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***CURRENT  
DEVELOPMENTS  
IN THE  
DIVISION OF  
CORPORATION  
FINANCE***

**National Conference on Current  
SEC & PCAOB Developments  
December 9, 2008**

# *Disclaimer*

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# **Developments, Achievements and Goals**

**Wayne Carnall  
Chief Accountant**

# Agenda

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- **Rules**
- **Communications**
- **Reviews**
- **Resolution of Issues/Questions**
- **Goals for the Future**

# **Topics by the Associate Chief Accountants**

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## **Theme – current environment**

- **Stephanie Hunsaker – disclosures relating to SFAS 157**
- **Steven Jacobs – impairment of goodwill and tax related issues**
- **Michael Fay – liquidity – MD&A**



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# Rules

# **IFRS – Limited Early Use Proposal**

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- **Eligibility Requirements**
  - ❖ **Basis for criteria**
  - ❖ **20 largest companies**
- **Staff Letter of No Objection**
  - ❖ **CF-OCA**
  - ❖ **Contents**
  - ❖ **“Good for” three years**
- **Alternative proposals for U.S. GAAP information**

# Foreign Private Issuer Enhancements

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- Annual test for FPI status
- Accelerating the deadline for 20-F
- Segment data
- Item 18 for 20-F
- Disclosure about change in auditor
- Other



# Other

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- **Oil and Gas - Proposal**
  - ❖ **New technologies to determine reserves**
  - ❖ **Allow disclosure of probable/possible reserves**
  - ❖ **Oil sands can be considered reserves**
  - ❖ **Average price over a 12 month period to determine reserves for disclosure**
  - ❖ **Expanded disclosure**
- **XBRL**

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# **COMMUNICATIONS INTERNAL/ EXTERNAL & TRANSPARENCY**

# Outreach

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- **Accounting Firms**
- **Investor Groups**
- **Other Organizations**

# **Dear CFO Letter – SFAS 157**

## **Reaction in the Press/Blogs**

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- **SEC staff amends FASB standard on their own**
- **If market prices are too low, they can be ignored**
- **SEC staff suspends fair value accounting**
- **Fair value accounting has been eliminated**

**Dear CFO Letter - SFAS 157**  
**Did we Change GAAP?**

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***NO!***

# E-Mail vs Phone Call

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## Information About You

Your name: \*

Your email address: \*

Your phone number: \*

Best time of day (Eastern US time) to reach you by phone:

## Division Office to Receive Your Request \*

To assist the staff, please direct your request to the appropriate Division Office in the list below.

Office of Chief Counsel

Office of Chief Accountant

Office of Mergers and Acquisitions

Office of International Corporate Finance

## Information About Your Request

General Subject Matter of Your Request: \*

Please describe the general subject matter of your request (e.g., "Use of Form S-8" or "Meaning of terms used in Regulation S-X"). Please also include references to the statutory section(s), rule(s), and/or form(s) relating to your request.

## Your Request: \*

Please state, in reasonable detail, your request for interpretive advice or other assistance.

## Additional Information:

Please provide any other information that is relevant to your request. For example, please include the results of the research you conducted, including references to your sources. It also would be helpful to know when you require a response, particularly if your matter is urgent. Please include any other pertinent information you believe will help the staff respond to your request.

# **E-Mail vs Phone Call**

## **Reasons for Change**

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**Serve the public in a more effective and efficient manner**

- **Avoid “phone tag”**
- **Allow the staff to understand the specifics of the issue before a call – reduce follow up calls**
- **Gather data on the nature of the questions**
  - ❖ **Develop additional guidance**

**NOTE: Our response will be by phone**

# Letters to CF-OCA

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[dcaoletters@sec.gov](mailto:dcaoletters@sec.gov)

This mailbox may be used to send requests for interpretations, accommodations or waivers of financial reporting and disclosure requirements to the Division of Corporation Finance's Office of Chief Accountant. Remember that your e-mail is not confidential, and others may intercept and read your e-mail. In order to facilitate proper routing, please include in the body of the e-mail: company name, date of letter, correspondent's name, CIK number, Assistant Director Office No., and file number. Correspondence must be attached to the e-mail as a pdf file. Letters will be processed by the staff in the same manner as requests submitted in paper.





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# **SEC Staff Review of Common Financial Reporting Issues Facing Smaller Issuers**

*Wayne Carnall, Chief Accountant*

*Steven Jacobs, Associate Chief Accountant*

*Hugh West, Accounting Branch Chief*

*Mark Kronforst, Accounting Branch Chief*

*Kevin Woody, Accounting Branch Chief*

*Angela Crane, Accounting Branch Chief*

*Kevin L. Vaughn, Accounting Branch Chief*

*Joel Parker, Accounting Branch Chief*

*Brian Bhandari, Accounting Branch Chief*

*Division of Corporation Finance*

*November 2008*

# **PCAOB Forum - Smaller Issuers Topics**

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- **Overview of the Agency and Division**
- **Recent Developments**
- **The Comment Letter Process**
- **Financial Reporting Issues Frequently Raised in Comment Letters**
- **Management Report on Internal Control over Financial Reporting**
- **Resources**

# History of the “Training Manual”

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- Developed around 1990
- Prepared by the staff of the Division of Corporation Finance for the staff of the Division of Corporation Finance
- Last version was 2000
- Goals for updating
  - ❖ *End of Summer – 11:44am September 22*
  - ❖ *October 31*
  - ❖ *12:08pm December 9*
- Contest for new name

# **Training Manual**

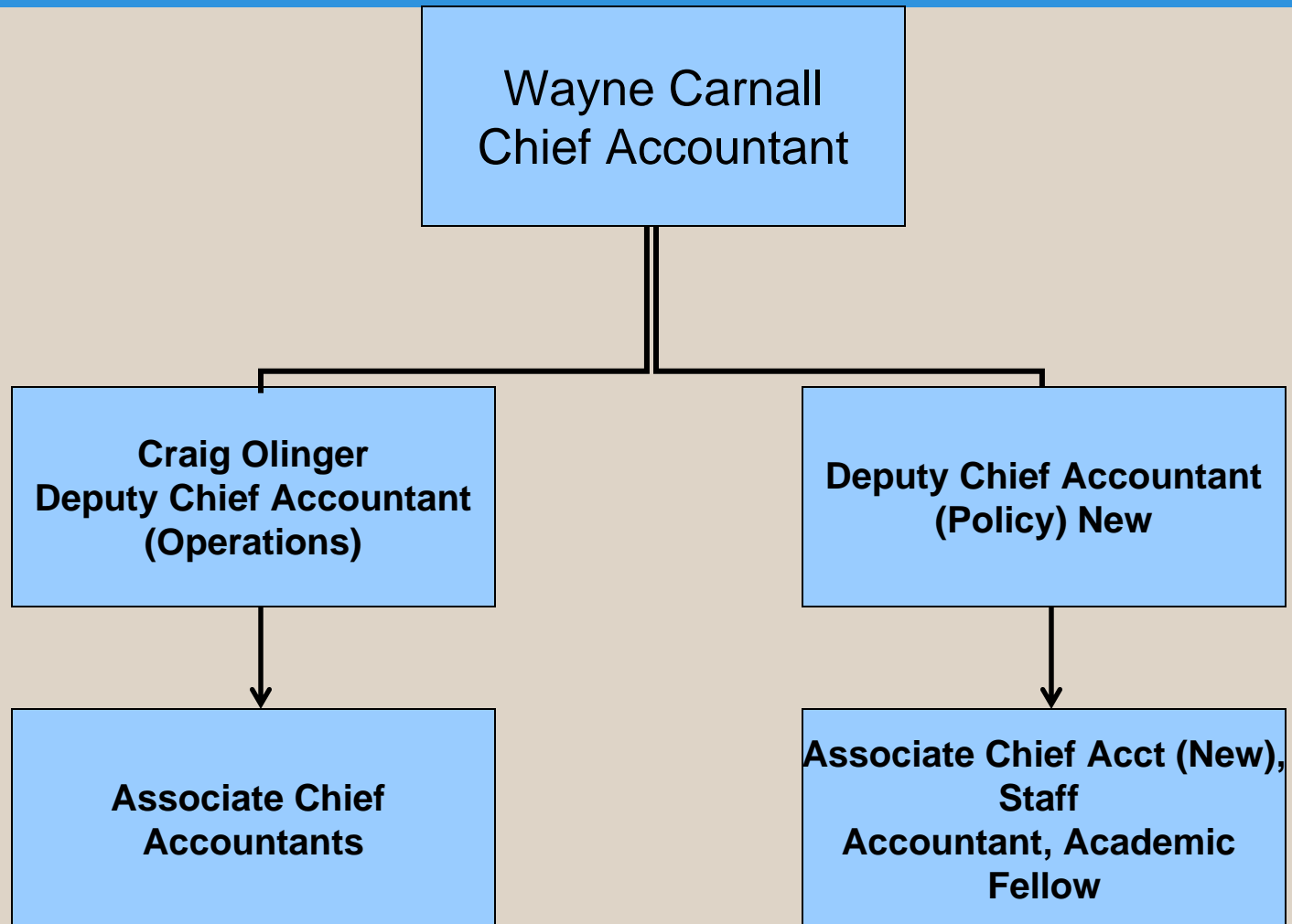
## **New Name**

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### **DIVISION OF CORPORATION FINANCE**

### **FINANCIAL REPORTING MANUAL**

# CF-OCA: Reorganization



# Reorganization

## Reason & Responsibility

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- Reason for the new group
- Responsibilities of the new group
  - ❖ Work closely with the AD groups to facilitate the sharing of information with and the resolution of issues among the accounting staff in the entire Division
  - ❖ Coordinating the updating and publication of the Financial Reporting Manual on a real time basis
  - ❖ Creating and issuing other forms of guidance – primarily internal, but also external guidance on financial reporting and disclosure
  - ❖ Developing/revising policies and programs with respect to the Division's accounting, technical and interpretative program
  - ❖ Organizing and developing accounting training sessions



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# REVIEWS

# Filing Review Process

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- **CIFiR**
- **Document on our website that explains the review process and provides names and numbers with people to call with questions**

**<http://www.sec.gov/divisions/corpfin/cffilingreview.htm>**



# Reviews

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- **Using IFRS to support US GAAP accounting**
- **Segments**
- **Responses to comment letter – only use EDGAR**
  - ❖ **Mail and faxes can delay the process**
- **MD&A – reflect the current economic environment**

# **MD&A –Reflect the Current Economic Situation**

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# IFRS Review Philosophy

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- **The level of diligence to our review of financial statements prepared under IFRS and US GAAP will be the same**
  - ❖ **Questions – we will ask them**
  - ❖ **Disclosure not clear – we will ask for clarification**
  - ❖ **Apparent inconsistency with IFRS – we will ask for support**
  - ❖ **If wrong and material – we will ask for restatement**
- **We will not impose US GAAP into IFRS – comments are based on compliance with IFRS**
- **FPIs – CESR and other regulators**
- **IASB – impact on standards**

# Materiality

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- **Experiences this past year**
- **In preparing a “SAB 99” memo -**
  - ❖ **Do not list the 8 points in SAB 99 and simply indicate “no” and conclude the error is not material**
  - ❖ **Provide company specific information**

# Resolution of Issues/Questions

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- **Disposal of interest in equity affiliates and significance test for 3-09 financial statements**
- **Form S-8 – change in financial statements that require retroactive application**
- **Transitional Provisions of FSP APB 14-1**
- **Consents – C&DI – Question 141.02**

# Goals for the Future

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- **Complete CF-OCA reorganization**
- **Continue the outreach program**
- **Issue guidance on areas of focus for community banks**
- **Keep current the *Financial Reporting Manual* and develop interpretations that will be part of C&DIs**
- **Develop “No Action” style letters for certain items**
- **Keep current the guidance for small business**

# *Corporation Finance*

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## **Division Activities**

**Craig C. Olinger**

***Deputy Chief Accountant***

# *Division Activities*

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## **Review Statistics**

**FYE September 30, 2008**

- ❖ **4,830 issuer reviews  
(38% of issuers)**
- ❖ **435 IPOs; 165 new 34 Act reviews**
- ❖ **25.2 days average time for initial  
comments on registration statements**



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# *Financial Reporting and Disclosure*

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# **Fair Value: Best Practices for MD&A Disclosure**

**Stephanie L. Hunsaker**  
**Associate Chief Accountant**

# **SFAS 157 – Dear CFO Letters**

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- **CF staff issued two “Dear CFO” letters providing suggestions for additional fair value disclosures in MD&A**

- ❖ **March 2008**

- ❖ **September 2008**

- **Goal was to provide suggestions to improve transparency surrounding FV measurements**

# SFAS 157 – Dear CFO Letters

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- ❖ Letters sent to approximately 30 financial institutions, plus posted on our website given the much broader applicability of the guidance
- ❖ <http://www.sec.gov/divisions/corpfin/guidance/airvalueltr0308.htm>
- ❖ <http://www.sec.gov/divisions/corpfin/guidance/airvalueltr0908.htm>

# SFAS 157 – Dear CFO Letters

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## Letters covered a wide range of topics

- ❖ **March 2008 – not all inclusive**
  - ◆ **Sensitivity analysis**
  - ◆ **Transfers to Level 3 and related effects**
  - ◆ **Collateral underlying ABS**
  - ◆ **Use of indices (ABX, CMBX, etc)**
  - ◆ **Whether fair values diverge materially from the amounts expected at maturity**

# SFAS 157 – Dear CFO Letters

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## ❖ Sept 2008 Letter – not all inclusive

- ◆ Significant judgments made in classifying instruments in SFAS 157 hierarchy
- ◆ Consideration of credit risk in FV determination
- ◆ Use of brokers & pricing services
- ◆ Impact of illiquidity

## ❖ Feedback Received / Staff Observations

# **TOP Ten List –Best Practices for Fair Value MD&A Disclosures**

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## **Top 10 List – Best Practices**

- ❖ Disclosure suggestions based on additional enhancements besides minimum disclosures required by 157**
- ❖ Staff has noted expanded disclosures in many of these areas in response to Dear CFO letters**

# Top Ten List - #10

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## Transfers in or out of Level 3– Best Practices

- ❖ Disclose policy for transfers in or out of Level 3
  - ◆ Example: Transfers In at beginning of period and Transfers Out at end of period
- ❖ Disclose transfers in and out separately in the Level 3 rollforward or provide amounts on a gross basis in a footnote to the table.
- ❖ Separately quantify gain or loss for instruments transferred into Level 3 during the period
  - ◆ Example: Tabular presentation of gain/loss by financial instrument type (AFS, derivatives, etc), with disclosure indicating whether gain/loss recorded in net loss or OCI



# Top Ten List - #9

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**When transfers to Level 3 occur, discuss the specific inputs that became unobservable**

- ❖ **Some companies just have general disclosure about the lack of liquidity in the market, and as a result observable market inputs were not available**

# Top Ten List - #8

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**Discuss key drivers of value for each significant Level 3 asset/liability grouping, and whether input is observable or unobservable (not just for new transfers to Level 3)**

**General disclosure prompting suggestion:**

- ❖ **Items valued using valuation models are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be significant inputs that are readily observable.**

# Top Ten List - #7

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**Disclosure about how illiquidity was taken into consideration in the valuation:**

- ❖ **Specific assumptions used**
- ❖ **How assumptions were developed**
- ❖ **How & why assumptions changed from period to period**
- ❖ **Discuss whether valuation techniques/ models changed as a result of the lack of liquidity**

# Top Ten List - #6

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## Quantitative disclosure of effects of Company's own credit risk and counterparty credit risk – derivatives

- ❖ **SFAS 159 requires disclosure of effects of own credit risk in valuing liabilities carried at fair value under fair value option (FVO) and similar corresponding disclosure for assets carried at fair value under FVO.**
- ❖ **However, no corresponding disclosure requirement for non-FVO assets or liabilities, most commonly, derivatives**

# Top Ten List - #6 (cont'd)

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## Best Practices – Effects of Credit on Derivatives Fair Value:

- ❖ Clear discussion of how credit is considered – for example, is it based on LIBOR + CDS spread or some other method?
- ❖ Separate quantification of company's own credit versus counterparty credit on net income
- ❖ If effect of credit on FV determination on derivatives is provided separate from effect on FVO items, provide clear disclosure, and cross reference to other disclosure

# Top Ten List - #6 (cont'd)

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## Best Practices – Effects of Credit on Derivatives Fair Value (cont'd):

- ❖ **Disclose the effect of credit adjustments on the balance sheet at each balance sheet date**
- ❖ **Discuss the events that impact the adjustment for credit and any material changes during the period**
- ❖ **To the extent there are significant groups of counterparties that have a material impact on the value, consider quantifying that credit effect separately (e.g. monoline insurers)**
- ❖ **Disclose how credit risk is monitored & managed**

# Top Ten List - #5

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## Provide discussion of collateral underlying MBS, CDO, CLO, etc.

- ❖ Types of loans/receivables – subprime, Alt-A, commercial real estate, credit cards, etc
- ❖ Vintage information
- ❖ Credit Ratings
- ❖ Credit enhancements - quantified data on effects of subordination and financial guarantees
- ❖ Watch list information

# Top Ten List - #5 – Example 1

## Collateralized by subprime mortgages – 9/30/08

Vintage	AAA	AA	Below Inv. grade	Total FV	Total – amort cost
2007					
2006					
2005					
2004 and prior					
Total					48



# Top Ten List - #5 – Example 1 (cont'd)

## Collateralized by Other Assets – 9/30/08

	AAA	AA	Below Invest.	Total FV	Total Amort cost
Auto Loans					
Credit cards					
Non-subprime					
Student loan/Other					
<b>Total</b>					49

# Top Ten List - #5, Example 2

<b>MBS Collateral</b>	<b>UPB</b>	<b>Avg credit enhancement.</b>	<b>% AAA</b>	<b>% AA to BBB</b>	<b>% Below Invest grade</b>	<b>% on Current watch-list</b>
<b>Option ARM</b>						
<b>Sub-prime</b>						
<b>CMBS</b>						
<b>Total</b>						<b>50</b>

# Top Ten List - #4

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## Broker / pricing services – several best practices:

- **Quantify extent of use of brokers and pricing services separately**
  - ❖ **Brokers are typically used only if pricing services can't provide a price**
- **Specific validation procedures performed on each separately**
  - ❖ **Example: how often performed, personnel involved, processes in place to challenge prices, etc.**

# Top Ten List - #4 (cont'd)

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- **Discuss whether prices/quotes are adjusted – for example, pricing over-rides**

- ❖ **If so, discuss other information used, level of reviews/approvals to use the alternative value, and impact on financial statements of using alternative price**

- **Discuss key judgments/sensitivity in arriving at ultimate FV used**

- ❖ **Example, if range of value from pricing services/brokers varies by say 10-20% on the same instrument, disclose that fact, and how you arrived at ultimate values used**

- **Discuss number of quotes obtained, and if multiple, how you arrived at ultimate value used. Also, disclosure of whether quote is binding or non-binding**

# Top Ten List - #3

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**Separate out cause of OTTI on AFS securities between:**

- ❖ (1) credit issues/ other adverse issuer conditions, and**
- ❖ (2) other accounting consequences (ex. can't assert intent & ability to hold until recovery)**

# Top Ten List - #2

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## Best Practices on Disclosures Surrounding Alternative Valuation Techniques:

- ❖ Whether alternative valuation techniques for illiquid instruments would have resulted in materially different fair values, or amounts realized based on current sales
  - ◆ should be quantified to extent possible

## **Top Ten List - #2 (cont'd)**

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- ❖ Discuss strengths & weaknesses of the technique you used (and possibly other techniques considered)**
- ❖ Disclose how the values ultimately utilized in the financial statements are consistent with SFAS 157's measurement objective**

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**AND FINALLY,  
Number 1 Best  
Disclosure  
Practice.....**



# Top Ten List - #1

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**Provide a sensitivity analysis – particularly when there is disclosure such as the following:**

- ❖ **The use of alternate valuation methods generally require management to exercise considerable judgment in the use of estimates and assumptions to determine the estimated fair value of an instrument. Changes to estimates and assumptions used in estimating the fair value of an instrument may produce materially different values. In addition, actual market exchanges may occur at materially different amounts.**

# Top Ten List - #1 (cont'd)

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## • Suggestions for guidance on a sensitivity analysis in these circumstances

- ❖ Section 5 of FR-72 “Commission Guidance Regarding Management’s Discussion and Analysis of Financial Condition and Results of Operations “ on Critical Accounting Estimates (Release 33-8350)
  
- ❖ Par. 27(c) of IFRS 7, “Financial Instruments: Disclosures”
  - ◆ Note: Under IFRS 7, the sensitivity is required in the footnotes to the financial statements

# Top Ten List - #1 (cont'd)

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## Best Practices for Sensitivity Disclosures

- **Base the sensitivity on other reasonable likely inputs to the model and effects on the value**
  - ❖ **Example – instead of assuming straight increases or decreases of 10% in the input, base it on other reasonably likely inputs that could have been assumed for the input at the balance sheet date**
    - Thus, input sensitivity will depend on what input is actually used for valuation in the F/S and what other reasonably likely inputs could be assumed at the B/S date
  - ❖ **Disclose actual assumption used to provide more context for the sensitivity provided (example, disclose assumption used for recovery rate, W/A life, etc.)**

# Top Ten List - #1 (cont'd)

Forward- looking sensitivity can also be helpful (but portrays different information):

## Example

- ❖ Some companies may disclose that the fair values of their credit derivatives are sensitive to credit ratings adjustments on the underlying reference obligations, particularly when such adjustments reach below investment grade levels. These companies may then provide the quantitative effect of a downgrade on all of the transactions

Best Practice for this information: Use reasonably likely assumptions – not a default to one assumption for all transactions

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# **Goodwill Impairment Disclosures**

**Steven C. Jacobs**

***Associate Chief Accountant***

# Goodwill Interim Impairment Testing Indicators

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***“an event occurs that would more likely than not reduce the fair value of a reporting unit below its carrying value”  
(par. 28 of SFAS 142)***

- ❖ **Other impairment charges or valuation allowances**
- ❖ **Recent cash or operating losses for reporting unit due to market conditions with expectation they may continue**

# Goodwill Interim Impairment Testing Indicators (cont.)

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- ❖ Weakness in particular industry (e.g. airlines, auto, banks, retail, etc.)
- ❖ Inability to meet quarterly expectations or downward revisions to forecasts for future periods
- ❖ Restructuring Plans
  - ◆ e.g. Store Closures, Layoffs, etc.
- ❖ Decline in market capitalization below book value

# **Goodwill Interim Impairment Testing Indicators (cont.)**

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## **Decline in market capitalization below book value**

- ❖ **External market events on sector/industry**
  - ◆ **Is discount, decline, or volatility greater than market?**
- ❖ **Short-term spikes in short selling**
- ❖ **Above factors should be considered in light of duration and severity of difference**



# Disclosures

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## Impairment Losses

### ❖ Triggering Event

- ◆ Facts and Circumstances (par. 47 of SFAS No. 142)
- ◆ Timing

### ❖ Impact of impairment on business

- ◆ What does it mean? (Item 303(a)(3) of Regulation S-K)
  - Future expectations
  - “What went wrong?”

# Disclosures

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## Step 2 not completed in time for filing

- ❖ Recognition required if loss is probable and can be reasonably estimated (par. 22 of SFAS 142)
  - ◆ Loss is frequently probable if Step 1 was failed
  - ◆ If loss is not reasonable estimable, disclosure should be provided
    - Facts and circumstances leading to failure under Step 1
    - Ranges based upon Step 1 or preliminary allocations from Step 2

# Disclosures

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## Early Warning Disclosures

- ❖ MD&A (Item 303((a)(3)(ii))– “Trends or uncertainties ... that the registrant reasonably expects will have a material...impact on ...income from continuing operations.”
  - ◆ Existence of certain indicators but no impairment charge
- ❖ SOP 94-6 – “Reasonable Possibility” of Loss

# Disclosures

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## Critical Accounting Estimates

- ❖ **Determination of Reporting Units**
- ❖ **Methodology for determining fair value**
  - ◆ **Approach or multiple approaches utilized**
    - **Weighting**
    - **Reconciliation and control premium**
    - **Measurement date (or range of dates) for market price**
  - ◆ **Key assumptions and sensitivity analyses**
- ❖ **Consider disclosing for each period**
  - ◆ **Explain any changes from prior periods**

# Interactions with other areas

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## Segment Reporting

- ❖ Determination of reporting units
- ❖ Aggregation may hide disclosure of impairment risks
- ❖ Reorganizations of reporting units

## Assumptions should be consistent with valuation of other assets

- ❖ Impairment of long-lived assets and intangible assets
  - e.g. franchise rights, customer relationships, PP&E, etc.
- ❖ Deferred tax asset valuation

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# **Deferred Tax Assets and the Valuation Allowance**

# Critical Accounting Estimates

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## Consideration of Negative Evidence

- ❖ “Cumulative losses in recent years” (Par. 23 of SFAS 109)
  - ◆ Pre-tax income (loss) from all sources
- ❖ Losses expected in future periods
- ❖ Address DTAs by character if appropriate
  - ◆ Jurisdiction (Foreign, Federal, State)
  - ◆ Nature (Capital losses, NOLs, etc.)
- ❖ What evidence changed or is new since prior quarter?

# Critical Accounting Estimates

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## Critical positive evidence considered

- ❖ Including sources of taxable income subject to judgment and uncertainty
  - ◆ Tax-planning strategies
  - ◆ Future taxable income exclusive of reversing temporary difference and carryforwards
- ❖ Changes from prior quarter

## Uncertainties that could impact realization of DTAs



# Other Disclosures

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## Change in valuation allowance

- ❖ Underlying business problems, issues, or events that gives rise to the allowance
- ❖ Impact of change
  - ◆ NOLs may expire unused
  - ◆ Changes in effective tax rate

## Early-warning disclosures

- ❖ Partial valuation allowances
- ❖ “Close Calls”

# Repatriation of earnings

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***“If circumstances change and it becomes apparent that some or all of undistributed earnings of a subsidiary will be remitted in the foreseeable future...it should accrue as an expense of the current period.” (par 12 of APB 23)***

- ❖ **If conclusion changes, disclose impact on current period and anticipated impact on future periods**
- ❖ **Consideration in light of liquidity discussion and cash requirements in MD&A**

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# Liquidity & Capital Resources

**Michael Fay**

***Associate Chief Accountant***

# **Liquidity & Capital Resources**

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## **Ten Considerations for Preparing the Liquidity & Capital Resources Section of MD&A in 2008 Annual Reports**

# Relevant Guidance

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- **Item 303(A)(1) of Regulation S-K Liquidity. Identify any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. If a material deficiency is identified, indicate the course of action that the registrant has taken or proposes to take to remedy the deficiency ...**
- **1989 and 2003 MD&A Interpretive Releases highlight the importance of a liquidity discussion. (Section III.C. of FR-36 and Section IV of FR-72)**

# Objectives of the Section

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- **FR-72:** To provide “a clear picture of a company’s ability to generate cash and to meet existing and known or reasonably likely future cash requirements.”
- **FR-36:** “To give investors an opportunity to look at the registrant *through the eyes of management* by providing a historical and prospective analysis of the registrant's financial condition and results of operations, with particular emphasis on the registrant's prospects for the future.”

# Introductory Discussion

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## Observation

- **Disclosure that identifies sources and uses of liquidity, and then concludes that these sources will meet anticipated uses in the short and / or long term.**

## Consideration

- 1. Provide greater analysis of the sources and uses of cash.**

# Operating Activities Discussion

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## Observation

- **Disclosure that focuses on historical information, with quantification of items contributing to period-over-period change in net cash provided by / used in operating activities.**

## Consideration

- 2. Discuss changes in cash received from customers & other sources, and cash paid to suppliers & employees, etc.**
- 3. Discuss any known trends and uncertainties that are reasonably expected to have material effects on the separate sources and uses of cash.**



# Investing Activities Discussion

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## Observation

- **Disclosure that quantifies historical and anticipated capital expenditures.**

## Consideration

- 4. Evaluate capital expenditures on a discretionary and non-discretionary basis (e.g., expansion into new capacity and maintenance of existing capacity basis) and discuss any anticipated funding sources (e.g., the extent that cash received from customers will be available).**

# Financing Activities Discussion

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## Observation

- **Disclosure that quantifies the unused availability under a short-term credit arrangement.**

## Consideration

- 5. Discuss the sufficiency of the unused availability (or the estimated utilization), the anticipated circumstances requiring its use (e.g., seasonality of operations), any uncertainty surrounding the ability to access funds when needed, and any implications from not being able to access the funds.**

# Credit Ratings

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## Observation

- **Disclosure that identifies the long-term and short-term credit ratings of a registrant from each of the major credit rating agencies.**

## Consideration

- 6. Discuss the factors that may materially influence credit ratings, the potential implications of known or reasonably likely changes in credit ratings or credit rating outlook, and management's expectations (e.g., We do not expect our credit ratings to be downgraded.).**

# Financial Covenants

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## Observation

- **Disclosure that declares compliance with the material covenants imposed by a credit facility.**

## Consideration

- 7. Discuss any uncertainty or trends surrounding future compliance with financial covenants, and the material implications of a breach. When the actual ratios under the agreement are provided in a filing, consider also providing the company specific calculations. (Refer to FR-72 for suggested disclosure when breach of covenants is reasonably likely.)**

# Financial Covenants (continued)

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## Observation

- **Disclosure that states that financial covenants limit the ability to incur additional indebtedness.**

## Consideration

- 8. Discuss the capacity for additional borrowing under the most restrictive covenant, whether there is otherwise an ability to raise these funds, and whether this amount is sufficient or insufficient for current and long-term needs.**

# Current Market Conditions

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## Observation

- **Disclosure that provides limited information regarding the impact of market events on L&CR.**

## Considerations

9. **Discuss any uncertainties, and reasonably likely implications, related to:**
  - **Committed and uncommitted loan facilities from banks and other lending institutions;**
  - **The commercial paper market;**
  - **Cash and securities held at banks and other financial institutions;**
  - **Illiquid investments;**
  - **Future pension funding; and**
  - **Share repurchase programs & dividend payments.**

# General

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## Observation

- **Disclosure that provides limited clarity about L&CR.**

## Considerations

### **10. Prepare a user-friendly L&CR section that:**

- **Can be read as a stand-alone document;**
- **Prominently displays the most critical information;**
- **Can be meaningful without supplemental investor calculations;**
- **Excludes superfluous information;**
- **Avoids boilerplate language; and**
- **Includes management insight.**

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# Conclusion