

2007 AICPA National Banks & Savings Institutions Conference

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Overview

- **Working with the SEC**
- **OCA Initiatives – At a Glance**
- **Comment Letter Themes and Recent Technical Issues**

Division of Corporation Finance

- Responsible for registrant filing reviews (Filings for new offered securities, annual filings of Form 10-K and 10-Q, proxy materials, annual reports etc.)
- Provides guidance on SEC rules and forms
- Proposes new and revised rules to the Commission
- Issues no-action letters
- Is supported by the Division Chief Accountant's Office (DCAO) for technical accounting matters

Office of the Chief Accountant

- Principal adviser to the Commission on accounting and auditing matters
- Rulemaking and interpretive guidance
- Accounting consultations
 - Pre-filing requests from registrants
 - Internal consultations from Divisions of Corporation Finance and Enforcement
- Monitoring/Oversight of standard setting
 - FASB, EITF, IASB, IFRIC
 - Coordination with other US and non-US regulators

OCA Initiatives – At a Glance

- Management guidance on Rule 404
- Consideration of elimination of reconciliation of IFRS to US GAAP – comment period ended on September 24, 2007
- Concept release on whether the use of IFRS should be permitted for US Issuers
- Advisory panel to address unneeded complexity in U.S. financial reporting

Review of Executive Compensation Disclosure

- Initial review of 350 companies
- Summary of comments provided
 - Format
 - Clarity
 - Compensation discussion and analysis
 - Compensation philosophies and decision mechanics
 - Performance targets

Materiality Topics

Considering thoughts on interim period materiality:

- APB 28 may be interpreted as considering interim periods as only a part of the annuals, however...
- ...Investors do react to quarterly results;
- Should originating errors and carry-over errors be considered and assessed separately?

Other Materiality Topics

Also considering thoughts on:

What other quantitative and qualitative metrics impact a materiality analysis?

- Can quantitatively large errors be deemed immaterial because of qualitative factors? In what circumstances is that likely to occur?

Loans Receivable Classification

- Initial Classification under SOP 01-6
 - Investor must have the ability and intent to hold for the foreseeable future or until maturity to initially classify loans as held-for-investment
 - Definition of “foreseeable future” should be consistent with internal budgeting practices
 - “Foreseeable future” does not mean “imminent” or “the next day”
 - Specific loans do not have to be identified for sale in order to initially classify loans as held-for-sale
 - Investors with patterns of sales of a significant amount for a specific type of loan should generally not classify all such loans as held-for-investment at origination or initial acquisition

Loans Receivable – Current issues

- Transfer of loans from HFS to HFI: Impact on allowance if transfer is performed mid-quarter
- Loans carried at fair value pursuant to the election under SFAS 159
- Purchased loans in the scope of SOP 03-3

Subprime Mortgage Loans

- Allowance for loan losses
 - Consider impact on credit trends
 - May require adjustments to historical loss rates
- FAS 140 implications for modifications of loans
- Disclosures
 - FSP SOP 94-6-1 discusses relevant disclosures for uncertainties, credit concentrations, and significant estimates
 - Item 303 of Regulation S-K Item 303, Management's Discussion & Analysis

Procedural Discipline

- Bottoms-up approach to loss estimation
- Logical approach to estimation
- Well-documented methodology
- Consistent use of methodology from period to period
- Clear disclosures in MD&A/Critical Accounting Estimates and financial statements

Disclosures for ALLL

- Common estimation methodology
 - Specific losses measured on specific loans (SFAS 114) +
 - Portfolio loss estimates based on migration studies, historical losses, grading of loans (SFAS 5) +
 - Adjustments for economic conditions, concentrations, and other qualitative aspects (SFAS 5)
 - Imprecision
- Common problem – Guide 3 “Allocation Table” including portfolio-specific adjustments or considerations as “Unallocated”

Accounting for FAS 115 Investments

- Other-than-temporary Impairment (SAB Topic 5M)
 - Impairment assessment required when security is in an unrealized loss position
 - SAB Topic 5M does not have the same tainting concept like FAS 115's sales from HTM
 - Management must have "ability" to hold to recovery to avoid recording an other-than-temporary impairment – outsourced arrangements
 - Management's assertion of "intent" to hold to recovery must be consistent with business plans
 - EITF 03-1 disclosures still apply

Accounting for FAS 115 Investments

- Initial Adoption of FAS 159
 - Registrant may elect fair value option for existing AFS and HTM securities
 - Adoption of FAS 159 does not impact requirement to assess other-than-temporary impairment in prior period
 - Registrant should disclose in accordance with paragraph 27(c) of FAS 159 the reasons for including AFS and HTM securities in the transition adjustment
 - Include any change in prior asserted “intent” that occurred from early adoption of FAS 159
 - If registrant’s intent to hold changes prior to issuance of F/S, that fact should be considered in assertion made in those F/S
 - Fair value accounting is required for the investment in future periods

SFAS 133 – Long Haul

- Application of DIG Issue G19 to deposit liabilities such as money market accounts
- Effectiveness testing using dollar-offset method
- Availability of various methods to calculate the change in the benchmark rate when designating under the long-haul approach
- Sufficient specificity of the designation of the hedged item
 - Must be able to identify when it occurs
- Impact of FAS 157 on prospective test of effectiveness for fair value hedging relationships on 1/1/08

Loan Commitments

- SAB 105 issued in March 2004
 - Servicing and other internally-developed intangibles should not be included in the value of a loan commitment accounted for as a derivative under FAS 133
- Interaction with FAS 157
 - FAS 157 does not address the unit of account – SAB 105 only addresses unit of account and disclosures
 - Footnote 3 of EITF 02-3 removed
 - Day 1 fair value of loan commitment under SAB 105 should be recognized if criteria in par 17 are met
- Interaction with FAS 159

Questions

Supplemental Information Slides

(For your reference)

Office of the Chief Accountant

- Chief Accountant
 - Principal advisor to the Commission on accounting and auditing matters
- Three main groups in OCA
 - Accounting
 - Professional Practice (Audit)
 - International Affairs

Consultations with OCA

- Guidance for Consulting with OCA
 - Take advantage of it!
 - Most companies just “want to get the accounting right.” We want to help.
 - May be easier than the comment letter process
 - Guidance for resolving ‘pre-filing’ questions is posted on the SEC’s website
 - <http://www.sec.gov/info/accountants/ocasubguidance.htm>
 - Companies should provide OCA with a written submission (commonly referred to as a “pre-clearance” submission)
 - Auditor participation
 - Audit committee participation
 - Registrants can request their SEC reviewer to consult on specific matters during a Corp. Fin review process

Consultations with OCA

- Consulting with OCA
 - Recommended form and content of correspondence to expedite the process
 - What to expect from OCA
 - Team leader will contact the company within 3 days of receipt of submission; entire process usually takes 2 – 4 weeks but depends on nature of the issue
 - Team, Senior Associate and Deputy Chief Accountants may be involved
 - Company may request Chief Accountant review of conclusion reached by OCA staff