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SEC Services and Accounting Update

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SEC Comment Letter Trends

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Perspectives on the SEC

- SEC environment
- Enforcement activities
  - Financial reporting and audit task force
  - Data analytics ("RoboCop")
- Internal controls focus on revisions and out of period corrections
- Disclosure effectiveness initiative
- Status of IFRS in the U.S.
- Taking a fresh look at Audit Committees reporting requirements

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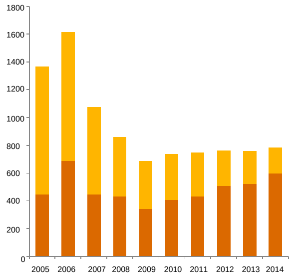
Restatement and revision trends

Top five causes of restatements and revisions

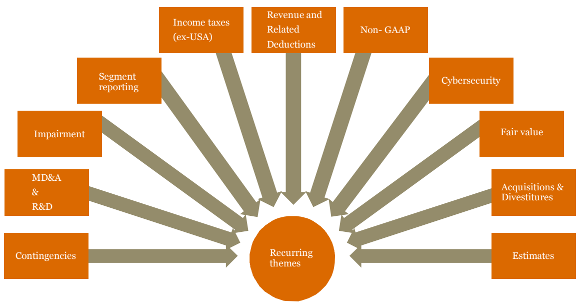
1. Debt, quasi-debt, warrants & equity (BCF)
2. Cash flow statement
3. Revenue recognition
4. Tax expense, benefit, deferral and other issues
5. Foreign, related party, affiliated or subsidiary issues



Yellow* = *restatements
Brown* = *revisions

Source: Audit Analytics; restatements & revisions from 10-K Filers

SEC comment letter trends



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The inside scoop

Financial Accounting Standards Board

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FASB Priorities
An active environment

- **Major projects**
  Finalize remaining "convergence-era" projects in 2015 (Leases, Financial Instruments)
- **Simplification initiative**
  Reduce complexity in financial reporting in certain narrow areas
- **New Revenue standard**
  Address implementation issues via the Transition Resource Group
- **Current and future agenda**
  Tackle current agenda efficiently and identify priorities for the future agenda

"Developing the right solutions means identifying the right problems."

FASB Chairman, Russ Golden

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FASB leadership

Board members

Russ Golden
Chairman

Jim Kroeker *Vice Chairman* | ***Tom Linsmeier*** | ***Larry Smith*** | ***Marc Siegel*** | ***Daryl Buck*** | ***Hal Schroeder***

Standards effective in 2015

Effective in 2015
Discontinued operations – new threshold and disclosures
Pushdown accounting – optional upon a change-in-control event
Development stage entities – reporting requirements eliminated
Repurchase agreements – repos-to-maturity, new disclosures
Service concession arrangements – narrow-scope clarification
Affordable housing tax credits – accounting by investor
Foreclosure of mortgage loans – timing of reclassification
PCC Alternatives - available to nonpublic entities 1) amortization of goodwill 2) recognition of certain intangibles in a business combination 3) consolidation of a VIE with a related-party leasing arrangement 4) simplified hedge accounting

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Standards effective in 2016 or later

Effective in 2016 or later	*Effective date**	*Early adoption allowed?*
Revenue – new converged standard	2018	2017**
Going concern - management's assessment and disclosures	2016	Yes
Consolidation – amendments to "VIE" and "Voting" models	2016	Yes
Insurance – disclosures for short-duration contracts	2016	Yes
Cloud computing - customer's accounting	2016	Yes
Investments measured at NAV – disclosure of FV information	2016	Yes
EPS for master limited partnerships – for periods prior to a dropdown transaction	2016	Yes

For calendar year-end public entities

***Early adoption can be no earlier than 2017*

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Standards effective in 2016 or later - continued

Effective in 2016 or later	*Effective date**	*Early adoption allowed?*
Pension plans - measurement date expedient	2016	Yes
Extraordinary items – concept eliminated	2016	Yes
Debt issuance costs – balance sheet classification as a reduction of debt vs. asset	2016	Yes
Collateralized Financing Entities (CFEs) measurement of financial assets and liabilities	2016	Yes
Troubled Debt Restructurings (TDRs) Reclassification of mortgage loans upon foreclosure	2016	Yes
Share-based payments – accounting for performance targets achievable after vesting	2016	Yes
Embedded derivatives – assessment of whether it is clearly and closely related to host	2016	Yes

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For calendar year-end public entities

FASB's current agenda – active projects

Active projects	*2015*	*2016 or later*
FI: Classification & measurement	✓	
FI: Impairment	✓	
FI: Hedging	✓	
Leases	✓	
Revenue recognition: amendments/clarifications	✓	
Disclosures about bifurcated embedded derivatives	✓	
Presentation of net periodic pension cost	✓	
Financial statements for non-profit entities	✓	
Insurance: Long-duration contracts		✓
Disclosure framework		✓
Goodwill and Intangibles		✓
Simplification initiative – various projects	✓	✓

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FASB's current agenda – projects in early stage

Projects in early stage
Definition of a business – clarification
Disclosures about interest income on purchase debt securities and loans
Disclosures by business entities about government assistance
Conceptual framework – measurement and presentation
Liabilities vs. Equity – targeted improvements
Disclosure about investments in another investment company

EITF's current agenda

Issue	Title	Status
15-A	Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets	*Final Consensus*
15-B	Recognition of Breakage for Prepaid Stored-Value Cards	*Consensus-for-exposure*
15-C	Employee Benefit Plan Simplifications	*Final Consensus*
15-D	Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	*Consensus-for-exposure*
15-E	Contingent Put and Call Options in Debt Instruments	*Consensus-for-exposure*
15-F	Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments	*Further discussion expected*

Convergence-era projects

Project	Impact	Status
Financial Instruments—*Classification & measurement*	• Most equity securities will be measured at FV-NI rather than OCI (with a practicability exception) • Unrestricted FVO retained; Change in FV of own debt to be presented in OCI	Final standard expected Q4 2015
Financial Instruments—*Impairment*	• Shift from incurred loss model to CECL model for financial assets held at amortized cost • Securities classified as AFS to follow a modified OTTI model	Final standard expected Q4 2015
Leasing	• Leases recognized on balance sheet • Divergence on pattern of income statement recognition for lessees between FASB & IASB	Final standard expected Q4 2015
Insurance	• Enhanced disclosures for short-duration contracts • Targeted changes for long-duration contracts	Short-duration: issued Q2 2015 Long-duration: expected 2016

Foundational projects

Disclosure framework

- FASB's decision process
- Entity's decision process
- Disclosure reviews of select topic areas

Conceptual framework

- Measurement
- Presentation

Disclosure reviews:

- ✓ Defined benefit plans
- ✓ Fair value measurement
- ✓ Income taxes
- ✓ Inventory
- ✓ Interim reporting

Simplification projects

Simplification initiative

FASB is focused on identifying areas of U.S. GAAP where it can reduce cost and complexity while maintaining or improving the usefulness of the information

Recently finalized and issued

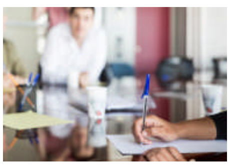
- Extraordinary items
- Debt issuance costs
- Pension measurement date
- Inventory measurement

On the horizon

- Income taxes – Exposure Draft (ED)
- Share-based payments - ED
- Equity method accounting - ED
- Measurement period adjustments - ED
- Classification of debt

Private Company Council (PCC) overview

- Several private company accounting alternatives finalized in 2014
- More recently, PCC's role has been moving closer to one of an advisory body for the FASB



PCC alternatives finalized

- Goodwill
- Hedge accounting
- VIE – related party leasing
- Intangible assets

Current activities

- Assisting FASB with simplification projects
- Advising FASB on other projects
- Partnership accounting
- Preferability assessment and transition