

**SEC Regulations Committee  
June 18, 2015 - Joint Meeting with SEC Staff  
SEC Offices – Washington DC**

**HIGHLIGHTS**

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**I. ATTENDANCE**

<b>SEC Regulations Committee</b>	<b>Securities and Exchange Commission</b>	<b>Observers and Guests</b>
John May, Chair	<i>Division of Corporation Finance (Division)</i>	Annette Schumacher
Christine Davine, Vice-Chair	Mark Kronforst, Chief Accountant	Barr, CAQ Observer
Scott Bourgeois	Craig Olinger, Deputy Chief Accountant	Todd Kosel, PwC
Janie Copeland	Nili Shah, Deputy Chief Accountant	Brian Schramm, PwC
Brad Davidson	Patricia Armelin, Associate Chief Accountant	
Melanie Dolan	Jessica Barberich, Associate Chief Accountant*	
Fred Frank	Jill Davis, Associate Chief Accountant*	
Liz Gantnier	Todd Hardiman, Associate Chief Accountant*	
Greg Giugliano	Louise Dorsey, Associate Chief Accountant	
David Hilder	Patrick Gilmore, Associate Chief Accountant	
Bridgette Hodges	Cicely LaMothe, Associate Director	
Steven Jacobs	Austin Lee, Valuation Fellow	
Jeff Lenz	Ryan Milne, Associate Chief Accountant	
Steve Mezzio	Mark Green, Senior Special Counsel	
Scott Pohlman	Angela Crane, Office Chief, Disclosure Standards	
Sharon Virag	Kevin L. Vaughn, Associate Chief Accountant	
	* Via Teleconference	
	<i>Office of the Chief Accountant</i>	
	Courtney Sachtleben, Professional Accounting Fellow	

## **II. DIVISION OF CORPORATION FINANCE PERSONNEL AND ORGANIZATIONAL UPDATE**

The staff discussed an upcoming change within the Division's Office of Chief Accountant (CF-OCA), noting that CF-OCA will be moving to a topical focus under which the Associate Chief Accountants will each be responsible for specific topical areas rather than being responsible for specific industries. Among other things, this will allow staff to develop expertise by subject area (e.g. revenue, S-X Rule 3-10). The change in CF-OCA's internal service approach will not impact the way filings are reviewed by the Division's twelve industry-based Assistant Director ("AD") groups.

## **III. CURRENT FINANCIAL REPORTING MATTERS**

### **A. Division views regarding delinquent filings**

The staff and Committee discussed situations in which a registrant seeks the staff's accommodation to file a comprehensive Form 10-K instead of filing individual periodic reports that were required but not made (e.g., filings that were not made because the company was working on restatements of prior period financial statements). The staff is considering whether to revise section 1320.4 of the Division's Financial Reporting Manual (FRM) regarding the need to write to CF-OCA about accommodation requests for delinquent filings.

### **B. Impact of adopting new accounting standards on previous significance tests**

The staff and the Committee discussed the guidance in FRM 2410.8 which indicates that S-X Rule 3-09 significance tests relating to unconsolidated subsidiaries and equity method investees need to be reperformed in connection with a subsequent Form 10-K when historical financial statements have been revised to reflect either a retrospective change in accounting principle or a discontinued operation. The Committee shared its perspectives on a model similar to that found in FRM 2025.1 regarding S-X Rule 3-05 (i.e., no requirement to reperform significance tests for individual acquisitions). The staff indicated that the guidance cited in FRM 2410.8 above reflects the Division's view, and that registrants are encouraged to contact the staff with specific facts and circumstances if application of existing rules yields an impractical answer.

### **C. Segment Reporting**

The staff asked members of the Committee for their observations regarding recently issued comment letters and staff speeches on segment reporting. Specifically, the staff was interested in how registrants and/or accounting firms have responded to the recent staff speeches and if there has been any change in disclosure. Some members shared that discussions have increased on the topic, particularly in cases involving IPOs or internal reorganizations.

#### **D. Update on SAB Topic 5.Z.7, Accounting for the spin-off of a subsidiary**

Consistent with public comments previously made by members of the Commission's Office of the Chief Accountant, the staff noted that they are continuing to evaluate potential changes to their guidance relating to treatment of a spin-off as a change in reporting entity (SAB Topic 5.Z.7). Additionally, the staff asked that registrants avoid analogizing to SAB Topic 5.Z.7 in situations not addressed by that literature (for example, in an issue related to the appropriateness of carve-out financial statements).

#### **E. Requests to Division Staff for Reviews of Incomplete Filings**

From time to time, registrants ask the SEC staff to perform their review of a registration statement when certain financial information called for by the form is not included in the filing. The staff indicated that the relevant AD group within the Division is responsible for deciding whether to perform the review of an incomplete filing. Requests to review incomplete filings should be made to those groups.

### **IV. CURRENT PRACTICE ISSUES**

#### **A. Pro forma reserves and SMOG data in connection with acquisitions and sales of oil and gas businesses**

Publicly traded companies in the oil and gas industry are required to disclose in their historical financial statements supplemental information about reserve quantities and a standardized measure of oil and gas (SMOG), as required by Accounting Standards Codification (ASC) 932-235. FRM 2065.12 states that this information should also be provided in the historical financial statements of acquired oil and gas properties. Additionally, for a transaction that meets the definition of a roll-up transaction in Item 901 of Regulation S-K, Item 914 calls for specified pro forma information above and beyond that required by Article 11 of Regulation S-X, including a pro forma statement of cash flows, pro forma book value per share and pro forma oil and gas reserve data, if applicable. These requirements are discussed further in FRM 3140.1 and SAB Topic 2-D, Question 4.

The Committee asked the staff whether pro forma SMOG disclosures are required or expected in pro formas associated with significant acquisitions of oil and gas businesses (without regard to whether the transaction is a "roll-up"). The staff noted that they usually see pro forma reserve disclosures and pro forma SMOG disclosures in these filings and that it is consistent with their expectation. The staff did not specifically address practice issues related to dispositions. The Committee did not suggest that the staff needed to consider this further.

#### **B. Date for assessing whether an acquiree meets the definition of a foreign business in Rule 1-02(l) of Regulation S-X**

There are various financial reporting accommodations which may be available to registrants in connection with an acquisition when the acquiree is a foreign business

as defined in Rule 1-02(1) of Regulation S-X. The Committee and the staff discussed what date an acquirer should use to determine whether an acquired business meets the definition of a foreign business. The staff indicated that there is no specified date in the SEC rules and registrants should use the date that makes the most sense based upon their individual facts and circumstances.