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Digital Financial Statements

Digital Financial Statements

- Like Non-GAAP Financial Measures, Digital Financial Statements –
 - Are Important to Investors, and
 - Should be Audited.

Digital Financial Statements

Technology is Driving Change in Financial Reporting

- ❑ Until recently, assumptions about the way users consumed financial statements were settled: ***users would read them.***
- ❑ In reality, the majority¹ of financial statement information is ***now consumed digitally.*** For many years this has been via data distributors who themselves convert paper to digital.
- ❑ SEC is one of many regulators around the world to ***require a digitally tagged financial statement*** – but it is a separate non-audited exhibit.
- ❑ SEC is shifting to ***"Inline XBRL"*** which embeds machine readable financial statements in a single document.
- ❑ The single human and machine readable financial statement will be the ***only financial statement.***

The Anomaly – Digital Aspects of the Financial Statements are Not Audited

Digital Financial Statements

Investors Rightly Expect to Trust Digital Financials

- ❑ Stable financial markets rely on transparency and trust in a broad range of issuer disclosures.
- ❑ Audited financial statements have been the cornerstone of that trust.
- ❑ Financial statement information used for analysis has been and will continue to be sourced from digital filings.
- ❑ Investors are surprised when they learn financial statements delivered digitally are not audited.
- ❑ Indeed, 50% of CFA members surveyed in 2016 believe that digital information should be incorporated into the standard financial statement audit.²

A New Expectation Gap is Developing

SEC Now Accepts Inline XBRL

Each FS element has been tagged by the issuer.

This information is machine readable.

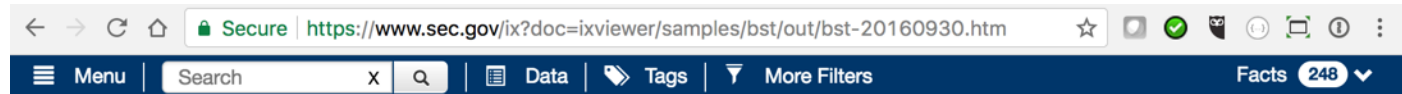
The tag includes a wealth of information about the data disclosed, such as the value, currency, reporting period and, as shown here, links to authoritative literature.

It can also contain an auditor imprimatur, a link to audit guidance and reference to reported Critical Audit Matters.

The screenshot shows a browser window displaying the SEC EDGAR website. The URL is www.sec.gov/ix?doc=ixviewer/samples/bst/out/bst-20160930.htm. The page title is "PART I" and the document is for "INLINE TESTING SAMPLE COMPANY". The main content is a "CONDENSED CONSOLIDATED BALANCE SHEETS" for September 30, 2016, and December 31, 2015. The balance sheet is presented in thousands of dollars, except for share data. A popup window titled "References" is overlaid on the balance sheet, showing metadata for "Cash" and "Cash Equivalents" items, including their Accounting Standards Codification (ASC) references and a link to the FASB website.

	September 30, 2016 (unaudited)	December 31, 2015 (unaudited)
(in thousands, except share and per share data)		
ASSETS		
Cash and equivalents	\$ 288,783	\$ 362,786
Accounts receivable, net	1,583,565	1,341,025
Inventories of parts and supplies, at cost	2,548,897	2,342,304
TOTAL CURRENT ASSETS	4,421,245	4,046,115
Goodwill and other intangible assets	344,682	292,003
Deferred tax assets	4,765,927	4,338,118
Other assets	1,152,164	448,055
Property, plant and equipment, less allowance for depreciation	231,814	251,517
TOTAL ASSETS	\$ 7,149,513	\$ 6,126,356
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,991,871	\$ 1,513,710
Current portion of long-term debt	525,506	225,000
Income taxes payable	17,258	3,919
Dividends payable	74,684	68,977
Other current liabilities	499,365	427,269
TOTAL CURRENT LIABILITIES	3,108,684	2,238,875
Long-term debt	225,000	225,000
Deferred and other post-retirement benefit liabilities	122,000	515,000
TOTAL CURRENT LIABILITIES	3,108,684	2,238,875
Long-term debt	225,000	225,000
Deferred and other post-retirement benefit liabilities	122,000	515,000

Currently - Only the Human Readable Layer is Audited

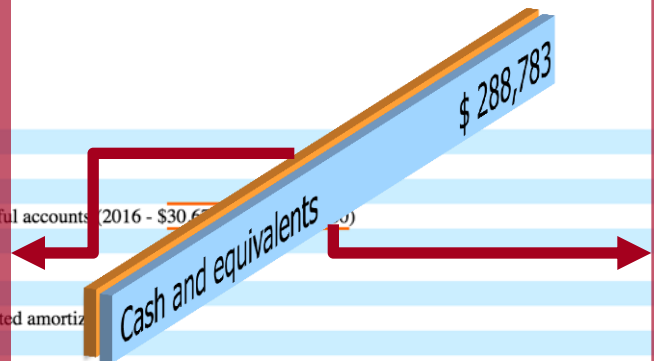


Item 1. Financial Statements

Unaudited machine consumable layer

ASSETS
CURRENT ASSETS
 Cash and equivalents
 Accounts receivable, net of allowance for doubtful accounts (2016 - \$30,650; 2015 - \$30,650)
 Inventories of parts and supplies, at cost
 Prepaid expenses and other current assets
PROPERTY, PLANT AND EQUIPMENT
 Goodwill and other intangibles, less accumulated amortization
 Deferred tax assets
 Other assets
 Property, plant and equipment, less allowance for depreciation (2016 - \$733,383; 2015 - \$683,676)
TOTAL ASSETS
LIABILITIES AND EQUITY
CURRENT LIABILITIES
 Accounts payable
 Current portion of long-term debt
 Income taxes payable
 Dividends payable
 Other current liabilities
TOTAL CURRENT LIABILITIES
 Long-term debt
 Pension and other post-retirement benefit liabilities

INLINE TESTING SAMPLE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS



	September 30, 2016 (unaudited)	December 31, 2015
(in thousands, except share and per share data)		
Cash and equivalents	\$ 288,783	\$ 362,786
Accounts receivable, net of allowance for doubtful accounts	23,564	24,025
Inventories of parts and supplies, at cost	23,763	23,267
Prepaid expenses and other current assets	744,692	292,003
Property, plant and equipment, less allowance for depreciation	1,152,164	448,055
Goodwill and other intangibles, less accumulated amortization	231,814	251,517
Deferred tax assets	415,955	578,937
Other assets	583,653	509,729
TOTAL ASSETS	\$ 7,149,513	\$ 6,126,356
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,991,871	\$ 1,513,710
Current portion of long-term debt	525,506	225,000
Income taxes payable	17,258	3,919
Dividends payable	74,684	68,977
Other current liabilities	499,365	427,269
TOTAL CURRENT LIABILITIES	3,108,684	2,238,875
Long-term debt	225,000	225,000
Pension and other post-retirement benefit liabilities	422,000	515,600

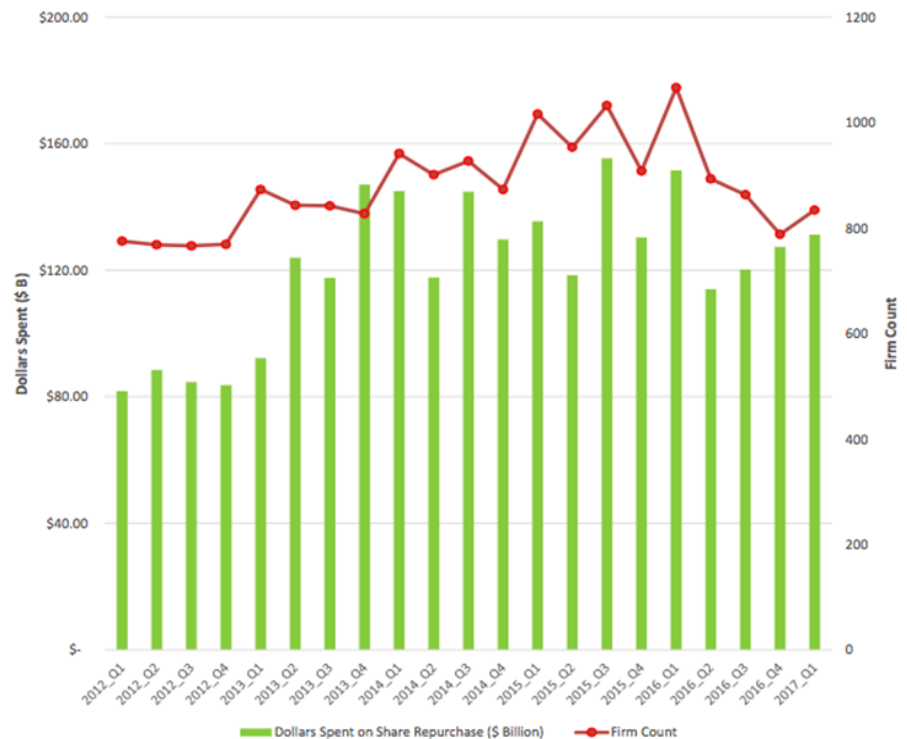
Audited human readable layer

Digital Financial Statements

Digital Financials Provide Direct Utility

- Data provided directly by companies in a machine-consumable form are immediately usable.
- Analysis can be carried out on a company-specific basis, or, as shown at right³, on the entire population of companies.

Dollars Spent on Share Repurchases By Quarter
(in USD Billions)



Source: [Calcbench](#)

The Analytical Capability is Powerful

Digital Financial Statements

The World View

- ❑ ***Inline XBRL*** will be the only financial statement language used in at least 32 countries within the next five years, including the US, Japan and the whole of the EU.
- ❑ The Netherlands is mandating audit of all XBRL filings for every private and public company.
- ❑ This question is not yet on the IAASB work program, but given developments in Europe, it is fair to assume that it will be considered soon.
- ❑ Audit firms in the UK and US are providing “agreed-upon” assurance as a private service for clients – and thus, should have a good idea of the cost.

The World is Moving Towards Audited Digital Financial Statements

Digital Financial Statements

Organizations Endorsing Assurance

- *CFA Institute*
- *American Institute of CPAs*
- *Dutch SBR Programme*
- *Bloomberg*
- *Morningstar*
- *XBRL International*

Users Want Independent Assurance Over Digital Financial Statements

Digital Financial Statements

Digital Financial Statements Should be Audited

- ❑ Digital financial statements allow users to consume information directly and with consistency of definitions across issuers.
- ❑ Digital financial statements facilitate analysis.
- ❑ Digital financial statements will be the only financial statements.
- ❑ Digital financial statements could contain errors in translation from the paper version - which could be minimized with auditor involvement.
- ❑ Investors expect both the human readable layer AND the machine readable layer to be audited.⁴

Relevancy of the Audit is Reduced if Not Applied to Digital Information

Digital Financial Statements

Reference Links

- ❑ ¹ See "[CFA Institute Member Survey: XBRL](#)", p3, published by the CFA Institute, October 2016.
- ❑ ² See "[Data and Technology: Transforming the Financial Information Landscape](#)" published by the CFA Institute, June 2016.
- ❑ ³ Calcbench Research Report – [Common Stock Repurchases June 2017](#)
- ❑ ⁴ See "[CFA Institute Member Survey: XBRL](#)", p20, published by the CFA Institute, October 2016.