Baker McKenzie.

Update

No. 40
September -October 2017

In This Update:

Prepared by:

Daniel L. Goelzer

+1 202 835 6191
Daniel.Goelzer@bakermckenzie.com

AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

This Update summarizes recent developments relating to public company audit committees and their oversight of financial reporting and of the company's relationship with its auditor.

Companies and Audit Committees Take the Fight Against the PCAOB's Auditor's Reporting Model to the SEC

As described in PCAOB Adopts New Auditor's Reporting Model, May-June 2017 Update, the Public Company Accounting Oversight Board has adopted a new auditing standard that will require public company audit reports to contain a discussion of critical audit matters (CAMs) that arose during the audit. Under the new standard, a CAM is defined as a matter that was communicated, or required to be communicated, to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements, and (2) involved especially challenging, subjective, or complex auditor judgment. Audit reports will also be required to include the year in which the auditor began serving as the company's auditor.

The PCAOB's new standard will not take effect unless approved by the Securities and Exchange Commission. The SEC, as required by the Securities Exchange Act, has solicited public comment on whether to approve the PCAOB's action. Unlike most SEC reviews of new PCAOB standards, the outcome of the Commission's review of expanded auditor reporting is not a foregone conclusion. SEC Chief Accountant Wes Bricker noted in a recent speech that staff is currently evaluating the public comments and that, after consideration of these comments, the Commission will determine whether to approve the standard. Under the statute governing review of PCAOB rules, the Commission must act by October 26.

During the PCAOB's standard-setting proceeding, audit committee member comments were almost uniformly opposed to CAM disclosure. See Audit Committee Members Are Still Dubious About the PCAOB's Proposal to Expand Audit Reports, September 2016 Update. Among other things, audit committee comment letters suggested that CAM disclosure could inhibit auditor/audit committee communication, usurp management's role in determining what should be disclosed, and confuse financial statement users. Most public company management comments voiced similar concerns.

Audit committees and public companies have reiterated these points in comments filed with the SEC. Two of the 50 SEC comment letters were from audit committee members. Both opposed CAM reporting.

- FedEx. The Chair of FedEx's audit committee, along with the company's CFO and CAO, "urge[d] the Securities and Exchange

Commission not to approve the proposed auditing standard * * * in its current form for the reasons set forth in [the letter submittedby the Center for Capital Markets Competitiveness – see below] and remand the [standard] back to the Public Company Accounting Oversight Board for further deliberation to address our concerns. We believe the proposed standard in its current form sets problematic standards for materiality related to the reporting of critical audit matters and will likely have a negative effect on the open dialogue between auditors and audit committees."

- Pinnacle West. The Chair of Pinnacle West Capital Corporation's audit committee stated that "the inclusion of CAMS in the audit report undermines the role of the audit committee, will impede open communications between the auditors and the audit committee, and inappropriately shifts the auditor function from that of an attest function to a management role. Furthermore, I do not support the PCAOB's proposal to disclose audit tenure within the audit report, as that information is irrelevant." He added that, if CAM reporting is required, "auditors may be less inclined to discuss non-required topics with the audit committee, as any discussion will require assessment for CAM reporting. This could ultimately limit the effectiveness of the audit committee and information shared with the audit committee."

Many of the public company comments expressed similar concerns regarding the potential adverse impact of the new standard on the work of audit committees. For example:

- Northrop Grumman. "CAM disclosure in the auditor's report may result in the unintended consequence of changing the quantity and nature of information communicated by auditors to audit committees. In contemplation of the required disclosure in the auditor's report, auditor communications with audit committees may lack the depth of current communications and become more general or boilerplate in nature."

- Quest Diagnostics. "By setting the boundary at not just matters that are 'required to be communicated' but at any matter that is communicated to the audit committee, whether or not required, a company may decide to limit communications to only that which is strictly required under the applicable financial reporting framework. * * * If the relevant parties are aware that any communication may form the basis for a conclusion regarding a CAM, then parties necessarily will shape their communications in response to this possibility. Even if the overall engagement between the company and its auditor does not change, it is unavoidable that the tone and tenor of such engagement will change as a result of the Proposed Standard."

- Joint Letter of 15 Public Companies and 13 Trade Associations. "The broad definition of CAMs may stifle the current open dialogue between auditors and audit committees. Under the Proposed Standard, auditors may have to stop before every communication to consider the potential CAMs implications of such communication. Every potential communication will be evaluated for CAM obligations. This process could result in situations where less, rather than more, communication occurs between auditors and audit committees. This will significantly slow the audit process and drive up costs for public companies."

The U.S. Chamber of Commerce's Center for Capital Markets Competitiveness (CMC) filed the most comprehensive letter opposing the PCAOB proposal. CMC argued that the PCAOB's new standard would "lead to the disclosure of immaterial information, increase liability costs for businesses and audit firms, and create a chilling effect on audit committee-auditor communications." CMC also states that the standard would "contribute to disclosure ineffectiveness and overload, degrading the ability of the SEC to promote efficiency, competition and capital formation without a demonstration of the benefits of the proposal." Further, in CMC's view, the PCAOB failed to demonstrate that its proposal would benefit public companies, investors, and the capital markets.

Comment: The SEC comment file also includes letters from individual and institutional investors, corporate governance advocates, financial analysts, and others (including major accounting firms) supporting the PCAOB's standard and urging SEC approval. Some commenters – both supporters and opponents of the standard -- suggested that, if the SEC approves CAM reporting, it should require post-implementation monitoring so that the SEC and PCAOB have a basis to determine whether the new auditor reporting requirements are achieving their objectives and whether they are having unintended consequences. CMC also recommends that, if the standard is, contrary to its advice, approved, that the approval be sun-setted – that is, for only a limited period of time.

In light of the statutory deadline, the SEC will presumably make a decision in the near future. If the proposal is approved, audit committees, auditors, and public companies will need to begin planning for implementation. As noted in the May-June 2017 Update, there are likely to be at least four direct audit committee impacts:

- Since discussion of a material matter with the audit committee triggers CAM analysis, auditors and audit committees will need to be thoughtful with respect to issues raised and with respect to the nature and scope of discussion.

- Audit committees will need to develop a protocol with their engagement partner under which the audit committee will learn, as far in advance of the issuance of the audit opinion as possible, the issues that the auditor intends to disclose as CAMs.

- Because of the tenure disclosure requirement, audit committees with long-serving auditors should be prepared to explain to shareholders what their philosophy is with respect to auditor rotation and the decision-making process concerning whether to seek proposals from other audit firms.

- Audit committees can expect audit fee increases in light of the additional work (and potential additional litigation exposure) that auditors may face as the result of CAM disclosure.

Audit Committee Voluntary Disclosures Continue to Increase

As discussed in several prior Updates, the scope of public company disclosure about audit committee responsibilities has been increasing. In 2013, organizations with an interest in audit committee transparency issued a "Call to Action" urging audit committees to strengthen their disclosures. See Center For Audit Quality Calls for Greater Audit Committee Transparency, November-December 2013 Update. In 2015, the SEC invited comment on whether it should mandate increased audit committee disclosure (see SEC Seeks Comment on Expanding Audit Committee Reporting, July 2015 Update). Audit committees seem to be responding. Two recently-released studies find that the nature and content of voluntary disclosure about the audit committee's work continues to grow.

Deloitte Center for Board Effectiveness

In Audit committee disclosure in proxy statements—2017 trends, Deloitte's Center for Board Excellence analyzed the proxy statements filed as of June 15, 2017, for the companies included in the S&P 100 index. Deloitte concluded: "Based on the analysis of the S&P 100's audit committee-related proxy disclosures, calls for transparency seem to be leading companies to continue expanding disclosures beyond what is required, as half of the disclosures reviewed increased from 2016 to 2017." However, Deloitte also found that, in some categories, disclosure declined slightly, as compared to 2016.

Some specific findings include:

- The most common audit committee disclosures (and the percentage of S&P 100 companies making the disclosure) are "Roles and responsibilities of the audit committee" (100 percent); "Responsibility for risk oversight generally" (99 percent); "Topics of discussion for the audit committee" (96 percent); "Discussion of the audit committee's oversight of the company's financial reporting process" (91 percent); and "Discussion of the audit committee's role is overseeing the internal audit function" (89 percent).

- Sixty-one percent of the S&P 100 disclosed that the audit committee evaluates the external auditor. This is a two percent increase over 2016. These disclosures indicated that evaluation factors included the auditor's qualifications, performance, independence, and tenure.

- Seventy-one percent of the 100 companies disclosed the tenure of their audit firm.

- Twenty percent of audit committees disclosed that they are responsible for negotiating audit fees (a three percent decrease from 2016), while 63 percent "provided general disclosures around the audit committee's role in reviewing and approving the audit engagement fees" (a two percent decrease from 2016).

- Sixty-five percent made disclosures regarding the responsibilities of the auditor (a four percent decrease from 2016). Two common disclosures of this nature were “Performing an audit of, and expressing an opinion on, the company’s financial statements and its internal control over financial reporting” and “Discussing with the audit committee any matters deemed appropriate.”

- Sixty-five percent of audit committees disclosed that they held separate meetings with the auditor; 60 percent disclosed that these discussions included the “overall scope of and plans for the audit.” Six percent disclosed that they discussed issues encountered during the audit with the auditor.

- Thirty-two percent of the 100 companies disclosed that the audit committee reviewed earnings report press releases prior to issuance, an increase from 30 percent in 2016.

- Fifty-seven percent made disclosures related to the audit committee’s review of significant accounting policies, and 34 percent disclosed information about audit committee review of management judgments and accounting estimates. Both areas were up slightly over 2016.

EY Center for Board Matters

EY's Center for Board Matters reviewed the audit-committee-related proxy statement disclosures of the Fortune 100. In its report, Audit Committee Reporting to Shareholders in 2017, EY finds “a continued increase in voluntary audit committee disclosures to shareholders. Year-over-year growth in voluntary audit-related disclosures in 2017 filings was similar to that seen in 2015 and 2016, indicating that companies and audit committees continue to reflect upon and make changes to the information that they communicate to shareholders.” (EY’s 2016 report is discussed in New Studies Report More Progress on Audit Committee Transparency, October-November 2016 Update.)

EY describes the following highlights of the 2017 study:

- Disclosure of audit oversight responsibilities. “The percentage of companies that explicitly stated that the audit committee is responsible for the appointment, compensation and oversight of the external auditor has nearly doubled since 2012, increasing to 87% in 2017, up from 81% in 2016 and 45% in 2012.”

- Auditor assessment disclosures. “The percentage of companies disclosing the factors used in the audit committee’s assessment of the external auditor’s qualifications and work quality increased from 48% in 2016 to 56% in 2017. In 2012, 17% of companies made such disclosures.”

- Disclosure of interactions with auditor. Disclosure about the actual topics discussed by the auditor and audit committee continues to be low. No more than 4 percent of companies provided such information between 2012 and 2017.

- Disclosure regarding lead audit partner selection. Disclosure about the role of the audit committee in lead audit partner selection has risen dramatically. In 2012, one percent of companies disclosed that the audit committee was involved in the selection of the lead partner. In 2017, 75 percent made such a disclosure.

- Independence-related disclosures. The percentage of audit committees that explicitly stated in the audit committee report that they are independent from management rose from 59 percent in 2016 to 64 percent in 2017. Eighty-four percent of companies said that the audit committee considers non-audit fees and services when assessing auditor independence.

- Fee-related disclosures. In 2017, 32 percent of Fortune 100 companies disclosed that the audit committee is responsible for fee negotiations with the auditor, compared to 27 percent in 2016. "In 2017, 43% of companies provided an explanation for a change in fees paid to the external auditor (including audit, audit-related, tax and other fees), while 31% did so in 2016 and 11% in 2012."

Comment: The Deloitte report concludes: "Voluntary expansion of audit committee disclosures in a number of areas can enhance investor confidence in the committee's oversight role and reduce the need for additional disclosure regulation. These areas include (1) the direct reporting relationship between the committee and the auditor; (2) the committee's assessment of audit quality and auditor independence; (3) the extent of communications between the committee and the auditor, beyond what is required by regulation and listing requirements; (4) the committee's process and rationale for appointing the auditor; and (5) the Committee's activities and actions during the year." Earlier Updates have urged audit committees to be aware of the types of voluntary disclosures concerning the committee's responsibilities and activities that their peers are making and to consider expanding their own disclosures to match. See October-November 2016 Update, above. In addition to increasing investor confidence, enhanced voluntary disclosure may obviate demands for new regulatory disclosure mandates and is, in any event, becoming a best practice.

PCAOB Staff Issues 2017 Inspections Road Map

On August 30, the Public Company Accounting Oversight Board issued a Staff Inspection Brief to provide information about the scope and objectives of its 2017 inspections of public company auditors. The PCAOB states that Inspection Briefs are intended to assist auditors, audit committees, investors, and preparers in understanding the PCAOB inspection process and its results. Each year, the Board releases an Inspection Brief describing the staff's priorities in the current year's inspections. Although there have been some changes, the "Key Areas of Inspection Focus" described in the 2017 Inspection Brief are generally similar to those the PCAOB identified last year with respect to its 2016 inspections. See PCAOB Describes 2016 Inspection Objectives, August 2016 Update.

In 2017, the PCAOB is inspecting approximately 195 accounting firms that audit public companies, including eleven U.S. firms that have more than 100 public company clients. The 195 inspected firms will include 55 non-U.S. firms in 26 countries. The Inspection Brief lists eight "key areas" in these inspections:

1. Recurring Audit Deficiencies

Inspectors will consider audit areas in which high levels of deficiencies were found in past inspections. The Inspection Brief states that the "most frequent and recurring audit deficiencies identified in recent inspection cycles" were:

- Internal control over financial reporting. The Inspection Brief refers specifically to the "sufficiency of auditors' procedures performed to identify, test, and evaluate controls that address the auditors' assessed risks of material misstatement, including auditors' testing of controls that contain a review element."

- Assessing and responding to risks of material misstatement. Misstatement-risk inspection areas include "(1) the sufficiency of the testing the design and operating effectiveness of controls to support the auditors' planned level of control reliance, including the testing of controls over the accuracy and completeness of system-generated data and reports; (2) whether the substantive procedures were specifically responsive to fraud risks and other significant risks of material misstatement that were identified by the auditor; (3) the evaluation of the presentation of the financial statements, including the accuracy and completeness of the disclosures for those focus areas included in the inspection; and (4) the evaluation of relevant audit evidence that appeared to contradict certain assertions in the financial statements."

- Auditing accounting estimates, including fair value measurements. PCAOB inspectors will focus on the steps auditors take to understand how estimates were developed, including testing of data and management assumptions. The Inspection Brief states that evaluating impairment analyses for goodwill and other long-lived assets, and the valuations of assets and liabilities acquired in business combinations, are frequent sources of audit deficiencies.

2. Audit Areas Potentially Affected by Economic Factors

Each year, the PCAOB identifies economic developments that may affect companies in ways that make it more likely that their audit will be selected for review. For 2017, these developments include –

- Brexit and the effect in the European financial sector. The Inspections staff will focus on the auditor's assessment of risks related to Brexit and other changes in the European financial markets and on audit responses to such risks.

- Continued high rate of merger and acquisition activity. M&A transactions "may include highly subjective estimates that are susceptible to management bias and have an increased risk of material misstatement related to the valuation of assets acquired and liabilities assumed."

- Search for higher-yielding investment returns in a low interest environment. Low interest rates may cause companies to invest in higher-yielding securities that are complex and hard to value.

- Continued fluctuations in oil and natural gas prices. Oil and gas prices affect the collectability of loans and receivables, and the ability of companies in the oil and gas industry to continue as going concerns.

3. Financial Reporting Areas

The Inspection Brief states that the most-frequently-selected financial reporting areas included revenue and receivables, non-financial assets (including goodwill and other intangible assets acquired in business combinations), inventory, financial instruments, allowance for loan losses, income taxes, benefit-related liabilities, and equity transactions. Other financial reporting areas on which inspectors will focus are the auditor's consideration of the entity's ability to continue as a going concern and evaluation of income tax accounting and disclosures.

4. New Form AP Reporting Requirements

In 2015, the PCAOB adopted a rule requiring audit firms to disclose, in a filing with the PCAOB on Form AP, the identity of the engagement partner and of other accounting firms involved in the audit. See PCAOB Takes Final Action to Require Disclosure of Engagement Partner and Participating Accounting Firm Names, December 2015 Update. The 2017 inspection program includes procedures to assess the effectiveness of firms' implementation of these new requirements.

5. New Accounting Standards

As discussed in prior Updates (see, e.g., Another Warning Bell Rings on Revenue Recognition Readiness, May-June 2017 Update; LeaseAccelerator Finds that Leasing Standard Implementation is Accelerating, March 2017 Update), the FASB has adopted new revenue recognition and lease accounting standards, and public companies are (or should be) deeply involved in preparing for implementation. In its 2017 inspections, the PCAOB's staff will seek to understand what changes in procedures audit firms plan as a result of the new accounting standards, including "communications related to management's readiness or technical ability with the audit committee."

6. Multinational Audits

In many engagements, the principal auditor uses work performed by other firms, particularly in audits of multinational companies. Inspection reports have frequently identified deficiencies in the use of the work of other audit firms, and the staff will continue "to evaluate how a firm that is using the work of another auditor in its audit evaluated the competence of, and the work performed by, the other auditor."

7. Information Technology

In 2017, the inspection staff will look at two aspects of the impact of information technology on public company audits. First, the staff is seeking to understand firms' use and development of software audit tools, including how audit firms obtain assurance that "engagement teams are effectively using these tools and evaluating the results of screening large data populations" and how firms determine that their engagement teams are "applying due care, including professional skepticism, when using these tools during the performance of the audit work." Second, the staff will review how firms address cybersecurity risks in performing audits. Inspectors will "seek to understand the procedures performed and documentation prepared by engagement teams to determine whether certain cybersecurity risks pose risks of material misstatement to the company's financial statements."

8. Audit Firm's System of Quality Control

The Inspection Brief highlights several aspects of audit firm quality control systems on which inspectors focus. For 2017, these will include root cause analysis (i.e., how the firm determines the underlying reasons for audit deficiencies); compliance with the auditor independence requirements; engagement quality review (i.e., the review performed by a second or concurring partner); and professional skepticism.

Comment: The Inspection Brief provides insight that may be useful to audit committees in understanding what areas of the company's audit are likely to attract the attention of the PCAOB's inspection staff and whether the company's engagement is likely to be selected for review. In this regard, the areas of inspections emphasis are largely unchanged from 2016. The focus on Form AP, on the impact of changes in the accounting standards, and on Brexit-related risks are new. In contrast, the 2016 emphasis on auditor communications with audit committees has been deleted this year. In addition, the Inspection Brief is a predictor of the areas to which the company's auditor is likely to devote additional time and resources in anticipation of possible future PCAOB scrutiny. Some of the topics highlighted in the Inspection Brief (especially those related to internal controls) mirror audit areas in which companies have questioned the level of audit effort in recent years. The Inspection Brief helps to explain why audit firms have felt compelled to emphasize these areas.

Directors are Worried About CAMs, Busy With Accounting Changes, and Interested in Sustainability

The Corporate Governance Practice of BDO USA has released its 2017 BDO Board Survey. The annual survey, which was conducted in August 2017, reports the views of 130 directors of public companies regarding a series of corporate governance and financial reporting issues. Some highlights of BDO's findings include:

- Optimistic on tax reform. More than three-quarters (78 percent) of public company directors believe that tax reform will be enacted during President Trump's term, but only 22 percent believe it will occur in 2017. Of those predicting tax reform, 94 percent believe it will have a favorable impact on their business, and 20 percent believe the impact will be highly favorable.

- Pessimistic on CAM disclosure. Almost half (48 percent) of board members do not believe that discussion of critical audit matters (CAMs) would be an improvement to the transparency and usefulness of the auditor's report. (See first item in this Update.) However, 36 percent believe it would improve reporting, and 16 percent are not sure. Half of directors think that CAM disclosure could make their job as a board member more difficult.

- Focused on accounting changes. Eighty-two percent of respondents said that the board or audit committee is "actively working with management" on the implementation of the new accounting standards for revenue recognition, lease accounting, and credit losses. Three-quarters said that the board is "engaged with management on the need to communicate with shareholders, regulators and other stakeholders on the potential impact of these accounting changes in order to avoid potential surprises."

- Supportive of sustainability disclosure. A majority (54 percent) of board members believe that disclosures regarding sustainability matters are important to understanding a company's business and to helping investors make informed investment and voting decisions. In last year's survey, only 24 percent of respondents thought that sustainability disclosure was important.

- Alert to whistleblowers. Nine out of ten (93 percent) of directors report that they receive regular reports on whistleblower complaints and on how they are being addressed. A similar percentage stated that they have asked what management is doing to communicate the importance of adherence to ethical standards.

- Negative on activists. Ninety-five percent of respondents think that activist investors are "too focused on short-term returns." The other five percent believe activists "are trying to unlock long-term shareholder value."

- Upbeat on diversity. Two-thirds of directors believe that their board is proactively addressing the issue of board diversity, while one-third think the board is "falling short in this area."

Comment: The rapid change in director attitudes on sustainability disclosure is perhaps the most striking finding of the BDO survey. As suggested in several prior Updates, the disclosure of environmental, social, and governance information is becoming routine. See, e.g., 82 Percent of S&P 500 are Now Publishing Sustainability Reports, July 2017 Update. As focus shifts to this type of disclosure, identifying, collecting, and verifying sustainability information that is material to the company and its future earnings and financial position are likely to become major challenges for managements and audit committees. (See next item in this Update for a discussion of SASB's efforts to develop sustainability disclosure standards for U.S. public companies.)

SASB Publishes Sustainability Disclosure Exposure Draft Standards

On October 2, the Sustainability Accounting Standards Board (SASB) published for public comment Exposure Draft Standards (EDSs) for 79 industries. The SASB Standards Board will review and incorporate feedback received during a 90-day comment period with the goal of adopting a final standards codification during the first quarter of 2018. Because of increasing investor interest in sustainability disclosure, and particularly in disclosure that includes quantifiable measures that can be used to compare performance across companies (see Institutional Investors Say They Use ESG Disclosure, But Aren't Satisfied With What They are Getting, April 2017 Update), audit committees (and management responsible for disclosure) may want to be familiar with the SASB standards for their industry and to consider voluntary use of the standards. (The author of the Update is a member of the SASB Standards Board.)

SASB is an independent, non-profit standards-setting organization. Its mission is to facilitate disclosure of material sustainability information in SEC filings so that investors have access to environmental, social, and governance (ESG) information that is necessary to informed investment decisions. SASB views sustainability as having five dimensions – environment; social capital; human capital; business model and innovation; and leadership and governance.

SASB seeks to identify, on an industry-by-industry basis, the specific, quantifiable sustainability information that is likely to be material to investors under the securities law definition of materiality. The SEC's Management's Discussion and Analysis (MD&A) requirements call for a description of known trends, events, and uncertainties that are reasonably likely to have material impacts on the reporting company's financial condition or results of operations. SASB describes its standards as "designed for integration into MD&A and other relevant sections of SEC filings." However, SASB is not a governmental body, and its standards have no legal effect; each company is ultimately responsible for determining what information is material and required to be disclosed in its SEC filings.

Between August 2013 and March 2016, SASB issued provisional standards, organized under eleven sectors, for the industries in its reporting universe. (The eleven sectors are Health Care, Financials, Technology & Communications, Extractives & Minerals Processing, Renewable Resources & Alternative Energy, Transportation, Services, Resource Transformation, Food & Beverage, Consumer Goods, and Infrastructure.) Each SASB standard lists and briefly describes how management of the ESG topic to which the standard relates may affect value creation for the industry in question. Standards also include metrics intended to measure performance on each ESG disclosure topic (or an aspect of the topic) that may be relevant to the industry.

The proposed changes reflected in the EDSs arose from market feedback on the provisional standards and from regulatory changes or scientific advances. In the press release announcing publication of the EDSs, SASB states that, in drafting the EDSs, it gave priority to improving "the quality of the standard, including the materiality and decision-usefulness of the information the standard is designed to yield and the cost-effectiveness of implementation."

The EDSs are open for public comment for until December 31, 2017. SASB specifically seeks input on whether:

- The topics included in the standards or changes to the standards that are likely to constitute material information;
- The metrics fulfill SASB's criteria for metric selection, and
- The standards or changes to the standards are technically accurate and constitute a basis for "suitable criteria" for data verification.

Comment: Sustainability disclosure has become the norm for many public companies. See 82 Percent of S&P 500 are Now Publishing Sustainability Reports, July 2017 Update. However, these types of disclosure are currently not standardized and comparison between companies (and for the same company over time) are therefore difficult. SASB's standards would address that issue. Companies and audit committees may want to become familiar with the SASB standards that apply to their industry and with the current state of their industry's sustainability disclosure. Because of the link between securities law materiality and SASB's standards, there is a possibility that SASB standards will influence the law of materiality and could evolve into de facto disclosure requirements (particularly if the SEC were to become more deeply involved in this area). See Investor Demand for ESG Reporting is Growing, and the SEC and PCAOB Want to Help, June-July 2016 Update. Accordingly, companies should consider commenting on the EDSs that are applicable to the industries in which they operate

www.bakermckenzie.com

For further information please contact:

Daniel L. Goelzer
+1 202 835 6191
Daniel.Goelzer@bakermckenzie.com

815 Connecticut Avenue
Washington, DC 20006-4078
United States

Prior editions of the Audit Committee and Auditor Oversight Update are available here.