Accounting, Reporting and SEC Update

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SEC Services

Current SEC Landscape

Key personnel changes
- Commissioners
- Chief accountant and deputy chief accountant

Current agenda
- Strong focus on enforcement
- SEC rulemaking commitments under Dodd-Frank Act
- Audit committee concept release
- Disclosure effectiveness
Enforcement Initiatives

Financial Reporting and Audit ("FRAud") Task Force
• Focus on financial statements, reporting and disclosures, and audit failures
• Monitor restatement activities
• Use of technology and tools for "data mining" and data analysis

Other policy-related initiatives
• Admission of wrong-doing

Enforcement Initiatives

<table>
<thead>
<tr>
<th>Number of enforcement actions</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>FY 2013</th>
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<tbody>
<tr>
<td>Orders for penalties and disgorgements</td>
<td>$4.2 billion</td>
<td>$4.2 billion</td>
<td>$3.4 billion</td>
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Whistleblower program

<table>
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<tr>
<th>FY 2015</th>
<th>FY 2014</th>
<th>FY 2013</th>
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<tr>
<td>Whistleblower tips received</td>
<td>3,923</td>
<td>3,620</td>
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</table>

- Largest payment announced to date - $30 million

- Retaliation and "Pre-taliation" concerns

SEC Rulemaking

Dodd-Frank Act
• Continued effort on required rulemakings
• Recent rulemaking
  - Final - CEO pay ratio disclosures
  - Proposed rules
    - Pay versus performance
    - Executive compensation clawbacks
    - Payments by resource extraction issuers
    - Use of derivatives by registered funds

JOBS Act – Regulation Crowdfunding

IFRS

Disclosure effectiveness
Disclosure Effectiveness

Background

SEC Chair Mary Jo White

“When disclosure gets to be too much or strays from its core purpose, it could lead to... information overload...”

Former SEC Commissioner Daniel Gallagher

“Today’s disclosure documents are no longer efficient mechanisms for clearly conveying material information to investors...”

SEC Commissioner Kara Stein

“...It baffles me that such a huge portion of public disclosures are presented in a format that isn’t structured and easily accessible for analytics...”

Disclosure Effectiveness (cont.)

Overview

What is it?

- Providing better information to investors – more understandable, more useful and eliminating excessive disclosure

What has the SEC staff done lately?

- Request for comment of effectiveness of financial disclosures about entities other than the registrant (Reg S-X)
- Planned release upcoming on possible changes to Reg S-K
- Registrant financial statement issues

What are registrants doing now?

Disclosure Effectiveness (cont.)

Focus on material and relevant matters

Reduce or eliminate redundant disclosures

Tailor disclosures to company’s facts and circumstances

What might it look like?
SEC review process

Filing Reviews

About 9,000 registrants
- Focus on 2,500 registrants that comprise 98% of market cap
- All issuers reviewed at least 1 out of every 3 years
- Percentage of issuers reviewed:

<table>
<thead>
<tr>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
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<tbody>
<tr>
<td>44%</td>
<td>48%</td>
<td>48%</td>
<td>52%</td>
<td>52%</td>
<td>51%</td>
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- Staff is listening to analyst/earnings calls, reviewing press releases, Web sites, social media, and issuing comments
- Comments are posted to EDGAR 20 days after completion of review

SEC comment letter trends

- Insights into areas the SEC staff has focused on in recent comment letters including:
  - Financial Statement Accounting and Disclosure Topics
  - SEC Disclosure Topics
  - Disclosure Topics in Initial Public Offerings
  - Industry-Specific Topics
    - Consumer & Industrial Products
    - Energy & Resources
    - Financial Services
    - Health Sciences
    - Technology & Telecommunications

SEC Comment Letter Trends

Areas of Focus – Outside the Financial Statements

<table>
<thead>
<tr>
<th>MD&amp;A</th>
<th>Other Areas</th>
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<tbody>
<tr>
<td>• Executive overview</td>
<td></td>
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<tr>
<td>o Most important aspects</td>
<td></td>
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<tr>
<td>• Results of operations</td>
<td></td>
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<tr>
<td>o Early warning disclosures</td>
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<tr>
<td>o Foreign operations</td>
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<tr>
<td>o Metrics</td>
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<tr>
<td>• Taxes</td>
<td></td>
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<tr>
<td>o Foreign income taxes</td>
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<tr>
<td>o Cash held by foreign subs</td>
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<tr>
<td>o Statutory vs. Effective rates</td>
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<tr>
<td>• Liquidity</td>
<td></td>
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<tr>
<td>o Debt covenant compliance</td>
<td></td>
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<tr>
<td>• Critical accounting policies</td>
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<tr>
<td>• Backlog</td>
<td></td>
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<tr>
<td>• Risk Factors</td>
<td></td>
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<tr>
<td>o Cybersecurity Risks</td>
<td></td>
</tr>
<tr>
<td>• Non-GAAP Measures</td>
<td></td>
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<tr>
<td>• Disclosures about operations in state sponsors of terrorism</td>
<td></td>
</tr>
<tr>
<td>• Immaterial restatements and ICFR</td>
<td></td>
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<tr>
<td>• Related Party disclosures</td>
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SEC Comment Letter Trends
Areas of Focus

Non-GAAP Measures
• Transparency & Consistency
• Can’t be used in misleading way
• Recent press focus

Metrics
• Clearly define metrics and explain how calculated
• Explain how used by management and why important to investors
• Describe how a metric is related to current or future results of operations
• Example industry metrics:
  – Technology & Internet: Online users and “clicks”
  – Retail: Same-store sales
  – Energy: Price and volume detail

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Areas of Focus

Immaterial restatements and ICFR
• Material weaknesses typically disclosed in conjunction with a material error or audit adjustment

• Impact of immaterial restatements on ICFR
  – The “could” factor
    ◦ Not limited to the size of the error identified
    ◦ Level of deficiency should be based on potential error
  – Must disclose material changes in ICFR

• Significant focus of SEC and PCAOB

SEC Comment Letter Trends

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SEC Comment Letter Trends
Areas of Focus – Inside the Financial Statements

- Revenue recognition
- Intangible Assets/Business combinations
  o Goodwill impairment disclosures
- Income taxes
- Segments
- Loss contingencies
- Fair value measurements
- Warrants and equity securities
- Financial statement classification
  o Renewed focus on cash flow statement

- Other-than-temporary impairments
- Pensions and OPEBs
- Dividend restrictions/restricted net assets
- Discontinued operations
- Stock compensation
- Earnings per share
- New accounting standards
- S-X issues – Rules 3-10, 3-05, 3-09, etc.
SEC Comment Letter Trends
Areas of Focus

Revenue Recognition
- Gross vs Net
- Multiple element arrangements
- Contra-revenue items
- SAB 74 Disclosures on new Revenue ASU

Goodwill and Intangibles Impairment
- Valuation Assumptions and sensitivity (FRM 9510)
- Specific events that caused the impairment – “why now”
- Early warning disclosures

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SEC Comment Letter Trends
Areas of Focus

Income Taxes
- Valuation Allowance
- Rate reconciliation
  - Appropriate breakout (and descriptions of) adjustments
- Impact of foreign operations
- Repatriation of foreign cash

SEC Comment Letter Trends
Areas of Focus

Segments
- Chief Operating Decision Maker (CODM) package
- Consider whether CODM is someone other than CEO
- SEC staff’s focus is evolving due to new technology:
  - Historically SEC placed emphasis on CODM package- no longer
determinative (still significant) factor
  - Staff will consider total mix of information
- Aggregation of operating segments still a focus - consider both
quantitative and qualitative factors
- Both SEC and PCAOB are focusing on segments
Questions?