
**CURRENT DEVELOPMENTS
IN THE
DIVISION OF CORPORATION FINANCE**

***National Conference on Current SEC
& PCAOB Developments***

**Wayne Carnall
Chief Accountant
Division of Corporation Finance
December 7, 2009**

Disclaimer

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Topics

- **Communications and transparency**
- **Reviews and issues**
- **Goals for the future**

Review of Last Year's Goals

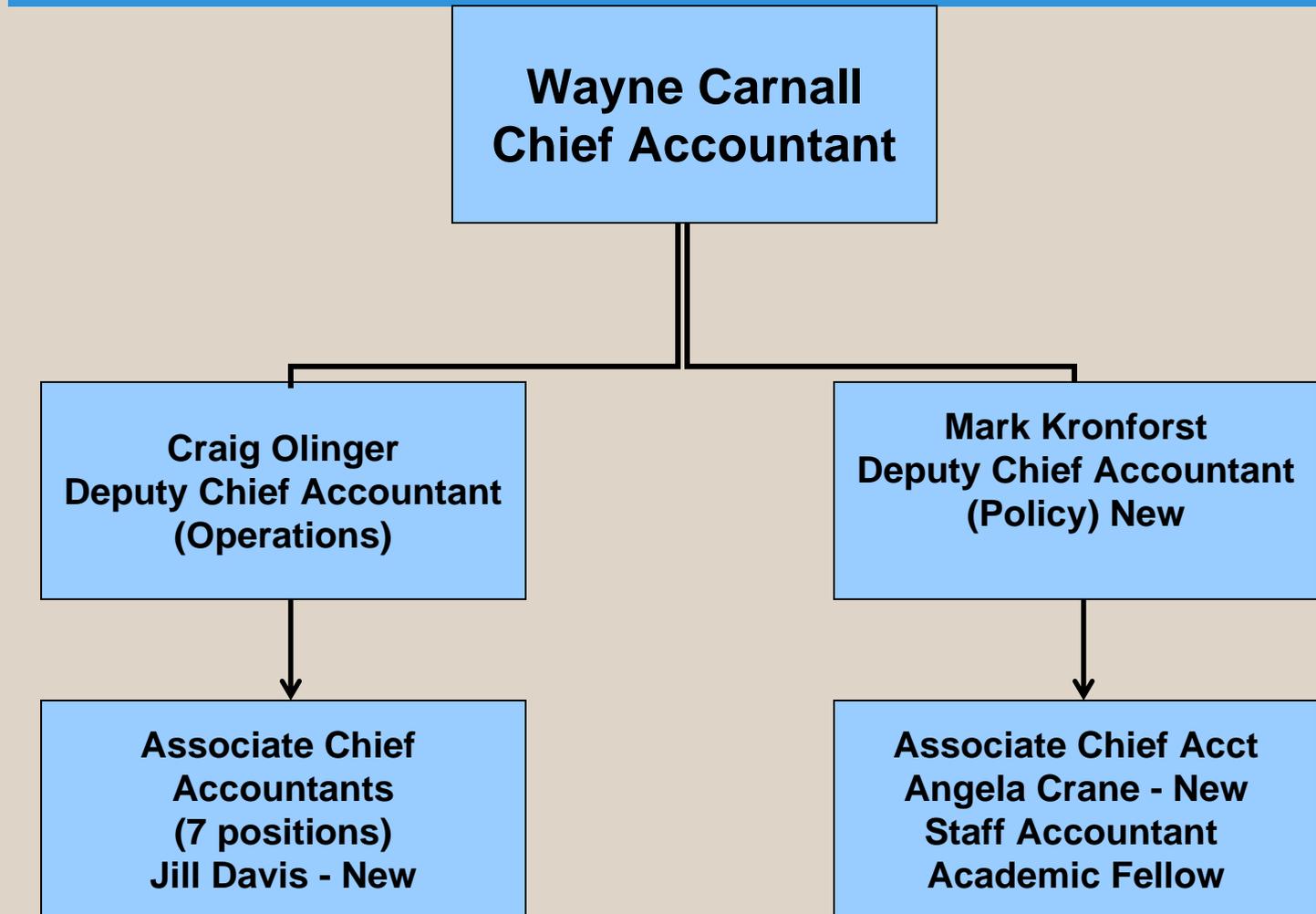
- | | |
|--|---------------------------|
| 1. Complete CF-OCA reorganization | 1. Accomplished |
| 2. Continue the outreach program | 2. Accomplished – ongoing |
| 3. Keep current the <i>Financial Reporting Manual</i> and develop interpretations that will be part of C&DIs - | 3. Accomplished – ongoing |
| 4. Update/eliminate certain information on our website | 4. Partially accomplished |
| 5. Develop “No Action” style letters for certain items | 5. Not done |
| 6. Keep current the guidance for smaller issuers | 6. Accomplished – ongoing |
| 7. Issue guidance on areas of focus for community banks | 7. Accomplished - ongoing |

**COMMUNICATIONS
&
TRANSPARENCY**

Communications

- **Outreach Program**
 - ❖ Accounting Firms
 - ❖ Investor Groups
 - ❖ Other Organizations
- **Letters – waivers, interpretations, etc.**
dcaoleters@sec.gov
- **E-mail vs. phone calls**
 - ❖ Efficiency
 - ❖ Future Guidance

CF-OCA



New Dear CFO Letter

MD&A Disclosure Regarding Provision and Allowance for Loan Loss

- Issued in August 2009
- Can be found at

<http://www.sec.gov/divisions/corpfin/guidance/loanlossesltr0809.htm>

New Dear CFO Letter

- **Why did we issue the letter?**
- **Topics**
 - ❖ **Higher-Risk Loans**
 - ❖ **Changes in Practice**
 - ❖ **Declines in Collateral Value**
 - ❖ **Other**
- **The last paragraph – what did we mean?**

SEC Staff Review of Common Financial Reporting Issues Facing Smaller Issuers

Wayne Carnall, Chief Accountant

Steven Jacobs, Associate Chief Accountant

Jennifer Thompson, Accounting Branch Chief

Christopher White, Accounting Branch Chief

Kevin Vaughn, Accounting Branch Chief

Cicely LaMothe, Accounting Branch Chief

Joel Parker, Accounting Branch Chief

Brian K. Bhandari, Accounting Branch Chief

Division of Corporation Finance

December 2009

PCAOB Forum - Smaller Issuers New Topics - 2009

- **Impairments and Related Disclosure**
- **Reverse merger and “Back-door” Registrations**
- **Related Party Transaction**
 - **Restricted Net Assets**
 - **SRC Transitions and Determinations**
 - **DC&P and ICFR**

*Areas of Frequent Staff
Comment – Financial
Institutions*

**Stephanie L. Hunsaker
Associate Chief Accountant
Division of Corporation Finance
December 2009**

Frequent Areas of Staff Comment

- 1. Allowance for Loan Losses**
- 2. Troubled Debt Restructurings (TDRs)**
- 3. Other Real Estate Owned (OREO)**
- 4. Purchased Loans**
- 5. U.S. Treasury Mortgage Modification Programs**
- 6. Securities Impairment**
- 7. Goodwill Impairment**
- 8. Deferred Tax Asset Valuation**
- 9. Fair Value Disclosures**
- 10. TARP Transactions**
- 11. Regulatory Actions or Recommendations**
- 12. FDIC Assisted Transactions**

Financial Reporting Manual

- **Objective**
- **Location**
<http://sec.gov/divisions/corpfina/cffinancialreportingmanual.pdf>
- **Updating**
 - ❖ **March 2009**
 - ❖ **June 2009**
 - ❖ **September 2009**
- **2010 and beyond**

REVIEWS

&

ISSUES

Responding to Comment Letters

- **My experience**
- **My recommendation**

Development of an EITF Issue

Deferred Acquisition Costs

The Review Team – AD 1

Jim Rosenberg

Carlton Tartar

Don Abbott

Christine Allen

CF-OCA

Craig Olinger

Todd Hardiman

OCA

Shelly Luisi

Jeff Kessman

Comments on IFRS Filings

- **IFRS 7 – expanded disclosure**
- **IAS 39 – amendments – reclassification**
 - ❖ *Extensive disclosure requirements*
- **SIC 12 – (Consolidation of Special Purpose Entities)**
- **IAS 17 – Sales Leaseback**
- **IAS 7 - Cash equivalents**
- **Etc.**

Materiality

- **Experiences this past year**
- **In preparing a “SAB 99” memo -**
 - ❖ **Companies are simply listing the 8 points in SAB 99 and indicating “no” and concluding the error is not material**
 - ❖ **Companies should provide company specific information on their assertion**
- **Correcting errors - disclosure**

Blaise Pascal

French Mathematician and Philosopher (1623-1662)

I have made this letter (10-K) longer than usual (necessary), only because I have not had the time to make it shorter.

Simplification

- **Codification – describe concepts**
- **Avoid redundancy**
- **Write for the investor – not the SEC staff**
- **Disclosure checklist – starting point not ending point**
- **View the 10-K/10-Q as a communication document – not a compliance document**
 - ❖ **Be consistent with other communications – analysts calls, press releases, etc.**
 - ❖ **Non GAAP**

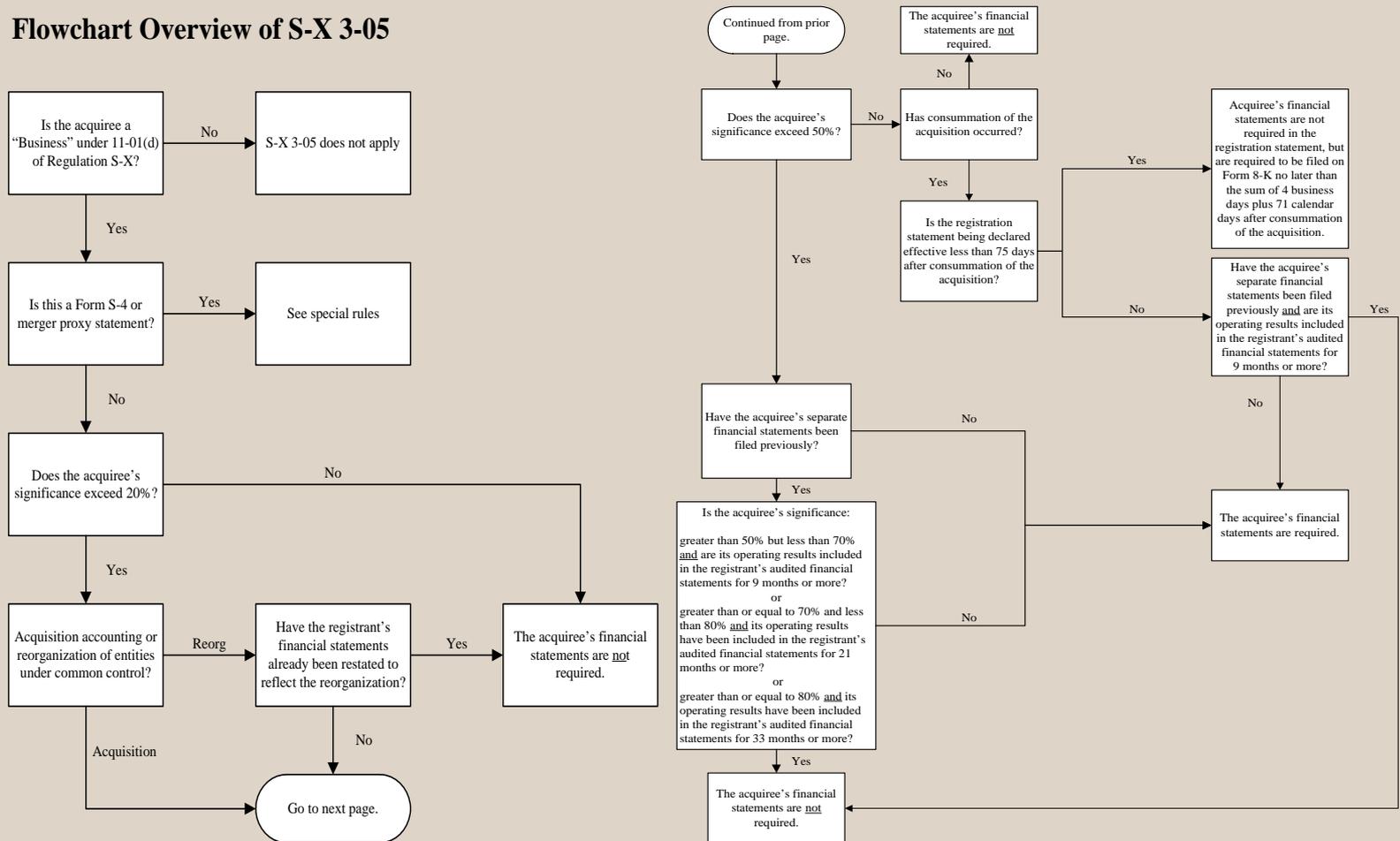
Goals for the Future

Projects On My List

- **Item 11(b) of Form S-3**
- **Rule 3-05 - Acquired business**
- **Rules 3-09 and 4-08(g) and – Equity Affiliates**
- **Article 11- Pro-Forma information**

3-05 Test

Flowchart Overview of S-X 3-05



4-08(g) Disclosure

| | <u>Affiliate A</u> | <u>Affiliate B</u> | <u>4-08(g)</u> |
|--------------------------|--------------------|--------------------|----------------|
| Revenue | 100 | 100 | 200 |
| Expenses | <u>60</u> | <u>120</u> | <u>180</u> |
| Net income (loss) | 40 | (20) | 20 |
| Percentage owned | <u>20%</u> | <u>50%</u> | |
| Equity pick up | 8 | (10) | |
| Loss on income statement | | (2) | |

Communication Goals

- **Continue the outreach program**
- **Keep current the *Financial Reporting Manual* and develop interpretations that will be part of C&DIs**
- **Update/eliminate certain information on our website**
- **Develop “No Action” style letters for certain items**
- **Keep current the guidance for smaller issuers**
- **Keep current the guidance on areas of focus for community banks**
- **Develop guidance for 8-K filings**

Niels Bohr

Danish Physicist (1885-1962)

***Prediction is very difficult,
especially about the future.***