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SEC Issues New CDIs Regarding Changes in Accountants

On January 14, 2011 the Securities and Exchange Commission (SEC) updated its [Compliance and Disclosure Interpretations \(CDIs\)](#) to address a number of issues regarding [Item 304 of Regulation S-K, Changes in and Disagreements with Accountants on Accounting and Financial Disclosure](#) (Questions 111.01 through 111.07) and [Item 4.01 of Exchange Act Form 8-K, Changes in Registrant's Certifying Accountant](#) (Questions 114.01 through 114.03).

Many of the new CDIs address matters on which the SEC staff frequently issues comments on in connection with their review of disclosures contained in Item 4.01 of Form 8-K and other filings. The SEC staff has indicated that the following CDIs address two of the most frequent areas of comment.

Question 111.01

Question: *If a registrant's principal accountant resigns, declines to stand for re-election or is dismissed, Items 304(a)(1)(iv) and (v) require the registrant to disclose any disagreements and reportable events during the registrant's two most recent fiscal years and any "subsequent interim period" preceding the resignation, declination or dismissal. For purposes of this requirement, what period of time does "subsequent interim period" cover?*

Answer: *The "subsequent interim period" is the period from the end of the registrant's most recent fiscal year through the date of the former principal accountant's resignation, declination to stand for re-election or dismissal. This period is not limited to the end of the most recent fiscal quarterly period. Similarly, the "subsequent interim period" referred to in Item 304(a)(2), which requires disclosure of the engagement of a new principal accountant, is the period from the end of the registrant's most recent fiscal year through the date on which the new principal accountant is engaged. [Jan. 14, 2011]*

Question 111.05

Question: *A registrant's principal accountant issued an audit report on the registrant's financial statements in the last two fiscal years containing an explanatory paragraph regarding a registrant's ability to continue as a going concern. Is this required to be disclosed under Item 304(a)(1)(ii)?*

Answer: *Yes. The explanatory paragraph represents a modification of the principal accountant's audit report for an uncertainty, thereby requiring disclosure under Item 304(a)(1)(ii). [Jan. 14, 2011]*

The staff also plans to incorporate these CDIs into the next update of the [Financial Reporting Manual](#).

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