

SEC Regulations Committee
October 11, 2007 - Joint Meeting with SEC Staff
SEC Offices – Washington DC

Discussion Document B

Topic: Financial Information Required in Registration Statements When there are Retrospective Accounting Changes as a Result of Eventual Adoption of Proposed FASB Staff Position APB 14-a

Background:

Proposed FASB Staff Position APB14-a addresses the accounting for convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under Statement 133. The FSP, as proposed, would be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The FSP, as proposed, would be applied retrospectively to all periods presented, and the transition disclosures in paragraphs 17 and 18 of Statement 154 would be provided.

If the FSP is issued as proposed, it will raise issues related to the appropriate financial reporting and disclosure a) in registration statements filed prior to the registrant filing its first interim period financial statements reflecting the adoption of the proposed FSP, and b) in registration statements filed after the registrant files its first interim period financial statements reflecting the adoption of the proposed FSP.

The same issues were discussed in Discussion Document F for the AICPA SEC Regulations Committee's June 20, 2006, Joint Meeting with the SEC Staff in relation to FASB Statement 123(R), which permitted companies to adopt its provisions via modified retrospective application, and Statement 154, which requires companies to report a change in accounting principle through retrospective application. The "Background" section to that Discussion Document included citations from relevant literature and a variety of alternative views to be considered.

As a result of the SEC Staff previous views expressed at that meeting, this Discussion Document simply recasts the questions from June 2006 Discussion Document F to serve as a confirmation that the same approach would apply in this case.

Question 1:

Once FSP APB 14-a is issued and a company must make an accounting change that requires retrospective treatment in its financial statements, what financial information regarding the effects of these changes on previously issued financial statements should be included or incorporated by reference in a registration statement filed prior to filing the first interim period financial statements reflecting the adoption of the FSP?

Committee Recommended Approach:

Disclosure of the impending change consistent with SAB 74 is sufficient. This should include appropriate disclosure if the company knows the impact of adoption of the FSP as issued. There is no requirement to provide more extensive information until the accounting change has been reflected in historical financial statements.

SEC Staff Position:

The staff supports the approach recommended by the Committee.

Question 2:

Once FSP APB 14-a is issued and a company makes an accounting change that requires retrospective treatment in its financial statements, what financial information regarding the effects of these changes on previously issued annual financial statements should be included in a registration statement filed or amended after filing the first interim period financial statements reflecting the adoption of the FSP? Would the conclusion be different if the previously issued annual financial statements are incorporated by reference, rather than included?

Committee Recommended Approach:

Provide revised audited financial statements reflecting the accounting change. Item 11 of Form S-3 requires inclusion of restated financial statements if there has been a change in accounting principle where such change or correction requires a material retroactive restatement of financial statements. This approach is also required by Statements 144, 131, 123(R) and 154. Note that the conclusion would not be different if the previously issued financial statements are incorporated by reference, rather than included.

SEC Staff Position:

The staff supports the approach recommended by the Committee.