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SEC Division of Corporation Finance Update on Financial Reporting Matters

June 24, 2011

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Today's Presentation

Today's program is designed to provide both public company auditors and financial statement preparers with the most up to date insights and observations from the SEC's staff on a range of important matters relevant to financial reporting including:

- Loss contingency disclosures
- Tax disclosures
- Segments
- IFRS Work Plan update
- Financial Reporting Manual updates
- Audit matters
- Information regarding companies with foreign operations



Today's Panelists

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Center for Audit Quality



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Agenda

- ❖ **Changes in Division of Corporation Finance**
- ❖ **Loss contingencies**
- ❖ **Foreign income tax discussion and analysis**
- ❖ **Segment reporting**
- ❖ **Non-GAAP measures**
- ❖ **IFRS Work Plan**
- ❖ **Auditor matters**
- ❖ **Companies with foreign operations**
- ❖ **Financial Reporting Manual updates**
- ❖ **Other matters**

Changes within the Division of Corporation Finance

- ❖ **CF-OCA staffing changes**

- ❖ **<http://www.sec.gov/divisions/corpfin/cffilingreview.htm>**

- ❖ **New industry group**

- ❖ **E-mailing comment letters**

Loss Contingencies

- ❖ **Background**
- ❖ **Observations**
- ❖ **Areas for Improvement**

Loss Contingencies - Areas for Improvement

- ❖ **Nature of matter**
- ❖ **Reasonably possible loss or range of loss**
- ❖ **Timing/surprise disclosures**
- ❖ **Consistency**
- ❖ **Unasserted claims**
- ❖ **Unclear language**

Loss Contingencies - Unclear Language

Example:

- ❖ **We do not believe that the final outcome of any matter will have a significant effect on our consolidated financial position. However, there could be a material effect.**

Foreign Income Tax

Discussion and Analysis

- ❖ **Disaggregation of foreign cash and short-term investments**
- ❖ **Disaggregation of foreign pre-tax operating income and foreign tax provisions**
- ❖ **Uncertainty in sustainability of historical income tax rates**

Segment Reporting

- ❖ **Information regularly provided to the Chief Operating Decision Maker**
- ❖ **Aggregation**
- ❖ **Consistency**

Non-GAAP Measures

- ❖ **January 2010 Compliance and Disclosure Interpretation**
- ❖ **Recent observations**

International Considerations - IFRS Work Plan

- ❖ **Published February 2010**
- ❖ **Progress Report published
October 2010**
- ❖ **Potential Incorporation Framework
published May 2011**
- ❖ **July 7, 2011 Roundtable on IFRS**
- ❖ **Study of financial statements
prepared using IFRS**

International Considerations – Reviews of IFRS Companies

❖ **Efforts**

❖ **Observations**

Auditor Matters

- ❖ **Revocation of PCAOB registrations**
- ❖ **Changes in auditors and Item 4.01
Form 8-K disclosures**
- ❖ **Conformed signatures**

Substantially All Operations Outside of the U.S.

- ❖ **Internal controls over financial reporting**
 - ❖ **Ability to prepare U.S. GAAP financial statements**
 - ❖ **Responses and disclosures**
- ❖ **MD&A disclosure considerations**
- ❖ **Footnote disclosure considerations**

Financial Reporting Manual Updates

- ❖ **Income averaging and the significant subsidiary test (FRM 2015.8)**
- ❖ **Age of acquired foreign business financial statements in connection with an Item 2.01 Form 8-K (FRM 2045.14 and .15)**
- ❖ **Combined periodic reports (FRM 1370)**

Financial Reporting Manual Updates

- ❖ **Updating requirements for reverse merger Form 8-Ks filed after year-end with nine-month interim financials (see timeline for example)**



- ❖ **Stock-based compensation in an IPO**

Other Matters

- ❖ **Pension/OPEB observations**
- ❖ **Definition of “full and unconditional guarantee”**
- ❖ **Short-term borrowings rule proposal status**

Resources

❖ **Corporation Finance home page:**

www.sec.gov/divisions/corpfm.html

❖ **Information for Accountants:**

www.sec.gov/divisions/corpfm/cfreportingguidance.html

❖ **Financial Reporting Manual:**

<http://sec.gov/divisions/corpfm/cffinancialreportingmanual.shtml>

Resources

- ❖ **Best Practices for Working with the SEC Staff:**

www.sec.gov/news/speech/2009/spch120609ac-ms.pdf

- ❖ **Other frequently requested material:**

- ❖ **SEC Staff Review of Common Financial Reporting Issues Facing Smaller Issuers**

<http://sec.gov/news/speech/2010/spch1210wc.pdf>

- ❖ **Areas of frequent staff comment – Financial institutions:**

www.sec.gov/news/speech/2009/slides1209slh.pdf

Resources

Whom do I contact for assistance and how?

- ❖ **Comment process – Disclosure Operations
Staff listed in comment letter**
- ❖ **Staff interpretation or informal question –**
 - ❖ **Financial Reporting – CF Office of Chief Accountant at
(202) 551-3400**
 - ❖ **Small Business Policy – CF Office of Small Business
Policy (202) 551-3460**
 - ❖ **Submit request through online form at:
https://tts.sec.gov/cgi-bin/corp_fin_interpretive**

Resources

- ❖ **Formal requests related to financial reporting:**

dcaoletters@sec.gov

- ❖ **Formal consultations on the application of GAAP:**

OCA@sec.gov

QUESTIONS



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