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WHAT WE WILL COVER

- SEC: Office of the Chief Accountant
- IFRS & the SEC
- Recent Developments
- Advisory Committee on Improvements to Financial Reporting (CIFIIR)
- Interactive Data-XBRL
- Recent Staff Guidance
- SEC Corp Fin Hot Topics

Office of the Chief Accountant

Chief Accountant

- Principal advisor to the Commission on accounting and auditing matters
- James L. Kroeker appointed Chief Accountant on Aug. 25, 2009

Main groups in OCA

- Accounting
- Professional Practice (Audit and Independence)
- International Affairs

Responsibilities

- Rule-making, interpretive guidance, and reports
- Oversight of standard setting
- Consultations

Avenues for Consultations

- **Discussion with OCA staff members**
 - (202) 551-5300
- **Pre-filing basis – requests from registrants**
 - Guidance posted on the SEC's website:
<http://www.sec.gov/info/accountants/ocasubguidance.htm>
 - Submit questions by email to OCA@sec.gov
 - Submit 404 questions by email to 404smallbusiness@sec.gov
- **Post-filing basis –**
 - Internal consultations from Divisions of Corporation Finance and Enforcement
 - Requests from registrants

Recent Developments

SEC Hot Topics – Current Economic Environment

- Congressional testimony
- Mark-to-market study
- Consultation
 - ◆ Other SEC Divisions and Offices
 - ◆ Preparers and auditors
 - ◆ Other government agencies (e.g., staff of Treasury, FDIC, Federal Reserve Bank)
- Oversight of standard-setting
- Involvement in advisory groups

Mark-to-Market Study Focus

- The effects of fair value accounting standards on financial institutions' balance sheets.
- The impacts of fair value accounting on bank failures in 2008.
- The impact of fair value accounting standards on the quality of financial information available to investors.
- The process used by the Financial Accounting Standards Board (FASB) in developing accounting standards.
- Alternative accounting standards to those provided in FASB Statement No. 157.
- The advisability and feasibility of modifications to fair value accounting standards.

*The 90-day study's report was delivered to Congress
on December 30, 2008*

Mark-to-Market Study – Findings

- 1. Investors generally believe fair value accounting increases financial reporting transparency and facilitates better investment decision-making;***
- 2. Fair value did not appear to play a meaningful role in the bank failures that occurred in 2008;***
- 3. Bank failures in 2008 appeared to be the result of growing probable credit losses, concerns about asset quality, and in certain cases, eroding lender and investor confidence; and***
- 4. Fair value and mark-to-market accounting have been in place for years and their abrupt removal would erode investor confidence in financial statements.***

Suspending Subtopic 820-10 would only revert practice to inconsistent and sometimes conflicting guidance

Mark-to-Market Study – Recommendations

- **Development of additional guidance and other tools for determining fair value in illiquid or inactive markets;**
- **Enhancement of existing fair value accounting disclosure and presentation requirements;**
- **Educational efforts to reinforce the need for management judgment in the determination of fair value estimates;**
- **Examination by the FASB of both the impact of liquidity in the measurement of fair value and potential improvements to the impairment accounting models; and**
- **Assessment by the FASB of whether the incorporation of credit risk in the measurement of liabilities provides useful information to investors.**

Improve, do not suspend, fair value accounting standards

Staff Letters – Accounting Issues Related to Current Economic Crisis

- ***Off balance sheet accounting***
 - Loan modifications and QSPE status
 - Bank support for money market mutual funds
 - Disclosures
- ***Financial asset impairments***
 - No bright lines
 - Perpetual preferred securities
 - SAB 111
- ***Warrants to purchase common stock***
- ***Disclosures***

IFRS & the SEC

Background

- 1981- SEC advocated reducing disparity among national accounting standards
- 1988;1996 – SEC and Congress support establishing international accounting standards
- 2000 – SEC Concept Release on international accounting standards and convergence
- 2002 – IASB/FASB “Norwalk” Agreement
- 2003 – Study on principles-based accounting system notes benefits of global accounting standardization
- 2007- SEC Concept Release on allowing U.S. issuers to provide IFRS financial statements
- 2007- SEC Adopting Release on allowing its non-U.S. issuers to provide IFRS financial statements
- 2008 – SEC Proposing Release on a “Proposed Roadmap” for IFRS use by U.S. issuers

U.S. Issuers – IFRS Proposing Release

August 27, 2008 – SEC votes to issue a proposed IFRS roadmap and proposed to make rule changes to permit the use of IFRS by certain U.S. issuers

- ❖ **Proposes a timetable and sets milestones to be achieved for mandatory transition to IFRS for fiscal years ending on or after December 31, 2014**
- ❖ **Give certain U.S. issuers the option to use IFRS in their financial statements for fiscal years ending on or after December 15, 2009**

U.S. Issuers – IFRS Proposing Release

Milestones – Issues to be addressed before mandatory adoption of IFRS

- ❖ Improvements in the standards
- ❖ Funding and accountability of the International Accounting Standards Committee Foundation
- ❖ Improvement in the ability to use interactive data for IFRS reporting
- ❖ Education and training on IFRS in the US

Convergence

- *We encourage FASB and IASB to pursue global solutions*
- *Financial crisis has underscored importance of convergence*
 - Responses to crisis have been global
 - Companies and their investments are globally interconnected
- *Focus on quality of standards*
- *Challenges*
- *September 2008 update to Memorandum of Understanding*

U.S. Issuers – IFRS Proposing Release

Milestones – Transition plan for the mandatory use of IFRS

- Limited early use by the eligible entities
- Anticipated timing of future rule-making by the SEC
 - ◆ Sets a date of 2011 for the SEC to determine whether to require mandatory adoption for all U.S. issuers
- Potential implementation of mandatory use

Other Area of Consideration

- Accounting systems, controls and procedures
- Auditing
- Considerations of IFRS and the IASB's standard setting process:
 - ◆ State of IFRS
 - ◆ Relationship to accounting standard setting process

SEC Staff's ongoing involvement in IFRS:

- Support FASB / IASB convergence projects
- Observer on the Standards Advisory Council
- Participation in IOSCO
- Foreign registrant matters with IFRS handled in OCA similar to domestic registrant matters

***Advisory Committee on Improvements
to Financial Reporting***

Advisory Committee on Improvements to Financial Reporting

- *Final report issued on August 1, 2008*
- *Final report includes 25 recommendations in 4 areas:*
 - **Substantive complexity**
 - **Standards-setting process**
 - **Audit process and compliance**
 - **Delivering financial information**
- *SEC staff studying recommendations for possible future action*
 - ◆ **Several have been already adopted**
- *Materials available at*
<http://www.sec.gov/about/offices/oca/acifr.shtml>

Substantive Complexity/Standards-Setting

- *Complexity:*
 - ◆ Judicious expansion of fair value
 - ◆ Coordination of SEC and FASB to assess regularly continued relevance of disclosure guidance
 - ◆ Reduction of bright lines in accounting guidance
- *Standards Setting:*
 - ◆ Investor perspectives should be given pre-eminence
 - ◆ Clearly distinguish between authoritative and non-authoritative guidance
 - ◆ Clarify that staff comment letters are only registrant specific

Audit Process-Compliance/Delivering Financial Information

- *Audit Process/Compliance:*
 - ◆ FASB or SEC should issue guidance to reinforce that materiality should be evaluated from the perspective of a reasonable investor based on the total mix of information
 - ◆ Qualitative factors can cause a large error to not be material
- *Delivering Financial Information:*
 - ◆ SEC should require XBRL tagging
 - ◆ Enhanced Use of Corporate Web Sites
 - Interpretative release available at <http://www.sec.gov/rules/interp/2008/34-58288.pdf>
 - ◆ Encourage private sector development of KPIs and other relevant metrics
 - ◆ Encourage issuance of updated guidance on best practices for earnings releases
 - ◆ Mandate executive summaries in Exchange Act periodic reports

Interactive Data - XBRL

Interactive Data - XBRL

- *In January 2009, The SEC adopted a rule that requires all public companies to provide financial statements in XBRL*
 - ◆ 3-Year phase-in period
 - ◆ Applies to annual (10-Ks) and quarterly reports (10-Qs), transition reports, registration statements for domestic and foreign registrants
 - ◆ XBRL data included in a new exhibit to be furnished and included on corporate web site (if the entity maintains a website)
 - ◆ Supplements and does not replace existing reporting
- *Separate Proposal for Investment Companies*

XBRL – Phase-in Groups

- *Group 1 – All domestic and foreign large accelerated filers that use US GAAP and have public float of \$5 billion or greater (approximately 500 companies) for filings after June 15, 2009*
 - ❖ **Public Float = aggregate worldwide market value of common equity (voting and nonvoting) held by non-affiliates measured at the end of the company's second fiscal quarter**
- *Group 2 – All other domestic and foreign large accelerated filers that use US GAAP*
 - ❖ **Large Accelerated Filers are those companies with public float of \$700 million or more**
- *Group 3 – All other filers using US GAAP (including non-accelerated filers) and all foreign private issuers that use IFRS as issued by the IASB*

XBRL– Level of Tagging

- **First Year: Face of the financial statements (e.g., balance sheets, income statements) tagged with notes and schedules “block tagged”**
- **After First Year: Full financial statements tagged including notes and schedules**
- **No auditor assurance required on XBRL exhibit**
- **Non-compliance will cause loss of short form registration statement eligibility and 144 safe harbor**
- **Interactive data falls within DCP**

Recent Staff Guidance

SAB 111 – Financial Asset Impairments

- Issued April 13, 2009
- Amends SAB Topic 5.M in response to paragraph 320-10-65-1* Retains other-than-temporary impairment guidance for equity securities
 - Scopes out debt securities

***FSP FAS 115-2 and 124-2**

SAB 112 – Business Combinations and Divestitures

- ***Issued June 4, 2009***
- ***Revises or rescinds SEC staff interpretative guidance as a result of Statements 141(R) and 160***
- ***Highlights of two SAB's revised***
 - **SAB Topic 5.E– Accounting for Divestitures**
 - **Reminder SAB**
 - **SAB Topic 5.J– Push Down Accounting**
 - **Applies to a “substantially wholly owned” entity**
 - **Clarified the meaning of parent’s cost basis**
 - **Full fair value / Transition issues**

Other Updates in Process

References to Accounting Literature

- SEC Staff is currently updating Staff Accounting Bulletins, Rules (e.g. Regulation S-X), and Forms (e.g. Form S-1)

Future Revisions

- Financial Reporting Codification

SEC Corp Fin Hot Topics

Financial Reporting Issues Frequently Raised in Comment Letters

- Allowance for Loan Loss
- OTTI
- Goodwill / Intangible Asset Impairments
- Management's Discussion & Analysis

Goodwill / Intangible Asset Impairments

- Determination of fair value for reporting units
- Step 1 results
- Relationship between quoted market price (market cap) and book value
- Effect of current market conditions
- Potential offers for assets or businesses
- Reasonableness of assumptions
- Early Warning Disclosures
- *What is the impact to the business going forward?*

Management's Discussion and Analysis

- Best Practices

- ◆ Executive level overview (including discussion of impact of current economic conditions)
- ◆ Critical accounting estimates
 - Provide insight into the quality and variability of financial information (including fair value measurements)
 - Discuss significant estimates and assumptions used by management when evaluating assets for recoverability
- ◆ Early Warning Disclosures (Item 303(a)(3)(ii) of Regulation S-K)
- ◆ Focus on the analysis

Management's Discussion and Analysis, cont.

- *Liquidity and Capital Resources*
 - ❖ What are the company's bills and how will it pay them?
 - ❖ *Introductory Discussion*
 - ◆ Discuss how cash received from customers and all other sources will meet operating need and differences from historical practices
 - ❖ *Operating Activities*
 - ◆ Discuss underlying trends behind receipts/payments of cash (such as new product releases, competing product introductions, maturing product lines, changing prices, etc.)
 - ❖ *Investing Activities*
 - ◆ Sufficiency of cash from customers and other sources to fund projects, discretionary versus non-discretionary

Management's Discussion and Analysis, cont.

Liquidity and Capital Resources, cont.

- ❖ Financing Activities
 - ◆ Extent of use of credit facilities, availability at peak borrowing times, and uncertainties in accessing financing
- ❖ Credit Ratings
 - ◆ Reasonably likely changes/downgrades, and how they may affect future liquidity
- ❖ Financial Covenants
 - ◆ Reasonably likely breaches, known trends that may affect future compliance, limitations on additional debt
- ❖ Restructurings
- ❖ Impacts on Pension Funding
- ❖ Dividend restrictions