
Areas of Frequent Staff Comment – Financial Institutions

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Frequent Areas of Staff Comment

This document has two types of observations:

1. Frequent Areas of Staff Comment– areas where comments will likely be issued if appropriate supporting disclosures are not provided to explain the matter
2. Suggestions for Enhanced Disclosure– MD&A disclosure suggestions by topical area. These suggestions are only applicable in situations where the topics are material to an understanding of the bank's financial condition, results of operations, liquidity or capital resources

Topics

- 1. Asset Quality / Loan Accounting Issues**
- 2. Securities Impairment**
- 3. Other**
 - a. Goodwill Impairment**
 - b. Deferred Tax Asset Valuation**
 - c. Loss Contingencies**
 - d. Accounting Issues Related to FDIC-Assisted Transactions**
 - e. SFAS 166 and 167 Observations / Implementation Issues**

Topics

- f. Mortgage and Foreclosure-Related Matters**
- g. Regulatory Actions or Recommendations**
- h. Liquidity and Risk Management**
- i. Acquisition of Troubled Financial Institution (SAB 1:K) Waivers**

Asset Quality / Loan Accounting Issues

Sub-topics

- Allowance for Loan Loss – general areas of staff comment
- Commercial Real Estate
- Loan Extensions
- Appraisals
- Loans Measured Based on the Collateral Value
- Loans with Evidence of Concentration of Credit Risk
- Interest Reserves
- Modifications and TDRs
- Non-Impaired Loans
- Other Real Estate Owned
- Purchased Loans

Allowance for Loan Loss – Areas of Staff Comment

The staff is likely to request enhanced disclosure where a financial institution does not provide sufficient disclosure to explain the circumstances related to:

- Fluctuating ratio of allowance to total loans**
- Fluctuating coverage ratio (allowance to total non-performing loans)**
- Large unallocated allowance presented under Guide 3**
- Changes in methodologies or charge-off policies**

Allowance for Loan Loss – Areas of Staff Comment (cont'd)

- **Fluctuations in the different components of the allowance to the total allowance**
- **Regulatory agreements**
- **Indication that appraisals are not timely updated for loans measured for impairment based on the collateral value**
- **Geographic or higher-risk loan type concentrations**
- **Charge-off policies for each type of loan**
- **Non-accrual policies for each type of loan**

Commercial Real Estate (CRE)- Areas of Staff Comment

The staff is likely to request enhanced disclosure where a financial institution does not provide sufficient disclosure to explain the circumstances surrounding:

- Large fluctuations in charge-offs or non-performing CRE loans**
- Indication that workout programs are used without adequate explanation of the types of programs or quantification of the modified loans**
- Indication that CRE loans are being extended at or near original maturity but are not considered impaired due to the existence of guarantees**

Increasing CRE Charge-Offs – Enhanced Allowance Disclosure

If you experienced a significant increase in CRE charge-offs, consider enhancing the disclosure surrounding how the trend of increasing charge-offs has impacted or is expected to impact the allowance. For example, consider disclosing:

- The triggering events or other circumstances that impact the timing of when an allowance is established**
- How the increasing level of charge-offs is factored in the determination of the different components of the allowance**
- How you define “confirmed loss” for charge-off purposes and how that impacts the level of your allowance**

Increasing Non-Performing CRE Loans – Enhanced Allowance Disclosure

If you experienced a significant increase in CRE nonperforming loans, consider enhancing the disclosure surrounding how the trend of increasing nonperforming loans has impacted or is expected to impact the allowance. For example, consider disclosing:

- Whether the significant increase in your nonperforming loans is due to a few large credits or a large number of small credits**
- If your allowance has not proportionally followed the levels of your non-performing loans, a discussion of the reasons why**
- A discussion of the steps you take to monitor and evaluate collateral values of your nonperforming loans as part of your allowance methodology and the trends experienced in that area in recent periods**

CRE Workout Programs – Enhanced Allowance Disclosure

If you have performed any CRE workouts whereby an existing loan was restructured into multiple new loans (i.e., A Note/B Note structure), consider disclosing:

- The amount of loans that have been restructured using this type of workout strategy in each period presented**
- The benefits of this workout strategy, including the impact on interest income and credit classification**
- The general terms of the new loans and how the A note and B note differ, particularly whether the A note is underwritten in accordance with your customary underwriting standards and at current market rates**

CRE Workout Programs – Enhanced Allowance Disclosure (cont'd)

Consider the following disclosure suggestions for A Note/B Note structures:

- **Discussion of charge-off policies for A Note/B Note structures**
- **Discussion of whether Note A and Note B are placed on nonaccrual and included in impaired loans in the footnotes (disclosure as a TDR in Guide 3)**

Loan Extensions – Enhanced Allowance Disclosure

If you have noticed an increase in construction or commercial loans that have been extended at maturity, which you have not considered impaired due to the existence of guarantees, consider disclosing:

- The types of extensions being made, whether loan terms are being adjusted from the original terms, and whether you consider these types of loans as collateral-dependent**
- How the company evaluates the financial wherewithal of the guarantor, such as the type of financial information reviewed, how current and objective the information reviewed is and how often the review is performed**

Loan Extensions – Enhanced Allowance Disclosure (cont'd)

Consider the following disclosure suggestions.
cont'd:

- **How the Company evaluates the guarantor's reputation and how this translates into its determination of the ultimate provision or charge-off recorded**
- **How the guarantor's reputation impacts the Company's ability to seek performance under the guarantee**
- **How many times the Company has sought performance under the guarantee and the extent of the successes**

Loan Extensions – Enhanced Allowance Disclosure (cont'd)

Consider the following disclosure suggestions, cont'd:

- **How the Company evaluates the guarantor's willingness to work with the Company and how this translates into its determination of the ultimate provision or charge-off recorded**
- **How the Company evaluates and determines the realizable value of the borrower guarantee**
- **The Company's willingness to enforce the guarantee**

Appraisals- Areas of Staff Comment

The Staff is likely to request enhanced disclosure where a financial institution does not provide sufficient disclosure to explain the circumstances related to:

- Indication that appraisals are not timely updated for loans measured for impairment based on the collateral value**
- Indication that appraisals are being adjusted for impairment recognition**

Loans Measured for Impairment Based on the Collateral Value – Enhanced Allowance Disclosure

If you have a significant amount of loans measured for impairment based on the collateral value, consider disclosing:

- How and when updated third party appraisals are obtained and how this impacts the amount and timing of recording the loan loss provision and charge-offs**
- Whether you make any adjustments to the appraisals and why**
- Type of appraisal, such as “retail value” or “as is” value**
- How partially charged-off loans measured for impairment based on the collateral value are classified and accounted for subsequent to receiving an updated appraisal. For example, consider disclosing whether the loans are returned to performing status or whether they remain as nonperforming**

Loans Measured for Impairment Based on the Collateral Value – Enhanced Allowance Disclosure

(cont'd)

- **Typical timing surrounding the recognition of loan as non-accrual and recording of any provision or charge-off**
- **Procedures performed between receipt of updated appraisals to ensure impairment of loans measured for impairment based on collateral value are measured appropriately**
- **How you determine the amount to charge-off**
- **In the event external appraisals are not used to determine the value of the underlying collateral or where the appraisal process has not been updated, consider disclosing your procedures for estimating the value of the collateral for those loans**

Loans Measured for Impairment Based on the Collateral Value – Enhanced Allowance Disclosure

(cont'd)

If you have a significant amount of loans measured for impairment based on the collateral value, describe how charge-offs for confirmed losses impact the coverage ratio (total allowance for loan losses divided by total nonperforming loans). For example, consider providing the following types of disclosure:

- Nonperforming loans for which the full loss has been charged-off to total loans**
- Nonperforming loans for which the full loss has been charged-off to total nonperforming loans**
- Charge-off rate for nonperforming loans for which the full loss has been charged-off**

Loans Measured for Impairment Based on the Collateral Value – Enhanced Allowance Disclosure (cont'd)

- **Coverage ratio net of nonperforming loans for which the full loss has been charged-off**
- **Total Allowance / (Total loans – Nonperforming loans for which the full loss has been charged-off)**
- **Allowance for individually impaired loans / Total loans that are individually impaired**

Loans with Concentration of Credit Risk – Enhanced Allowance Disclosure

To the extent that a few loans make up the majority of the non-accrual loans, and thus there is a concentration of credit risk, discuss your lending relationships:

- General information about the borrower (commercial, residential land developer, commercial business)**
- Type of collateral securing the loan**
- Amount of total credit exposure**
- Amount of allowance for the impaired loan**
- Any special circumstances surrounding the loan, such as whether out-of-market, loan participation, etc.**

Interest Reserves – Enhanced Allowance Disclosure

If you have a material amount of construction loans with interest reserves, consider disclosing the following:

- Policy for recognizing interest income on those loans**
- How you monitor the projects throughout their lives to make sure the properties are moving along as planned to ensure appropriateness of continuing to capitalize interest**
- Whether you have extended, renewed or restructured terms of the related loans and the reasons for the changes**
- Your underwriting process for the loans with interest reserves and any specific differences in how you underwrite loans with interest reserves and those without interest reserves**
- Whether any of your loans with interest reserves are currently non-performing**

Troubled Debt Restructurings (TDRs) and Modifications- Areas of Staff Comment

- **The staff is likely to request enhanced disclosure where a financial institution does not provide sufficient disclosure to explain the circumstances surrounding:**
 - **Indication that workout programs are used without adequate explanation of the types of programs and quantification of the modified loans**
 - **Indication that certain modified loans are not being accounted for as troubled debt restructurings without explanation of the reasons why**
 - **The nonaccrual policy for restructured loans and effects on past due statistics**

Troubled Debt Restructurings (TDRs)

– Enhanced Allowance Disclosure

To the extent that you have a material amount of TDRs, consider disclosing:

- **A description of the key features of the loan modification program(s), including whether the programs are government sponsored or your own, the significant terms modified and whether the modifications are short-term or long-term**
- **TDRs quantified by loan type (residential, home equity, commercial, credit cards, etc.), classified/quantified separately as accrual/non-accrual**
- **Policy regarding how many payments the borrower needs to make on the restructured loans before returning the loan to accrual status**
- ❖ **Quantification of the types of concessions made- reduction in interest rate, payment extensions, forgiveness of principal, etc. and discussion of the bank's success with the different types of concessions**

Troubled Debt Restructurings (TDRs) – Enhanced Allowance Disclosure (cont'd)

To the extent that you have a material amount of TDRs that continue to accrue interest, consider disclosing the following with respect to your accrual/nonaccrual accounting policy:

- All the factors that you consider at the time a loan is restructured to determine whether the loan should accrue interest**
- What you consider on an ongoing basis to assess whether accrual of interest continues to be appropriate**
- If you have charged-off any portion of the loan, how that is factored into your assessment that accrual of interest is appropriate.**

Loan Modifications (not TDRs) – Enhanced Allowance Disclosure

To the extent that you have a material amount of loan modifications not accounted for as TDRs, consider disclosing:

- The triggers or factors you review to identify these loans for modification**
- The key features of the modification programs, including a description of the significant terms modified and the typical length of each of the modified terms**
- The success rates of these modification programs**
- Quantification of the amounts of loans modified (by loan type and workout strategy) in each period presented**

Loan Modifications (not TDRs) – Enhanced Allowance Disclosures (cont'd)

To the extent you have a material amount of modifications not accounted for as TDRs, consider the following disclosure suggestions:

- Analysis supporting your conclusion that these modifications should not be classified as troubled debt restructurings**
- How the loans are classified (performing vs. non-performing) and whether they continue to accrue interest**
- Impact of modifications on past due statistics**
- To the extent the modification is a “short-term” modification, the success rates of these types of modifications and whether these modifications often result in more permanent or longer-term modifications being made in the future**
- Whether these loans are included in your ASC 450-20 (SFAS 5) or ASC 310-10 (SFAS 114) impairment analysis. If included in the SFAS 5 analysis, whether a materially different amount would have resulted if included in the SFAS 114 analysis**

Non-Impaired Loans – Enhanced Allowance Disclosures

Consider the following disclosure suggestions surrounding your allowance for non-impaired loans:

- **How historic loss rates are calculated and applied**
 - **How loans are grouped for purposes of deriving historic loss rates**
 - **Periods used to determine historic loss rates (both number of periods and period of time, i.e. 12 month loss rates based on rolling 4 quarters of charge-offs during the last 16 quarters), and if there were changes made during the current period, describing the changes and explaining why made**
- **If there is a portion of the allowance for non-impaired loans that is not calculated based on applying loss rates to the outstanding balance, consider disclosing that portion, describing how it is calculated, and disclosing how the calculation has changed during the current period**

Other Real Estate Owned (OREO) – Enhanced Disclosure

To the extent you have a significant amount of OREO, consider providing:

- Breakout of OREO by category – lot loans, commercial real estate, residential, etc.**
- Rollforward of OREO – beginning balance, additions, capitalized improvements, valuation adjustments, dispositions, ending balance**
- Discussion of actual prices received upon sale of OREO versus amounts recorded in the financial statements**
- Disclosure of the line item in the income statement where gains/losses recognized upon disposition of OREO are recorded**
- Typical foreclosure decision-making process – if significant concentrations within certain states, discuss general foreclosure timelines /processes in those states**

Purchased Loans – Areas of Staff Comment

SOP 03-3 –Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30)

- Policy disclosures regarding how purchased loans are accounted for, including scope and amount of loans in which ASC 310-30 guidance is applied**
- Lack of all disclosures required by ASC 310-30 for loans accounted for in accordance with the guidance in ASC 310-30**
- Lack of compliance with all the accounting guidance (including the pool criteria) for loans accounted for in accordance with ASC 310-30**

Purchased Loans – Enhanced Disclosure

To the extent you had a significant purchase of loans accounted for in accordance with the guidance in ASC 310-30, consider providing the following disclosures:

- Discussion of the effect on nonperforming loans / total loans ratios if nonperforming loans acquired are classified as performing upon acquisition**
- If loans within the scope are not classified as part of the table showing contractually past due loans and still accruing (Guide 3 disclosures), provide clear disclosure in the footnote to the table and quantify the amount of loans excluded and why**

Securities Impairment

Subtopics

- All Securities Areas of Staff Comment
- Trust Preferred Securities
- Mortgage-Backed Securities
- Equity Securities
- Federal Home Loan Bank (FHLB) Stock

Securities Impairment – All Securities Areas of Staff Comment

- **All disclosures required not provided – some of most commonly missed disclosures are the ones required by SFAS 115 (ASC 320-10-50) and FSP 115-1 (ASC 320-10-50) that are now required in QUARTERLY and annual reports, as well as the tabular rollforward of credit losses and the disclosures of assumptions and methodology to measure the credit loss (ASC 320-10-50)**
- **Presentation of total other-than-temporary impairment loss outside of non-interest income (required by Article 9 of S-X)**
- **Determination of “major security” type (ASC 320-10-50)**

Securities Impairment– Trust Preferred Securities (TPS) – Areas of Staff Comment

I. Methodology for Determining Fair Value

- Whether security-specific collateral was used in projecting defaults, deferrals, recovery, or prepayment assumptions**
- Discount rates or prepayment rate assumptions used in the valuation**
- Whether all information becoming available prior to issuance of the financial statements was considered**
- Changes to valuation techniques**

Securities Impairment– Trust Preferred Securities (TPS) – Areas of Staff Comment

II. Methodology for measuring credit impairment

- Whether security-specific collateral was used in projecting defaults, deferrals, recovery, or prepayment assumptions**
- Discount rates or prepayment rate assumptions used in the measurement of credit impairment**
- Whether all information becoming available prior to issuance of the financial statements was considered**

Securities Impairment– Trust Preferred Securities (TPS) - Enhanced Disclosure

If material amount of TPS/Pooled TPS, or impairment of a significant amount of TPS could reasonably likely have a material effect on the Bank's operations or capital, consider disclosing the following for those TPS with at least one rating below investment grade:

- Single-issuer or pooled
- Class held
- Book value
- Fair value
- Unrealized gain/loss
- Lowest credit rating assigned
- Number of issuers currently performing

Securities Impairment– Trust Preferred Securities (TPS) – Enhanced Disclosure (cont'd)

Consider the following disclosure suggestions:

- **Actual defaults and deferrals as a percentage of original collateral**
- **Expected deferrals and defaults as a percentage of the remaining performing collateral (along with disclosure about assumption on recoveries for both deferrals and defaults)**
- **For the security tranche you hold, the additional defaults/deferrals in excess of both the current projected defaults/deferrals the trust can absorb before the security tranche you hold experiences any credit impairment**

Securities Impairment - Mortgage Backed Securities - Enhanced Disclosure

If you have a material amount of MBS securities, consider the following disclosure suggestions:

- The nature and type of assets underlying any asset-backed securities. For example:**
 - The types of loans (sub-prime, Alt-A, or home equity lines of credit)**
 - The years of issuance (vintage)**
 - Current credit ratings of the securities, including changes or potential changes to those ratings**

Securities Impairment– Equity Securities – Areas of Staff Comment

- **Large unrealized losses for a period of time**
- **Policies that may not appear to comply with GAAP and SAB 111**
 - **Recovery solely based on historical returns**
 - **Very long recovery periods**
 - **Lack of consideration of issuer-specific indicators**
 - **Reliance solely on analyst report projections of stock price in future periods**

Securities Impairment - Investments in Federal Home Loan Bank (FHLB) Stock – Areas of Staff Comment

- **Classification as AFS securities -should be separately presented from other securities –(ASC 942-325-45)**
- **Inappropriate impairment policy – SOP 01-6 (ASC 942-325-35) provides guidance for evaluating FHLB stock for impairment (it is a cost method, restricted stock investment that is evaluated for impairment)**

Securities Impairment - Investments in Federal Home Loan Bank (FHLB) Stock – Enhanced Disclosure

Consider providing a detailed impairment policy for the investment in FHLB stock, including all positive and negative evidence considered in concluding that the investment is not impaired. For example, consider discussing how any suspensions of dividends or redemptions, as well as any net losses and declining equity balances at the FHLB were taken into consideration in concluding that the investment was not impaired

Other

Subtopics

- **Goodwill Impairment**
- **Deferred Tax Asset (DTA) Valuation Allowance**
- **Loss Contingencies**
- **FDIC Assisted Transactions**
- **SFAS 166/167**
- **Mortgage & Foreclosure Related Activities**
- **Regulatory Actions or Recommendations**
- **Liquidity and Risk Management**
- **SAB 1:K Waivers – Acquisitions of Troubled Financial Institutions**

Goodwill Impairment – Areas of Staff Comment

Lack of interim impairment tests given existence of factors such as:

- Going concern opinion**
- Cease & desist orders or other regulatory agreements**
- Significant net losses and further deterioration expected**
- Management changes**
- Market capitalization significantly below book value of equity**
- Full valuation allowance on deferred tax assets**

Goodwill Impairment – Areas of Staff Comment (cont'd)

- **Is valuation technique appropriate? Were multiple valuation techniques considered? Are assumptions reasonable?**
 - **Staff may request valuation reports prepared by the Bank or a third-party valuation firm, as determined necessary**
- **Were appropriate disclosures made surrounding the key judgments?**

Goodwill Impairment – Enhanced Disclosure

For each reporting unit at risk of failing Step 1 of the Test, consider disclosing the following information:

- Percentage by which fair value exceeded carrying value as of the date of the most recent test
- Amount of goodwill allocated to the reporting unit
- Description of the methods and key assumptions used and how the key assumptions were determined
- Discussion of the degree of uncertainty associated with the key assumptions. The discussion regarding uncertainty should provide specifics to the extent possible (e.g., the valuation model assumes recovery from a business downturn within a defined period of time)
- Description of potential events and/or changes in circumstances that could reasonably be expected to negatively affect the key assumptions

Deferred Tax Assets (DTA) Valuation Allowance – Areas of Staff Comment

- **In evaluating cumulative loss scenario, excluding the significant increase in the loan loss provision during the current year**
- **Non-objective evidence in supporting how DTA will be realized, particularly if based substantially on income not expected to be achieved for several years in the future**
- **Lack of disclosure supporting the appropriateness of a partial valuation allowance**

DTA Valuation Allowance – Enhanced Disclosure

- **Disclose both the positive and negative evidence considered in determining the extent of any valuation allowance**
- **To the extent there is reliance on tax planning strategies or offset of deferred tax liabilities in lieu of future taxable income for the realization of the DTAs, disclosure of these facts and a description of such strategies**

Loss Contingencies (ASC 450) – Areas of Staff Comment

- **No disclosure of “reasonably possible” losses**
 - **Disclosure may indicate that it can’t be done “with certainty” or “with confidence” and thus no estimate provided**
 - **Disclosure of “reasonably possible” range may be done in the aggregate**

Staff may question lack of historical disclosures when settlements are disclosed in future periods

FDIC Assisted Transactions – Areas of Staff Comment

To the extent the Bank has entered into a loss sharing agreement with the FDIC in connection with an acquisition of a failed financial institution:

- The assets covered by the loss sharing agreements should be recorded in their respective balance sheet categories (i.e., loans, OREO, securities) – it is acceptable to have a separate sub-heading for those “covered” versus “non-covered” assets**
- The loss sharing agreement should be valued and recorded separately on the face of the balance sheet or grouped within other assets if not material – appropriate guidance in FAS 141R (ASC 805) for indemnification assets should be followed if obtained in connection with the acquisition of a business**

FDIC Assisted Transactions – Areas of Staff Comment (cont'd)

The allowance for loan losses should be determined without giving consideration to the loss sharing agreement (since the loss sharing agreement is separately accounted for and thus “gross” on the balance sheet)

- The provision for loan losses may be net of changes in the amount receivable from the loss sharing agreement, with appropriate disclosure of the effects of the loss sharing agreement on the provision for loan losses
- The Guide 3 disclosures should include the assets subject to the loss sharing agreement, with separate footnote disclosure regarding the special nature of the assets, or potentially these assets should be presented separately within the Guide 3 disclosures

FDIC Assisted Transactions – Areas of Staff Comment (cont'd)

The Staff has issued comments in the following areas:

- **How the ASC 310-30 (SOP 03-3) loan pools were determined**
- **Whether some of the loans acquired in the acquisition are being accounted for by analogy to SOP 03-3. If so, how it was determined that there was a discount due at least in part to credit quality of those loans.**
- **Disclosures implying that there is an automatic one year window to true up the purchase accounting amounts for the acquired loans (instead of following guidance in ASC 805-10-25)**

SFAS 166/167 – Areas of Staff Comment

The staff is likely to request enhanced disclosure where a financial institution does not provide sufficient disclosure to explain the circumstances relating to:

- Changes in structures (pre-or-post adoption of the standards) resulting in changes to consolidation conclusions**
- Transfers of non-performing assets to other entities that may not be consolidated**

Mortgage & Foreclosure-Related Activities

- Dear CFO letter issued and posted to SEC website in October
 - <http://www.sec.gov/divisions/corpfin/guidance/cfoforeclosure1010.htm>
- Similar to most Dear CFO letters (other than Repo letter), no response required
- Disclosures should address effects to companies based on their roles as originator, securitizer, servicer, and investor

Mortgage & Foreclosure-Related Activities - Enhanced Disclosure

Mortgage Repurchase Reserve – to the extent the company has significant exposure for an obligation to repurchase or “make whole” on loans previously sold, please consider the following disclosures:

- **Providing a roll-forward of the reserve presenting separate amounts for increases in the reserve due to changes in estimate and new loan sales and decreases attributable to utilizations/realization of losses.**
- **Discussion of time period permitted to respond to the request and ramifications of a non-timely response**
- **Levels of unresolved claims existing at the balance sheet date by claimant**

Mortgage & Foreclosure-Related Activities – Enhanced Disclosure

Mortgage repurchase reserve – disclosure suggestions, cont'd

- **Disclosure, by claimant and loan type, of the amount of unpaid principal balance of loan repurchase requests that were resolved during the period**
- **Description of methodology and key assumptions used in determining the repurchase reserve**
- **Qualitative discussion of any trends in claimant requests or types of provisions causing the repurchase requests**

Mortgage & Foreclosure-Related Activities – Enhanced Disclosure

Mortgage repurchase reserve – disclosure suggestions, cont'd

- **Rejected claim success rates, by type of claimant**
- **Whether you have recourse back to any broker or mortgage company who sold you the loan, and if so, the types of actions, and success rates, of getting reimbursed for the claim. Also discuss how this expectation is being factored into the reserve obligation**
- **To the extent that it is at least reasonably possible that exposure to loss exists in excess of amounts accrued, discuss the possible loss or range of loss or provide explicit disclosure why an estimate cannot be made**

Regulatory Actions or Recommendations – Enhanced Disclosure

Formal Agreements:

- **Summary of all provisions**
- **Describe steps taken or to be taken to comply with each provision**
- **Describe current compliance with each provision**
- **Describe the material impact on future operations**
- **Describe the potential consequences if there is a failure to comply**

Regulatory Actions or Recommendations – Enhanced Disclosure (cont'd)

Memorandum of Understanding (MOUs) or Informal Agreements:

- **Not required to be disclosed if prohibited by banking regulations**
- **Must disclose actions taken or to be taken if they have a material impact on future operations**

Liquidity and Risk Management- Areas of Staff Comment

The staff is likely to request enhanced disclosure where a financial institution does not provide sufficient disclosure to explain the circumstances surrounding:

- Any known trends, demands, commitments, events or uncertainties that will result in or are likely to result in liquidity increasing or decreasing in a material way
- The types of risks faced by an entity and a discussion of how those risks are mitigated

Liquidity – Enhanced Disclosure

Consider the following disclosure suggestions:

- Provide a clear picture of your ability to generate cash and to meet existing known or reasonably likely future cash requirements (including the impact of market turmoil on your liquidity position)
- Evaluate the amounts and certainties of cash flows, as well as whether there has been material variability in historical cash flows
- Include a discussion and analysis of the types of financing that are, or that are reasonably likely to be, available to the company and the impact on the company's cash position and liquidity

Risk Management – Enhanced Disclosure

Consider the following disclosure suggestions about Credit Risk:

- **Consider discussing how credit risk is managed (ex. credit risk review function, loan risk ratings, underwriting policies, loss mitigation strategies for delinquent loans, etc.)**
- **Loan concentrations**
- **High risk loans**
- **Individual large impaired loans and how allowance is determined on those loans**
- **How allowance is determined for loans collectively assessed for impairment**
- **Cross-border exposures**

SAB 1:K Waivers – Acquisitions of Troubled Financial Institutions

- To the extent the Bank acquires a “troubled financial institution” as defined in SAB 1:K, and is unable to provide all of the historical and pro forma information for a significant acquisition pursuant to the requirements in Rule 3-05 of Regulation S-X and Article 11 of S-X, the DCF staff may be able to provide relief under SAB 1:K
- Requests for relief should be submitted to the Division of Corporation Finance’s Chief Accountant’s Office
 - Attn: Wayne Carnall, Chief Accountant
 - dcaoletters@sec.gov
 - Fax: (202) 772-9213

Useful Guidance and Tools

- **Compliance & Disclosure Interpretations**
<http://www.sec.gov/divisions/corpfin/cfguidance.shtml>
- **Financial Reporting Manual**
<http://www.sec.gov/divisions/corpfin/cffinancialreportingmanual.shtml>
- **Guidance for Consulting with the Office of the Chief Accountant**
<http://www.sec.gov/info/accountants/ocasubguidance.htm>