
**Update from the Division of Corporation
Finance and the Office of the Chief Accountant**

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U.S. Securities and Exchange Commission



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Speaker Biography

Stephanie J. Ciboroski

U.S. Securities and Exchange Commission

Stephanie Ciboroski is a Senior Assistant Chief Accountant in the SEC's Division of Corporation Finance office that is responsible for resolving technical accounting, financial reporting and disclosure issues related to the large financial institutions. Prior to January 2011, Stephanie was an Associate Chief Accountant in the Chief Accountant's Office of the Division of Corporation Finance where her responsibilities primarily included consultation with registrants and Commission staff on accounting and reporting matters in the Financial Services industry. Stephanie joined the Commission staff in 2002 as a staff accountant in the Division of Corporation Finance. Prior to that, Stephanie was an audit manager with Ernst & Young.

Stephanie graduated summa cum laude from the University of Maryland at College Park.

Speaker Biography

Matthew Schell

U.S. Securities and Exchange Commission

Matthew serves as a Professional Accounting Fellow in the Office of the Chief Accountant at the SEC. His responsibilities include following the activities of various professional accounting standard setting bodies both within the United States and internationally, consulting with registrants on accounting and reporting matters, and participating in the development of the Commission's rule proposals. He specializes in accounting for financial assets, debt and equity instruments, derivatives and hedging, leasing, and non-stock based compensation under U.S. GAAP and IFRS.

Prior to joining the Commission, Matthew was a senior manager at Crowe Horwath LLP in the New York office where he served clients within the financial services industry. He attended Illinois State University where he majored in Accounting and Finance. He is a CFA® charterholder and is a licensed CPA in the State of New York and the District of Columbia.

Speaker Biography

Mark Shannon

U.S. Securities and Exchange Commission

Mark Shannon is an associate chief accountant in the Division of Corporation Finance's Chief Accountant's Office (CF-OCA) of the Securities and Exchange Commission. He currently serves as a liaison for the Division's Financial Services I and II disclosure operations groups. Mark previously served as a liaison to the Division's Consumer Products disclosure operations group, and he also previously served in various positions in the Division's Office of Natural Resources and the Office of Information Technologies and Services disclosure operations groups.

Prior to joining the SEC in July 2007, Mark worked in the Houston office of PwC where he served clients primarily in the financial services sector. He attended the University of Houston where he majored in Accounting. He is licensed as a CPA in the state of Texas.

Agenda

- **Who we are and what we do**
 - Division of Corporation Finance (DCF)
 - Commission's Office of the Chief Accountant (OCA)
- **Frequent Areas of Staff Comment on Accounting & Disclosure Matters**
- **Resource Links**

Organization of the Division of Corporation Finance

Organization of the Division of Corporation Finance

■ Responsibilities

- ❖ Selectively review the disclosure documents filed by public companies (including initial registrations)
- ❖ Provide interpretive assistance on SEC rules and forms
- ❖ Recommend new and revised rules to the Commission

■ Organization

- ❖ Disclosure Operations (12 industry groups)
- ❖ Legal and Regulatory Policy
- ❖ Division's Office of Chief Accountant (CF-OCA)
- ❖ Policy and Capital Markets

Organization of the Division of Corporation Finance

The Financial Services Industry Group is divided into two separate groups:

- Office of Financial Services I (Office #7)— consists of approximately 675 financial institutions, including the vast majority of all community & mid-tier financial institutions
- Office of Financial Services II (Office #12)— consists of approximately 190 registrants representing 60+ of the largest financial institutions in the world (including 39 FPIs and MJDS filers), as well as the GSEs, investment advisors, and broker dealers of various sizes

Organization of the Division of Corporation Finance

Office of Financial Services I - Contact at: (202) 551-3770

- ❖ Todd Schiffman – Assistant Director
- ❖ John Nolan – Senior Assistant Chief Accountant
- ❖ Amit Pande – Accounting Branch Chief
- ❖ Gus Rodriguez – Accounting Branch Chief

Office of Financial Services II - Contact at: (202) 551-3830

- ❖ Suzanne Hayes– Assistant Director
- ❖ Stephanie Ciboroski– Senior Assistant Chief Accountant
- ❖ Kevin W. Vaughn – Accounting Branch Chief
- ❖ Hugh West – Accounting Branch Chief

Organization of the Division of Corporation Finance

Corporation Finance – Office of the Chief Accountant (CF-OCA)

- **Mark Shannon – liaison to Fin Services I and II disclosure operations groups**

Contact CF-OCA: (202) 551-3400

Primary Role:

- **Assist the review offices on complex matters**
- **Responsible for processing waiver requests and participating in OCA submissions**

OCA Management and Consultation Process

Office of the Chief Accountant

❖ Chief Accountant – Paul Beswick

❖ Main groups in OCA

- Accounting – Deputy Chief Accountant – Vacant
- Professional Practice (Audit and Independence) – Brian Croteau
- International – Julie Erhardt

❖ Responsibilities

- Principal advisor to the Commission on accounting and auditing matters
- Oversight of standard setting
- Consultations
- Rulemaking, interpretive guidance, and reports

Avenues for Consultation

❖ Pre-filing basis – request from registrants

- Guidance for resolving ‘pre-filing’ questions is posted on the SEC’s website

www.sec.gov/info/accountants/ocasubguidance.htm

❖ Post-filing basis

- Corporation Finance
- Enforcement
- Investment Management
- Trading and Markets

❖ Informal consultations

- Informal discussion with OCA staff members – Accountant-on-call – (202) 551-5300

Recent OCA Accounting Consultations

Requests over last 12 months

Requests come from:

- ❖ 48% from registrants
- ❖ 39% from divisions within SEC
- ❖ 13% from others (banking regulators, PCAOB, AICPA, industry groups, etc.)

Accounting Consultations from Others

**Includes OCC, FDIC, FRB, PCAOB, AICPA
Expert Panels, and various industry groups.**

Topics:

- ❖ Typically questions raised on the application of GAAP**
- ❖ Includes both IFRS and US GAAP**
- ❖ Similar subjects to registrant consultations or questions from other divisions within the SEC**

Accounting Consultations from Others

Scope:

- ❖ Often new issues broadly applicable to an industry
- ❖ PCAOB consultations are generally registrant specific accounting questions

Staffing:

- ❖ OCA – Accounting
- ❖ OCA – PPG (PCAOB consultations)
- ❖ DCF

Process:

- ❖ Discussion of questions
- ❖ Request for additional information, if necessary
- ❖ Conclusion

Accounting Consultations from Others

Outcomes:

- ❖ Do not object to proposed accounting (or issuer's accounting)
- ❖ May object to certain general views presented, but generally would not object to registrant specific accounting without consulting directly with the issuer
- ❖ Have outstanding questions and/or concerns about issuer's accounting
 - ❖ Comment letter process (DCF)
 - ❖ Direct submission to OCA

Recent OCA Accounting Consultations (cont.)

General topics most commonly consulted on:

- ❖ **17% regarding business combinations or new basis**
- ❖ **17% regarding financial assets**
- ❖ **16% regarding revenue recognition**
- ❖ **14% regarding consolidations**
- ❖ **14% regarding long-lived assets**
- ❖ **10% regarding debt or equity determinations**

Typical Banking Consultations

Both IFRS and U.S. GAAP

- ❖ Allowance for Loan Losses
- ❖ Troubled Debt Restructurings
- ❖ Purchased Credit Impaired Loans
- ❖ Income Tax Valuation Allowances
- ❖ Goodwill Impairment
- ❖ Securities Reclassifications
- ❖ Transfers and Servicing of Financial Assets

Frequent Areas of Staff Comment

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1. Loans & Allowances
2. Fair Value
3. Deferred Tax Assets
4. Interest Rate Risk
5. Other Real Estate Owned
6. Troubled Debt Restructurings
7. Goodwill Impairment Testing
8. Other
9. IFRS comment areas

Allowance for Loan Losses – MD&A Considerations

- **What does the staff look for when reviewing ALLL MD&A disclosures?**
 - **A very good place to start : CF Disclosure Guidance Topic No. 5**
 - **Comment themes from this year have been consistent with prior years**
- **Hypothetical disclosure examples**

Allowance for Loan Losses – MD&A Considerations (con't)

Consider the following example data:

20x2

Loan Type	Past Due	Current	Total Loans
A	25	100	125
B	<u>35</u>	<u>75</u>	<u>110</u>
Total	60	175	235

20x1

Loan Type	Past Due	Current	Total Loans
A	10	140	150
B	<u>15</u>	<u>80</u>	<u>95</u>
Total	25	220	245

Allowance for Loan Losses – MD&A Considerations (con't)

Additional Example Data:

	12/31/20X2	12/31/X1	Inc/(Dec)
Total Allowance	(\$10)	(\$15)	(\$5)

Assume the following disclosure was related to the decrease:

We considered various factors including historical loss experience and the current economic environment in determining our allowance at December 31, 20X2. This data led us to decrease our allowance by (\$5).

Allowance for Loan Losses – Changes in Methodology

Consider the following hypothetical disclosure:

During the current quarter, we modified how we segment our portfolio in determining our historical loss rates. This change resulted in a lower provision expense.

Assume this is the only disclosure related to the change in methodology. Would you propose any changes to the disclosure?

Fair Value

ASU 2011-04 went into effect in Q1 2012 10-Qs

Typical Comment Themes:

- Disclosure of a wide range of data for the significant inputs – suggest also providing weighted average input and discussion of how that amount is determined or detailed qualitative discussion about dispersion around the range
- Liquidity risk adjustments
- Funding Valuation Adjustments (FVA)

Fair Value - Use of Overnight Indexed Swap (OIS) Curve for Collateralized Derivatives

- **Diversity in practice, principally based on size of the financial institution**
 - **Seeing more and more companies moving to OIS from LIBOR in the past two years**
- **Use of OIS curve has been discussed for 2+ years for valuing collateralized derivatives and derivatives cleared through a central clearing house**
- **Use of the OIS curve appears to be becoming more prevalent in the marketplace**

Deferred Tax Assets

Question cards from last year:

- Can I reverse my valuation allowance if I have had 8 quarters of pre-tax income?
- Is it possible to wait too long to reverse a valuation allowance?

Deferred Tax Assets (con't)

Consider the following pre-tax results:

	To date Interim period in X6	12/31/X5	12/31/X4	12/31/X3	12/31/X2	12/31/X1
Pre-tax Income (Loss)	(\$100)	\$(125)*	(\$45)	\$60	\$50	\$40

*: Includes an impairment of goodwill

Deferred Tax Assets (con't)

Hypothetical disclosure:

We have not recorded any valuation allowance against our net deferred tax assets of \$90 at December 31, 20X5 because we believe that it is more likely than not we will be able to realize these assets. When determining whether we needed a valuation allowance, we considered various pieces of evidence including tax planning strategies and our forecasts of future taxable income.

Deferred Tax Assets (con't)

Is the hypothetical disclosure sufficient based on the example facts presented?

Deferred Tax Assets – Areas to Consider in Drafting Disclosures

- **Have you explained the significant factors that resulted in past losses and/or current profitability?**
- **How much and how long were past losses and/or current profitability?**
- **How long do you believe it will take for you to recoup your deferred tax asset?**

Deferred Tax Assets – Areas to Consider in Drafting Disclosures

- **If true, why will current profitability be sustainable in light of the current economic environment?**
- **What has management's track record been with respect to its ability to forecast future results?**

Deferred Tax Assets – Areas to Consider in Drafting Disclosures

- **How objective is the evidence being weighed?**
- **How was each piece of positive and negative evidence weighed in the analysis, how has that weighting changed over time, and why has the weighting changed over time?**

Interest Rate Risk Disclosures

Typical comment themes:

- **Clarity surrounding models and assumptions utilized**
- **Clarity on how outputs from the model should be evaluated and against which metrics**
- **Interactions/differences between multiple models utilized (net interest income/EVE)**
- **Board policy limits**
- **Stress scenarios**

Other Real Estate Owned – Current Standard Setting

- **Proposed ASU: Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring**
 - **Issued 7/19/13**
 - **Comment period closed yesterday (9/17/13)**

Other Real Estate Owned – Disclosure Considerations

- **Policy for reclassifying a collateralized mortgage loan to other real estate owned**
- **Other disclosures we often request**

Troubled Debt Restructurings

Consider the following hypothetical disclosure:

	12/31/X2	12/31/X1
Non-accrual Loans		
Type A	10	20
Type B	30	35
Type C	<u>5</u>	<u>-</u>
Total	45	55
TDRs	<u>10</u>	<u>25</u>
Total non-performing Loans	55	80

Troubled Debt Restructurings (con't)

- **Typical comment themes similar to prior years**
- **We continue to see disclosures similar to the hypothetical that warrant comments.**

Goodwill Impairment Testing

Determination of Reporting Units Carrying Value

- Many financial institutions appear to use an economic capital or risk-based capital approach as a proxy for the CV of their reporting units
- ASC 350-20-35-39 requires all assets and liabilities to be allocated to a reporting unit unless the specified criteria are met

Goodwill Impairment Testing (cont'd)

If the reporting unit CV is determined using a capital allocation model, disclose:

- Policy for determining the CV of the reporting units
- Whether there is any “residual remainder” that is not allocated to the reporting units and what it represents
- How the fair value of the reporting units are determined (particularly if specific assets & liabilities are not separately determined for each reporting unit) to ensure apples-to-apples comparison of the FV to the CV
- How Step 2 of the goodwill test is performed when required

Other

- **Effect of reserve releases on net income**
- **Enhanced Disclosure Task Force (EDTF) disclosure recommendations**
- **Other**

Frequent Areas of Staff Comment – IFRS Reviews

Themes are similar to US GAAP reviews

- **Modifications of loans – TDRs, impairment recognition, loan pools, success rates**
- **Contingencies and IAS 37 disclosures – classes utilized, interaction between provision and contingent liability disclosures**
- **Goodwill impairment – determination of carrying value/recoverable value of CGU**
- **Acquired credit impaired loans/revolving loans – Day 2 accounting under IAS 39**
- **Fair value disclosures**

Questions???

Resources

www.sec.gov/divisions/corpfin.shtml

❖ General

- Filing Review Process
- Statutes, Rules, and Forms
- Compliance & Disclosure Interpretations
- What's New
- Information for Small Businesses (including JOBS Act Materials):
www.sec.gov/info/smallbus.shtml

Resources

Information for Accountants

www.sec.gov/divisions/corpfin/cfreportingguidance.shtml

- ❖ Division Financial Reporting Manual
- ❖ Compliance & Disclosure Interpretations
- ❖ Staff Accounting Bulletins
- ❖ Corporation Finance Comment Letters
- ❖ Corporation Finance Filing Review Process
- ❖ Other Frequently Requested Material
 - Letters to Industry (a/k/a “Dear CFO Letters”)
 - CF Disclosure Guidance Topics