# SEC Regulations Committee

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

## HIGHLIGHTS



## I. ATTENDANCE

| SEC Regulations Committee | Securities and Exchange Commission | Observers and Guests |
|---|---|---|
| Christine Davine, Chair | ***Division of Corporation Finance (Division)*** | 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 | |
| | ***Office of Chief Accountant*** | |
| | 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 11pro forma financial information is required. The staff indicated they are considering this issue.