

SEC Financial Reporting Update

SEC Financial Reporting Basics

Hot Topics in Corporation Finance – Tricia Armelin

Hot Topics in the Office of the Chief Accountant – John Vanosdall

Moderated by Tammy Whitehouse, Compliance Week

The Basics

- How many Commissioners?
- How many employees?
- How many SEC people are political appointees?
- Who do Office heads at the SEC report to? Who directs the staff's activities?
- Who sets accounting standards?
- Who sets auditing standards?
- Who sets rules on MD&A?
- Which part of the SEC writes comment letters?
- How many Chief Accountants are there?

SEC Financial Reporting Update

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Division of Corporation Finance – Overview

What We Do

- ❖ **Selectively review the disclosure documents filed by public companies (including initial registrations)**
- ❖ **Provide interpretive assistance on SEC rules and forms**
- ❖ **Recommend new and revised rules to the Commission**

Organization

- ❖ **Disclosure Operations (12 industry groups)**
- ❖ **Office of the Chief Accountant**
- ❖ **Legal and Regulatory Policy**
- ❖ **Policy and Capital Markets**

Frequent CF Staff Comment Areas

- ❖ **Segment Disclosure**
- ❖ **Realization of deferred tax assets**
- ❖ **Loss contingencies**
- ❖ **Pension accounting and disclosures**
- ❖ **Revenue Recognition**
- ❖ **Non-GAAP measures**
- ❖ **Goodwill**
- ❖ **Management's Discussion and Analysis**

Best Practices for Working with CF

❖ **Comment Letters**

- ✓ **Understand the comment – feel free to give us a call**
- ✓ **Respond promptly**
- ✓ **Make responses comprehensive**

❖ **Document your decision-making contemporaneously**

❖ **When in doubt, consider a formal or informal consultation with the SEC staff**

Resources

Accounting and Financial Reporting Guidance

www.sec.gov/divisions/corpfina/cfreportingguidance.shtml

- **Overview of Contacting the Staff for Advice**
- **Division Financial Reporting Manual**
- **Compliance & Disclosure Interpretations**
- **Staff Accounting Bulletins**
- **Corporation Finance Comment Letters**
- **Corporation Finance Filing Review Process**
- **CF Disclosure Guidance Topics**
- **Staff Speeches**
- **Other helpful information**

Resources (cont.)

Whom do I contact for assistance and how?

❖ Informal Questions

- **Financial Reporting – CF Office of Chief Accountant at (202) 551-3400 or submit request through online form at https://tts.sec.gov/cgi-bin/corp_fin_interpretive**
- **U.S. GAAP – SEC Office of the Chief Accountants at 202-551-5300 or OCA@sec.gov**
- **Small Business Policy – CF Office of Small Business Policy (202) 551-3460**
- **Interpretive questions - CF Office of Chief Counsel at 202-551-3500**
- **EDGAR question – EDGAR Filer Support at 202-551-8900**

Resources (cont.)

Formal Requests related to financial reporting

- ❖ **Pre-filing accommodations/waivers/interpretations of reporting requirements**
- ❖ **Address to the DCF Chief Accountant**
- ❖ **Mail or email to dcaoletters@sec.gov**
- ❖ **Clearly state issue and relief sought**
- ❖ **Clearly state facts and relate them to analysis of issue**
- ❖ **Clearly state the basis for relief**

Formal consultations on the application of GAAP should be sent to - OCA@sec.gov

- ❖ **www.sec.gov/info/accountants/ocasubguidance.htm**



Overview of OCA

Office of the Chief Accountant

Responsibilities

- ❖ **Principal advisor to the Commission on accounting and auditing matters**
- ❖ **Rulemaking, interpretive guidance and reports**
- ❖ **Oversight of standard setting**
- ❖ **Consultations**

Avenues for Consultations

Pre-filing basis – requests from registrants

- ❖ **Guidance for resolving ‘pre-filing’ questions is posted on the SEC’s website**

www.sec.gov/info/accountants/ocasubguidance.htm

Post-filing basis

- ❖ **DCF**
- ❖ **Enforcement**
- ❖ **Investment Management**
- ❖ **Trading and Markets**

Informal consultations

- ❖ **Informal discussion with OCA staff members - Accountant-on-call – (202) 551-5300**

OCA Areas of Focus

Requests over last 12 months:

- ❖ 46% from registrants
- ❖ 39% from within the SEC
- ❖ 15% from others (banking regulators, PCAOB, AICPA, industry groups, etc.)

General topics most commonly consulted on:

- ❖ 18% regarding revenue recognition
- ❖ 16% regarding business combinations or new basis
- ❖ 16% regarding financial assets
- ❖ 13% regarding consolidations



***IFRS Work Plan
Final Staff Report –
Summary of Findings***

2010 Commission Statement

- ❖ ***Commission Statement in Support of Convergence and Global Accounting Standards*** issued February 2010
- ❖ **Instructed the Staff to develop and execute a Work Plan to consider specific issues relevant to a Commission decision to incorporate IFRS**

Key Areas of the Work Plan

- ❖ **Whether to incorporate IFRS for U.S. issuers**
 - Sufficient development and application of IFRS for the U.S. domestic reporting system
 - Independent standard setting for the benefit of investors
- ❖ **How to incorporate IFRS for U.S. issuers (transition)**
 - Investor understanding and education regarding IFRS
 - Impact on the U.S. regulatory environment
 - Impact on issuers
 - Human capital readiness

Final Staff Report

- ❖ **Staff published final report on the Work Plan on July 13, 2012**
- ❖ **Final Staff report highlights that looking directly to IASB is challenging**
- ❖ **Potential benefits of other mechanisms, including an Endorsement Mechanism**
 - **Retain influence on standard setting**
 - **Lessen burden of conversion**
 - **Retain references to U.S. GAAP**

Summary of Findings

I. Sufficient Development and Application of IFRS

- ❖ **Development of IFRS**
- ❖ **Interpretative Process**
- ❖ **Global Application and Enforcement**

Summary of Findings (cont.)

II. Independent Standard Setting for Benefit of Investors

- ❖ Governance of the IASB**
- ❖ IASB's Use of National Standard Setters**
- ❖ Status of Funding**

Summary of Findings (cont.)

III. Investor Understanding

- ❖ Wide spectrum of investor knowledge of IFRS**
- ❖ Length and method of transition are important to investors**

Summary of Findings (cont.)

IV. Impact on Regulatory Environment

- ❖ Impact on industry regulators largely dependent on the method of incorporation**
- ❖ Audit regulation and audit standard setting not expected to be impacted significantly**

Summary of Findings (cont.)

V. Impact on Issuers

- ❖ **Pace and extent of accounting changes**
- ❖ **Method and timing of any transition to IFRS**

Summary of Findings (cont.)

VI. Human Capital Readiness

- ❖ Level of preparedness varies across companies and audit firms**
- ❖ Companies and audit firms will have to develop further expertise in-house or acquire additional human capital resources to incorporate IFRS**
- ❖ Length and method of transition will influence the demands on human capital**

Final Staff Report

Commission Introductory Note

- ❖ **The Commission has yet to make any policy decision**
- ❖ **The Work Plan did not set out to answer the threshold policy question**
- ❖ **Additional analysis and consideration is necessary on the threshold policy question**