaimer. The URL <https://pcaobus.org/Documents/COVID-19-Spotlight.pdf> is displayed in large blue text at the bottom of the document cover.

**PCAOB**  
Public Company Accounting Oversight Board

## COVID-19: Reminders for Audits Nearing Completion SPOTLIGHT

**Overview**

The COVID-19 crisis and related economic uncertainty present a unique set of challenges for auditors of issuers and broker-dealers. We are providing important reminders to these auditors relating to audits that are nearing completion.

We realize that, as of the date of this communication, auditors who are close to completing in-process audits of issuers and broker-dealers are actively dealing with time-sensitive and complex auditing issues. Appropriate responses to COVID-19 issues will depend on each auditor's unique facts and circumstances, and therefore this communication does not intend to provide detailed guidance on how to apply our standards, nor are the matters and examples included herein intended to be all-inclusive.

In all circumstances, auditors have an obligation to comply with PCAOB standards and rules, and other applicable regulatory and professional requirements. Auditors should exercise due professional care in performing audits, which requires that auditors exercise professional skepticism. Auditors' opinions on financial statements, and if applicable, internal control over financial reporting, need to be supported by sufficient appropriate evidence that provides a reasonable basis for those opinions. The breadth and scale of COVID-19 issues may present challenges to auditors in fulfilling these responsibilities and completion of audits may require more effort or may take longer.

The current situation is evolving and, as a result, regulators and others have announced certain regulatory relief and other accommodations. For example, the U.S. Securities and Exchange Commission has conditionally extended its relief for registrants affected by COVID-19 to file Securities Exchange Act of 1934 reports due through July 1, 2020, and has made various other communications in response to COVID-19. Congress passed the Coronavirus Aid, Relief, and Economic Security Act, which is designed, in part, to stabilize the U.S. economy and provide targeted relief and assistance to various industries. New challenges may continue to arise, and we will continue to monitor the evolving situation and assess whether additional communication from the PCAOB is needed.

The PCAOB staff has prepared this publication to provide information. This publication does not establish rules of the Board, nor has it been approved by the Board.

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The information in this Spotlight is not staff guidance; rather, it highlights timely and relevant observations for auditors.

<https://pcaobus.org/Documents/COVID-19-Spotlight.pdf>

# Auditor Reporting: COVID-19 Considerations

In July 2020, the CAQ issued a publication reviewing auditor reporting and how COVID-19 may impact audit reports including:

- ▶ Unqualified audit opinions with an explanatory paragraph
- ▶ Unqualified audit opinions with an emphasis of matter paragraph
- ▶ Qualified audit opinions
- ▶ Critical Audit Matters

The CAQ states: “The COVID-19 pandemic and the related market conditions create many new uncertainties for auditors, audit committees, investors and management of public companies... COVID-19 continues to impact public company financial statements in different ways and at differing levels of severity depending on an entity’s capitalization, geographic location and the industry in which the entity operates, among other factors.”



The cover of the CAQ COVID-19 Resource publication features a yellow background with a dark blue circular graphic on the left showing a hand holding a glowing blue globe with a line graph overlay. The text on the cover includes: "A CAQ COVID-19 RESOURCE", "Auditor Reporting COVID-19 Considerations", "Published July 2020", "CAQ", "THECAQ.ORG", and "WE WELCOME YOUR FEEDBACK Please send comments or questions to info@thecaq.org".

The COVID-19 pandemic and the related market conditions create many new uncertainties for auditors, audit committees, investors and management of public companies. As SEC Chair Jay Clayton recently recognized, the continuing operation of the US capital markets is an essential component of our national response to, and recovery from, COVID-19. COVID-19 continues to impact public company financial statements in different ways and at differing levels of severity depending on an entity's capitalization, geographic location and the industry in which the entity operates, among other factors. This resource is intended to provide a high-level overview of the auditor reporting requirements under PCAOB auditing standards and how COVID-19 could impact the different types of audit reports to be issued. This resource is intended as general information and should not be relied upon as being definitive or all-inclusive, or a substitute for PCAOB and SEC rules, standards, guidance, or other resources.

**TECHNICAL REQUIREMENTS AND THE POTENTIAL IMPACT OF COVID-19**  
Reporting Considerations

The discussion in this resource is focused on United States annual auditor reporting requirements for public company financial statement audits. Certain issuers also are required by the SEC to have an audit of their Internal Controls over Financial Reporting (ICFR) and in such cases the auditor may choose to issue a combined audit report that includes both the auditor's opinion on the financial statements and the ICFR opinion, or issue separate opinions for each audit.

Click [here](#) to access full report

# PCAOB Conversations with Audit Committee Chairs: COVID-19 and the Audit

Audit Committees face wide ranging risks related to:

- ▶ Cybersecurity
- ▶ Employee safety and mental health
- ▶ Going concern and impairments
- ▶ Accounting estimates
- ▶ International operations
- ▶ Accounting implication of CARES Act

The thumbnail shows a document cover with the PCAOB logo at the top right. The title is 'Conversations with Audit Committee Chairs: COVID-19 and the Audit'. Below the title is an 'Overview' section with a paragraph of text. To the right of the overview is a grey box titled 'Additional Resources' with a link to a webinar replay. At the bottom of the document is a disclaimer: 'This document represents the views of PCAOB staff and not necessarily those of the Board. It is not a rule, policy, or statement of the Board. The PCAOB does not set standards for, or provide authoritative guidance on, audit committee conduct.'

<https://pcaobus.org/Documents/Conversations-with-Audit-Committee-Chairs-Covid.pdf>

PCAOB July 2020 Webinar:  
<https://youtu.be/it8ZNCqplBM>



## Audit Committee Perspectives: Considerations for Communicating with the Auditor during COVID-19

- ✓ Engage with the auditor and management to discuss potential challenges to a timely completion of the audit. Review and discuss the timeline for the phases of audit work.
- ✓ Determine a good cadence for communications that include both the auditor and management so that the audit committee receives the information it needs in a timely manner, while also considering the additional demands on auditors and management during the pandemic.
- ✓ Discuss any changes to the audit plan with the auditor, including changes to areas of focus and how the auditor plans to address areas of new or modified risk. Discuss if there are changes to how the auditor will identify and test internal controls.
- ✓ Discuss which disclosures may need to change as a result of COVID-19.



## Audit Committee Perspectives: Questions to Consider Related to Remote Work

The following are examples of the types of questions that audit committees have identified as helpful to discuss with their auditors in understanding risks related to remote work.

- ✓ Will additional time be needed to get the audit work done remotely? What complexity does working remotely add to the audit?
- ✓ Will working remotely affect productivity of audit engagement team members? If so, does the audit plan need to be updated, and do fees need to be revisited?
- ✓ Has remote work affected the company's ICFR? If so:
  - Is the auditor including new controls in their assessment, or evaluating changes to existing ones?
  - Has the auditor identified any concerns with respect to segregation of duties?
- ✓ If a review of the issuer's interim financial information has been completed already, are there any lessons learned that can be applied to the year-end audit?
- ✓ Are there any technology enhancements or collaborative tools that should be considered to support longer-term remote work?
- ✓ Has the auditor assessed potential risks of material misstatement related to cybersecurity, and how does the auditor plan to respond to those risks?

# PCAOB CONVERSATIONS WITH AUDIT COMMITTEE CHAIRS: COVID-19 and the Audit

# CAQ Conversation with SEC Corporation Finance Directors During COVID-19



# CAQ Profession in Focus: Audit Committee Considerations During COVID-19

On this edition of *Profession in Focus*, the CAQ's Vanessa Teitelbaum, Technical Director of Professional Practice, sits down with Brian Anderson, Corporate Director and CAQ Governing Board Member and Amy Rojik, Assurance Partner and Director at BDO's Corporate Governance and Financial Reporting, to uncover what audit committee members should be focused on, given the radical changes that have occurred in the last 3 months due to the COVID-19 virus and pandemic.

CAQ Profession in Focus: Audit Committee Considerations During CO... [Copy link](#)

# Profession in Focus

Audit Committee Considerations  
During COVID-19

CAQ

BDO

The image shows a video player interface with a yellow background. At the top left, there is a yellow circle with 'CAQ' and a text label 'Profession in Focus: Audit Committee Considerations During CO...'. To the right of the text is a 'Copy link' icon and label. The main title 'Profession in Focus' is written in large white serif font. Below it, the subtitle 'Audit Committee Considerations During COVID-19' is written in a smaller blue sans-serif font. A play button icon is centered over the text. At the bottom right, the CAQ and BDO logos are displayed.



# COVID-19: Audit Committee Questions

## AUDIT

- ▶ What unintended consequences of COVID-19 may increase incentives or pressures on management that may result in management override of controls?
- ▶ Are there changes in ICFR that need to be evaluated to ensure management certifications are adequate?
- ▶ Are we able to ensure continued proper segregation of duties and monitoring controls given changing physical work situations?
- ▶ Have any significant risks or material weaknesses been identified as a result of impacts from COVID-19?
- ▶ What changes in risk assessments have auditors determined need to be made and how will that impact the audit strategy?
- ▶ Are there known impediments - either by management or by the auditors - that may delay timely filing of financial statements? (e.g., lack of access or ability to obtain audit evidence or other information)
- ▶ What additional efforts may be required by the auditor to ensure the performance of a high-quality audit?



# COVID-19: Audit Committee Questions

## AUDIT

- ▶ What additional resources or expertise may be needed by management to properly account for judgments or estimates or changes related to circumstances brought on by COVID-19?
- ▶ Does my audit firm have the depth of or access to adequate resources to address complex accounting and auditing questions, including industry-specific matters, as they arise?
- ▶ Do my management teams, as well as my auditors, have the ability to properly supervise and direct the work of their staff and teams?
- ▶ Are there additional challenges in performing auditing procedures due to multi-geographical considerations?
- ▶ Has COVID-19 impacted circumstances that may call into question the company's ability to continue as a going concern? What are management's plans to address? How do these impact the auditor's going concern evaluation?
- ▶ Are there any auditor independence issues that have arisen with respect to COVID-19?



# COVID-19: Audit Committee Questions

## ACCOUNTING AND REPORTING

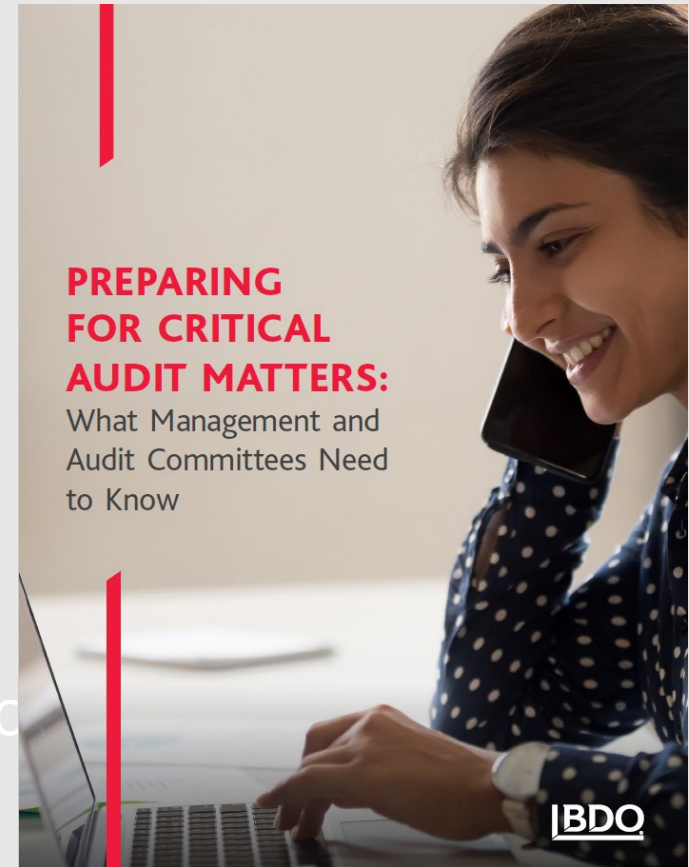
- ▶ Has management adequately assessed changes in risk factors impacting our business? Are these appropriately reflected in our financial statements?
- ▶ Has management properly identified significant accounting areas where impacts from COVID-19 are likely? Has management further accounted for related income tax effects of these impacts?
- ▶ Have we properly accounted for and disclosed changes in significant estimates and judgements impacting the financial statements?
- ▶ Has management, along with the auditors, identified applicable relief opportunities with respect to the 2020 CARES Act and appropriately factored these into the accounting and reporting, including income tax effects, within the financial statements?
- ▶ Are there accounting or disclosure matters that have required significant consultations outside of the audit engagement team?
- ▶ Have the auditors and management identified significant or industry-specific matters related to the interaction of the CARES Act and GAAP or GAAS impacting our financial statements that need regulatory consultation?
- ▶ Has new information arisen regarding COVID-19 events contained in previously filed financial information that requires updating of current disclosures?

# Preparing for CAM:

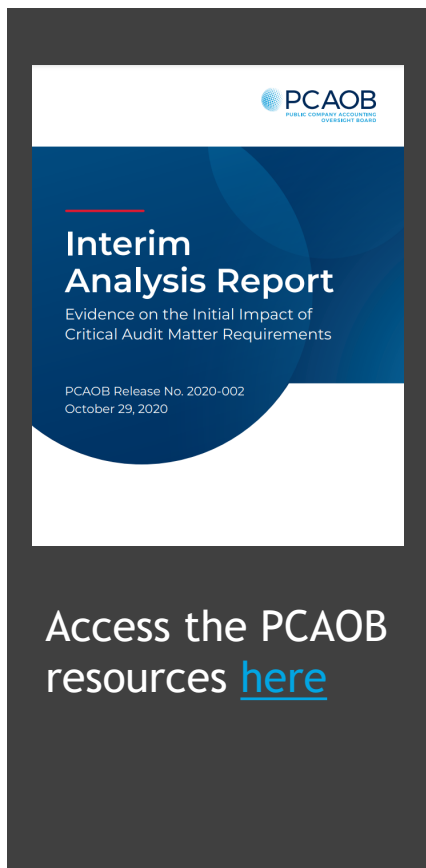
## What Management and Audit Committees Need to Know

BDO's CAM subject matter experts provide management and audit committees with insight into the new auditor's report inclusion of critical audit matters including:

- ▶ What is a CAM?
- ▶ How are CAMs assessed?
- ▶ What can management do to avoid common adoption pitfalls?
- ▶ What can the Audit Committee do to avoid common adoption pitfalls?
- ▶ How many CAMs are being reported?
- ▶ What are the most common areas of CAMs?
- ▶ What are the regulators saying?



# PCAOB Interim Analysis of CAM Requirements

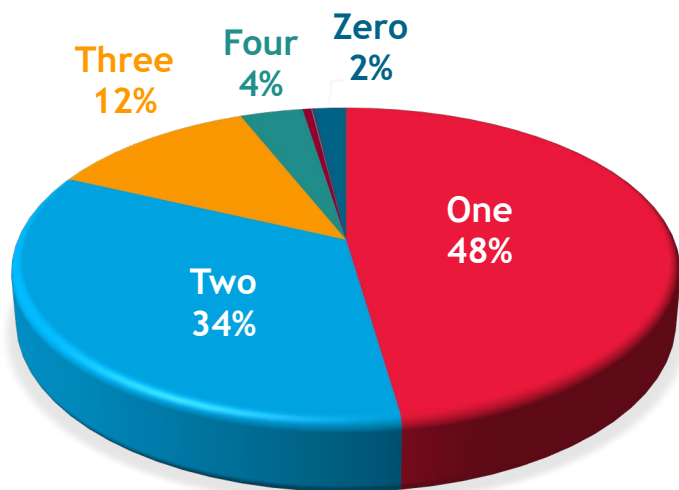


In October 2020, the PCAOB released an [interim analysis report](#) and two white papers analyzing the initial impact of the CAM requirements

Key findings from the staff's analyses include the following:

- ▶ Audit firms made significant CAM investments
- ▶ Investor awareness of CAMs is still developing, but some investors are reading CAMs and find the information beneficial
- ▶ The PCAOB staff has not found evidence of significant unintended consequences from CAM implementation
- ▶ Other notes:
  - 39% of audit partners surveyed indicated companies made changes to their F/S disclosures or other reporting because of CAM
  - 2% of audit partners indicated companies made changes to their ICFR
  - Audit committees cited upfront dry runs made for smoother implementation experience for issuers

# CAM Observations - Reports Filed Through September 30, 2020<sup>†</sup>



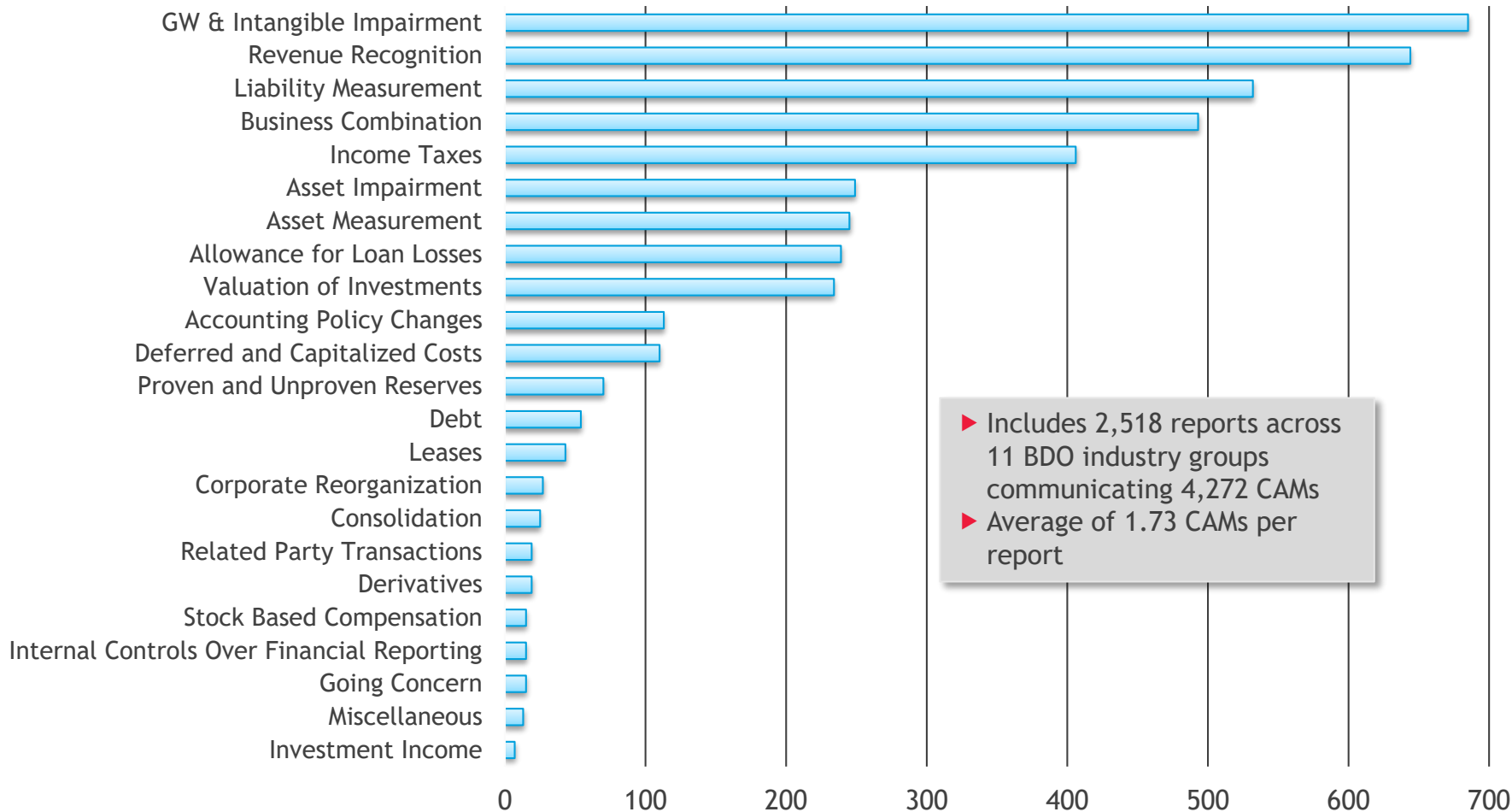
Five, <1%  
Six, <1%  
Seven, <1%

- ▶ Over 2,518 reports filed to date
- ▶ 4,272 CAMs identified
- ▶ 47 reports where no CAMs were identified
- ▶ Average of 1.73 CAMs per report
- ▶ 111 2<sup>nd</sup> Year CAM Reports (average of 1.72 CAMs per report as compared to 1.82 in 1<sup>st</sup> year)

<sup>†</sup>Data furnished by Audit Analytics

# CAM Observations - All Industries

## Reports Filed Through September 30, 2020<sup>†</sup>

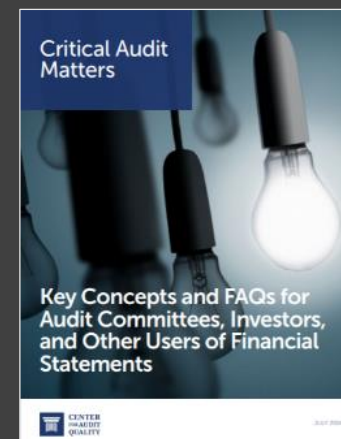


<sup>†</sup>Data furnished by Audit Analytics

# PCAOB: Critical Audit Matters Resources

Recommended Resources	
<a href="#">BDO Future of Auditor's Reporting is Here Resources</a>	Continually Updated
<a href="#">PCAOB New Auditor's Report Resource Site</a>	Continually Updated
<a href="#">BDO: Preparing for Critical Audit Matters: What Management and Audit Committees Need to Know</a>	June 2020
<a href="#">PCAOB Critical Audit Matters Spotlight</a>	December 2019
<a href="#">BDO Webinar Demystifying Critical Audit Matter (CAM) Reporting</a>	October 2019
<a href="#">PCAOB Implementation of CAM: A Deeper Dive on the Communication of CAMs</a>	May 2019
<a href="#">PCAOB Webinars on Critical Audit Matters - 4/25 and 5/8</a>	April/May 2019
<a href="#">PCAOB Webinar on Critical Audit Matters - 5/15</a>	May 2019
<a href="#">CAQ Webinar: The Enhanced Auditor's Report is Here: Get the Facts on CAMs and More</a>	April 2019
<a href="#">PCAOB Additional CAM Resources for Audit Committees</a>	March 2019
<a href="#">CAQ Critical Audit Matters: Lessons Learned, Questions to Consider, and an Illustrative Example</a>	December 2018

## CAQ Resources:



# PCAOB Inspection Activity

## Reviews and Reports - June 2020 Updates

- ▶ [Inspection reports for the six largest U.S. audit firms](#) in a new redesigned format issued
- ▶ [Guide to Reading the PCAOB's New Inspection Report](#)
  - Streamlines content
  - Utilizes charts and graphs
  - Reduces technical and boilerplate language
  - Includes new information

The image shows the cover and table of contents for the PCAOB's new inspection report. The cover features the title "Guide to Reading the PCAOB's New Inspection Report" and the PCAOB logo. The table of contents lists sections such as Overview, Sections Included in the New PCAOB Inspection Report, and various parts of the report. A callout box highlights that the 2018 reports for the six largest U.S. firms are the first to be issued under the new format, and that all triennially inspected firms' 2019 reports will also follow this format.

**Guide to Reading the PCAOB's New Inspection Report**

PCAOB  
Public Company Accounting Oversight Board

**Overview**

The Public Company Accounting Oversight Board (PCAOB or Board) inspects registered audit firms to assess each firm's compliance with PCAOB standards and rules as well as other applicable regulatory and professional requirements. Our inspections are designed to review portions of a firm's issuer audits and evaluate elements of a firm's system of quality control. The PCAOB provides each firm inspected with a report, which summarizes any deficiencies identified during the inspection.

Until now, the format of PCAOB inspection reports has remained largely unchanged since the Board's first reports were issued more than fifteen years ago. Through our external engagement activities, we have received feedback that our report could more effectively meet the needs of our stakeholders. To address what we heard, and to advance our strategic objective to provide clearer and more useful information to the public, the Board and staff developed a new inspection report that:

- Streamlines the content to enhance readability for investors, audit committee members, preparers, audit firms, and the general public;
- Utilizes new charts and graphs to make the information more digestible and accessible;
- Reduces the amount of technical and boilerplate language; and
- Provides access to a new, refined document that describes general, non-firm specific information about what and how we inspect, rather than repeating such information in each report.

In addition to these changes, our reports include some new information, such as a classification system for audits with deficiencies presented in Part I.A. For annually inspected firms, we now also provide PCAOB inspections data for the three most recent inspection years. Furthermore, while we continue to highlight deficiencies we identify in the audit work to support the firm's opinion(s) on an issuer's financial statements and/or ICFR, our new reports include a new section discussing certain other instances of non-compliance with our standards or rules.

This document provides an overview of each section of the report, highlighting the key information we communicate and changes from our previous report format.

The PCAOB staff has prepared this publication to provide information on PCAOB initiatives. This publication does not establish rules of the Board, nor has it been approved by the Board.

**Contents**

Overview	1
Sections Included in the New PCAOB Inspection Report	2
Introductory Sections	2
Overview of the Inspection and Historical Data by Inspection Year	3
Part I: Inspection Observations	4
Part II: Observations Related To Quality Control	5
Appendix A: Firm's Response to the Draft Inspection Report	5

**The 2018 inspection reports for the largest six U.S. firms are the first reports to be issued under the new format. 2018 reports for other annually inspected firms will also follow the new format. All triennially inspected firms' 2019 inspection reports will utilize a similar new format, but may not include all of the same data as the annually inspected firms due to the frequency of inspections and the size and nature of the firms. The new report format does not apply to PCAOB inspections of auditors of broker-dealers.**

# PCAOB Spotlight: Updated and Preview of 2019 Inspection Observations

- ▶ In October 2020, the PCAOB issued a [Spotlight](#) to share its observations from its 2019 inspections of public company audits along with summarizing how the PCAOB continues to transform the inspection process, including its use of targeted inspections for certain areas.
- ▶ Additionally, the Spotlight features both observations of “good practices” and recurring deficiencies to be mindful of in conducting 2020 audits.
- ▶ Finally, the PCAOB provides insight and reminders into how changing audit technologies and audit tools, along with responding to increasing cyber risks, should be taken into account as part of current cycle audit procedures.

The screenshot shows a BDO Corporate Governance Alert document. The header includes the BDO logo and the title 'PCAOB SPOTLIGHT: UPDATE AND PREVIEW OF 2019 INSPECTION OBSERVATIONS'. Below the title, there is a date 'OCTOBER 2020 / www.bdo.com'. The main content area is divided into two columns. The left column contains introductory text and a section titled 'INSPECTION TRANSFORMATION ACTIVITIES' with a bulleted list of activities. The right column contains a 'CONTENTS' table of contents.

**BDO**  
CORPORATE GOVERNANCE ALERT  
**PCAOB SPOTLIGHT: UPDATE AND PREVIEW OF 2019 INSPECTION OBSERVATIONS**  
OCTOBER 2020 / www.bdo.com

Improving audit quality through inspections is a priority for the PCAOB. As such, audit committees, management, and auditors can benefit from understanding the staff's shared observations from the 2019 inspection cycle to inform current year audit plans and their engagement and communications with one another.

In October 2020, the PCAOB issued a [Spotlight: Staff Update and Preview of 2019 Inspection Observations](#) to share its observations from its 2019 inspections of public company audits along with summarizing how the PCAOB continues to transform the inspection process, including its use of targeted inspections for certain areas. Additionally, the Spotlight features both observations of “good practices” and recurring deficiencies to be mindful of in conducting 2020 audits. Finally, the PCAOB provides insight and reminders into how changing audit technologies and audit tools, along with responding to increasing cyber risks, should be taken into account as part of current cycle audit procedures.

**INSPECTION TRANSFORMATION ACTIVITIES**  
The PCAOB is transforming the inspection process in how they plan, conduct, and report and is engaged in the following activities in that regard:

- ▶ Incorporating unpredictability into more areas of the inspection process
  - For example, through the selection of more engagements on a random basis and through including different aspects of the audit in the inspection focus areas.
- ▶ Deploying a dedicated inspection team to target specific areas of focus or emerging risk across firms
  - For example, this has included in the prior year performing targeted reviews of newly disclosed CAMs in the auditor's report for several identified Large Accelerated Filers, as well as targeting multi-location audits in the most recently completed inspection cycle.

**CONTENTS**

Inspection Transformation Activities	1
PCAOB Observations of Good Practices Believed to Enhance Audit Quality	2
Target Team Activities	2
Recurring Deficiencies	3
Technology	3
Audit Committee Communications	3
Next Steps	4
Contact	4

Click [here](#) to access



# PCAOB Spotlight: Audits Involving Cryptoassets

The PCAOB issued a recent [Spotlight](#) to share its observations about auditing of transactions involving cryptoassets including:

- ▶ Reminders to auditors about consideration of the necessary specialized skills/experience, risk assessment and ICFR in planning audit work

Additionally, the PCAOB provides sample questions for audit committees to consider in discussions with their auditors.

The screenshot shows the cover and first page of the PCAOB document. The title is 'Audits Involving Cryptoassets: Information for Auditors and Audit Committees' with 'SPOTLIGHT' in large letters. It includes an overview, a table of contents, and a disclaimer. The table of contents lists: Overview (1), Background (2), Information for Auditors (2), Information for Audit Committees (5), What's Next? (6), and Other Resources (6). A note states: 'The information in this Spotlight is not staff guidance; rather, it highlights timely and relevant observations for auditors and audit committees.'

Click [here](#) to access

# Audit Quality

*We believe that audit quality includes effective, efficient, technology-enabled and technically compliant audits that are highly valued and relied upon by users of the financial statements and are performed by people doing evaluative, insightful and impactful work.*

As we prepare to release our 2020 Audit Quality Report, we invite you to view [prior versions](#). We continue to learn and improve from our peers, industry experts and ourselves. Several of our recent podcasts capture audit quality perspectives from industry leaders:



## CAQ Audit Quality Drivers and the Future of Audit Quality - Julie Bell Lindsay

Join BDO in discussion with [Julie Bell Lindsay](#), Executive Director of The Center For Audit Quality.

## Driving Audit Quality - PCAOB Engagement with Audit Committees & Investors - Erin Dwyer

Join BDO in discussion with [Erin Dwyer](#), Deputy Director & Stakeholder Liaison at Public Company Accounting Oversight Board (PCAOB).

# Corporate Governance Update



# Audit Committee Recommendations

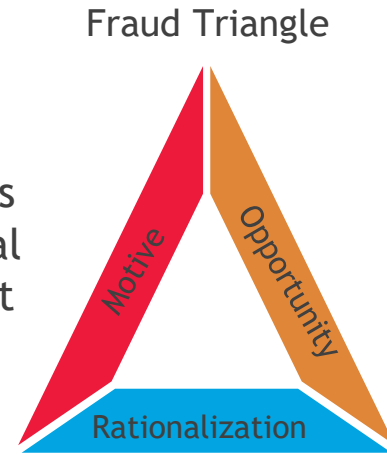
The CEOs of [The Institute of Internal Auditors](#) and [The International Federation of Accountants](#) released a joint statement in July 2020 entitled *Six Recommendations for Audit Committees Operating in the “New Normal”*, detailing the following areas of focus:



- ▶ **Stay Informed**: Maintain a timely and clear understanding of the continuously-evolving operating environment and how it may impact organizational objectives and performance
- ▶ **Communicate and collaborate**: Adopt a multi-disciplinary approach to exercising oversight of internal and external audit and reporting through dynamic communication and collaboration
- ▶ **Leverage available expertise**: Seek qualified and reliable assurance and advice on management evaluations of, and responses to, the organization’s continuously evolving risks and risk profile
- ▶ **Promote continuous improvement**: Encourage innovation and change to address vulnerabilities and to build resilience, strengthening the pursuit of value creation
- ▶ **Think holistically**: Adopt a broad perspective and the organization and its environment across both financial and nonfinancial goals, considering interconnectivity with other organizations, internal and external interdependencies, and the central importance of people.
- ▶ **Embrace technology**: Optimize the performance of the audit committee through the use of technology and flexible working practices.

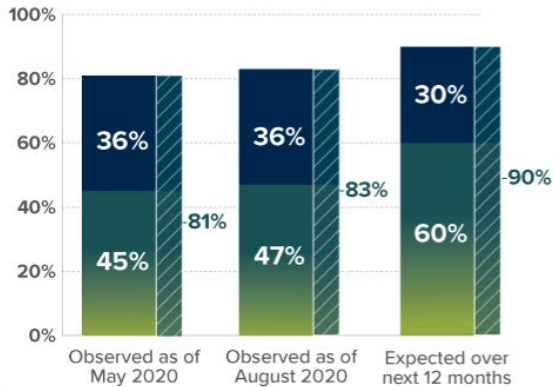
# Fraud Risk on the Rise

In September 2020, the Association of Certified Fraud Examiners released [Fraud in the Wake of COVID-19: Benchmarking Report](#) highlighting increases in all three aspects of the fraud triangle as the result of numerous logistical and operational challenges stemming from the global pandemic. The report found that **77%** of respondents observed an increase in fraud as of August 2020 and **92%** expect an increase in fraud over the next 12 months.



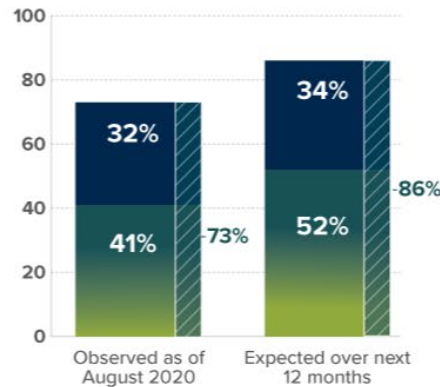
## CHANGE IN SPECIFIC FRAUD RISKS

### Cyberfraud

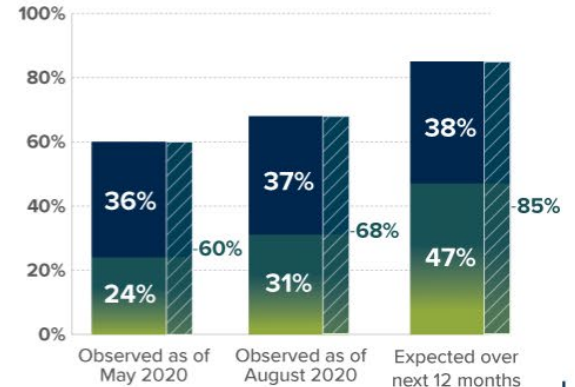


### Unemployment fraud

Unemployment fraud was not included in the May 2020 benchmarking study.



### Payment fraud



■ Significant increase ■ Slight increase

Source: ACFE September 2020



# Fraud Risk on the Rise

## *Considerations for Audit Committees*

There is consensus that fraud risk is rising in the wake of the pandemic, and that risk may be seen in both financial statement figures and disclosures.

Key factors in mitigating this risk:

- ▶ Maintain well designed and effective internal controls
- ▶ Perform continual risk (re)assessment of material areas
- ▶ Demonstrate professional skepticism
- ▶ Facilitate strong corporate culture
- ▶ Exercise leadership and set a strong tone at the top

Recent resources for further consideration:

- ❑ [ACFE Fraud in the Wake of COVID-19: Benchmarking Report](#)
- ❑ [CAQ Managing Fraud Risk, Culture, and Skepticism during COVID-19](#)
- ❑ [SEC Fighting COVID-10 Related Financial Fraud](#)
- ❑ [Anti-Fraud Collaboration](#)
- ❑ [NACD Blog: Why Audit Committees Are So Important During the COVID-19 Crisis](#)

# CAQ COVID-19 Anti-Fraud Resources

COVID-19

## Anti-Fraud Resources

Monday, October 5, 2020

**Managing Fraud Risk,  
Culture, and Skepticism  
During COVID-19**

**ANTI-FRAUD IN ACTION  
A Focus on Ethical  
Culture and Diversity  
During Crisis**

Source:

<https://www.thecaq.org/anti-fraud-resources/>

**ANTI-FRAUD IN ACTION  
Insights from the SEC  
Coronavirus Steering  
Committee**

**ANTI-FRAUD IN ACTION  
Balancing Big Data and  
Data Ethics During  
COVID-19**

**ANTI-FRAUD IN ACTION  
Skepticism in Focus on  
Mitigating Fraud Risk**

# Cybersecurity: Audit Analytics

## Contributing Factors to Costly Cyber Breaches

OVERALL AVERAGE COST: \$116 million

### Industry

On average, companies in the **Services** industry experienced the most costly attacks, though this is due in part to Equifax's costly 2017 breach: **\$317 million**

### Type of Attack

By far, **Exploit** attacks cost more on average. However, this includes the cyber breaches of Capital One's 2019 breach (\$72 million), Equifax's 2017 breach (\$1.7 billion) and Facebook's 2018 breach (\$5.1 billion), some of the most costly breaches on record: **\$2.3 billion**

This is followed by **Unauthorized Access** attacks, which includes the 2014 cybersecurity incident affecting Home Depot costing \$298 million: **\$151 million**

### Type of Information Compromised

On average, attacks compromising **Personal Information** cost more: **\$317 million**

This is followed by **Intrusions** - or forcible unauthorized activity on a digital network - which cost an average of **\$115 million**

**Source:** May 2020 Audit Analytics [Trends in Cybersecurity Breach Disclosures](#)

Audit Analytics May 2020 report: [Trends in Cybersecurity Breach Disclosures](#) reveals:

- # of cybersecurity breaches continues to rise
- Of the firms reporting cyber breaches, only **57%** disclosed the type of attack
- On average it takes: **108 days** to discover an attack; **49 days** to disclose an attack





# Cybersecurity:

## *Building Cyber Resilience*

We invite you to visit BDO's ever evolving resources on cybersecurity:

### **BDO Cyber Resources**

[BDO Cyber Month Fireside Chat with Microsoft - Cyber Resilience](#)

[Cyber Threat Report: October 2020](#)

[Securing Investor Confidence on Cyber Efforts](#)

[Why is Data Resiliency Important in a Digital World](#)

For more visit: <https://www.bdo.com/digital/insights>

# CAQ: The Role of the Auditor in Non-GAAP Financial Measures and Key Performance Indicators

## Audit Committee Considerations:

- Does the company have an internal policy for determining how non-GAAP financial measures and KPIs are generated, calculated, and presented?
- How are these non-GAAP financial measures or KPIs being used (e.g., [determining compensation of executives](#), as an input to debt covenant calculations, measuring company progress)?
- Are the non-GAAP financial measures and KPIs transparently disclosed in such a way that the users can understand the basis for their calculations?
- Are the disclosed non-GAAP financial measures and KPIs consistent with what is used by management to evaluate and make decisions about the company's overall strategy and performance?
- Do the disclosed non-GAAP financial measures and KPIs provide meaningful insight into factors affecting and the company's performance?
- Does the company have internal controls and DCPs over non-GAAP financial measures and KPIs, and are they precise enough to detect a material misstatement?
- Are the controls and processes over non-GAAP financial measures and KPIs in scope for internal audit?
- Do the non-GAAP financial measures or KPIs represent a balanced picture (i.e., is the company including both negative and positive adjustments)?
- How do the company's non-GAAP financial measures and KPIs compare to those of other companies in the industry?
- What is the external auditor's involvement in these non-GAAP financial measures or KPIs, if any?
- What impact do economic volatility and other uncertainties, [such as COVID-19](#), have on the non-GAAP financial measure, and are the related adjustments, if any, appropriate and expected to be nonrecurring?

# Sustainability - Rapidly Evolving Area

In May 2020, the SEC Investor Advisory Committee [recommended](#) that “the time has come for the SEC to address the incorporation of ESG disclosures into its integrated disclosure regime.”

Addressing ESG disclosures will:

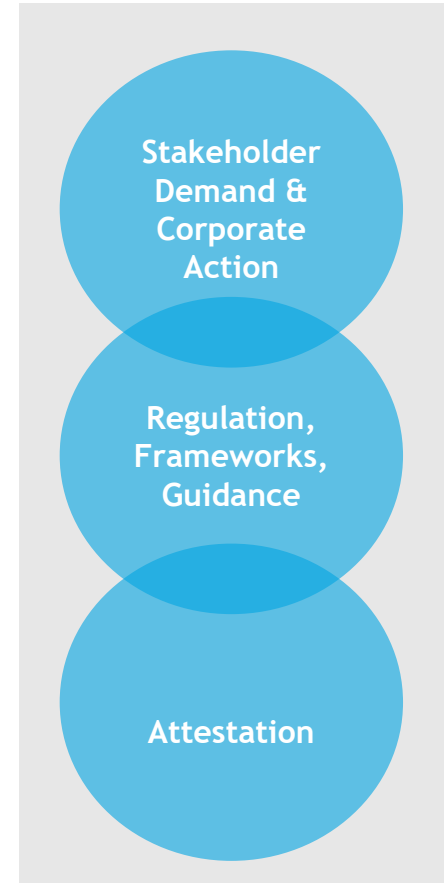
- (a) provide investors with material, comparable, consistent information they need to make decisions
- (b) provide Issuers with a framework to disclose material, decision-useful, comparable and consistent information in respect to their own businesses, rather than the current situation where investors largely rely on third party ESG data providers, which may not always be reliable, consistent, or necessarily material
- (c) level playing field among all U.S. issuers regardless of market cap size or capital resources
- (d) ensure continued flow of capital to U.S issuers
- (e) enable SEC to take the lead on oversight of ESG disclosures for U.S. capital markets before other jurisdictions impose disclosure regimes on U.S. issuers and investors alike

Refer also to July 2020 SEC Commission Elad Roisman [speech](#).



# Sustainability - Recent Events

- ▶ In September 2020, a group of international sustainability accounting standard setters - including the Carbon Disclosure Project, the Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council and the Sustainability Accounting Standards Board – released the [Statement of Intent to Work Together Towards Comprehensive Corporate Reporting](#) as a shared vision of the elements needed for more comprehensive corporate reporting and a joint statement of intent to drive toward such a goal.
- ▶ In July 2020, the [Governance & Accountability Institute](#) reported that 90% of S&P 500 Companies publish sustainability/responsibility reports, an increase from 86% the prior year.
- ▶ In June 2020, the CAQ released [The Role of Auditors in Company-Prepared ESG Information: Present and Future](#) which builds on the previously issued [publication](#).



Stay tuned on this emerging area!

# CAQ: The Role of Auditor's in Company-Prepared ESG Information: Present and Future



## Considerations for Board members:

- ▶ Who in management is preparing/providing ESG information, and what is finance's role in the preparation of this information?
  - ▶ Do one or more board committees have explicit oversight responsibility for ESG, and what role do other committees and the full board play?
  - ▶ Where and how is the information currently being reported? Is this in line with where investors expect to see it?
  - ▶ Is the company currently following a framework or a standard for disclosing this information? If so, is it the appropriate framework or standard for the company?
  - ▶ How does the company compare to its peers? If evaluating its own progress, what quantitative and qualitative performance improvements have been made? Which key performance indicators will the board use?
- ▶ Has the company identified all relevant or material risks associated with ESG reporting?
  - ▶ Does management have the necessary information needed to assess ESG-related risks, and on what cadence should ESG information be provided to the board?
  - ▶ Does the company have the appropriate internal controls, policies, and personnel in place to accurately track and disclose ESG information?

# CAQ: The Role of Auditor's in Company-Prepared ESG Information: Present and Future



- ▶ What information might be relevant to investors and other stakeholders?
- ▶ How has management incorporated ESG into the company's long-term strategy?
- ▶ What are the expectations of investors, stakeholders, and landscape around the ESG raters and analysts? Is information needed by investors disclosed?
- ▶ Is the company ready for an attestation of this information? Has the company identified the key processes and controls related to ESG disclosures? If no, what steps are needed to enhance the reliability of this information?
- ▶ What legal risks and requirements regarding disclosure of ESG information should be considered?

## Considerations for Board members:

- ▶ What information might be relevant to investors and other stakeholders?
- ▶ How has management incorporated ESG into the company's long-term strategy?
- ▶ What are the expectations of investors, stakeholders, and the landscape around the ESG raters and analysts? Is the information needed by investors disclosed?

<https://publication.thecaq.org/rotaesg/introduction/>

# BDO Board Pulse Survey

BDO has adapted our annual public company Board Survey to these dynamic & disruptive times by engaging directors in planned pulse surveys to reflect evolving actions and insights related to crisis response and strategic planning.

The findings from our first pulse survey was released in September 2020.

## Key Takeaways



The safety of stakeholders—including employees, customers and vendors—is today's #1 governance oversight challenge and priority.



Looking further ahead, boards plan to turn more attention to strategic social governance to ensure employee welfare and foster diversity throughout their organizations.



High levels of workforce disruption are forcing companies to reimagine the workplace of the future.



Liquidity is a lifeline in anticipation of a slow economic recovery.



Increased transparency around new risks is necessary to restore shareholder confidence.

Our next pulse survey will be conducted later this fall.



Click [here](#) to read the full report.

# BDO Board Pulse Survey

## Reporting in Focus

To address stakeholder concerns, boards are prioritizing increased communication and transparency, particularly around financial reporting and disclosures to convey evolving market conditions and risks

73%

increased disclosure around new or emerging risks to the business



28%

considered recording an asset impairment(s)



46%

significantly increased time/effort devoted to accounting estimates and forecasts



26%

added new disclosures for utilization of government assistance



42%

increased disclosure on liquidity



19%

considered additional income tax effects

22%

say restoring and retaining shareholder confidence is one of the more significant governance challenges for the latter half of 2020.



Click [here](#) to read the full report.



# CAQ: Assessing Corporate Culture

With C-suite leadership encountering the unlikely combination of a global pandemic and a national race crisis, there is no better time to address corporate culture.

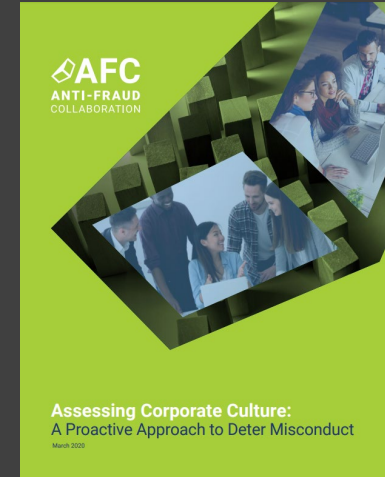
The CAQ has released a publication together with Financial Executives International (FEI), The Institute of Internal Auditors (The IIA), and the National Association of Corporate Directors (NACD) that aims to educate and facilitate improvement of corporate culture.

The publication discusses:

- ▶ The Importance of Culture
- ▶ Assigning Ownership of Culture
- ▶ Tools and Techniques to Assess Culture
- ▶ The Role of Auditors

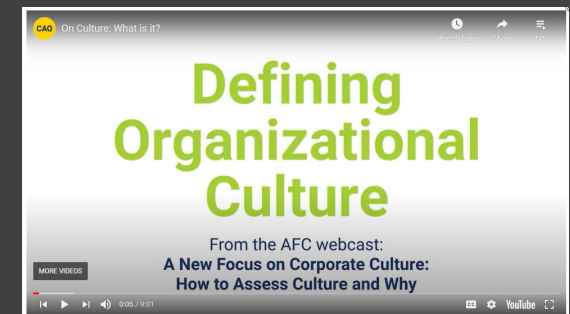
Access:

[CAQ Assessing Corporate Culture: A Proactive Approach to Deter Misconduct](#)



Access the CAQ's video:

[On Culture: What is it?](#)



# Resources



# The BDO Center for Corporate Governance and Financial Reporting

## AN INCREDIBLE RESOURCE AT YOUR FINGERTIPS

The BDO Center for Corporate Governance and Financial Reporting was born from the need to have a comprehensive, online, and easy-to-use resource for topics relevant to boards of directors and financial executives. We encourage you to visit the Center often for up-to-date information and insights you can rely on. What you will find includes:

- ▶ Thought leadership, practice aids, tools, and newsletters
- ▶ Technical updates and insights on emerging business issues
- ▶ Three-pronged evolving curriculum consisting of upcoming webinars and archived self-study content
- ▶ Opportunities to engage with BDO thought leaders
- ▶ External governance community resources



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

“ *A resource center with the continual education needs of those charged with governance and financial reporting in mind!* ”

To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), visit [www.bdo.com/member/registration](http://www.bdo.com/member/registration) and create a user profile.

If you already have an account on BDO's website, visit the My Profile page to login and manage your account preferences [www.bdo.com/member/my-profile](http://www.bdo.com/member/my-profile).

For more information about BDO's Center for Corporate Governance and Financial Reporting, please go to

[www.bdo.com/resource-centers/governance](http://www.bdo.com/resource-centers/governance)





# 2020 Quarterly Technical Update WEBINAR SERIES

## ABOUT BDO'S 2020 QUARTERLY TECHNICAL UPDATE WEBINAR SERIES

BDO's Quarterly Technical Update webinar series is designed to help financial management, board directors, and audit committees stay on top of today's hot accounting topics and key regulatory developments. The series is produced and delivered by qualified professionals in BDO's Assurance practice. One (1) hour of CPE may be earned for each of the quarterly events. Following these webinars, attendees will be able to:

- ▶ Recognize recently released, project and proposal stage accounting and financial reporting guidance developed by the FASB, EITF and PCC.
- ▶ Describe timely SEC guidance, topics and resources and their general impact on accounting and financial reporting.
- ▶ Describe project and proposal stage literature that may have a broad impact on financial reporting.
- ▶ Describe evolving corporate governance activities including those of the PCAOB, CAQ and other organizations.

We hope you will join us for this webinar series.

View the full [2020 Quarterly Technical Update Webinar Series](#)

### QUARTERLY TECHNICAL UPDATE - Q4 2020

Wednesday, January 13, 2021

12:00 PM to 1:00 PM EST

[REGISTER NOW](#)

Thursday, January 14, 2021

12:00 PM to 1:00 PM EST

[REGISTER NOW](#)

Friday, January 15, 2021

12:00 PM to 1:00 PM EST

[REGISTER NOW](#)

# 2020 INTERNAL AUDIT WEBINAR SERIES

## ABOUT BDO'S INTERNAL AUDIT WEBINAR SERIES

BDO's 2020 Internal Audit Webinar Series is designed to educate those in the internal audit function, risk officers and CFOs at public and private companies alike. Our 2020 series will cover a variety of topics of including:

- ▶ Enterprise risk management
- ▶ Evaluating compliance and anti-fraud programs
- ▶ Emotional intelligence skills for audit management;
- ▶ Cybersecurity's impact on SOX compliance; and
- ▶ The IIA Three Lines of Defense position paper expected to be released in 2020.

We hope you will join us for this series.

### INTEGRATION OF ENTERPRISE RISK MANAGEMENT WITH INTERNAL AUDIT

February 25, 2020

3:00 PM to 4:00 PM ET

Speakers: Bill Dawson and Joe Casey

[ACCESS HERE](#)

Evaluating Compliance and Anti-Fraud Programs - A Case Study with BDO's Forensics practice

April 28, 2020

3:00 PM to 4:00 PM ET

Speakers: Brad Knight and Paul Greenspan

[ACCESS HERE](#)

Audit Management Skills: Emotional Intelligence (EQ) and Its Impact on Internal Audit

June 23, 2020

3:00 PM to 4:00 PM ET

Speakers: Janet Smith


[ACCESS HERE](#)

Click [here](#) for additional upcoming programming and past recordings.


# BDO in The Boardroom Podcast Series

BDO's Center for Corporate Governance is excited to announce our new series, **BDO in the Boardroom** - a podcast series for board of directors and those charged with governance. Each episode features a topical discussion with board peers and subject matter experts on a variety of trending and timeless boardroom issues. Recent episodes include:

Title
Driving Audit Quality - PCAOB Engagement with Audit Committees & Investors - Erin Dwyer
CAQ Audit Quality Drivers and the Future of Audit Quality - Julie Bell Lindsay
The Journey to the Boardroom Takes Persistence and Resilience - Mercedes De Luca
Identify Your Boardroom Superpowers - Julie Cullivan
Proactive Investment in Being a Good Board Member - Christine Heckart
Quest for a Board Seat - Bob Tirva
Be Board Rady - Betsy Atkins
Advocating for Diversity and Mentorship in the Boardroom - Alexa King
Getting Women to the Boardroom - Coco Brown
<i>More content available and new episodes added regularly!</i>



Subscribe to BDO's Podcast Series on [iTunes](#) or [Spotify](#)

 **SUBSCRIBE**

Want to stay up to date with the **BDO in the Boardroom** podcast? [Sign up to receive our Corporate Governance Insights](#) and you'll receive an email as new episodes are released.

# BDO 600 Middle Market Compensation Studies and Webinar

BDO recently released its annual compensation studies of 600 mid-market public companies which separately examine board compensation practices as well as those for CEOs/CFOs of 600 middle market public companies and tracks trends in compensation within eight industry segments: energy, financial services-banking, financial services-nonbanking, healthcare, manufacturing, real estate, retail and technology.

- ▶ [2020 Study of CEO and CFO Compensation Practices of 600 Mid-Market Public Companies](#)
- ▶ [2020 Study of Board Compensation Practices of 600 Mid-Market Public Companies](#)
- ▶ You are additionally invited to join us for a live webinar discussion about the board compensation study on December 7, 2020!



Register for the webinar [here](#)

# BDO Upcoming / Archived

TITLE	DATE
<a href="#">Q4 2020 Quarterly Technical Update</a>	January 2021
<a href="#">What's Next for Business</a>	December 2020
<a href="#">Board Compensation Practices for Mid-Market Companies</a>	December 2020
<a href="#">Q4 2020 IFRS Quarterly Update</a>	Oct 2020
<a href="#">Private Company Governance - The Value Proposition of a Private Company Board</a>	September 2020
<a href="#">Taking a Decisive Step Toward Corporate Board Service</a>	August 2020
<a href="#">Q3 2020 IFRS Quarterly Update</a>	July 2020
<a href="#">Be Board Ready - Provide Governance Response to COVID-19</a>	June 2020
<a href="#">Q2 2020 IFRS Quarterly Update</a>	April 2020
<a href="#">COVID-19: Preparing for the Economic Impacts of a Pandemic</a>	April 2020
<a href="#">2020 Quarterly Technical Update Series</a>	April/July/Oct 2020

For a complete listing of BDO webinars and archived webinars, refer [here](#).



# BDO Upcoming / Archived

TITLE	DATE
<a href="#">BDO Board Forum - COVID-19: Accounting, Reporting and Other Related Considerations for Boards</a>	April 2020
<a href="#">COVID-19: Mitigating Risk During Disruption</a>	April 2020
<a href="#">CARES Act: What It Means for You &amp; Tax Strategies to Increase Cash Flow</a>	March 2020
<a href="#">COVID-19: Managing Your Business During a Crisis</a>	March 2020
<a href="#">2020 Shareholder Meeting Agenda: What's On Deck? - Part 2</a>	March 2020
<a href="#">2020 Shareholder Meeting Agenda: What's On Deck? - Part 1</a>	March 2020
<a href="#">What's on the Minds of Boards: BDO 2019 Board Survey (Part 2)</a>	Feb 2020
<a href="#">What's on the Minds of Boards: BDO 2019 Board Survey (Part 1)</a>	Jan 2020
<a href="#">Q1 2020 IFRS Quarterly Update</a>	Jan 2020

For a complete listing of BDO webinars and archived webinars, refer [here](#).

# BDO Select Thought Leadership

## RECOMMENDED RESOURCES

- ▶ [PCAOB Spotlight: Updated and Preview of 2019 Inspection Observations](#)
- ▶ [BDO 600: 2020 Study of Board Compensation Practices](#)
- ▶ [BDO 600: 2020 Study of CEO and CFO Compensation Practices](#)
- ▶ [2020 Board Pulse Survey - Fall 2020](#)
- ▶ [Pro Forma Financial Information: A Snapshot](#)
- ▶ [ASC 740 FAQs - Accounting Implications of IRC Regulations Under Sections 163\(J\), 250 and 951A Issued in Q3 2020](#)
- ▶ [Year-End Income Tax Provision - Are Your Tax Internal Controls Ready for a Virtual Close?](#)
- ▶ [SEC Approves NYSE Direct Listings Proposal and Amends the Definition of an Accredited Investor](#)
- ▶ [FASB Simplifies Accounting for Complex Financial Instruments](#)
- ▶ [SEC Amends and Streamlines Regulation S-K Disclosures](#)
- ▶ [BDO Knows SPACS: Understanding Special Purpose Acquisition Companies](#)
- ▶ [Being Board Ready: Proactive Governance in 2020](#)
- ▶ [Financial Statements of Acquired Businesses: A Snap Shot](#)
- ▶ [Seeking Relief: SEC Reporting for Smaller Reporting Companies](#)
- ▶ [Favorable Effective Tax Rates Follow Boards' Active Engagement in Oversight of Their Companies' Tax Risks](#)

# BDO Select Thought Leadership

## RECOMMENDED RESOURCES

- ▶ [SEC Staff Provides Supplemental COVID-19 Disclosure Considerations](#)
- ▶ [Insights From a Board Director: Loriann Lowery-Biggers, CEO and Co-Founder of Bella Vaughan, Inc](#)
- ▶ [SEC Amends Financial Disclosures About Acquired And Disposed Businesses - Impact on Investment Companies and BDCS](#)
- ▶ [Preparing for Critical Audit Matters: What Management and Audit Committees Need to Know](#)
- ▶ [Accounting for Lease Concessions Related to COVID-19](#)
- ▶ [FASB Defers the Effective Dates of ASC 842 and ASC 606 for Certain Entities](#)
- ▶ [FASB Provides Optional Relief for Contracts and Transactions Affected by Reference Rate Reforms](#)
- ▶ [SEC Amends Financial Disclosures About Acquired and Disposed Businesses](#)
- ▶ [SEC Adopts Rules to Simplify and Streamline Disclosures for Registered Debt Offerings](#)
- ▶ [SEC Proposes Changes to the Exempt Offering Framework](#)
- ▶ [SEC Provides Temporary and Conditional Relief for Business Development Companies](#)
- ▶ [FASB Approves Deferral of Leasing and Revenue Standards for Certain Private Companies](#)
- ▶ [2020 Digital Transformation Survey](#)
- ▶ [Government Assistance Programs: Are You Ready for Scrutiny?](#)
- ▶ [SEC Provides Conditional Relief and Assistance for Companies Affected by the Coronavirus](#)
- ▶ [SEC Changes the Accelerated and Large Accelerated Filer Definitions](#)
- ▶ [Navigating Revenue Recognition](#)

# BDO Select Thought Leadership

## RECOMMENDED RESOURCES


- ▶ [Financial Reporting Guide for Accounting Changes and Error Corrections](#)
- ▶ [SEC Proposes Significant Changes to Reg S-K and Provides Guidance on Disclosure of KPIs](#)
- ▶ [FASB Clarifies Interaction of Accounting Standards for Equity Securities, Equity Method Investments and Derivatives](#)
- ▶ [2019 Year-end Audit Committee Agenda](#)
- ▶ [The 2019 AICPA SEC and PCAOB Conference](#)
- ▶ [BDO Knows CECL: Presentation and Disclosure](#)
- ▶ [Accounting Standards Updates: Effective First Quarter 2020](#)
- ▶ [FASB Issues Improvements for Credit Losses Standard](#)
- ▶ [BDO Knows CECL: FASB Topic 326, Financial Instruments - Credit Losses](#)
- ▶ [FASB Issues Two Updates to Finalize Deferral of Effective Dates for Major New Accounting Standards](#)
- ▶ [FASB Clarifies Accounting for Share-Based Payments to Customers](#)
- ▶ [3 Reasons Why You Need to Forge Ahead With Lease Accounting Implementation](#)
- ▶ [BDO Knows Lease Accounting](#)
- ▶ [Lease Accounting Road to Compliance Checklist](#)
- ▶ [BDO Lease Accounting Resource Center](#)
- ▶ [BDO Revenue Recognition Resource Center](#)
- ▶ [CECL Implementation Guide](#)
- ▶ [Your CECL Implementation Roadmap](#)

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A photograph of three business professionals (two men and one woman) sitting around a table in a modern office setting, engaged in a discussion. The man on the left is wearing a white shirt and dark trousers, gesturing with his hand. The woman in the center is wearing a dark patterned dress and holding a document. The man on the right is wearing a light blue shirt and dark trousers. The background shows large windows and a whiteboard. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the text. There are red vertical bars on the left side of the image.

# 2020 SEC YEAR END UPDATE AND REPORTING REMINDERS

## SEC Update and Reporting Reminders - Agenda

### 2020 SEC Final Rulemaking

#### Comment Letter Topics

- Non-GAAP Measures
- Management Discussion and Analysis
- Revenue Recognition
- Segment Reporting
- Other

#### SEC Reporting Reminders

- COVID-19 Disclosure Guidance
- Interpretive Guidance on KPIs and Metrics in MD&A
- Goodwill and Indefinite-Lived Intangible Assets Impairment
- Reference Rate Reform - LIBOR Transition Disclosures

#### Form 10-K Process Reminders

#### Effective Practices for SEC Review

# SEC FINAL RULEMAKING





## SEC Rulemaking - Accelerated and Large Accelerated Filer Definitions (Final Rules)

Smaller reporting companies with less than \$100 million in annual revenue are excluded from the accelerated filer definition



	Previous Thresholds	Revised Thresholds
Non-accelerated filer	Public float is less than \$75 million	Public float is less than \$75 million  -OR-  Public float is between \$75 million and \$700 million and annual revenue is less than \$100 million
Accelerated filer	Public float is at least \$75 million, but less than \$700 million	Public float is at least \$75 million, but less than \$700 million and annual revenue is \$100 million or more
Large accelerated filer	Public float is \$700 million or more	Public float is \$700 million or more

## SEC Rulemaking - Accelerated and Large Accelerated Filer Definitions (Final Rules)

Business Development Companies with investment income less than \$100 million and public float less than \$700 million also excluded from accelerated filer definition

Public float thresholds for exiting status are higher

- Exiting Accelerated Filer status under public float test increased from \$50 million to \$60 million
- Exiting Large Accelerated Filer status increased from \$500 million to \$560 million

Effective for annual reports due on or after April 27, 2020



Management responsible for establishing and assessing an internal control over financial reporting unchanged

## SEC Rulemaking - Accelerated and Large Accelerated Filer Definitions (Final Rules)

How an issuer evaluates filer status and requirements as a result of amendments



	Public float	Annual revenue	ICFR audit	Filing deadlines
Non-accelerated filer and SRC	Less than \$75 million	N/A	No	10Q - 45 Days 10K - 90 Days
	\$75 million, but less than \$700 million	Less than \$100 million	No	10Q - 45 Days 10K - 90 Days
Accelerated filer and SRC	\$75 million, but less than \$250 million	\$100 million or more	Yes	10Q - 40 Days 10K - 75 Days
Accelerated filer and not an SRC	\$250 million, but less than \$700 million	\$100 million or more	Yes	10Q - 40 Days 10K - 75 Days
Large accelerated filer	\$700 million or more	N/A	Yes	10Q - 40 Days 10K - 60 Days

## SEC Rulemaking - S-X Rule 3-10 Amendments (Final Rules)

Intended to simplify and streamline the financial disclosures for registered debt offerings and periodic reports thereafter

Partly relocate requirements of Rule 3-10 to



Continue to permit issuers to omit financial statements of subsidiary issuers and guarantors when certain conditions are met

Require summarized financial information for issuers and guarantors for each fiscal year and subsequent interim period

Require expanded qualitative disclosures about nature of operations of the issuers and guarantors

Permit the amended disclosures outside of the parent company's financial statements in MD&A

Permit omission of financial and non-financial disclosures of subsidiary issuers and guarantors no longer have Exchange Act reporting obligations

## SEC Rulemaking - S-X Rule 3-16 Amendments (Final Rules)



Rule 3-16 is replaced by new Rule 13-02

Permits reduced financial and non-financial disclosures for each affiliate whose securities are pledged as collateral

Effective date of Rule 3-10 and 3-16 amendments is January 4,

*Early application permitted!*

## SEC Rulemaking - Amendments to Disclosures About Acquired and Disposed Businesses (Final Rules)



Computing Significance of an Acquired Business under S-X 1-02(w)		
TEST	CURRENT	AMENDED
Asset Test	Target's assets / Registrant's assets	Same as current test
Investment Test	Fair value of investment in acquired business / Registrant's assets	Fair value of investment in acquired business / Registrant's average aggregate worldwide market value, as defined
Income Test	Target's pre-tax income from continuing operations / Registrant's pre-tax income from continuing operations	Lower of: <ul style="list-style-type: none"> <li>- Pre-tax income test, or</li> <li>- Target's revenue / Registrant's revenue, when revenue is applicable</li> </ul>

## SEC Rulemaking - Amendments to Disclosures About Acquired and Disposed Businesses (Final Rules)

Target Financial Statements Required		
SIGNIFICANCE	CURRENT	AMENDED
Less than 20%	No FS required	No FS required
20% to 39%	1-year audited FS and unaudited interims with corresponding PY interims	1-year audited FS and unaudited interims - no PY interims
40% to 49%	2-years of audited FS and unaudited interims with the corresponding PY interims	2-years of audited FS and unaudited interims with the corresponding PY interims
50% or greater	3-years of audited FS and unaudited interims with the corresponding PY interims	



- Abbreviated financial statements permitted in certain circumstances
- Significant changes to requirements for individually insignificant acquisitions

## SEC Rulemaking - Amendments to Disclosures About Acquired and Disposed Businesses (Final Rules)



Amendments to Article 11, Pro Forma Financial Information	
CURRENT	AMENDED
<p>Pro forma adjustments are limited to those:</p> <ul style="list-style-type: none"> <li>- Directly attributable to the transaction</li> <li>- Factually supportable, and</li> <li>- Expected to have a continuing impact (as it relates to the income statement)</li> </ul>	<p>Pro forma adjustments reflect:</p> <ul style="list-style-type: none"> <li>- Transaction accounting adjustments</li> <li>- Autonomous entity adjustments</li> </ul> <p>Optional “management adjustments” in footnotes to reflect:</p> <ul style="list-style-type: none"> <li>- Certain synergies and other plans that have occurred or are reasonably expected to occur (must be reasonably estimable)</li> </ul>

- Autonomous entity adjustments needed when a new registrant is being spun out of a larger entity
- Management adjustments will require more judgment



## SEC Rulemaking - Amendments to Disclosures About Acquired and Disposed Businesses (Final Rules)

### Other changes:



Conform the significance tests for a disposed business with those of an acquirer (applicable) and raise the significance threshold to 20%

Generally align S-X Rule 3-14 with S-X Rule 3-05 for acquired real estate operations (e.g., raise the significance threshold to 20%, eliminate requirement to provide three years of financial statements)

Permit use of, or reconciliation to IFRS as issued by the IASB in certain circumstances

Conform requirements for smaller reporting companies

Define a significant subsidiary tailored to investment companies

Address financial reporting for fund acquisitions by business development companies and investment companies

## SEC Rulemaking - Amendments to Regulation S-K (Final Rules)

Item 101 - Business	Item 103 - Legal Proceedings	Item 105 - Risk Factors
<ul style="list-style-type: none"> <li>-Requires principles-based disclosure focused on information that is material</li> <li>-Adds disclosure topic for human capital resources</li> <li>-Allows general development of business disclosures to focus on current reporting period (w/hyperlink to prior filing for full discussion of business)</li> </ul>	<ul style="list-style-type: none"> <li>-Explicitly permits use of hyperlinks or cross-referencing to legal proceedings disclosure included elsewhere in filing</li> <li>-Raises threshold for reporting certain environmental proceedings</li> </ul>	<ul style="list-style-type: none"> <li>-Requires summary risk factor disclosure of no more than 2 pages if risk factor disclosures exceed 15 pages</li> <li>-Requires disclosure of “material” risk factors and organization of disclosures under relevant headings</li> </ul>



- Amendments become effective for filings on or after November 9<sup>th</sup>

# SEC Rulemaking - *Modernization of Disclosures for Banking Registrants (Final Rules)*

New subpart 1400 of Regulation S-K rescinds and replaces Industry Guide 3

Codifies and eliminates certain statistical disclosures under Guide 3

Adds several new disclosure requirements

- Refer to BDO Alert for details:  
[www.bdo.com/insights/assurance/sec/sec-updates-disclosure-requirements-for-banking-re](http://www.bdo.com/insights/assurance/sec/sec-updates-disclosure-requirements-for-banking-re)

Effective 30 days following publication in the Federal Register. Compliance mandatory for fiscal years after 12/15/21 but may be voluntarily applied earlier following the effective date.



# SEC Rulemaking - *Exempt Offering Framework (Final Rules)*

## Amendments to the framework:

- Aim to simplify and improve elements of the exempt offering framework (e.g., Regulations A, D, and Crowdfunding)
- Establish a general integration principle to help determine whether multiple transactions are considered part of the same offering for compliance purposes
- Increase certain offering limits and revise individual investment limits



Regulation A	Rule 504 of Regulation D	Regulation Crowdfunding
Raise maximum offering limit under Tier 2 from \$50 million to \$75 million	Raise maximum offering amount from \$5 million to \$10 million	Raise offering limit from \$1.07 million to \$5 million

- Set clear and consistent rules for communications between issuers and investors
- Synchronize certain disclosure and eligibility requirements and disqualification provisions to reduce differences between exemptions

Final rules are generally effective 60 days after publication in the Federal Register

# SEC amends definition of an accredited investor

- Expands population of individuals and entities that can participate in private capital market transactions
- Previously focused solely on an investor's income and net worth, new qualifying categories based on financial knowledge, sophistication and expertise



## Amendments:



- Generally promote a principles-based approach to disclosure
- Streamline disclosure instructions and clarify overall objective of
- Eliminate Selected Financial Data
- Replace Selected Quarterly Financial Data table requirements with material retrospective changes
- Eliminate disclosure of contractual obligations in tabular format
- Clarify and codify guidance for disclosure of critical accounting e
- Clarify requirements regarding the results of operations discussion (specifying reasons for underlying material changes)
- Amendments effective 30 days after publication in Federal Register

# COMMENT LETTER TOPICS



Comment Letter Topics - *High Focus Areas*

- Non-GAAP Financial Measures
- MD&A
- Revenue Recognition (Topic 606)
- Segment Reporting
- Other Topics



Comments focus on measures that appear to:

- Modify GAAP recognition and measurement principles (i.e., constitute a tailored accounting principle)
- Exclude normal cash operating expenses from performance measures
- Be applied inconsistently period to period (i.e., changing measures over time)

Those registrants that want to adjust for the effects of COVID-19 should limit adjustments to charges incurred or gains recognized that directly relate to COVID-19 and are incremental to, and separable from, normal operations.

## The staff frequently comments on MD&A disclosures:

- Increasing specificity in describing “why” changes have occurred period-over-period.
- Seeking more information about the underlying causes and effects of events, and uncertainties.
- Focusing the discussion of critical accounting estimates on the significant risks and estimates that, if changed or varied, will significantly impact the financial statements.
- Providing more detail about performance indicators, financial or nonfinancial, used to manage the business.

We expect MD&A to continue to be significant area of focus in the upcoming year due to the SEC’s focus on COVID-19 related disclosures.

**Comment letters seek clarity on Topic 606 accounting and disclosures, including:**

- The identification of performance obligations
- The type and nature of variable consideration, in any variable consideration is constrained
- Information regarding the method used to recognize performance obligations and why the method is a
- The analysis for presenting revenue on a gross vs. principal vs. agent considerations).
- Disaggregation of revenue that reflect how economic affect the nature, amount, timing and uncertainty and cash flows.

Segment Reporting moved back up the hot topic list in 2020. The nature of these comments focus on:

- How registrants identified operating segments
- How registrants aggregate operating segments into reportable segments
- Whether registrants have inappropriately included non-GAAP measures in segment disclosures
- Whether registrants provide appropriate entity-wide disclosures related to products and services, revenues attributable to individual foreign countries, and revenues from major customers

## Other Perennial Favorites

- Fair value measurements
- Intangible assets and goodwill
- Income Taxes

## Other Potential Areas

- COVID-19 Dis
- LIBOR transit
- Cybersecurit

# SEC REPORTING REMINDERS



## COVID-19 Disclosure Guidance Topic No. 9

Provides views on disclosures and securities law obligations registrants should consider related to COVID-19

### Disclose:

- The impact COVID-19 has had on the registrant's business
- Management's expectations and response to the future impact of COVID-19 on the business
- Management's plans for addressing related uncertainties

### Disclosures should be specific and will likely affect:

- Business
- Risk factors
- Management's discussion and analysis
- Disclosure controls and procedures and internal controls over financial reporting
- Financial statements

# COVID-19 Disclosure Guidance Topic No. 9A

- Provides disclosure considerations regarding the effects and risks of COVID-19 on a registrant's operations and financial condition, including liquidity and capital resources

## 9A Topical Areas

- Access to revolving lines of credit or capital raised in the public markets;
- Ability to timely service debt or other obligations;
- Ability to maintain compliance with covenants;
- Modifications to contract terms;
- Changes to capital expenditure activities;

## 9A Topical Areas

- Disposals of material assets or
- Altered terms with customers,
- Supplier finance programs;
- Known trends and uncertainties
- A registrant's ability to continue operations a concern.

- The staff expects registrants to provide disclosure regarding the short and long-term impact of government assistance (e.g., the CARES Act) on their financial condition, results of operations, liquidity, and capital resources, as well as the



## Commission Interpretive Guidance

### ➤ Interpretive Guidance on Key Performance Indicators and Metrics in MD&A

- Includes considerations and disclosures that are expected to accompany non-financial and financial metrics



#### ***DISCLOSE***

Clear definition of metric and how it is calculated

Statement indicating why the metric provides useful information

Statement indicating how management uses the metric in managing or monitoring the performance of the business

#### ***CONSIDER***

What regulatory framework (GAAP, Regulation G, or other)

Whether estimates or assumptions underlying the metric should be disclosed

Additional information to provide context for an investor's understanding of the metric presented

## Goodwill & Indefinite-Lived Intangible Asset Impairment

The COVID-19 pandemic has caused significant declines in many registrants' share prices and disruptions to operations resulting in a sharp increase in interim impairment analyses.

Registrants should disclose the following in the financial statements when an impairment loss is recorded:

- Description of the facts and circumstances that led to the impairment.
- The amount of the impairment loss and the method used to determine fair value of the asset or reporting unit.
- Description of the intangible asset and the income statement caption or line item in which the loss is recorded.

Registrants should include disclosure regarding the discrete events occurring during the impairment.

Consider “early-warning” disclosures for reporting units at risk of impairment charge.

## Reference Rate Reform - LIBOR Transition Disclosures

The London Interbank Offered Rate (LIBOR) is expected to be replaced by an alternative rate after 2021.

The staff encourages registrants to disclose (in MD&A):


- Status of Company's efforts and significant matters to be addressed related to the expected discontinuation of LIBOR
- When the Company does not yet know or cannot yet reasonably estimate the impact of the transition
- Information used by management and the board in assessing and monitoring the impact of transitioning from LIBOR may affect the Company

# FORM 10-K PROCESS REMINDERS



# Common Pitfalls

- Missing numbers
- Dropping rows or columns
- Missing paragraphs
- Missing pages
- Incorrectly transferred

A photograph of three business professionals (two men and one woman) sitting around a table in a modern office setting, engaged in a discussion. The man on the left is wearing a white shirt and dark trousers, gesturing with his hand. The woman in the center is wearing a dark patterned dress and holding a document. The man on the right is wearing a light blue shirt and dark trousers. The background shows large windows and a whiteboard. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the text. There are red vertical bars on the left side of the image.

# 2020 SEC YEAR END UPDATE AND REPORTING REMINDERS

# TAX IMPACT OF COVID-19 ON A MOBILE WORKFORCE

FEI - CT/WESTCHESTER CHAPTER

December 9, 2020

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# Agenda

## Introductions

1. CARES Act Overview
2. State Business Tax Considerations During COVID-19
3. State Employment (Withholding) Tax and SUI Tax Considerations
4. Global Tax Considerations

## Open Discussion & Questions

# Coronavirus Aid, Relief, and Economic Security Act (CARES ACT) - Overview



# Coronavirus Aid, Relief, and Economic Security Act (CARES ACT) - Overview

- Signed into law on March 27, 2020
- Largest stimulus package in U.S. history (est. \$2.2 trillion)
- Includes taxpayer-favorable changes to core federal tax provisions enacted or amended by the TCJA.
  - NOL provisions
  - Business interest limitation provisions
  - QIP technical correction
  - PPP loan forgiveness
- Need to consider state tax considerations since many states have not conformed to the federal rules or have only adopted certain provisions.
- Impacts 2018, 2019, and 2020 Tax Years + 5-year carryback period.

# State Business Tax Considerations



# State & Local Business Taxes

Will the presence of employees working remotely from home create taxable nexus for the employer in that state?

**General Rule for State Tax Nexus:** State tax nexus may be created by a single employee visiting the state let alone employees teleworking from the state for weeks, months or years.

## State Income Taxes

- During COVID-19 - Several states including New Jersey and Massachusetts have issued guidance that the presence of a telecommuting employee without more will not create corporate income tax nexus; some have also indicated that it will not create sales tax nexus. Most states have not release guidance.
- Post COVID-19 - the states will assert that teleworkers will create business tax nexus for income taxes and sales and use taxes.

## State Sales and Use Taxes

COVID-19 Teleworking: To date, few states have indicated that they will “waive” sales tax nexus if no other factor created nexus during COVID-19. The states are just realizing that the sales tax nexus threshold for COVID-19 may need to be addressed.

Remote Employees: A business may be subject to sales and use tax registration, filing and collection requirements.

## Recommendations:

- Period review of the impact of remote and telecommuting employees on the company’s state income tax nexus.
- For sales and use tax purposes, and for some companies below the Wayfair threshold, the presence of a telecommuting employee may require the company to register and file sales and use taxes in the state. Again, periodic review of nexus will ensure compliance.

## Impact on State Business Taxes and the Teleworking or Remote Employee

**State Tax Nexus:** In general, a business is considered to have tax nexus for income, franchise, gross receipts and sales/use taxes if they have an employee working in the state including a single home-office.

- **State Sales and Use Taxes:** State tax nexus may be created by a single employee visiting the state let alone employees teleworking from the state for weeks, months or years.
  - Remote Employees: A business may be subject to sales and use tax registration, filing and collection requirements.
  - COVID-19 Teleworking: To date, few states have indicated that they will “waive” sales tax nexus if no other factor created nexus during COVID-19. The states are just realizing that the sales tax nexus threshold for COVID-19 may need to be addressed.
  
- **State & Local Business Taxes:** A dozen or so state have indicated that they will not impose Corporate Tax nexus based solely on the presence of telecommuting employees in the state due to COVID-19 including Massachusetts and New Jersey. Caution: States such as Massachusetts have specified that these favorable policies will have an end date of the earlier of (1) December 31, 2020 or (2) 90 days after Massachusetts’ state of emergency is lifted. Post COVID-19, the growing workforce of remote and telecommuting employees will impact the company’s income tax profile.
  
- **Apportionment:** For purposes of business taxes some states still use a three-factor formula (property, payroll and sales) to calculate the company’s apportionment factor. For partnerships, the sales factor is often based on cost-of-performance or where the services are performed. Only a few states have announced that they will not adjust the company’s apportionment factor solely as a result of the in-state presence of employees temporarily teleworking from the state during COVID-19 emergency. Other states have not indicated the treatment during COVID-19. Post COVID-19, the larger remote or telecommuting workforce could impact the apportionment of income to a particular state or locality.

# New York City Unincorporated Business Tax (UBT)

## The NYC UBT

- Entity level tax on partnerships, LLPs, and LLCs (and some individuals) doing business in NYC
- 4 percent tax levied on taxable income allocated to NYC
- Generated \$2.0 billion in tax revenues in 2019
- Income or service receipts would be sourced to the location where services are being provided under NYC Admin Code Section 11-508(c)(3)(C) (except for broker/dealers)
- COVID-19 stay-at-home orders and a larger telecommuting workforce may present an opportunity to reduce UBT taxes by reducing the allocation factor

## Example for an LLP, LLC or Partnership

### Prior to COVID-19:

100 employees in NYC

0 outside NYC

\$50 million of TI

100 % allocation factor

x 4%

UBT = \$2 million

### After COVID-19:

70 employees in NYC or telecommuting from NYC

30 employees telecommuting employees outside NYC

\$50 million TI

70% allocation factor

x 4%

UBT = \$1.4 million

- Note that the New York Convenience of Employer Rule is not applicable to the New York City UBT to determine where employees' income generating services are performed.

# State Employment (Withholding) Tax and SUI Considerations



# General State Income Tax (SIT) Withholding Rules

- **General Rule:** An employer is required to deduct and withhold state income taxes on wages paid to employees in the state where the employee's services are being performed.
- **Telecommuters:** An employee who may be assigned to the employer's physical work location, but the employee lives in another state.
  - **Withholding Tax:** Employees that live in one state but primarily work in another are generally subject to the withholding rules of the work state or office location regardless of where they live.
- **Remote Employees/Teleworkers:** An employee assigned to the employer's physical work location but performs some or all services remotely from home in another state.
  - **Withholding Tax:** Various conflicting state rules either the location where services are actually performed or attributed back to the state of the employee's office ("convenience of employer rule").
- **Business Travelers:** An employee who works in one state but travels to other states to work.
  - **Withholding Tax:** An employee may be subject to withholding taxes on wages earned for services performed in the other state (as a nonresident) based on number of days in another state (sometimes just one day) or exceeding the personal exemption threshold.

# State Tax for Business Travel by Employees

- Short-term business traveler withholding considerations
  - For states other than primary live/work states, employer withholding requirements are generally based on wages attributable to the days a nonresident employee works within a particular state or derives income for services performed in the other state
  - Some states provide a de minimis threshold which may relieve employer of withholding obligation (no tax withholding obligation until day(s) threshold or wage threshold met)
  - Reciprocity: An employer is generally not required to withhold tax on earned income (wage income) for the state in which the employee is performing the services if the employee lives and works in neighboring states that have reciprocity agreements.

Connecticut And New York	New Jersey	Pennsylvania
NONE	Pennsylvania	Indiana
		Maryland
		New Jersey
		Ohio
		Virginia
		West Virginia

# Convenience of Employer Rule

- States and cities with **Convenience of the Employer Rules** include:
- **Arkansas, Connecticut, Delaware, Nebraska, New Jersey, New York State (not City); Pennsylvania (and Philadelphia)**. Note: To date, only Philadelphia has suspended convenience of employer rule during COVID-19.
- **New York** imposes a **Convenience of the Employer Rule**.
  - The Rule is distinct from a general physical presence test or location of where employee provides services.
  - Nonresident employees assigned to or primary office in New York (the office from which they are supervised) may be subject to New York SIT on wages earned out-of-state under the Rule.
  - Where an employee performs services **both within and without New York** the Rule applies (one day per tax year in New York)
  - So, that means a New York office employee telecommuting from home will, nonetheless, be subject to New York SIT on days worked from home under the Rule.
  - Exemptions from the Rule may be permitted if the employer can establish that these services were performed outside of New York due to “**business necessity**” rather than convenience (such as attending a business meeting or utilizing specialized equipment at the out-of-state location).

# New York Convenience of Employer Rule Exceptions

- In 2006, the New York Department of Taxation and Finance issued TSB-M-6(5)I to address the convenience of the employer rule as applied to certain telecommuters and others:
  - For employees that are assigned to an office within New York, normal workdays spent at their home office may only be treated as days worked outside the state if the home office meets the multi-pronged test required to be considered a bona fide employer office.

**On October 19, 2020, New York released FAQs confirming the application of the Convenience of Employer Rule during COVID-19 (no exception for business necessity due to pandemic).**

# Tax Withholding Implications During COVID-19

- COVID-19 pandemic has increased the number of employees working remotely due to stay-home orders and closures of physical company offices and other worksites
- As a result, several states have issued withholding guidance related to COVID-19
  - Temporary guidance generally applies only to employees working remotely solely due to COVID-19 **during the duration of the declared emergency**
  - Majority of this guidance allows employers to continue withholding as they were prior to COVID-19 (i.e., based on an employee's primary work location), as opposed to enforcing withholding in the employee's new, temporary work state
  - To the extent remote employment is not solely due to COVID-19 or is deemed indefinite in nature, the employment may not fall within the state COVID-19 exceptions post pandemic or when emergency state lifted.
- **Best Practice: If no temporary COVID-19 withholding guidance has been released, it appears employers should continue following the state's general withholding provisions**

# Practical Guidance During COVID-19 Pandemic

- Employers should arrange to have updated state-by-state withholding guidance to meet the employer filing requirements that may impact their remote and teleworking employee population.
- COVID-19 period (state of emergency) may extend longer than initially planned for by the states.
- States will eventually curtail temporary tax relief provisions attributable to the COVID-19 period and may have varying end dates to the emergency and the related tax implications.
- Employees are relocating without notifying employers timely or at all; can create risk for employer.
- A larger population of remote or teleworking employees may subject the employer to withholding in new states.
- Employers that are currently being proactive in meeting compliance requirements will be best positioned to respond to future changes in withholding rules.
- Decision to update employee resident/work location and change SIT/SUI reporting and withholding depends on all facts & circumstances
  - Track employee movements to the extent possible
  - Determine whether employee's remote work location is temporary due to COVID-19
  - Determine state-specific guidance applicable to employee's scenario
  - Develop company policy and desktop procedures to address remote employees during and post COVID-19

# State Unemployment Insurance (SUI) Tax Rules

- Generally, SUI is reported to the state in which the **employee performs services**
- For employees that work in multiple states, the applicable SUI sourcing is determined using a four-tiered hierarchy test:
  - (1) **Service localized within state** - Service performed both within and outside a state is localized in that state if services performed outside the state are incidental to service performed within the state
  - (2) **Base of operations** - If the employee's services aren't localized in one state, the state with the next best claim to jurisdiction is where the employee performs some services and which contains the "base of operations"
  - (3) **Place of control** - If the first two tests do not determine jurisdiction, the state with the next best claim to jurisdiction is where the employee performs some services and from which he/she receives direction or control
  - (4) **Place of residence** - If the prior three tests do not determine jurisdiction, the state with the next best claim to jurisdiction is where the employee performs some services and maintains a place of residence
- During COVID-19: Generally, SUI tax is not impacted by COVID-19 related employee movements as much as SIT
- State SUI agencies have generally not released guidance instructing employers on how to handle (or change) SUI reporting requirements in connection with remote workers due to COVID-19

# Global Tax Considerations



## Typical Global Reporting/Withholding Tax Rules

- **General Global Rule:** The first right to taxation is based on where an individual is physically working.
- **International Telecommuters:** An employee who may be assigned to the employer's physical work location but who performs some or all of the services remotely from another country.
- **International Business Travelers:** Employees that live in one country but primarily work in another are generally subject to the withholding rules of the work location regardless of where they live. Note: It is possible they are also subject to taxes based on where they live.
  - **Credit for Taxes Paid:** Where an individual is subject to taxes of two or more country jurisdictions, employees may be eligible to claim a credit on income tax to mitigate or lessen global duplicate taxation.
    - Levels of taxation must be considered (federal, state, canton, local, etc.)



## Typical Global Worker Considerations

- Triggering corporate permanent establishment
- Determining if there is an existing local entity
- Employer of record/Economic employer
- Secondment agreement
- Transfer pricing review
- Registrations
- Employee Visa Type
- Number of days/Assignment period
- Worker Classification
- Reporting thresholds or waivers
- Potential income and social tax treaties
- Individual tax return filing obligations
- Individual informational filing obligations
- Planning opportunities

# Income Tax and Social Tax Treaties

## Tax Treaties:

A bilateral (two-party) agreement made by two countries to resolve issues involving double taxation of passive and active income of each of their respective citizens.

- Income tax treaties generally determine the amount of tax that a country can apply to a taxpayer's income, capital, estate, or wealth.

<https://www.irs.gov/businesses/international-businesses/united-states-income-tax-treaties-a-to-z>

- General Dependent Personal Services Article
  - Not exceeding 183 days
  - Remuneration paid by employer who is not resident in that state
  - Not borne by a permanent establishment or fixed base

# Income Tax and Social Tax Treaties

- Social Tax/Totalization agreements eliminate dual Social Security coverage and taxation while maintaining the coverage of as many workers as possible under the system of the country where they are likely to have the greatest attachment, both while working and after retirement

<https://www.irs.gov/individuals/international-taxpayers/totalization-agreements>

Your employment status	You are subject only to the laws of:
<i><b>You are working in Australia:</b></i>	
<i>For a U.S. employer who:</i>	
<ul style="list-style-type: none"><li>• Sent you to work in Australia for five years or less</li></ul>	U.S.
<ul style="list-style-type: none"><li>• Sent you to work in Australia for more than five years</li></ul>	Australia
<ul style="list-style-type: none"><li>• Hired you in Australia</li></ul>	Australia
<i>For a non-U.S. employer</i>	Australia



## Section 139 Disaster Relief Payments

Allows employers to assist employees during a federally declared disaster with “qualified disaster relief payments” that are tax free to the employee and fully deductible to the employer

- Benefits in kind
  - Not covered by insurance
  - Reasonable and necessary
- 
- Examples
    - Shelter in place temporary living
    - Travel reimbursements
    - Expenses associated with working from home
    - Sanitizers, disinfectants, personal protective equipment



## Section 139 Disaster Relief Payments

- Record Keeping:
  - Although not technically required to have a written plan or policy, it is good practice
    - Who is eligible
    - What expenses will be reimbursed
    - What documentation/support of payment/reimbursement is required
- States:
  - Generally state treatment for federally declared qualified disaster relief payments will mirror federal treatment. However, it is important to check treatment for unemployment wages by state.




## Other Considerations - Global Employees

- Tax Policies
  - Tax Equalization
  - Tax Protection
  - Laissez-Faire
- Tax Gross Up
- Payroll Options
  - Shadow payroll
  - Split Payroll
  - Host or home country payroll only

Questions





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