

SEC Regulations Committee
September 12, 2018 - Joint Meeting with SEC Staff
SEC Offices – Washington, DC

HIGHLIGHTS

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These highlights were prepared by a representative of CAQ who attended the meeting and do not purport to be a transcript of the matters discussed. The views attributed to the SEC staff are informal views of one or more of the staff members present, do not constitute an official statement of the views of the Commission or of the staff of the Commission and should not be relied upon as authoritative.

As available on this website, highlights of Joint Meetings of the SEC Regulations Committee and the SEC staff are not updated for the subsequent issuance of technical pronouncements or positions taken by the SEC staff, nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature. As a result, the information, commentary or guidance contained herein may not be current or accurate and the CAQ is under no obligation to update such information. Readers are therefore urged to refer to current authoritative or source material.

I. ATTENDANCE

SEC Regulations Committee	Securities and Exchange Commission	Observers and Guests
Christine Davine, Chair	<i>Division of Corporation Finance (Division)</i>	Chris Alabi, CAQ Observer
Steven Jacobs, Vice-Chair	Kyle Moffatt, Chief Accountant	Rick Condon, RSM
Jason Cuomo	Patrick Gilmore, Deputy Chief Accountant	Paula Hamric, BDO
Brad Davidson	Lindsay McCord, Deputy Chief Accountant	Annette Schumacher Barr, CAQ Observer
Liz Gantnier	Craig Olinger, Senior Advisor to the Chief Accountant	
Jon Guthart	Shelly Luisi, Associate Director - Chief Risk Officer	
Kendra Decker	Christy Adams, Associate Chief Accountant	
John May	Tricia Armelin, Associate Chief Accountant	
Ravi Raghunathan	Catherine Brown, Deputy Chief Risk Officer	
Terry Spidell	Jaime John, Associate Chief Accountant	
Jake Vossen	Ryan Milne, Associate Chief Accountant	
Greg Wright	Mark Green, Senior Special Counsel	
	Mark Rakip, Staff Accountant	
	Jarrett Torno, Assistant Chief Accountant	
	<i>Office of Chief Accountant</i>	
	Sheri York, Professional Accounting Fellow	

II. CURRENT FINANCIAL REPORTING MATTERS

A. New Revenue Recognition Disclosures under ASC 606

The Committee and staff discussed observations on the new disclosures required by ASC 606, *Revenue from Contracts with Customers*, which were consistent with those discussed at the [July 12, 2018 SEC Regulations Committee Meeting](#).

B. Impact of Retrospective Application of New Accounting Standards on the Fourth and Fifth Year of Selected Financial Data table (e.g., new standard on long-duration insurance contracts)

The Committee and the staff discussed the impact of the retrospective application of new accounting standards on the fourth and fifth year of selected financial data (S-K Item 301). The staff indicated that its views, as described in FRM 1610.1, have not changed. The staff generally expects all periods in selected financial data to be presented on a basis consistent with the annual financial statements. The staff indicated that registrants could discuss their individual facts and circumstances with the Assistant Director group responsible for reviewing their filings.

C. Emerging Growth Company (EGC) Transition Issues

The Committee and staff followed up on a prior meeting discussion related to a company that loses EGC status in the year public companies are required to adopt new accounting standards when they have elected to use non-public business entity adoption dates. The staff indicated these inquiries will be addressed in future public communications.

The Committee and the staff also discussed:

- The impact of ASC 606 when an EGC using non-public business entity adoption dates loses EGC status in the year of adoption applicable to non-public business entities (i.e., 2019 for a calendar year entity) or after the period in which the registrant has adopted the standard using the non-public business entity dates (e.g., 2020 for a calendar year entity); and
- Whether an emerging growth company that adopts ASC 606 would be required to recast the 2019 comparable quarters in the 2020 Form 10-Q in light of the guidance in FRM 11110.2.

The staff indicated they are considering both these issues.

D. Financial statement requirements in an S-4 and/or merger proxy for an operating company merging with a SPAC

The Committee and the staff discussed transactions in a Form S-4 and/or merger proxy for which public Special Purpose Acquisition Companies (SPACs) are consummating mergers with private operating companies. In particular, they discussed the audit requirements for the

private operating company in the Form S-4/merger proxy prior to consummation of the transaction.

Given that the operating company is considered the predecessor requiring a PCAOB opinion in the “Super Form 8-K” to be filed within four days of the consummation, the staff noted that the operating company financial statements should also be audited in accordance with PCAOB standards for the Form S-4/merger proxy. If a registrant is unable to provide a PCAOB opinion for the operating company in the Form S-4/merger proxy (for example because of an auditor independence issue or other timing issue), the registrant should discuss their facts and circumstances with the staff prior to the filing.

The staff also noted that the financial statements of the operating company should be presented as if it were the private operating company’s initial registration statement. Therefore, the financial statements of the operating company would need to comply with public company GAAP disclosures (e.g., segments, earnings per share, etc.). In addition, the operating company would need to evaluate its probable and consummated acquisitions following Rule 3-05 and Regulation S-X).

E. Leases (ASC 842) - Impact on Article 11 conclusions for Master Limited Partnership (MLP) drop-down transactions previously accounted for as common control business combinations under ASC 805 and now accounted for as failed sale-leaseback transactions under ASC 842

Subsequent to the adoption of ASC 842, an MLP might be required to account for a drop-down transaction as a failed sale-leaseback transaction. Rather than accounting for the drop down as a common control business combination, the MLP will record a financing receivable on its balance sheet and recognize interest income rather than recording the assets on its balance sheet and the related revenues and costs on its income statement.

The Committee and staff discussed whether the transactions described above represent the acquisition of an asset or a business for purposes of Item 2.01 of Form 8-K, which informs whether historical financial statements and Article 11 pro forma financial information is required. The staff indicated they are considering this issue.