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STANDING ADVISORY GROUP MEETING

CYBERSECURITY

JUNE 25, 2014

Introduction

At the June 24-25, 2014 Standing Advisory Group ("SAG") meeting, a panel will discuss cybersecurity issues and the potential implications for financial reporting and auditing. After the panel's presentation, the goal is to seek SAG member input on cybersecurity issues, including related auditor responsibilities.

Cybersecurity has been a recent topic of interest among public companies, investors, and others. On March 26, 2014, the Securities and Exchange Commission ("SEC") held a roundtable to discuss cybersecurity and the issues and challenges it raises for market participants, exchanges, and public companies, and how the panelists were addressing those concerns.[1/] Among other things, the panelists discussed the cybersecurity landscape and cybersecurity disclosure issues faced by public companies. Also, in February 2014, the National Institute of Standards and Technology ("NIST") issued a voluntary framework for reducing cyber risks to critical infrastructure, *Framework for Improving Critical Infrastructure Cybersecurity.*[2/]

[1/] See, *Cybersecurity Roundtable, SEC*, http://www.sec.gov/spotlight/cybersecurity-roundtable.shtml. See also Commissioner Aguilar, Luis A., "Boards of Directors, Corporate Governance and Cyber-Risks: Sharpening the Focus." New York Stock Exchange, June 10, 2014.

[2/] See http://www.nist.gov/cyberframework.

The panel discussion will consist of:

- A consultant specializing in cybersecurity threats, who will discuss cybersecurity broadly, focusing on the landscape and current trends;
- An academic who specializes in corporate governance, who will discuss audit committee perspectives regarding cybersecurity; and
- A representative from a public accounting firm, who will discuss the audit implications related to a company's cybersecurity and current auditing practices.

Broadly, the presentations and discussion may address the following topics, among others:

- Current trends in cyber risks;
- Significant cyber events and industry responses;
- How companies evaluate and respond to cyber risks and cyber incidents;
- Perspectives of audit committee members on cyber risks;
- Implications of cyber risks and cyber incidents for financial reporting, including disclosure obligations in filings with the SEC;[3/] and
- Auditor responsibilities related to cyber risks and cyber incidents.

SAG members will have the opportunity to discuss the topic, including sharing their views on risks of material misstatement, internal control over financial reporting, auditor responsibilities, and potential audit implications related to cybersecurity.

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The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. The PCAOB also

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[3/] The Division of Corporate Finance of the SEC provided guidance that expressed their views regarding disclosure obligations related to cybersecurity risks and cyber incidents. *See* CF Disclosure Guidance: Topic No. 2, *Cybersecurity*, October 13, 2011, available at http://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic2.htm.

oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.