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Snapshot

CAQ issues June SEC Regs Committee highlights

The Center for Audit Quality (CAQ) recently issued highlights of the June 25 joint meeting between its SEC Regulations Committee and the SEC staff. The SEC Regulations Committee meets periodically with the SEC staff to discuss emerging financial reporting issues relating to SEC rules and regulations. Key topics discussed at the meeting are summarized here.

Use of averaging in the income test

The SEC staff and committee members discussed the use of income averaging when calculating significance under Regulation S-X, Rule 1-02(w), when only the most recent three years have been recast for the retrospective adoption of a new accounting standard.

Questions include whether a registrant would (1) compute a five-year average notwithstanding a lack of comparability, (2) compute an average based only on those periods that reflect the new accounting standard, or (3) be precluded from using the average income.

The staff noted that previous new accounting standards have also required retrospective adoption and encouraged registrants to consult the staff when they have an unusual fact pattern or an anomalous significance test result when using income averaging.

Omission of earliest period of MD&A

The staff and committee members discussed retrospective changes made to the financial statements and the provision in the Final Rule, *FAST Act Modernization and Simplification of Regulation S-K,* which amends Regulation, S-K Item 303(a), to permit the omission of a discussion of the earliest period of Management's Discussion and Analysis (MD&A) in a filing if three years of financial statements have been presented and such discussion was previously included in the registrant's filings on EDGAR. The staff confirmed that a registrant should assess if the previously filed disclosure provides the information necessary to understand the registrant's financial condition and the results of operations when there has been a retrospective change to the financial statements.

EGC merger transactions

The staff and committee members discussed questions related to mergers between public shell companies that are emerging growth companies (EGCs) and non-public operating companies, and the impact the transaction might have on both parties' ability to use EGC accommodations. The staff indicated that the ability to use EGC accommodations depends on each transaction's facts and circumstances. Registrants should consult the staff regarding such questions.

Non-GAAP financial measures

The staff and committee members discussed examples of individually tailored accounting principles, including non-GAAP measures of financial performance that exclude the amortization of acquired intangible assets. The staff encouraged registrants who are considering the appropriateness of an existing or proposed non-GAAP financial measure to consult either with the Division of Corporation Finance's Office of Chief Accountant or their respective Assistant Director office.

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